ANNUAL FINANCIAL REPORT 2009

OPEN AND TRANSPARENT

National Australia Bank

ANNUAL FINANCIAL REPORT 2009

Vanessa Eggers
BRANCH MANAGER,
NAB UNIVERSITY OF WOLLONGONG

"Since joining NAB as a graduate trainee 18 years ago, the bank has given me opportunities and experience in a range of branch roles, encouraged me to take time out to have a family, and then welcomed me back into a great job – all in regional New South Wales."

In 2009, Vanessa won NAB's Shine award, an internal program which recognises and rewards our talented people.

"At the heart of the NAB Group is a belief in potential. This belief motivates us to make a positive and sustainable impact in the lives of our customers and communities and underpins a strong and sustainable business for our shareholders."

Cameron Clyne
NATIONAL AUSTRALIA BANK GROUP CEO

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Report of the directors

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended 30 September 2009.

Principal activities and significant changes in nature of 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, funds management, life insurance, and custodian, trustee and nominee services.

Review of operations and Group results

Financial performance summary

	Group 2009 $m	Group 2008 $m
Net interest income	**12,068**	11,098
Net life insurance income	**357**	(390)
Other income	**4,352**	3,849
Operating expenses	**(7,979)**	(7,280)
Charge to provide for doubtful debts	**(3,815)**	(2,703)
Profit before income tax expense	**4,983**	4,574
Income tax expense	**(2,394)**	(39)
Net profit	**2,589**	4,535
Net loss attributable to minority interests	**-**	1
Net profit attributable to members of the Company	**2,589**	4,536

Net profit attributable to members of the Company of $2,589 million in 2009, decreased $1,947 million or 42.9% compared with 2008. This reflects strong revenue growth and good cost control offset by higher charges for bad and doubtful debts and expenses relating to long standing litigation.

Net interest income of $12,068 million in 2009, was $970 million or 8.7% higher than 2008.

The increase reflects repricing of the lending portfolios in all regions, driven by the alignment of pricing to the current risk settings, growth in each of business lending, variable rate savings products and term deposit volumes across all regions and the acquisition of Great Western Bank in June 2008.

The increase was partially offset by higher funding costs of $666 million across all regions. Although credit spreads have contracted during 2009, the effect of higher funding costs will continue as the term funding portfolio matures and is replaced with instruments issued at higher than historical spreads over benchmark interest rates. Net interest income has also been adversely affected by deposit margins due to competitive pressures in all regions and higher liquidity costs of $112 million as the Group continued to hold additional liquidity as part of its conservative settings.

The Group's net interest margin declined by 4 basis points. This net decline reflects higher funding costs across the Group and strong deposit competition in New Zealand and the UK. These were partially offset by stronger margins in Australia, through repricing for current risk settings.

Net life insurance income increased $747 million from $(390) million in 2008 to $357 million in 2009. An improvement in investment market experience within domestic and global financial markets during the 2009 year has resulted in:

- higher investment revenue attributable to unit linked investments and life insurance business that is largely offset by movements in amounts owing to policyholders; and
- higher investment revenue attributable to equity investment holdings in consolidated trusts. The minority interest holders of the trusts share in these gains, which is reported as movement in external unitholders' liability.

Other income of $4,352 million in 2009, was $503 million or 13.1% higher than 2008. This outcome was a combination of the following factors:

- Gains less losses on financial instruments at fair value increased $783 million. This was attributable to a strong sales performance in the Global Markets and Treasury division of nabCapital and reflects sales from increased client demand and transaction flow. Gains were also delivered through favourable positioning, associated with the significant market volatility, particularly in interest rates and foreign exchange. This was partially offset by:
  - a management overlay of $160 million that was taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the economic conditions and any consequent default;
  - a non-recurring gain in 2008 on sale of shares allocated by Visa Inc upon its initial public offering;
  - adverse mark to market movements (inclusive of premium amortisation costs) attributable to the SCDO risk mitigation trades; and
  - unfavourable credit default swap valuations of $125 million as the credit spreads narrowed.
- Other operating income was $280 million or 7.1% lower than 2008. This was attributable to:
  - a reduction in treasury income in Australia Banking largely due to swap costs on term funding transactions;
  - reduced fee income due to the effect of adverse economic conditions on lending growth levels and transactional volumes (particularly in the UK Region);
  - lower payment protection insurance revenue due to changes in the UK market; and
  - fee reductions, particularly in retail banking in Australia and New Zealand.

Operating expenses of $7,979 million in 2009 were $699 million or 9.6% higher than 2008. Excluding Great Western Bank, which was acquired in June 2008 operating expenses increased $660 million or 9.1%. This outcome reflects:

- the acceleration of the Efficiency, Quality and Service (EQS) initiatives which have focused on reshaping the business to increase efficiency, reduce duplication and position the Group to better serve its customers;
- a $260 million increase in personnel expenses. The increase was due to higher performance based remuneration increasing in line with the improved financial performance of the Global Markets and Treasury business of nabCapital and higher redundancy expenses as a result of the Group's accelerated (EQS) agenda. This was offset by a release of leave provisions after the completion of an actuarial review;
- $63 million higher occupancy costs mainly due to refurbishment and relocation of branches to prominent locations as part of network investment and annual rental reviews; and
- an increase of $376 million in general expenses. This was mainly due to an increase of project investment initiatives and business growth resulting in higher professional fees, fees and commissions, data processing expenses and software expenses. The Group established provisions totalling $157 million ($110 million after tax) with respect to the decision in the Bell Resources proceedings. This was partially offset by a decrease of discretionary expenses such as advertising and marketing and travel expenditure.

The charge to provide for doubtful debts of $3,815 million in 2009, was $1,112 million higher than 2008. This increase was driven by higher specific provisions for a number of corporate customers and deterioration in economic conditions in all regions (most notably the UK). The charge also includes an economic cycle adjustment of $86 million to strengthen the Group's balance sheet to withstand current economic volatility.

Report of the directors

Income tax expense of $2,394 million in 2009, was $2,355 million higher than 2008. Income tax expense on profit excluding that attributable to the statutory funds of the life insurance business increased by $761 million or 62.0% from 2008. Lower tax expense as a result of lower earnings has been offset by one-off tax items totalling $848 million in the current period relating to amended tax assessments issued by the New Zealand Inland Revenue Department (IRD) regarding certain structured finance transactions undertaken by the business and the Group's Exchangeable Capital Units taxation assessments. The statutory funds of the life insurance business have a tax expense of $405 million for the 2009 year as a result of the improved earnings for both policyholders and shareholders compared to 2008.

Balance sheet summary

	Group	
	2009 $m	2008 $m
Assets		
Cash and liquid assets	**25,834**	18,209
Due from other banks	**33,265**	46,996
Trading derivatives	**37,030**	35,788
Trading securities	**22,219**	20,767
Investments - available for sale	**7,933**	1,542
Investments - held to maturity	**17,529**	17,154
Investments relating to life insurance business	**54,254**	52,896
Other financial assets at fair value[(1)]	**31,530**	30,600
Loans and advances	**344,774**	353,075
Due from customers on acceptances	**55,035**	53,381
All other assets	**24,717**	26,391
Total assets	**654,120**	656,799
Liabilities		
Due to other banks	**36,148**	52,423
Trading derivatives	**38,090**	32,263
Other financial liabilities at fair value	**21,311**	23,584
Deposits and other borrowings	**336,188**	327,466
Liability on acceptances	**16,891**	16,075
Life policy liabilities	**47,314**	46,150
Bonds, notes and subordinated debt	**90,792**	98,239
Other debt issues	**2,627**	1,622
All other liabilities	**26,924**	26,131
Total liabilities	**616,285**	623,953
Total equity	**37,835**	32,846
Total liabilities and equity	**654,120**	656,799

(1) *Included within "Other financial assets at fair value" are loans held at fair value of $29,567 million (2008: $25,732 million)*

Total assets as at 30 September 2009 decreased by $2,679 million (0.4%) to $654,120 million from $656,799 million at 30 September 2008.

Total net loans and advances (including acceptances) decreased by $6,647 million or 1.6% reflecting difficult economic conditions in key markets and the affect of foreign exchange movements.

Total cash and liquid assets increased by $7,625 million or 41.9% from 30 September 2008, reflecting an increase in repurchase agreements with corporates.

Marketable debt securities (comprising trading securities, investments available for sale and investments held to maturity) increased by $8,218 million or 20.8% from 30 September 2008, reflecting a change in the composition of liquid assets from repurchase agreements with other banks (included in due from other banks) to marketable debt securities.

Assets due from other banks declined by $13,731 million or 29.2% from 30 September 2008, offset by an increase in marketable debt securities.

Total liabilities as at 30 September 2009 declined by $7,668 million or 1.2% from 30 September 2008. The reduction in total liabilities from September 2008 was largely attributable to a decline in balances due to other banks partly offset by an increase in deposits and other borrowings and trading derivative liabilities.

Liabilities due to other banks declined by $16,275 million or 31.0% from 30 September 2008, reflecting a change in funding from deposits with other banks to certificates of deposit (included in deposits and other borrowings).

Deposits and other borrowings increased by $8,722 million or 2.7% from 30 September 2008, reflecting growth in term deposits and certificates of deposit. The increase in term deposits is the result of a strategic focus on building retail deposits. The increase in certificates of deposit reflects a change in funding from deposits with other banks.

Trading derivative liabilities increased by $5,827 million or 18.1% from 30 September 2008, reflecting significant market volatility and fluctuating currency and interest rates.

Total equity as at 30 September 2009 increased by $4,989 million or 15.2% from 30 September 2008. The growth in equity from September 2008 was predominantly through the issue of shares, including the institutional placements, the dividend reinvestment plans and the share purchase plans.

Credit rating

During the year ended 30 September 2009 the Group's long term credit rating was maintained by Standard & Poor's at "AA", by Moody's at "Aa1" and by Fitch at "AA".

Directors

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

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

Term of office: Chairman since September 2005 and director since December 2004.

Independent: Yes

Skills & Experience: 26 years of experience in a range of industries in executive, financial management and governance roles including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia, USA 1972 to 1980.

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

- Chairman of Woodside Petroleum Ltd (since August 2007, Director since November 2005)
- Chairman of Gresham Partners Holdings Limited (since July 2005, Director since 1985)
- Director of Centre for Independent Studies (since October 2000)
- Chancellor of University of Western Australia (since January 2006)
- Member of JP Morgan International Advisory Council (since October 2003)
- Former Chairman of Australian Research Alliance for Children and Youth Limited (July 2002 to December 2007)
- Former President of Business Council of Australia (October 2005 to October 2007)

Board Committee membership

- Chairman of the Nomination Committee

Report of the directors

Mr Cameron A Clyne BA

Term of office: Managing Director and Group Chief Executive Officer since January 2009.

Independent: No

Skills & Experience: 19 years in financial services, including 12 years with PricewaterhouseCoopers, culminating in leadership of the Financial Services Industry practice in Asia Pacific, prior to the acquisition by IBM of PwC Consulting. During his consulting career he worked with many of the world's leading banks in Australia, New Zealand, United States, Europe and Asia. He is also a director of Bank of New Zealand and was appointed to the Board of National Australia Group Europe Limited and Clydesdale Bank Plc (subsidiaries of the Company) on 23 September 2009, subject to Financial Services Authority approval.

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

- Director of The Financial Markets Foundation for Children (since April 2009)

Mrs Patricia A Cross BSc (Hons), FAICD

Term of office: Director since December 2005.

Independent: Yes

Skills & Experience: 26 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank. Mrs Cross was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years until 2003 and is a member of the Federal Government's Panel of Experts for the Australian Financial Centre Forum. In 2003, she received a Centenary Medal for service to Australian society through the finance industry.

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

- Director of Wesfarmers Limited (since February 2003)
- Director of Qantas Airways Limited (since January 2004)
- Director of Grattan Institute (since September 2008)
- Director of Murdoch Childrens Research Institute (since August 2005)
- Director of Methodist Ladies College, Melbourne (since January 2008)

Board Committee membership

- Chairman of the Remuneration Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Mr Daniel T Gilbert AM, LLB

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 30 years in commercial law, specialising in technology and corporate law.

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

- Managing Partner of Gilbert + Tobin (which he co-founded in 1988)
- Chairman, National Museum of Australia (since March 2009)
- Director of Australia Indigenous Minority Supplier Council Limited (since December 2008)
- Councillor of Australian Business Arts Foundation (since September 2006)
- Member of National Policy Commission on Indigenous Housing (since June 2008)

Board Committee membership

- Member of the Remuneration Committee
- Member of the Nomination Committee

Mr Mark Joiner ACA, MBA

Term of office: Director since March 2009. Mr Joiner was appointed Group Chief Financial Officer in October 2007.

Independent: No

Skills & Experience: Over 21 years in commerce, banking and finance and includes 16 years with the Boston Consulting Group. He joined National Australia Bank Group in 2006 as Executive General Manager, Office of the Chief Executive Office Australia. He then held the office of Group Executive General Manager, Development and New Business. Prior to joining the National Australia Bank Group, he was Chief Financial Officer, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business based in New York.

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

- Director of Aurora Vineyard Limited (since October 1999)

Mr Paul J Rizzo BCom, MBA

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: 39 years in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group Ltd from 1966 to 1990.

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

- Chairman of the Defence Audit and Risk Committee for the Australian Government Department of Defence (since February 2008)
- Consultant Director to Mallesons Stephen Jaques (since August 2002)
- Chairman of the Foundation for Very Special Kids (since July 2004)
- Former Director of Villa Maria Society (from July 2006 to August 2008)
- Former Director of BlueScope Steel Limited (from May 2002 to December 2008)

Board Committee membership

- Chairman of the Risk Committee
- Member of the Audit Committee
- Member of the Nomination Committee

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

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: 20 years as a lawyer and regulator, including the Australian Securities and Investments Commission from 1997 to 2002 as Commissioner and then Deputy Chairman and as Chairman of the Board of the Banking & Financial Services Ombudsman from 2002 to 2004. She was an environmental and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York.

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

- Director of Australian Securities Exchange Limited (since July 2003)
- Director of ASX Market Supervision Limited (since July 2006)
- Member of University of New South Wales Council (since February 2006)
- Director of General Sir John Monash Foundation (since February 2008)
- Director of The Garvan Institute of Medical Research (since June 2009)
- Former Member of Australia Council's Major Performing Arts Board (from February 2003 to February 2009)
- Former President of the Administrative Review Council (from September 2005 to October 2009)

Board Committee membership

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

Mr John G Thorn FCA, FAICD

Term of office: Director since October 2003.

Independent: Yes

Skills & Experience: 37 years in professional services with PricewaterhouseCoopers, over 20 years as a partner responsible for significant international and Australian clients. Australian National Managing Partner and a member of the Global Audit Management Group until 2003.

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

- Director of Amcor Limited (since December 2004)
- Director of Caltex Australia Limited (since June 2004)
- Director of Salmat Limited (since September 2003)

Board Committee membership

- Chairman of the Audit Committee
- Member of the Nomination Committee

Mr Geoffrey A Tomlinson BEc

Term of office: Director since March 2000.

Independent: Yes

Skills & Experience: 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He is also the Chairman of National Wealth Management Holdings Limited, MLC Limited, MLC Investments Limited, MLC Wealth Management Limited (formerly Aviva Australia Holdings Ltd), Norwich Union Life Australia Ltd and Navigator Australia Ltd (subsidiaries of the Company).

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

- Chairman of Programmed Maintenance Services Limited (since August 1999)
- Director of Amcor Limited (since March 1999)
- Former Chairman of Dyno Nobel Limited (from February 2006 to June 2008)

Board Committee membership

- Member of the Remuneration Committee
- Member of the Nomination Committee

Mr Michael J Ullmer BSc (Maths) (Hons), FCA, SF Fin

Term of office: Director since October 2004. Finance Director from September 2004 to December 2007 when he was appointed Deputy Group Chief Executive Officer.

Independent: No

Skills & Experience: 37 years in banking and finance, including 7 years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group Executive, Financial and Risk Management from 1997 to 2002. Formerly partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992. He is Chairman of JBWere Pty Ltd and he is also a Director of Bank of New Zealand and Great Western Bank (subsidiaries of the Company).

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

- Director of Foster's Group Limited (since June 2008)
- Director of Melbourne Symphony Orchestra (since February 2007)
- Director of the Centre for Social Impact (since March 2009)
- Member of European Australian Business Council (since August 2007)

Mr John A Waller BCom, CA

Term of office: Director since February 2009.

***Independent*:** Yes

Skills & Experience: 20 years in professional services with PricewaterhouseCoopers, New Zealand and as a member of the firm's New Zealand Board and leader of its Advisory division. He is also a member of the New Zealand Takeovers Panel. In addition to a wealth of valuable corporate and financial experience, he brings to the Board a deep understanding of the New Zealand market as a non-executive director. He is Chairman of Bank of New Zealand (a subsidiary of the Company).

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

- Director of Fonterra Co-operative Group Limited (since February 2009)
- Director of Sky Network Television Limited (since April 2009)
- Director of Alliance Group Limited (since January 2009)
- Director of Haydn & Rollett Limited (since February 2009)
- Director of Donaghys Limited (since March 2009)
- Chairman of Eden Park Trust Board (appointed Chairman since September 2009)
- Member of the Auckland Transition Agency (2009)

Board Committee membership

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

Sir Malcolm Williamson

Term of office: Director since May 2004.

Independent: Yes

Skills & Experience: 52 years in banking and finance in the United Kingdom and the United States. He served with Barclays PLC from 1957 to 1985, reaching the position of Regional General Manager, London. This was followed by a period as a member of the Post Office board and Managing Director of Girobank PLC. In 1989, he joined Standard Chartered PLC and became Group Chief Executive. In 1998, he moved to the United States and took up the role of President and Chief Executive Officer of Visa International, which he held until 2004. He is also Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC, since June 2004 (subsidiaries of the Company).

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

- Chairman of Signet Group PLC (Director since November 2005) - now Signet Jewelers Ltd
- Director JP Morgan Cazenove Holdings (since April 2005)
- Chairman of CDC Group PLC (Director from January 2004 to April 2009)
- Member of the Board of Trustees of International Business Leaders Forum (since February 2006)
- Director of G4S PLC (from May 2004 to May 2008)
- Former Deputy Chairman and Senior Independent Director of Resolution PLC (from September 2005 to May 2008)
- Chairman of The Prince's Youth Business International (since April 2008)
- Chairman of Cass Business School's Strategy and Development Board (since April 2008)
- Director of Friends Provident Group PLC and Friends Provident Holdings (UK) Limited (since November 2009).

Board Committee membership

- Member of the Risk Committee
- Member of the Nomination Committee

Board changes

Mr John M Stewart BA, ACII, FCIB

Term of office: Director from August 2003 to December 2008. Managing Director and Group Chief Executive Officer from February 2004 to December 2008.

Skills & Experience: 27 years in banking and finance in the United Kingdom including four years as Group Chief Executive of Woolwich PLC until its acquisition by Barclays PLC in 2000 when he was appointed Deputy Group Chief Executive of Barclays PLC.

Directorships of listed entities within the last three years, other directorships and offices

- Director of Telstra Corporation (since April 2008)
- Former Chairman of Australian Banking Association (from July 2007 to December 2008)
- Former Director of the Business Council of Australia (from August 2005 to December 2008)

Mr Ahmed Fahour BEc (Hons), MBA, FAIM

Term of office: Director from October 2004 to February 2009.

Skills & Experience: 21 years in economics and finance. He was Chief Executive Officer, Australia and New Zealand, Citigroup in 2004, and he held senior management positions in Citigroup from 2000 to 2004 including Chief Executive Officer, Citigroup Alternative Investments and Vice Chairman of Citigroup Investment Ltd. He was also a Director of National Wealth Management Holdings Limited and MLC Holdings Limited (subsidiaries of the Company).

Directorships of listed entities within the last three years, other directorships and offices

- Director of Rip Curl Group Pty Ltd (since July 2004)
- Non-Executive Chairman of Rip Curl Property Pty Ltd (since September 2007)
- Director of NASDAQ DIFX (since March 2008)
- Director of The Australian Social Inclusion Board (since May 2008)
- Former Trustee of Melbourne Cricket Ground (from December 2008 to September 2009)

Mr Thomas (Kerry) McDonald BCom, MCom (Hons), DCom *(hc),* AFID, FNZIM

Term of office: Director from December 2005 to 7 November 2008. Mr Kerry McDonald retired as a non-executive director and member of the Audit Committee on 7 November 2008.

Independent: Yes

Skills & Experience: 40 years in economic consulting, energy, resources, logistics and banking in Australia and New Zealand with a particular interest in organisation performance and improvement.

He was a senior executive of Comalco from 1981 and a Managing Director and member of the Comalco Group Executive Committee from 1988 to 2000. He was also Chairman of Bank of New Zealand, Director since August 1991 (a subsidiary of the Company).

Directorships of listed entities within the last three years, other directorships and offices

- Director (Chairman) of Opus International Consultants Ltd (since April 2007)
- Director of Leighton Contractors Pty Ltd (since July 2007)
- Deputy Chairman of NZ Institute of Economic Research (since October 2002)
- Director (Chairman) OceanaGold Holdings New Zealand Limited
- Institute of Directors (New Zealand), National Council and Vice President
- Board of Trustees, WWF New Zealand
- Former Director/Vice Chairman of OceanaGold Limited (from December 2003 to May 2008)
- Former Director of Ports of Auckland Limited (from August 2002 to July 2007)
- Former Director of Carter Holt Harvey Limited (from April 1996 to January 2006)

Company Secretaries

Details of company secretaries of the Company in office at the date of this report, and each company secretary's qualifications and experience are below:

Ms Michaela J Healey LLB, FCIS was appointed Group Company Secretary in April 2006. She has experience in a range of legal, business & corporate affairs roles in listed companies and was formerly Company Secretary of Orica Limited and North Limited. The Company Secretary advises and supports the Board to enable the Board to fulfill its role.

Mr Nathan Butler LLB (Hons), LLM, BA (Jur) joined the Group in 2001 and was appointed as a company secretary in May 2008. Mr Butler is the General Counsel Corporate and has advised the Group on a wide range of strategic, corporate, governance and regulatory matters.

Ms Robyn Weatherley BIntBus, MAppLaw joined the Group in 1997 and has worked in a number of corporate governance, credit and corporate recovery roles. Ms Weatherley was appointed a company secretary in March 2009, and is the secretary to a number of senior Group risk committees including the Principal Board Risk Committee.

Directors' and officers' indemnity

The Company's constitution

Article 20.1 of the Company's constitution provides that to the maximum extent permitted by law and without limiting the Company's power, the Company may indemnify any current or former officer out of the property of the Company 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:

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

Under Article 20.2, the Company 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:

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

The Company 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 the Company.

In the context of Article 20, "officer" means a Director, Secretary or senior manager of the Company or of a related body corporate of the Company.

The Company has executed deeds of indemnity in favour of each director of the Company and certain non-executive directors of related bodies corporate of the Company. 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, the Company, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Dividends

The directors have declared a final dividend of 73 cents per fully paid ordinary share, 100% franked, payable on 17 December 2009. The proposed payment amounts to approximately $1,532 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended 30 September 2008 of 97 cents per fully paid ordinary share, 100% franked, paid on 17 December 2008. The payment amount was $1,669 million.
- the interim dividend for the year ended 30 September 2009 of 73 cents per fully paid ordinary share, 100% franked, paid on 9 July 2009. The payment amount was $1,400 million.

Information on the dividends paid and declared to date is contained in note 7 to the financial report.

The franked portion of these dividends carries imputation tax credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%.

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.

Significant changes in the state of affairs

Senior executive appointments

On 18 December 2008 the Company announced that the roles of Group and Australian Region CEO would be integrated into a single role to be filled by Cameron Clyne with effect from 1 January 2009.

On 12 March 2009, the Company announced a new Group structure, including the following new appointments to the Group Executive Committee:

- Lisa Gray appointed Group Executive Personal Banking;
- Michaela Healey appointed Group Executive Group Governance;
- Joseph Healy appointed Group Executive Business Banking;
- Rick Sawers appointed Group Executive Wholesale Banking;
- Gavin Slater appointed Group Executive Group Business Services;
- Andrew Thorburn appointed Group Executive New Zealand, Asia and the United States; and
- Steve Tucker appointed Group Executive Wealth.

On 8 July 2009, the Company announced that Peter Thodey had been appointed to the new role of Executive General Manager Specialised Group Assets effective 1 October 2009, solely dedicated to managing the professional and orderly exit from the discontinued businesses that sat within nabCapital.

Recent market conditions

The global economic and financial market conditions within which the Group's business units operate continue to be volatile and uncertain. In the face of such conditions, international governments (including those of Australia, the United States, United Kingdom, and New Zealand) have taken various measures to increase economic activity and to support the global banking system (including in some cases supporting financial institutions in recapitalising and gaining access to retail and wholesale borrowings). Despite such intervention, global economic and financial market conditions remain challenging and future prospects are uncertain. Financial institutions are affected by global economic and financial market conditions, and the current conditions have adversely impacted the Group.

The Group is regulated in Australia and in the other countries in which it operates. The recent disruption in global financial markets has resulted in significant government and regulatory intervention in the structure and operations of the financial services industry worldwide. Governmental and regulatory authorities continue to analyse the underlying factors contributing to recent financial market disturbance and to consider possible regulatory and industry responses. The ultimate outcome of such responses is unclear, but it may include limiting the types of financial services and products that can be offered, increasing the ability of non-banks to offer competing financial services or products, changing prudential regulatory requirements, changing minimum capital requirements and changing liquidity requirements.

Litigation and Disputes

The Company is one of 20 banks involved in the Bell Resources legal proceedings. On 28 October 2008, the Supreme Court of Western Australia delivered judgment on the matter. On 7 May 2009, an appeal notice was lodged on behalf of the 20 banks. The Group has established provisions totalling $157 million ($110 million after tax) with respect to the decision.

The Australian Taxation Office (ATO) has disallowed various deductions made by the Group in relation to exchangeable capital units (ExCaps) for the tax years 1997 to 2003. The Group disputes the ATO's tax treatment of the ExCaps and intends to appeal. The Group has reduced the carrying value of the $309 million receivable due from the ATO in relation to the ExCaps to nil. *More information in relation to the ExCaps dispute is set out in note 42 in the financial report.*

In July 2009, the New Zealand High Court found against Bank of New Zealand ("BNZ") with respect to an appeal against amended tax assessments issued by the New Zealand Inland Revenue Department ("IRD") regarding certain structured finance transactions undertaken by the business. BNZ is appealing this outcome. A provision of $542 million has been established to reflect the impact of the High Court decision, representing the amount of primary tax in dispute, interest, legal and other costs. *More information in relation to the BNZ tax case is set out in note 42 in the financial report.*

Events subsequent to balance date

On 22 June 2009, the Group announced that it had agreed to acquire Aviva Australia Holdings Limited (AAHL). Effective 1 October 2009, National Wealth Management Holdings Limited completed the acquisition of 100% of the issued share capital of AAHL for initial cash consideration of $825 million, subject to adjustment for the movement in net assets of the acquired business from 31 December 2008 to the acquisition date. As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition is expected to enhance the Group's offering in key wealth management segments including life insurance and investment platforms. The name of AAHL has subsequently been changed to MLC Wealth Management Limited.

On 29 July 2009, the Group announced that it had agreed to enter into a strategic alliance with Goldman Sachs JBWere in private wealth management. On 30 October 2009, National Wealth Management Holdings Limited completed the acquisition of 80.1% of JBWere Pty Limited for $85.5 million, subject to adjustment for movement in net assets, plus additional consideration which may become payable over the next three years depending on performance. Additional payments will also be made to contribute to working capital and employee retention. As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition is expected to provide an enhanced outcome for clients of the Group and JBWere through their ability to access an expanded service offering.

On 18 August 2009, the Group announced that it had agreed to acquire Challenger Financial Services Group Limited's mortgage management business. On 30 October 2009, National Australia Bank Limited completed the acquisition of 100% of the issued share capital of Challenger Mortgage Management Holdings Pty Ltd for initial cash consideration of $360 million, subject to adjustment for movement in net assets. As part of the transaction the Group also acquired a selected portfolio of residential mortgage loans for $4.5 billion and 17.5% of the ordinary issued share capital of Homeloans Ltd for $10.7 million (with the potential to increase this to 41% for an additional $14.3 million). As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition provides the Group with additional distribution and capability in the Australian mortgage market. The name of Challenger Mortgage Management Holdings Pty Ltd has subsequently been changed to Advantedge Financial Services Holdings Pty Ltd.

Future developments

In the opinion of the directors, discussion or disclosure of any further future developments would be likely to result in unreasonable prejudice to the interests of the Group.

Proceedings on behalf of the Company

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

Environmental regulation

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered as particular or significant environmental regulation under laws of the Australian Commonwealth Government or of an Australian state or territory. However, as the Group's operations at its main Melbourne-based data centre constitute a Scheduled Activity for the purposes of the *Environmental Protection (Environment and Resources Efficiency Plan) Regulations* 2007 (Vic), the Group is subject to registration, annual reporting and environment and resource efficiency planning requirements under the *Environment Protection Act* 1970 (Vic). The Group is complying with these requirements.

The operations of the Group are also subject to the *Energy Efficiency Opportunities Act* 2006 (Cth) and the *National Greenhouse and Energy Reporting Act* 2007 (Cth) as part of the legislative response to climate change. Whilst this legislation is not specific to the Group or significant in its impact, the Group is complying with its requirements.

Both the *Energy Efficiency Opportunities Act* 2006 (Cth) and the *National Greenhouse and Energy Reporting Act* 2007 (Cth) require the Group to make assessments and report on the basis of the year from 1 July to 30 June (the environmental reporting year). During the environmental reporting year to 30 June 2009, the Group undertook a series of Energy Efficiency Opportunities assessments as per the requirements of the *Energy Efficiency Opportunities Act* 2006 (Cth). In Australia, the total vehicle fleet and building related energy use during the 2009 environmental reporting year was 636,977 gigajoules (GJ), which was approximately 61% of the Group's total.

During the 2009 environmental reporting year, the Group has assessed energy efficiency opportunities in 32% of the Australian building portfolio by energy use, bringing the total percentage since the start of the Energy Efficiency Opportunities program to 72%. During the 2009 environmental reporting year, the Group completed assessments of eight large office buildings, the Group's second largest data centre and 221 retail branches. From all energy use assessments completed to date, the Group has identified potential energy efficiency savings of 216,840 GJ, which have up to a four year payback. Of these assessments, the Group has implemented equivalent to 92,895 GJ of savings. More information about the Group's participation in the Energy Efficiency Opportunities program is available at www.nabgroup.com.

As a lender, the Group can also incur environmental liabilities arising from the operations of its borrowers and as a result it has developed credit policies to ensure that this risk is managed appropriately. In addition to responding to regulatory requirements, the Group can perform a key role as a global provider of financial products and services in contributing to the environmental sustainability of the communities in which it operates. The Group's approach to environmental sustainability and management of direct and indirect environmental impacts is outlined in its environmental policy at www.nabgroup.com. Further information on the Group's environmental management and commitments is outlined in the 2009 Corporate Responsibility Review and associated online Corporate Responsibility reporting available at www.nabgroup.com.

Report of the directors

Rounding of amounts

Pursuant to Class Order 98/100 made by the Australian Securities and Investments Commission (ASIC) on 10 July 1998, the Company has rounded off amounts in this report and the accompanying financial report to the nearest million dollars, except where indicated.

Executive performance options and performance rights

Performance options and performance rights are granted by the Group under the National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). The executive share option plan was approved by shareholders at the annual general meeting in January 1997, and the performance rights plan at the 2002 annual general meeting. Refer to the remuneration report for a description of the key terms and conditions of the executive share option plan and the performance rights plan.

All performance options and performance rights that have not expired are detailed below. Each performance option or performance right is for one fully paid ordinary share in the Company.

The Company is moving to a policy of generally providing performance shares rather than options and rights as long-term incentives. Going forward, performance options and rights will predominantly only be offered to key senior executives of the Company. Refer to the remuneration report for a description of the key terms and conditions of the long-term incentive shares.

The number and terms of performance options and performance rights granted by the Company during 2009 over ordinary shares by the Group under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2009, are shown in the table below:

Exercise period[1]	Exercise price[2]	Numbers held at 30 September 2009	Numbers exercised from 1 October 2008 to 30 September 2009	Numbers granted since 1 October 2008
Performance options				
14 September 2004 - 13 September 2009	$28.87	-	780	-
14 June 2005 - 13 June 2010[3]	$36.14	8,489,000	-	350,000
21 March 2006 - 20 March 2011[3]	$30.46	4,545,875	-	112,500
21 March 2006 - 20 March 2011	$30.98	102,500	-	-
16 January 2007 - 15 January 2012	$29.91	126,250	-	-
16 January 2007 - 15 January 2012[3]	$30.25	4,650,647	-	125,000
7 February 2008 - 6 February 2010	$28.90	147,942	-	-
7 February 2008 - 6 February 2010	$29.93	4,397,551	-	-
7 February 2008 - 6 February 2010	$30.40	185,375	-	-
7 February 2008 - 6 February 2010	$31.78	58,001	-	-
7 February 2008 - 6 August 2010	$34.53	106,917	-	-
6 February 2009 - 6 August 2011	$34.53	2,333,551	-	-
6 February 2009 - 6 August 2011	$35.50	25,701	-	-
6 February 2009 - 6 August 2011	$37.55	9,926	-	-
6 February 2009 - 6 August 2011	$38.29	153,543	-	-
6 February 2009 - 6 August 2012	$34.53	125,000	-	-
6 February 2010 - 6 August 2011	$34.53	2,332,169	-	-
6 February 2010 - 6 August 2011	$35.50	25,699	-	-
6 February 2010 - 6 August 2011	$37.55	9,924	-	-
6 February 2010 - 6 August 2011	$38.29	153,543	-	-
6 February 2010 - 6 August 2012	$34.53	125,000	-	-
7 February 2010 - 7 August 2012	$39.25	27,397	-	-
7 February 2010 - 7 August 2012	$40.91	4,095,838	-	-
7 February 2010 - 7 August 2012	$43.43	8,382	-	-
6 February 2011 - 6 August 2011	$34.53	2,331,778	-	-
6 February 2011 - 6 August 2011	$35.50	25,695	-	-
6 February 2011 - 6 August 2011	$37.55	9,923	-	-
6 February 2011 - 6 August 2011	$38.29	153,539	-	-
6 February 2011 - 6 August 2012	$34.53	125,000	-	-
7 February 2011 - 7 August 2012	$39.25	27,396	-	-
7 February 2011 - 7 August 2012	$40.91	4,094,656	-	-
7 February 2011 - 7 August 2012	$43.43	8,381	-	-
14 February 2011 - 14 August 2013	$31.70	426,785	-	-
16 January 2012 - 16 July 2014	$19.89	350,775	-	391,140
6 February 2012 - 6 August 2012	$34.53	125,000	-	-
7 February 2012 - 7 August 2012	$39.25	27,395	-	-
7 February 2012 - 7 August 2012	$40.91	4,093,474	-	-
7 February 2012 - 7 August 2012	$43.43	8,381	-	-
14 February 2012 - 14 August 2013	$31.70	426,784	-	-
16 January 2013 - 16 July 2014	$19.89	350,772	-	391,137
14 February 2013 - 14 August 2013	$31.70	426,784	-	-
16 January 2014 - 16 July 2014	$19.89	350,770	-	391,134

Exercise period[(1)]	Exercise price[(2)]	Numbers held at 30 September 2009	Numbers exercised from 1 October 2008 to 30 September 2009	Numbers granted since 1 October 2008
Performance rights				
21 March 2006 - 20 March 2011[(3)]	-	1,155,838	-	28,125
16 January 2007 - 15 January 2012[(3)]	-	1,205,693	-	31,250
7 February 2008 - 6 February 2010	-	1,184,891	-	-
6 February 2009 - 6 August 2011	-	616,801	-	-
6 February 2009 - 6 August 2012	-	35,000	-	-
30 August 2009 - 30 August 2012	-	231,000	-	-
11 November 2009 - 11 May 2011	-	74,806	-	74,806
6 February 2010 - 6 August 2011	-	615,827	-	-
6 February 2010 - 6 August 2012	-	35,000	-	-
7 February 2010 - 7 August 2012	-	1,008,164	-	-
30 May 2010 - 30 November 2010	-	194,910	-	-
11 November 2010 - 11 May 2011	-	78,892	-	78,892
6 February 2011 - 6 August 2011	-	615,601	-	-
6 February 2011 - 6 August 2012	-	35,000	-	-
7 February 2011 - 7 August 2012	-	1,005,646	-	-
28 February 2011 - 28 August 2011	-	220,937	1,966	-
5 May 2011 - 5 November 2011	-	2,492	-	-
31 December 2011 - 30 June 2012	-	368,766	803	387,404
1 January 2012 - 1 January 2016	-	100,969	-	100,969
6 February 2012 - 6 August 2012	-	35,000	-	-
7 February 2012 - 7 August 2012	-	1,005,296	-	-

(1) *Performance options and performance rights generally expire on the last day of their exercise period. Refer to the remuneration report for details of the relevant expiry dates applicable to performance options and performance rights.*

(2) *Further details of performance options and performance rights are set out in note 37 in the financial report. All shares issued or transferred on exercise of performance options and performance rights are fully paid ordinary shares in the Company. The exercise price for performance options is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period on a relevant date, usually at or around the date of the grant. Further details of the exercise price are set out in the remuneration report.*

(3) *Numbers granted represent performance options and performance rights reinstated to a former employee.*

Performance options and performance rights on issue and number exercised

There are currently 45,599,019 performance options and 9,811,022 performance rights which are exercisable, or may become exercisable in the future, under the respective plans.

There were 3,549 fully paid ordinary shares of the Company issued during the year as a result of performance options and performance rights granted being exercised, for a total consideration of $22,519. There were 12,814 fully paid ordinary shares of the Company issued since the end of the year as a result of performance options and performance rights granted being exercised, for no consideration.

Persons holding performance options and performance rights are entitled to participate in certain capital actions by the Company (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 granted by listed entities. The terms of the performance options and the performance rights reflect the requirements of the ASX Listing Rules in this regard.

Report of the directors

Directors attendances at meetings

The table below shows the number of directors' meetings held (including meetings of Board committees) and number of meetings attended by each of the directors of the Company during the year:

	Board meetings		Audit Committee meetings		Risk Committee meetings		Nomination Committee meetings		Remuneration Committee meetings		Directors' meetings of controlled entities(1)		Additional meetings(2)
Directors	A	B	A	B	A	B	A	B	A	B	A	B	B
MA Chaney	8	8	4	4	9	9	1	1	9	9	2	2	17
CA Clyne(3)	7	7	2	2	9	9	-	-	6	6	14	14	15
PA Cross	8	8	2	2	10	10	1	1	9	9	1	1	15
DT Gilbert	8	8	2	2	8	8	1	1	9	9	1	1	19
MA Joiner(4)	4	4	7	7	8	8	-	-	-	-	-	-	11
PJ Rizzo	8	8	8	8	10	10	1	1	-	-	1	1	23
JS Segal	8	8	2	2	10	10	1	1	9	9	1	1	12
JG Thorn	8	8	8	8	7	7	1	1	-	-	1	1	22
GA Tomlinson(5)	8	8	6	6	7	7	1	1	1	1	39	39	16
MJ Ullmer	8	8	7	7	9	9	-	-	-	-	22	22	28
JA Waller(6)	5	5	4	4	6	7	-	-	1	1	35	36	6
GM Williamson(7)	8	8	1	1	7	9	1	1	-	-	25	26	10
A Fahour(8)	4	4	1	1	4	4	-	-	-	-	6	8	9
TK McDonald(9)	2	2	2	2	1	1	1	1	-	-	5	5	1
JM Stewart(10)	3	3	2	2	2	2	-	-	1	1	1	1	7

A *Indicates the number of directors' meetings (including meetings of Board committees) held during the year. Where a director is not a member of the relevant Board committee, this column reflects the number of meetings attended.*

B *Indicates the number of meetings (including meetings of Board committees) attended during the period.*

(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 separate meetings of the Audit Committee, Risk Committee, Remuneration Committee or Nomination Committee) where any two directors are required to form a quorum.*

(3) *Mr Clyne was appointed Managing Director & Chief Executive Officer on 1 January 2009.*

(4) *Mr Joiner was appointed Executive Director Finance on 12 March 2009.*

(5) *Mr Tomlinson retired as a member of the Audit Committee effective 1 August 2009 and appointed a member of the Remuneration Committee on 1 August 2009.*

(6) *Mr Waller was appointed a non-executive director and a member of the Audit & Risk Committees on 5 February 2009.*

(7) *Sir Malcolm Williamson was appointed a member of the Risk Committee on 6 November 2008.*

(8) *Mr Fahour resigned as an executive director on 20 February 2009.*

(9) *Mr McDonald retired as a non-executive director and member of the Audit Committee on 7 November 2008.*

(10) *Mr Stewart resigned as Managing Director and Chief Executive Officer on 31 December 2008.*

Directors' and executives' interests

The tables below show the interests of each director and executive in the issued ordinary shares and National Income Securities of the Group made available by the Group as at the date of this report. No director or senior executive held an interest in Trust Preferred Securities, Trust Preferred Securities II, National Capital Instruments or exchangeable capital units of the Company.

Directors	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company(1)	Performance rights over fully paid ordinary shares of the Company(1)	National Income Securities
MA Chaney(2)	28,373	-	-	-
CA Clyne	94,996	357,962	194,777	-
PA Cross(2)	18,645	-	-	-
DT Gilbert(2)	16,190	-	-	1,253
MA Joiner	299,420	579,696	57,032	-
PJ Rizzo(2)	5,824	-	-	-
JS Segal(2)	16,986	-	-	180
JG Thorn(2)	12,333	-	-	-
GA Tomlinson(2)	39,613	-	-	350
MJ Ullmer	168,456	645,397	77,879	841
JA Waller	2,000	-	-	-
GM Williamson	9,407	-	-	-
Former Directors				
A Fahour	2,575	1,198,849	142,063	-
TK McDonald	-	-	-	-
JM Stewart	144,746	775,000	439,750	-

Report of the directors

Senior executives[3]	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company[1]	Performance rights over fully paid ordinary shares of the Company[1]	National Income Securities
LJ Gray	42,886	204,000	32,876	-
MJ Healey	50,939	36,525	9,132	-
JC Healy	128,610	12,500	3,125	-
BF Munro	25,917	95,000	78,625	-
LM Peacock	257,910	1,003,453	160,366	-
RJ Sawers	69,596	81,250	20,313	-
GR Slater	86,678	215,250	47,563	-
AG Thorburn	82,471	242,250	113,944	-
SJ Tucker	57,398	357,250	74,313	-

(1) Further details of performance options and performance rights are set out in note 37 in the financial report.

(2) Includes shares acquired under the Non-Executive Director Share Plan operated through the National Australia Bank Staff Share Ownership Plan.

(3) Senior executives in current employment with the Group as at 30 September 2009 where information on shareholdings is disclosed in note 48 in the financial report

The Directors from time to time invest in various registered schemes and securities offered by certain subsidiaries of the Company.

The level of interests held directly and indirectly by a Director as at 30 September 2009:

Director	Nature of product	Relevant interest (Units)
MA Joiner	Horizon 5 Growth Portfolio	2,919,648
JA Waller	Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd	250,000

There are no contracts, other than those disclosed 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 interests in a registered scheme made available by the Company 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 the Company and any such organisations.

Integrity of reporting

The directors of the Company have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the 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 of the role of the Board and its committees can be found in the Corporate Governance section and on the Group's website www.nabgroup.com.

Report of the directors

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2009. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2009 are as follows:

	Group 2009 $'000
Non-audit services fees	
Audit-related regulatory	
Assurance services relating to Basel II	2,165
APRA reporting	1,226
Guidance Statement (GS) 007 reports	1,081
Audit of the Group's Australian Financial Services Licenses	274
Regulatory audit, reviews, attestations and assurances for Group entities:	
- Offshore	445
- Australia	196
Total audit-related regulatory	**5,387**
Audit-related non-regulatory	
Agreed upon procedures relating to Group assets	319
Agreed upon procedures on results announcements	247
Assurance services relating to credit	196
Other non-regulatory reviews, attestations and assurances for Group entities:	
- Australia	119
- Offshore	71
Total audit-related non-regulatory	**952**
All other	
Payments relating to receivership indemnity[(1)]	2,730
Controls reviews and related work	1,609
Other:	
- Australia	369
- Offshore	171
Total all other	**4,879**
Total non-audit services fees	**11,218**

(1) *Amounts paid to Ernst & Young under an indemnity in a receivership agreement entered into in the normal course of business in 2001 in the normal course of business. This payment represents reimbursement of Ernst & Young's legal fees and settlement payment incurred in relation to a third party legal action.*

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 or pension funds. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2009 total $2,459,388 (2008: $2,199,218).

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to 30 September 2009 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the 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 Audit Committee's pre-approval policies and procedures is set out on page 44. Details of the services provided by Ernst & Young to the Group during 2009 and the fees paid or due and payable for those services are set out in Note 49 in 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

In relation to our audit of the financial report of National Australia Bank Limited (the Company) and the entities it controlled during the year (the Group) for the financial year ended 30 September 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 (Cth) or any applicable code of professional conduct.

Ernst & Young

AJ (Tony) Johnson
Partner
13 November 2009

Contents – Remuneration report

This Remuneration Report has been audited.

Introduction from the Remuneration Committee

Dear Shareholder,

We are pleased to present the 2009 Remuneration Report for your Company. We hope you will find our revamped format to be user-friendly and informative.

The Board endeavours to ensure at all times that our remuneration practices are aligned with wealth creation for our shareholders. At the same time, our remuneration framework must attract, retain and motivate the best people, while balancing to the extent possible the complex and varying objectives of all of our stakeholders.

The global financial crisis uncovered substantial inconsistencies in remuneration frameworks across the globe, especially in financial services organisations outside Australia. In some instances remuneration was clearly not aligned with the interests of shareholders. Australian financial services remuneration frameworks have proven to be better positioned and much of the remuneration excesses have been avoided.

We have undertaken a comprehensive internal and external assessment of our remuneration practices, and commissioned a review of our framework by external advisers.

In the spirit of continuous improvement, the Board is working with management to update and further improve key aspects of the remuneration systems.

Initiatives include:

- Improved performance management systems;
- Increasing portions of short term incentive (STI) rewards deferred, and for longer periods - reflecting the level of responsibility (including risk) and impact of the role;
- Limiting the allocation of long term incentives (LTI) to those roles which have the ability to influence Group outcomes over the longer term; and
- Increased focus on risk metrics across all material aspects of performance and reward.

In addition:

- The Group Executive Committee members have volunteered to have one-half of their total STI for the 2009 financial year deferred in shares, 25% to be restricted for 12 months and 25% for 24 months; and
- Non-executive director fees have been frozen until March 2010 (there has been no change since March 2008).

We recognise that the review of our reward programs will be an ongoing and evolving process, and we aim to continue to take into account the views of a range of stakeholders. We have welcomed the APRA remuneration principles, which, in our view, are consistent with sustainable development of shareholder wealth, and we encourage government, in its deliberations on remuneration issues, to take a similar approach.

In an effort to clarify the real value of employees' take-home pay, this report makes a voluntary disclosure of actual remuneration earned by senior executives. We have fulfilled our statutory reporting requirements by making the required audited disclosures; however, we note that statutory reporting can inflate the value of the compensation received by senior executives as it includes estimates of remuneration that may or may not be received in future years. Grants of LTI by way of shares, performance options and performance rights will only deliver value (other than dividends) to employees if performance hurdles are met. Our internal estimate is that of the LTI reported within the Annual Financial Review over the last 5 years, approximately $200 million of currently unvested grants will not meet the performance hurdles.

The Remuneration Committee hopes this report reduces the confusion surrounding remuneration disclosures and we hope it also better explains our objectives and policies to you. We welcome your feedback on how we may further improve this report in future years.

Yours sincerely,

Patricia Cross
Remuneration Committee Chair

Report of the directors

Executive Summary

Overview of the Company's approach to performance and reward

NAB's remuneration strategy recognises and rewards performance in a way that is consistent with general practices in the markets in which the Group operates. The Remuneration Committee believes that in order to deliver satisfactory shareholder returns it should reward individuals who demonstrate the best relative performance. As high performing employees drive a greater portion of shareholder value, an effective remuneration framework will provide them with higher levels of reward.

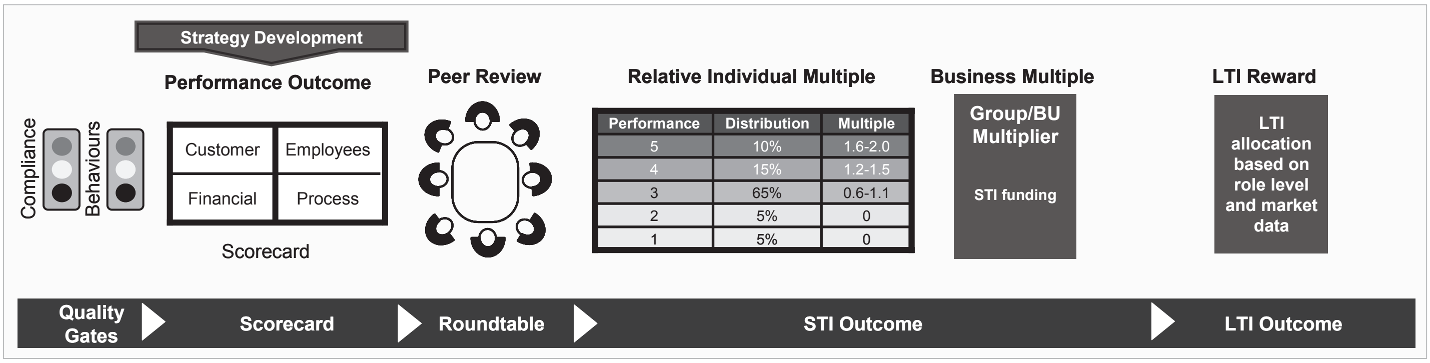
The Company's remuneration philosophy is underpinned by principles which include:

- Linking employee rewards to value creation for shareholders;
- Creating consistency between shareholder returns and performance for the Group; and
- Ensuring we provide competitive levels of remuneration within the markets in which the Group operates.

Our performance and reward framework drives superior rewards for individuals who have the best relative performance. The framework applies to all employees.

Fixed Remuneration - in determining an employee's fixed remuneration, market matching is performed to help ensure that the fixed reward paid is comparable and competitive in the various global markets in which the Group operates. Individual performance, skills, expertise, and experience are also used to determine where the employee's fixed remuneration should sit within a market range.

NAB's Performance and Reward Framework



Short term incentives - As described below, STI rewards reflect both individual performance and business performance through the use of individual performance scorecards, a relatively ranked individual performance multiple, and a business multiple driven by the Group's annual Cash Earnings performance.

Quality Gates - All employees must satisfy threshold measures for compliance and behaviour which reflect a range of internal and external regulatory requirements and the Group's Corporate Principles.

Scorecard - Individual performance scorecards have four key business drivers. These are:

- Financial
- Employee and culture
- Customer and community
- Strategic projects and implementation

Under each of these drivers an employee will have outcomes that they need to achieve. The extent to which they do so will determine their indicative performance rating.

Roundtable - Individual performance is validated in peer roundtable discussions to ensure a consistent approach and methodology has been applied in rating individual performance. Individuals are also relatively ranked against their peers during roundtables.

Individual Multiple - An individual's relative performance rating then determines their individual STI multiple. This ensures the highest relative performers receive higher STI awards.

Business Multiple - The Group's performance determines the pool amount available for distribution. This is based on Cash Earnings, with a qualitative overlay applied by the Remuneration Committee.

This year the Group's performance was below plan, resulting in a lower amount available for distribution than has been the case in the previous four years.

Long term incentives - LTI rewards help to drive management decisions focussed on the long term prosperity of the Company through the use of challenging performance hurdles. No value is derived from LTI rewards (other than dividends) until the hurdles are achieved.

Report of the directors

Linking Remuneration and Performance for senior executives in 2009

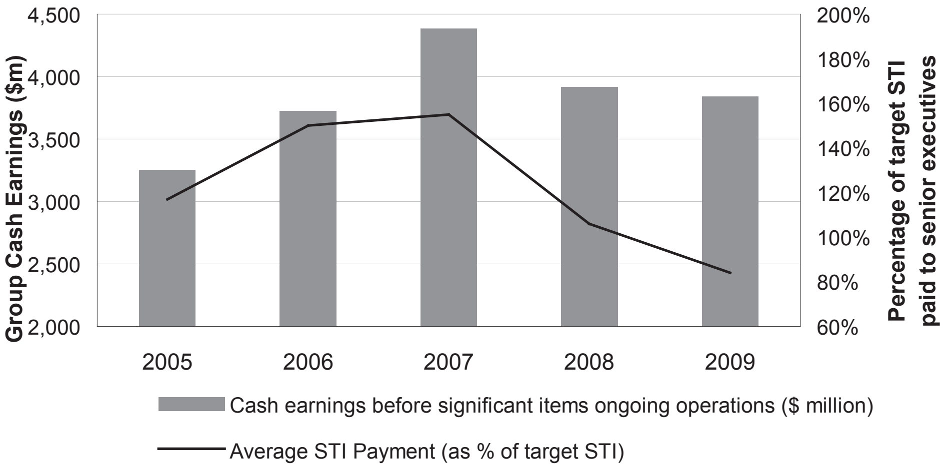
The Group's results for the 2009 financial year reflected the impact and far reaching nature of the global economic downturn, and are an important factor in determining performance payments for 2009.

Cash earnings fell 2.0% compared to the previous year. Revenue growth was maintained and costs carefully managed, but this was offset by increased bad and doubtful debts and higher funding costs.

As a result of this performance payments for the Group Chief Executive Officer and senior executives as listed in the tables below and on the following page (senior executives) were affected as following:

- the average STI amount paid to senior executives fell 22% (as shown in the graph below);
- current employees derived no value from LTI during the 2009 year (other than dividends) as shown in the tables below; and
- LTI securities held by several senior executives lapsed during the year, unvested and therefore unexercised, as performance hurdles had not been met (as shown in the table below).

The following graph shows the average individual STI payment (as a percentage of each individual's target STI, where 100% is the target) for the senior executives and its relationship to the Group's Cash Earnings from ongoing operations over the last five years. The average individual STI payment reflects both business and individual performance.



The average STI payments in the graph include the senior executives in each of those years. The 2009 average in the graph is based on the full-year incentive for each of the 12 members of the current Group Executive Committee (following the Group's March 2009 restructure), as listed in the table below. Those senior executives who are no longer members of the Group Executive Committee or whose employment with the Company ended during this year, as listed in the table on the following page are not included in the graph.

Senior executive remuneration actually earned

The following table shows the remuneration actually earned by each individual for the full year to 30 September 2009. The figures do not include the value of LTI earned during the year, the receipt of which is subject to the achievement of future performance hurdles. The statutory remuneration data table on page 24 includes such amounts.

Remuneration table: for members of the Group Executive Committee on 30 September 2009

Name	Fixed annual remuneration(1)	% of target STI actually earned(2)	Cash STI for performance to 30 Sep 2009(2)	Deferred STI for performance to 30 Sep 2009 (deferred in shares)(2)	LTI value derived from previous allocations (excl. dividends)(3)	Remuneration actually earned for 2009(5)	Opportunity lapsed during the year to 30 Sep 2009(6)
Executive directors							
Cameron A Clyne	2,421,560	65%	812,500	812,500	-	4,046,560	(495,550)
Mark A Joiner	1,250,471	96%	576,000	576,000	-	2,402,471	-
Michael J Ullmer	1,355,396	80%	626,000	626,000	-	2,607,396	(901,000)
Other senior executives							
Lisa J Gray	689,144	88%	308,000	308,000	-	1,305,144	-
Michaela J Healey	574,569	88%	238,000	238,000	-	1,050,569	-
Joseph C Healy	761,711	96%	360,000	360,000	-	1,481,711	-
Bruce F Munro	812,511	88%	308,000	308,000	-	1,428,511	(315,350)
Lynne M Peacock	1,524,743	40%	241,500	241,500	-	2,007,743	-
Richard J Sawers	725,716	96%	384,000	384,000	-	1,493,716	-
Gavin R Slater	1,129,938	88%	352,000	352,000	-	1,833,938	-
Andrew G Thorburn	1,092,307	96%	384,000	384,000	-	1,860,307	-
Stephen Tucker	732,018	88%	341,000	341,000	-	1,414,018	-

Remuneration table: for senior executives who are not members of the Group Executive Committee on 30 September 2009

Name	Fixed annual remuneration(1)	% of target STI actually earned(2)	Cash STI for performance to 30 Sep 2009(2)	Deferred STI for performance to 30 Sep 2009 (deferred in shares)(2)	LTI value derived from previous allocations (excl. dividends)(3)	Termination payments(4)	Remuneration actually earned for 2009(5)	Opportunity lapsed during the year to 30 Sep 2009(6)
John Hooper	1,178,628	60%	601,000	-	-	-	1,779,628	-
Peter Thodey	1,023,684	88%	664,000	67,000	-	-	1,754,684	-
Former executives								
Ahmed Fahour	1,455,912	51%	1,183,000	-	-	1,626,207	4,265,119	(2,906,617)
George Frazis	336,380	-	-	-	-	-	336,380	(2,803,320)
Michael Hamar	271,932	24%	150,000	-	-	747,126	1,169,058	(528,316)
John Stewart	1,746,994	25%	687,500	-	2,311,540	2,750,000	7,496,034	(3,975,300)

(1) *Fixed annual remuneration is the total amount provided to the individual during the year in regard to cash salary, non-monetary benefits, superannuation and other long-term benefits as set out in the* **Statutory remuneration data table**. *For former senior executives this is for the period until their leaving date as shown in the section:* **Contractual arrangements**.

(2) *The actual STI amount for each individual (as a percentage of their full year STI target) will reflect both business and individual performance. The following section includes more information regarding the Group's performance framework. Current members of the Group Executive Committee have volunteered to have one-half of their STI for 2009 deferred in shares, 25% to be restricted for 12 months and 25% for 24 months. STI amounts for Mr Hooper and for Mr Thodey will be paid in shares to the extent that they include any amounts for above target individual performance as described further in the section:* **Delivery and deferral of STI rewards**. *Amounts for Mr Fahour, Mr Hamar and Mr Stewart represent a pro-rated proportion calculated to the date they ceased employment with the Company. No deferral was applicable for these former executives. As Mr Hamar and Mr Stewart left the Company before mid-year individual performance assessments were completed in March 2009, their STI amounts reflect only prorating, and not business or individual performance outcomes.*

(3) *Value is derived from LTI if it has vested, and has value based on the Company's closing share price on that day (less any applicable exercise price):*

- *77,000 performance rights vested for Mr Stewart (being 100% of tranche three of the grant provided in March 2008 as described in the section:* **Summary of LTI** *as a result of the hurdle test dated 31 August 2009). The value of the vested securities is the based on the Company's closing share price of $30.02 on the date that vesting was determined, being 7 October 2009. The performance rights have no exercise price.*
- *5,917 performance options vested for Ms Gray (being 100% of tranche one of the grant provided in February 2006 as described in the section:* **Summary of LTI** *as a result of the hurdle test dated 6 February 2009). As the Company's closing share price on the date of vesting is lower than the exercise price of the options, being $34.53, no value is shown in this table.*
  LTI allocations to be allocated in respect of the 2009 performance year are shown in the **Performance related remuneration table**. *Performance hurdles will determine any vesting, as described in the section:* **LTI rewards**.

(4) *Termination payments are in respect of the Company notice period for each former employee as set out in the section:* **Contractual arrangements** *as pursuant to contractual entitlements, plus professional taxation advice for Mr Fahour following the end of his employment.*

(5) *Remuneration actually earned for 2009 is the total of the previous columns, being fixed annual remuneration, STI amounts paid in cash or deferred in shares, value derived from previous LTI allocations, and termination payments and does not include the value of any LTI earned, the receipt of which is subject to the achievement of future performance hurdles.*

(6) *The value of opportunity lapsed during the year includes LTI securities that have lapsed, unvested and unexercised, on their Expiry Date or upon the employee's departure from the Company. These are detailed in the footnotes to the table in the section:* **Value of performance options and performance rights**. *The value is calculated using the closing share price of Company shares on the date of the lapse (with the exercise price subtracted in the case of any lapsed performance options). For Mr Frazis the opportunity lapsed during the year also includes STI shares (deferred awards from the 2008 performance year) and shares allocated under the Motivation & Retention programme, which he forfeited on his resignation from the Company. Performance options which had been granted in March 2001 expired in March 2009 for Mr Hooper, Mr Slater, Mr Thodey and Mr Tucker, but no value is included on this table as the exercise price of these expired performance options was $27.85, and higher than the Company's share price on the expiry date.*

Given anticipated changes to the *Corporations Act* 2001 (Cth) in regard to termination benefits, the Company has conducted a review of its current policies and practices. The Company is satisfied that current policies can be amended to deliver appropriate benefits under the new legislation (as currently proposed) in most cases.

Specific comments in regard to payments for former executives, and in relation to some other key executives are provided below:

Mr Clyne's fixed remuneration has increased since 2008 to reflect his new role as Managing Director and Group CEO (effective from 1 January 2009). Mr Clyne has earned a reduced STI for the 2009 performance year, as his scorecard includes a significant weighting on the Group's Cash Earnings outcome for the year, which has been less than planned due to higher Bad and Doubtful Debts. Mr Clyne has achieved other measures on his performance scorecard as reflected in his overall STI outcome. The Board believes strongly in Mr Clyne's ability to lead the Group through these challenging times and to improve business performance in the medium to long term. Mr Clyne's success in doing so will be reflected in the level of vesting of his proposed LTI award for the 2009 year - which will be made on the same basis and with the same hurdles as LTI for other senior managers at the Company.

Mr Fahour left the Group during the year. The termination benefit paid under his contract, payment of a pro-rated STI award based on his outstanding achievement, and the decision of the Board to allow the release of some shares and retention of options and rights (with vesting still subject to performance hurdles) are all in line with the Group's current practice in such circumstances.

Mr Hamar left the Group during the year. The termination benefit paid under his contract, payment of a pro-rated STI award, and the decision of the Board to allow the release of some shares and retention of options and rights (with vesting still subject to performance hurdles) are all in line with the Group's current practice in such circumstances.

Mr Hooper moved to a new position as Executive Director - UK Business within the Group's UK operation as a result of the March 2009 Group restructure. His remuneration has been adjusted to reflect this new position. As is the case for Ms Peacock, Mr Hooper's STI outcome for the 2009 performance year reflects the business result for the UK banks as compared with the business plan and results for the rest of the Group.

Ms Peacock's STI outcomes for the 2009 performance year reflect the business result for the UK banks as compared with business plan and the results for the rest of the Group. The UK results reflect the very challenging business environment in that region and the Board is pleased with the performance of our banks compared to others in the region. Operating conditions were consistent with the deepest UK recession in the post war period. The Board is satisfied that Ms Peacock's remuneration package is appropriate and reasonable, having regard to the circumstances of the Group's UK operations, Ms Peacock's role and responsibilities and market relativity for the role. The Board believes strongly in Ms Peacock's ability to lead the UK banks through these challenging times and to improve the performance of the UK business in the medium to long term.

Mr Stewart left the Group with the approval of the Board, having extended his contract beyond the initial 3-year term at the Board's request in order to further advance the Group on its cultural and business journey. Mr Stewart achieved much in doing so and this allowed for orderly succession to the Board's candidate, Mr Clyne. Consequently, the Board determined that it was appropriate to provide a termination payment under Mr Stewart's contract, the payment of a pro-rated STI award, and to allow the retention of options and rights (with vesting still subject to performance hurdles).

Report of the directors

Statutory disclosure for senior executives

The following section describes the remuneration policy for senior executives. These individuals are Key Management Personnel ('KMP') for the 2009 financial year as defined in the **Table of key terms** and listed in the **Remuneration tables** on pages 18 and 19.

Remuneration policy for senior executives

The following section shows how the remuneration of each senior executive is determined by the performance of the Group and of the individual, through the application of the Group's remuneration policy.

Total Reward framework

The Group's remuneration policy uses a range of components to deliver market competitive remuneration. Our overall philosophy is to manage, where possible, to a 'Total Reward' methodology, which links remuneration to the performance and potential of an individual.

The Total Reward framework is designed to:

- reward those who deliver superior performance;
- link employee rewards to the generation of sustainable value for shareholders;
- attract, recognise, motivate and retain top talent;
- recognise capabilities and promote opportunities for career and professional development;
- provide fair and consistent rewards, benefits and conditions within an integrated global strategy;
- provide rewards that are competitive within the global markets in which the Group operates; and
- align the interests of employees and other shareholders through employee ownership of Company shares and securities.

Each individual's actual remuneration will reflect:

- the degree of individual achievement in meeting performance measures under the performance management framework;
- parameters approved by the Board and Remuneration Committee (such as the size of the STI pool) based on the Group's financial performance; and
- the Company's share price performance and relative shareholder returns.

Performance management framework

The Company's performance framework is briefly described in the section: **Executive summary**, and is set out in detail at www.nabgroup.com.

The performance management framework for senior executives includes:

- setting 'quality gates', which are threshold measures for compliance and behaviour expected from each employee;
- setting corporate key performance indicators for the Group, which cascade to an individual scorecard of measures for each senior executive; and
- a peer review process where the Group Chief Executive Officer compares and calibrates the performance of his collective Group reports.

Each scorecard has four key business drivers. For the 2009 performance year these are:

- Financial
- Employee and culture
- Customer and community
- Strategic projects and implementation

The measures under each business driver are selected for their alignment to the Group's strategic direction. Through the scorecard approach and the subsequent peer review the STI programme is structured to reward the highest achievers against key individual, business and Group performance outcomes.

Components of Total Reward

The performance framework drives superior rewards for individuals who have the best relative performance with:

- fixed remuneration levels and STI targets set higher in the market range;
- a greater STI multiple; and
- an LTI reward

which collectively drive higher total reward for the best performers.

Fixed Remuneration

Fixed remuneration is generally reviewed annually. The Group targets median fixed remuneration for each position within the finance industry in the relevant global markets in which it operates. A range of 80% to 120% is set around those market measures - with the upper half of the range limited to exceptional performers. Individual performance, skills, expertise, and experience are also used to determine where the employee's fixed remuneration should sit within the market range.

Short Term Incentives (STI)

STI targets and performance measures for the Group Chief Executive Officer are determined by the Remuneration Committee. The Group Chief Executive Officer determines the targets and measures for the other senior executives.

An STI target is set for each individual within the target range (shown in the Total Reward mix table below), with reference to external relativities (set between the median and upper quartile of the relevant market) and internal relativities. The target amount is earned for 'on-target' individual and Group performance, subject to passing the behaviour and compliance 'quality gates' as described above.

As described later in this section, actual STI rewards reflect both individual performance and business performance.

Long Term Incentives (LTI)

LTI rewards help to drive management decisions focussed on the long term prosperity of the Company through the use of challenging performance hurdles. No value is derived from LTI rewards (other than dividends) until the hurdles are achieved. The hurdles are measured over a minimum 3 year period, and combine internal and external performance measures.

An LTI target is set for each individual within a target range (shown in the Total Reward mix table below) with reference to both external and internal relativities. An individual must pass threshold performance requirements and the behaviour and compliance 'quality gates' as described above, to be eligible for any allocation of LTI. Continued LTI allocations are therefore not guaranteed.

As described later in this section, actual LTI rewards reflect both individual performance and business performance.

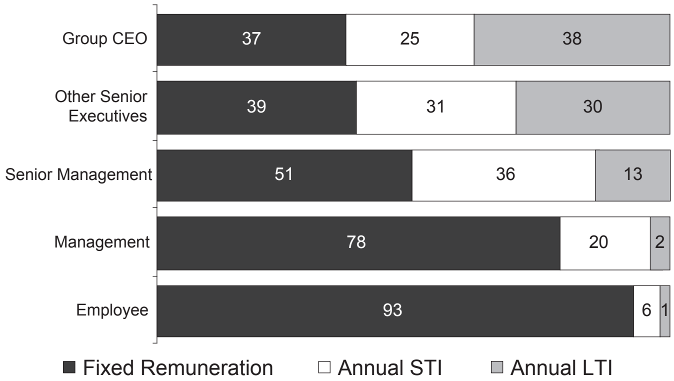
Total Reward mix

An appropriate target reward mix is determined for each level with at risk rewards increasing with the level of responsibility and the importance of the person's role. Total reward includes fixed reward, STI and LTI and the typical target mix for the 2009 year is shown below.

Target mix for 2009	Group Chief Executive Officer	Other Senior Executives
Fixed remuneration	30% to 40%	30% to 45%
STI	30% to 40%	30% to 45%
LTI	30% to 40%	30% to 40%
TOTAL	**100%**	**100%**

Actual Total Reward mix

The following graph shows the actual reward mix for 2009 (average percentages for each level as at 30 September 2009).



This data is as at a point in time on 30 September 2009 and therefore does not match annual remuneration data shown in tables later in this report.

STI rewards

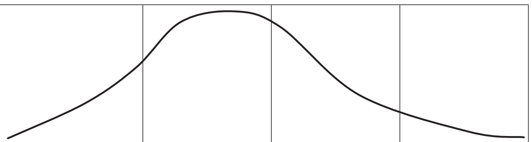
An individual's actual STI reward for the performance year is their STI target multiplied by their individual STI multiple and by the Group STI multiple (as described below). In this way, rewards reflect both individual and business performance.

The impact of individual performance on STI rewards

The Board assesses the performance of the Group Chief Executive Officer against his scorecard of key performance measures and applies an individual STI multiple of between zero and 1.5 (for exceptional individual performance).

The Group Chief Executive Officer assesses the performance of the other senior executives against their individual scorecards and then against the scorecard outcomes for their peers, and applies an individual STI multiple of between zero and 2.0 (for exceptional individual performance). The Remuneration Committee has oversight of the remuneration and actual STI recommended for senior executives.

Only the most outstanding performers may receive an STI multiple of more than 1.6 times their STI target. The total for all employees is limited to the size of the funded STI pool.



Performance Outcome	Unsatisfactory/ Developing Contributor	Valued Contributor	Significant Contributor	Exemplary Contributor
Expected distribution	10%	65%	15%	10%
Individual STI Multiple (of target)	0	0.6 – 1.1	1.2 – 1.5	1.6 – 2.0

The impact of business performance on STI rewards

The Group's annual operating plan and the STI pool measures and targets are approved by the Board. At the end of the performance period, the Remuneration Committee then determines the size of the STI reward pool (i.e. the business STI multiple), taking into account the quality of the business result and the agreed performance sensitivities.

For 2009, the performance of the Group is determined by growth in Cash Earnings, with a qualitative overlay of other measures including Return on Equity (ROE). The combination of these measures is intended to correlate closely with Total Shareholder Return (TSR), and therefore to value creation, but they can also be measured on a regional and business line basis.

The STI pool and business STI multiple can range from zero up to 1.5 for exceptional business performance.

STI awards for senior executives for the 2009 performance year

The graph on page 18 shows the average of individual STI payments for current senior executives for the 2009 performance year, and the **Remuneration tables** on pages 18 and 19 show the amount for each senior executive.

Delivery and deferral of STI rewards

Changes for 2009: Current members of the Group Executive Committee have volunteered to defer half of their 2009 STI reward in the form of Company shares (subject to jurisdictional legal or tax constraints and any required shareholder approval for executive directors). Half of the shares will be restricted from trading and subject to forfeiture conditions for 12 months following allocation, and the other half for 24 months.

For other senior executives (who have not left the Group) STI rewards in relation to individual above target performance are deferred in shares, and for a period of 12 months.

The shares will be held in trust with restrictions on trading during the deferral periods. This provides the facility for reduction or cancellation of STI rewards if the rewards are later considered to be inappropriate given subsequent individual performance. The terms and forfeiture conditions of the shares are set out in the **Table of key terms**, and include forfeiture on resignation from the Group. The Remuneration Committee believes the restrictions and forfeiture conditions on the shares instil an appropriate focus on business performance beyond the current year, help to ensure that targets are consistently achieved and encourage an appropriate level of shareholding by senior executives.

Individuals located in Australia may also express a preference to be provided a portion of the balance of their STI reward in superannuation contributions.

LTI rewards

The impact of individual performance on LTI rewards

LTI targets are determined annually based on market relativity within the Total Reward mix as described on the previous page.

Changes for 2009: In prior years, the amount of each individual's actual allocation was impacted by assessment of the individual's performance and potential under the Company's Executive Talent Review. Although this process continues, individual LTI allocations have been separated from the talent process from the 2009 year (i.e. for LTI to be allocated in January 2010) to improve the independence of the talent assessment process. Instead LTI allocations are directly aligned to market.

The impact of business performance on LTI rewards

The internal component of the hurdle tracks the Company's financial performance against key measures within the Group's 3-year business plan (such as Cash Earnings and ROE). The external component of the hurdle compares NAB's Total Shareholder Return (TSR) over a 3 to 5 year period (depending on the grant) against that of NAB's competitors. TSR is defined in the **Table of key terms**.

LTI awards for senior executives for the 2009 performance year

The **Performance related remuneration table** on page 28 shows the LTI value which will be allocated for the 2009 performance year (in the column headed: LTI opportunity for 2009).

Delivery and deferral of LTI rewards

For 2008, approximately half of the value of LTI rewards for senior executives was provided in the form of performance options (with a relative TSR hurdle) and the remainder of the value in shares or rights (with a hurdle based on Cash Earnings and ROE compared to the Group business plan).

Changes for 2009: For 2009 the whole of the value of LTI rewards will be provided in the form of shares. Due to jurisdictional issues, senior executives located in New Zealand will receive an equivalent value in the form of LTI performance rights (with the same performance hurdle and similar terms).

The shares are held in trust with restrictions on trading for the three year performance period. The terms and forfeiture conditions of the shares are set out in the **Table of key terms**, and include forfeiture on resignation from the Group, and if the performance hurdles are not met, as described below (the corresponding LTI performance rights would not vest).

Performance hurdles for 2009 LTI allocations

The performance hurdles for 2009 combine both external and internal measures:

The hurdle in respect of half of the allocation value is:

- the Company's TSR performance relative to Top Financial peer companies (as defined in the **Table of key terms**) for the 2010, 2011 and 2012 financial years which will determine vesting on a straight line scale from 50% vesting at median TSR performance to 100% vesting at 75th percentile TSR performance.

The hurdle in respect of the remaining half is:

- Group Cash Earnings which must achieve business plan (for the same financial years). Where TSR performance is in the top quartile (as described above) the Group Cash Earnings must achieve at least 90% of business plan; and
- Group ROE which must also be at least 90% of business plan for the same financial years, and then the level of ROE achieved compared to business plan will determine vesting on a straight line scale from 50% vesting at 90% ROE achievement to 100% vesting at 100% ROE achievement.

Value of previous LTI awards

The LTI performance hurdles are designed to deliver rewards to employees consistent with the returns to shareholders, and in comparison with our competitors. A full description of the LTI instruments which are currently held by senior executives, and the relevant hurdles, is set out in the section: **Summary of LTI**.

The remuneration data shown in the **Statutory remuneration data table** includes the accounting value of the allocations that each individual holds. As shown in the **Remuneration table**, LTI has not delivered any benefits to current senior executives during 2009 (other than dividends on any LTI shares). Previous allocations to several of the senior executives have lapsed, unvested and unexercised, during the year as shown in the **Remuneration table** (in the column headed 'Opportunity lapsed during the year').

This is due to the rigorous application of the performance hurdles preventing vesting of many allocations. During 2009 there was vesting of some performance options for employees from the February 2006 grant. However, no value has yet been delivered from that grant (i.e. no options have been exercised) as the vested options have an exercise price of $34.53.

Joining and retention programmes

Commencement awards for senior executives are only entered into with approval of the Group Chief Executive Officer and with the oversight of the Remuneration Committee - to enable buy-out of unvested equity from previous employment. The amount, timing, and performance hurdles relevant to any such awards must be based on evidentiary information. The awards are primarily provided in the form of shares, performance options and performance rights, subject to restrictions and certain forfeiture conditions, including forfeiture on resignation. No commencement awards have been offered to any senior executives since 2007.

The Company provides retention awards for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares subject to a restriction period, performance standards and forfeiture conditions, often including staggered forfeiture on resignation before key milestones are achieved. Retention awards provided to senior executives during 2009 are detailed in footnote 6 to the **Statutory remuneration data table**.

Changes to remuneration policy for senior executives for the 2010 performance year

The Group's remuneration policy is changing for the next financial year as a result of organisational change, an external review of frameworks commissioned by the Remuneration Committee, and due to regulatory and legislative influences.

Key changes for the 2010 performance year are:

- risk adjustments will be further incorporated through all stages of the performance and reward process;
- the behavioural 'quality' gate will be replaced, with a behavioural assessment informing the STI rewards. The distribution of individual STI multiples will incorporate both the scorecard performance outcome and a new behavioural assessment (based on the Group's corporate principles) - creating a direct link between behaviours and STI rewards;
- the measures used for determining the business STI multiple will incorporate a range of risk-adjusted measures to minimise the risk of management actions that promote short term results at the expense of longer term business growth and success;
- the scope of STI deferral will be broadened, consistent with regulatory guidance and legislation, and the proportion deferred will be commensurate with the level of risk and responsibility of each role, and the length of deferral will align with both the level of risk and impact of the role on business results.

Report of the directors

5-year Company performance

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

	2009	2008	2007	2006	2005
Basic earnings per share (cents)	123.4c	262.7c	269.0c	262.6c	246.3c
Cash Earnings (from ongoing operations)	$3,841m	$3,916m	$4,386m	$3,728m	$3,253m
Dividends paid	$1.70	$1.92	$1.71	$1.66	$1.66
Share price at start of year	$24.26	$39.71	$36.70	$33.05	$26.98
Share price at end of year	$30.76	$24.26	$39.71	$36.70	$33.05
Absolute TSR for the year	**34.6%**	**(35.2%)**	**13.0%**	**16.3%**	**29.3%**

Senior executive remuneration

Remuneration data for the senior executives is shown in the following tables. All were Key Management Personnel (KMP) of both the Company and of the Group during the 2009 financial year:

Current Key Management Personnel (KMP) on 30 September 2009

Current members of the Group Executive Committee on 30 September 2009, comprising:

- Executive directors, being Mr Cameron Clyne, Mr Mark Joiner and Mr Michael Ullmer. The executive directors were also all KMP during the year to 30 September 2008); and
- other senior executives as listed in the table below.

Other KMP during the year to 30 September 2009

Other members of the Group Executive Committee during the year, comprising:

- Mr John Hooper and Mr Peter Thodey, who have taken new roles within the Group during the year which are not Group Executive Committee positions; and
- former employees being Mr Ahmed Fahour, Mr George Frazis, Mr Michael Hamar, and Mr John Stewart, whose employment with the Group and membership of the Group Executive Committee concluded during the year.

Named executives

The five named Company and Group executives (excluding executive directors) who received the highest remuneration for the year (under the *Corporations Act* 2001 (Cth)) are Mr Peter Coad, Mr Andrew Hagger, Mr John Hooper, Ms Lynne Peacock, and Mr Peter Thodey (named executives).

Contractual arrangements

The following table shows the position and contract terms for all senior and named executives. For individuals who were KMP for only a portion of the year, this is also shown.

				Notice period[2] (weeks)	
Name	**Position**	**Period of the year for which the employee was a KMP (if not the full year)[1]**	**Term of agreement/ contract and date commenced if during the year**	**Employee**	**Company**
Senior executives on 30 September 2009					
Executive directors					
Cameron A Clyne	Group Chief Executive Officer Executive Director from 1 January 2009		No fixed term	52	52
Mark A Joiner	Group Chief Financial Officer Executive Director from 12 March 2009		No fixed term	13	52
Michael J Ullmer	Deputy Group CEO Executive Director		No fixed term	13	52
Other senior executives					
Lisa J Gray	Group Executive Personal Banking	From 12 March 2009	No fixed term	13	26
Michaela J Healey	Group Executive Governance	From 12 March 2009	No fixed term	8	26
Joseph C Healy	Group Executive Business Banking	From 12 March 2009	No fixed term	26	52
Bruce F Munro	Group Chief Risk Officer	From 1 January 2009	No fixed term	13	52
Lynne M Peacock	Group Executive United Kingdom		No fixed term	13	52
Richard J Sawers	Group Executive Wholesale Banking	From 12 March 2009	No fixed term	26	52
Gavin R Slater	Group Executive Group Business Services	From 12 March 2009	No fixed term	13	65
Andrew G Thorburn	Group Executive New Zealand, Asia and United States	From 1 December 2008	No fixed term	13	52
Stephen J Tucker	Group Executive MLC and NAB Wealth	From 12 March 2009	No fixed term	13	26

Report of the directors

Name	Position	Period of the year for which the employee was a KMP (if not the full year)(1)	Term of agreement/ contract and date commenced if during the year	Notice period(2) (weeks) Employee	Company
Other senior executives during the year to 30 September 2009					
Peter L Thodey	KMP Position: Group Executive Office of the CEO to 31 August 2009 Current Position: Executive General Manager Specialised Group Assets	To 31 August 2009	No fixed term	26	52
John E Hooper	KMP Position: Chief Executive Officer, nabCapital to 11 March 2009 Current Position: Executive Director - UK Business	To 11 March 2009	No fixed term	13	52
Former employees					
Ahmed Fahour(3)	Director (Executive) and Executive Director and Chief Executive Officer, Australia	To 10 July 2009 (Directorship ended 20 February 2009)	Fixed term to 1 September 2009	13	52
George Frazis	Group Executive General Manager, Development and New Business	To 5 December 2008	No fixed term	13	52
Michael J Hamar	Group Chief Risk Officer	To 5 January 2009	Fixed term to 6 January 2009	13	26
John M Stewart	Director (Executive) and Group Chief Executive	To 31 December 2008	No fixed term	26	26 weeks notice plus 52 weeks termination payment
Other named executives					
Peter G Coad	Deputy Group Executive Wholesale Banking		No fixed term	13	26
Andrew Hagger	Executive General Manager Insurance		No fixed term	13	26

(1) *Where a "To" date is shown, the individual was a KMP for the period from 1 October 2008 to the date shown.*

(2) *Termination payments are calculated as the Company notice period multiplied by either Total Employment Compensation (TEC) or Total Remuneration Package (TRP) as defined in the* ***Table of key terms****). These are payable if the Company terminates the senior executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Termination payments are not generally payable on resignation, summary termination or unsatisfactory performance, although the Board may determine exceptions to this. The retention or forfeiture of shares, performance options and performance rights on cessation of employment depends on the terms and conditions of each grant including Board discretion, as set out in the section:* ***Summary of LTI****, and the* ***Table of key terms****. Vesting and exercise of securities remain subject to any applicable performance hurdles.*

(3) *Mr Fahour's membership of the Group Executive Committee ceased on 20 February 2009, however he has been treated as a KMP of the Company and the Group for the full period until the end of his employment on 10 July 2009 in order to provide transparency in regard to his termination benefits.*

Statutory Remuneration Data for senior executives

The following tables have been prepared in accordance with Section 300A of the *Corporations Act* 2001 (Cth), using the required table headings and definitions. They show details of the nature and amount of each element of the remuneration paid or payable for services provided for the year to 30 September 2009 (including STI amounts in respect of performance during the year to 30 September 2009) which are paid following the end of the year.

- All individuals listed are paid in Australian dollars - with the exception of Ms Peacock, who is paid in GBP, converted here at the average rate during the year ended 30 September 2009 of A$1.00 = GBP 0.4721 for 2009 (2008: GBP 0.4602).
- Remuneration shown for individuals who have not been KMP for the whole year is adjusted to reflect only the portion of the year in which they acted in a KMP position (as set out in the previous table).
- Full year remuneration data is included in a separate table for the five named executives who are the most highly remunerated for the year.
- LTI rewards in relation to the performance year to 30 September 2009 (as shown in the **Performance related remuneration table**) are anticipated to be granted in the form of shares in December 2009 or January 2010, and are not included below.
- No retirement benefits were paid or payable to the listed individuals in 2008 or in 2009.

Statutory remuneration data table

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary(1) $	Cash STI(2) $	Non-monetary(3) $	Super-annuation fixed(4) $	Other long-term benefits(5) $	Shares(6) $	Options and rights(7) $	Termination benefits $	Total $
Senior executives on 30 September 2009										
Executive directors										
CA Clyne	**2009**	**2,346,519**	**812,500**	**18,580**	**56,461**	**-**	**784,400**	**1,178,419**	-	**5,196,879**
	2008	1,035,863	675,000	42,295	52,817	-	407,903	741,322	-	2,955,200
MA Joiner	**2009**	**1,154,788**	**576,000**	**-**	**95,683**	**-**	**2,528,082**	**763,513**	-	**5,118,066**
	2008	944,009	900,000	-	67,064	-	1,802,144	739,252	-	4,452,469
MJ Ullmer	**2009**	**1,281,331**	**876,000**	**6,472**	**67,592**	**-**	**960,286**	**869,688**	-	**4,061,369**
	2008	1,217,692	625,000	7,911	95,205	-	1,045,956	805,972	-	3,797,736

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary[1] $	Cash STI[2] $	Non-monetary[3] $	Super-annuation fixed[4] $	Other long-term benefits[5] $	Shares[6] $	Options and rights[7] $	Termination benefits $	Total $
Other senior executives										
LJ Gray										
For prorated period	**2009**	**346,283**	**171,299**	**6,012**	**16,653**	**-**	**216,849**	**72,160**	**-**	**829,256**
MJ Healey										
For prorated period	**2009**	**292,738**	**132,367**	**-**	**18,523**	**-**	**242,667**	**32,740**	**-**	**719,035**
JC Healy										
For prorated period	**2009**	**419,541**	**200,219**	**-**	**8,698**	**-**	**472,662**	**14,007**	**-**	**1,115,127**
BF Munro										
For prorated period	**2009**	**520,554**	**230,367**	**12,371**	**11,916**	**-**	**126,550**	**427,441**	**-**	**1,329,199**
LM Peacock	**2009**	**965,580**	**241,500**	**328,267**	**230,896**	**-**	**2,650,780**	**1,029,386**	**-**	**5,446,409**
	2008	972,069	1,075,619	486,749	228,701	-	896,095	1,063,334	-	4,722,567
RJ Sawers										
For prorated period	**2009**	**358,367**	**213,567**	**4,468**	**68,750**	**-**	**358,631**	**83,220**	**-**	**1,087,003**
GR Slater										
For prorated period	**2009**	**369,437**	**195,770**	**56,749**	**28,944**	**22,247**	**404,396**	**123,767**	**-**	**1,201,310**
AG Thorburn										
For prorated period	**2009**	**849,081**	**319,825**	**13,690**	**45,677**	**-**	**394,257**	**452,033**		**2,074,563**
SJ Tucker										
For prorated period	**2009**	**377,876**	**189,652**	**-**	**16,062**	**7,187**	**263,161**	**162,562**	**-**	**1,016,500**
Other senior executives during the year to 30 September 2009										
JE Hooper										
For prorated period	**2009**	**476,594**	**266,745**	**-**	**6,787**	**22,212**	**263,795**	**281,148**	**-**	**1,317,281**
	2008	1,015,796	-	-	14,645	50,045	438,055	618,431	-	2,136,972
PL Thodey										
For prorated period	**2009**	**824,255**	**609,425**	**-**	**93,420**	**-**	**350,252**	**912,227**	**-**	**2,789,579**
	2008	714,516	697,500	5,566	119,523	-	389,238	707,424	-	2,633,767
Former executives										
A Fahour[8]										
For part year	**2009**	**1,387,780**	**1,558,000**	**46,373**	**21,759**	**-**	**1,202,872**	**(38,464)**	**1,626,207**	**5,804,527**
	2008	1,744,531	1,915,500	5,010	28,603	-	2,142,100	1,498,260	-	7,334,004
G Frazis[9]										
For part year	**2009**	**324,121**	**-**	**5,764**	**6,495**	**-**	**(289,454)**	**(849,805)**	**-**	**(802,879)**
	2008	590,569	564,098	10,967	12,235	-	615,341	347,310	-	2,140,520
MJ Hamar[8]										
For part year	**2009**	**230,184**	**150,000**	**12,175**	**29,573**	**-**	**35,942**	**86,163**	**747,126**	**1,291,163**
	2008	666,585	350,000	46,144	99,018	-	178,112	305,092	-	1,644,951
JM Stewart[8]										
For part year	**2009**	**1,632,889**	**687,500**	**114,105**	**-**	**-**	**-**	**2,205,557**	**2,750,000**	**7,390,051**
	2008	2,739,966	1,527,000	190,480	-	-	429,359	3,626,803	-	8,513,608
Total KMP[10]	**2009**	**14,157,918**	**7,430,736**	**625,026**	**823,889**	**51,646**	**10,966,128**	**7,805,762**	**5,123,333**	**46,984,438**
Total KMP[10]	2008	11,641,596	8,329,717	795,122	717,811	50,045	8,344,303	10,453,200	-	40,331,794

Statutory remuneration data table - named executives

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary[1] $	Cash STI[2] $	Non-monetary[3] $	Super-annuation fixed[4] $	Other long-term benefits[5] $	Shares[6] $	Options and rights[7] $	Termination benefits $	Total $
PG Coad	**2009**	**549,820**	**1,250,000**	**-**	**86,327**	**-**	**856,027**	**145,929**	**-**	**2,888,103**
A Hagger	**2009**	**736,791**	**596,000**	**6,745**	**15,485**	**-**	**1,360,307**	**-**	**-**	**2,715,328**
JE Hooper	**2009**	**1,078,303**	**601,000**	**34,794**	**15,485**	**50,046**	**625,612**	**648,095**	**-**	**3,053,335**
LM Peacock	**2009**	**965,580**	**241,500**	**328,267**	**230,896**	**-**	**2,650,780**	**1,029,386**	**-**	**5,446,409**
PL Thodey	**2009**	**930,264**	**664,000**	**-**	**93,420**	**-**	**378,249**	**997,872**	**-**	**3,063,805**

The following notes apply to both of the previous tables:

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

(2) Includes all STI provided in the form of cash, plus cash payments under the Motivation and Retention cash programme of $375,000 to Mr Fahour and $250,000 to Mr Ullmer. The terms of this programme were detailed in the Company's 2008 Annual Financial Review. The 2009 amounts include the payments due in May 2009 and November 2009. An additional payment is due in May 2010. This last payment for Mr Ullmer (if any) will depend on the level of achievement of the performance hurdle - which is based on a combination of quantitative and qualitative Group performance measures over the financial periods from 1 April 2008 to 31 March 2010. Upon his departure from the Company, the Board determined that it was appropriate for Mr Fahour to receive the full November 2009 and May 2010 payments in advance.

(3) Includes motor vehicle benefits, parking and the provision of health fund benefits and personal tax advice to international assignees. Also includes approximately $285,900 (2008: $440,000) for Ms Peacock in relation to UK National Insurance contributions. 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 or of STI. The Company was not required by Australian law to provide superannuation contributions in connection with Mr Stewart's employment due to the type of Australian visa issued to him. However, the Company agreed to pay annual superannuation contributions to the National Australia Bank Group Superannuation Fund under his employment agreement. Mr Stewart nominated to not receive such contributions in 2009. Superannuation contributions are also not required to be paid to individuals based in New Zealand but such payments may be made as part of fixed remuneration. For Mr Tucker, who is a member of a defined benefit plan, the amount included for remuneration purposes is the annual benefit received by Mr Tucker during the year, as per an independent actuarial valuation, and may or may not reflect the contributions made.

(5) Includes long service entitlements accrued but not taken during the year and is recognised once the employee has qualified for the entitlement. The initial 13 week long-service leave entitlement under the Company's scheme is recognised between year 10 and year 15 of service. After 15 years, 13 weeks entitlement is recognised every 15 years as remuneration. Mr Tucker has completed 21 years of service and accordingly the remuneration amount recognised is for 1 year only. Mr Hooper has completed 13 years service, and Mr Slater 10 years service, and this is reflected by the recognition of a larger benefit for these individuals (one fifth of the initial 13 week entitlement for 2009).

(6) The amount included in remuneration each year for share rewards is the grant date fair value, which is spread over the length of time (vesting period) from the grant date until the "payable" date (i.e. the time when the primary forfeiture and performance conditions may be satisfied and the award will be fully expensed). An explanation of the fair value basis used to determine remuneration is shown in the section: ***Fair value basis used to determine equity remuneration****. Amounts shown for 2009 include portions of shares allocated under employee programmes as shown below (described in the section:* ***Remuneration policy for senior executives*** *and in the* ***Table of key terms****). For rewards provided for the year to 30 September 2009, the* ***maximum*** *amount payable (if no portion is forfeited), and the "payable" dates (as defined above) are also shown. The* ***minimum*** *amount payable for all of these share awards is zero (if the shares are forfeited).*

- *2007, 2008 and 2009 STI programme shares (allocated each November, or after the following AGM for Executive Directors), being in respect of above target performance, and for 2009, in respect of half of the STI reward for current members of the Group Executive Committee. The 2007 and 2008, and 2009 allocations are payable the following November (e.g. awards related to 2007 financial year performance were payable in November 2008, and therefore in the current financial year). For current members of the Group Executive Committee, half of the 2009 grant will be payable in November 2011 instead. Forfeiture conditions apply to all STI programme shares, including forfeiture on resignation in the deferral period.*
- *2007 and 2008 LTI shares provided in February 2008 and December 2008 respectively (payable after assessment of the performance hurdle in February 2011 and December 2011 respectively). The December 2008 allocation for Mr Clyne is payable after the assessment of the related performance hurdle in January 2013 as shown in the section:* ***Summary of LTI****.*
- *2006, 2007, 2008 and 2009 General Employee Offer shares to senior executives located in New Zealand and in the United Kingdom at the relevant offer times (including December 2008 and December 2009). The shares for the 2009 performance year (fair value of $800) are payable on allocation in the UK, and after a three-year restriction period in New Zealand (with forfeiture conditions including on resignation). None of these shares are payable in the current financial year.*
- *Commencement shares provided to Mr Thorburn in April 2005 (3,440 shares were payable in January 2009), to Mr Joiner in October 2006 (13,058 shares were payable in September 2009), and to Mr Hagger in May 2008 following the commencement of their employment with the Company, and with ongoing restrictions and forfeiture conditions.*
- *Retention shares with ongoing restrictions and forfeiture conditions, provided to Mr Ullmer in February 2007 (following approval by shareholders at the Company's 2007 AGM), to Mr Sawers in February 2007 (11,621 shares were payable in September 2009), to Mr Thodey in June 2007, to Ms Peacock in September 2007 and November 2008 (50,000 shares will be payable on 1 March 2010 and 50,000 shares payable on 1 March 2011 if the conditions for release are satisfied), to Mr Joiner in September 2007 (18,300 shares were payable in May 2009) and in August 2008, to Mr Thorburn in February 2008 (11,745 shares were payable in October 2008). In December 2008, 3,000 shares were provided under this programme to members of the Australian leadership team at the time (payable in December 2009) including Ms Gray, Mr Hagger, Mr Healy, and Mr Tucker, and 1,000 such shares were provided to Mr Munro.*
- *Motivation & Retention programme shares provided in April 2008 to Mr Coad, Mr Frazis, Ms Gray, Mr Hagger, Ms Healey, Mr Healy, Mr Hooper, Mr Joiner, Ms Peacock, Mr Sawers, Mr Slater, Mr Thorburn and Mr Tucker.*

(7) The amount included in remuneration each year for performance options and performance rights is the grant date fair value spread over the expected vesting period. An explanation of fair value basis used to determine remuneration is shown in the section: ***Fair value basis used to determine equity remuneration****. Under AASB 2, only performance options and performance rights granted after 7 November 2002 and unvested at 1 January 2005 are included in the remuneration calculation. Rewards for the 2009 performance year (as shown in the* ***Performance related remuneration table****) will be allocated in January 2010 and are not included in the remuneration value in this table. Amounts shown for 2009 include portions of performance options and performance rights allocated under employee programmes as shown below. Terms and conditions of all grants are included in the section:* ***Summary of LTI****.*

- *Performance rights allocated to the Group Chief Executive Officer in June 2009, following approval at the December 2008 AGM (grant date 18 December 2008).*
- *Performance options allocated to the other senior executives in January 2009 as part of the Group's LTI programme, and previous allocations under the LTI programme, of performance options and performance rights in February 2006 and 2007 to relevant senior executives at the time.*
- *Performance rights allocated to Mr Thodey and Mr Munro (in February 2008 and December 2008) and Mr Thorburn (in December 2008), as New Zealand and Asian participants, in lieu of the LTI shares.*
- *Performance rights allocated to Mr Clyne, Mr Munro and Mr Thodey in May 2008 in lieu of the Motivation & Retention programme shares as described above (payable in May 2010 if the performance hurdle is fully met).*
- *Commencement performance options and performance rights were provided to Mr Joiner in October 2006, Ms Healey in May 2006, and Mr Healy in August 2007 following the commencement of their employment with the Company, and to Mr Joiner in August 2007 following his appointment to a Group Executive Committee position.*

(8) On the cessation of their employment with the Company, Mr Fahour, Mr Hamar, and Mr Stewart were permitted to retain some LTI shares, performance options and/or performance rights for which retention did not automatically apply. Under AASB 2, forfeiture accounting has been adopted, which resulted in these securities being reinstated at the fair values calculated on the date that the terms were agreed by the Company and each employee. These are forfeitures and reinstatements for the purposes of AASB 2 only. The securities remain subject to the performance hurdles as per the original grant, and may become exercisable after the employee's cessation date. The fair values of the securities are shown in the section: ***Value of performance options and performance rights****. This has resulted in negative remuneration values in the options and rights column for Mr Fahour.*

(9) On the cessation of his employment with the Company, Mr Frazis forfeited all shares, performance options and performance rights which were still subject to forfeiture on resignation under the STI and LTI programmes. Under AASB 2, forfeiture accounting has been adopted, and the previous expense related to the forfeited securities has been reversed, resulting in negative remuneration values in the shares, options and rights, and total columns for Mr Frazis.

(10) The 2009 Total for KMP includes only the amounts related to the periods that each senior executive acted as KMP of the Group and Company during the year, for all of the 18 individuals in the table. The 2008 Total for KMP included only a prorated amount for Mr Frazis for that year, and full year figures for the other 10 senior executives who were KMP in that year.

In addition to remuneration benefits above, the Company 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. The Group's expatriate policy includes provision that eligible international assignees are neither financially advantaged nor disadvantaged by their relocation.

Report of the directors

STI and LTI remuneration

The design of the share, performance option, and performance rights plans (and the expected outcome for 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 Share and Option Scheme Guidelines', Guidance Note 12. The main departure from the IFSA guidelines is that performance rights issued by the Company have no exercise price, and that any performance options whose exercise price is set at a date other than at the date of grant could potentially have an exercise price lower (or higher) than the market price prevailing at or around the date of grant. Such arrangements are primarily used where employees are excluded from an allocation due to administrative error, and included in a later allocation which references back to the exercise price of the missed allocation so as not to disadvantage those employees.

Deferred remuneration for the 2009 performance year

The Remuneration tables on pages 18 and 19 show details of remuneration for the 2009 year for senior executives. The following table provides the same information for the other named executives. This is not a statutory requirement.

Remuneration table: for other named executives

Name	Fixed annual remuneration[(1)]	% of target STI actually earned[(2)]	Cash STI for performance 30 Sep 2009[(2)]	Deferred STI for performance to 30 Sep 2009 (deferred in shares)[(2)]	LTI value derived from previous allocations (excl. dividends)[(1)]	Remuneration actually earned for 2009[(1)]	Opportunity lapsed during the year to 30 Sep 2009[(1)]
Other named executives							
Peter Coad	636,147	-	1,250,000	1,250,000	-	3,136,147	-
Andrew Hagger	759,021	94%	596,000	60,000	-	1,415,021	-

(1) *As per the applicable footnotes below the* ***Remuneration table*** *for senior executives.*

(2) *The actual STI amount for each individual will reflect both business and individual performance. Mr Hagger's STI arrangement, and whether any STI reward is deferred in shares, is the same as for Mr Hooper and Mr Thodey as described below the* ***Remuneration table*** *for senior executives. Mr Coad participates in a specialised profit-based STI plan for the Wholesale business, which does not have specified STI target amounts. Half of any STI reward under the plan will be provided to Mr Coad in cash, and the other half deferred in shares on the same basis as for members of the Group Executive Committee in 2009 as set out below the Remuneration table for senior executives and as described in* ***Delivery and deferral of STI rewards.***

STI

Those individuals shown as having an STI multiple of less than 100% in the relevant **Remuneration table** have earned less than their target STI for the 2009 performance year. This may be as a result of business or individual underperformance (or a combination).

- The minimum amount of STI for the 2009 performance year (if the equity-based portions are forfeited) is the amount shown as Cash STI;
- The maximum deferred value of STI is the amount shown as Deferred STI (in shares);
- The minimum deferred value for STI (if the shares are forfeited) is zero; and
- The maximum amount of STI payable to each individual is the amount shown as Cash STI plus the amount of Deferred STI.

LTI

LTI is granted as LTI shares, performance options and performance rights. They may be forfeited or may lapse on cessation of employment in some circumstances, or if performance hurdles are not achieved.

- The minimum deferred value for LTI is therefore zero; and
- The maximum deferred value of LTI rewards is the anticipated fair value of the equity to be allocated in December 2009 or January 2010 as shown in the column: 'LTI opportunity for 2009' in the table below.

Performance related remuneration

The following table analyses the amounts shown in the **Statutory remuneration data table**, as a proportion of each individual's total remuneration. It also shows the LTI opportunity in respect of 2009 performance, which is to be allocated in December 2009 or January 2010.

	Fixed salary (not linked to Company performance)(1)	STI Target as % of fixed salary	STI awarded as % of fixed salary	Performance-related remuneration Cash-based	Equity-based		Total	LTI opportunity for 2009(2)
				Cash STI at risk	Shares at risk	Options and rights at risk		
	%			%	%	%	%	
Senior executives on 30 September 2009								
Executive directors								
CA Clyne	46	103	67	16	15	23	100	2,500,000
MA Joiner	24	96	92	11	50	15	100	1,020,000
MJ Ullmer	33	115	111	22	24	21	100	1,063,500
Other senior executives								
LJ Gray	44	106	93	21	26	9	100	595,000
MJ Healey	43	96	85	18	34	5	100	459,000
JC Healy	38	97	94	18	43	1	100	637,500
BF Munro	41	96	85	17	10	32	100	595,000
LM Peacock	28	79	32	4	49	19	100	1,026,320
RJ Sawers	39	103	99	20	33	8	100	680,000
GR Slater	40	93	82	16	34	10	100	680,000
AG Thorburn	44	73	70	15	19	22	100	680,000
SJ Tucker	39	107	95	19	26	16	100	658,750
Other senior executives during the year to 30 September 2009								
J Hooper	39	88	53	20	20	21	100	250,228
PL Thodey	32	83	73	22	13	33	100	207,500
Former executives								
A Fahour	35	161	107	37	29	(1)	100	-
G Frazis	(42)	-	-	-	36	106	100	-
MJ Hamar	49	235	55	28	7	16	100	-
JM Stewart	38	158	39	15	-	47	100	-
Other named executives								
PG Coad	22	-	393	43	30	5	100	150,000
A Hagger	28	92	86	22	50	-	100	175,160

(1) *Fixed salary is the total of the following columns from the **Statutory remuneration data table**: cash salary plus non-monetary benefits, superannuation, and other long-term benefits.*

(2) *LTI in regard to the 2009 performance year, which will be allocated in December 2009 or January 2010 (subject to any relevant shareholder approval).*

Value of performance options and performance rights

The following tables show the value of performance options and performance rights issued to each individual as part of their remuneration that were granted, exercised (none), lapsed or vested during the year to 30 September 2009. The performance options and performance rights are rights to acquire ordinary Company shares, subject to certain conditions being met, under the Company's National Australia Bank Executive Share Option Plan No. 2 (option plan) and the National Australia Bank Performance Rights Plan (rights plan). Each performance option and performance right entitle the holder to be provided with one ordinary Company share subject to adjustment for capital actions. No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right are set out in the section: **Summary of LTI**.

The value of performance options and performance rights is the fair value at grant date multiplied by the total number of performance options or performance rights, and therefore represents the full value over the vesting period, which is greater than one year. No amounts are paid by individuals for the issue of performance options and performance rights. All shares issued or transferred upon the exercise of performance options are paid for in full by the individual based on the relevant exercise price. Performance rights have no exercise price.

		Granted[1] No.	Grant date	Lapsed[2] No.	Vested[3] No.	Granted $	Lapsed $	Vested $	Total $
Senior executives on 30 September 2009									
Executive directors									
CA Clyne	Options	-	-	(55,000)	-	-	(220,000)	-	(220,000)
	Rights	100,969	18 Dec 2008	(13,750)	-	1,281,297	(240,625)	-	1,040,672
MA Joiner	Options	156,250	16 Jan 2009	-	-	552,604	-	-	552,604
MJ Ullmer	Options	162,760	18 Dec 2008	(100,000)	-	615,233	(400,000)	-	215,233
	Rights	-	-	(25,000)	-		(437,500)	-	(437,500)
Other senior executives									
LJ Gray	Options	-	-	-	5,917	-	-	22,011	22,011
MJ Healey	-	-	-	-	-	-	-	-	-
JC Healy	-	-	-	-	-	-	-	-	-
BF Munro	Options	-	-	(35,000)	-	-	(116,550)	-	(116,550)
	Rights	49,283	31 Dec 2008	(8,750)	-	886,849	(123,463)	-	763,386
LM Peacock	Options	190,338	16 Jan 2009	-	-	673,162	-	-	673,162
RJ Sawers	-	-	-	-	-	-	-	-	-
GR Slater	Options	-	-	(10,000)	-	-	(49,100)	-	(49,100)
AG Thorburn	Rights	53,381	31 Dec 2008	-	-	950,182	-	-	950,182
SJ Tucker	Options	-	-	(25,000)	-	-	(122,750)	-	(122,750)
Other senior executives during the year to 30 September 2009									
J Hooper	Options	156,250	16 Jan 2009	(20,000)	-	552,604	(98,200)	-	454,404
PL Thodey	Options	121,094	16 Jan 2009	(100,000)	-	428,273	(491,000)	-	(62,727)
	Rights	27,581	31 Dec 2008		-	490,942	-	-	490,942
Former Executives									-
A Fahour	Options	265,625	18 Dec 2008	(160,000)	-	1,004,063	(640,000)	-	364,063
	Rights	-	-	(40,000)	-	-	(700,000)	-	(700,000)
G Frazis	Options	121,094	16 Jan 2009	(419,332)	-	428,269	(1,505,944)	-	(1,077,675)
	Rights	-	-	(67,913)	-	-	(1,149,145)	-	(1,149,145)
MJ Hamar	Options	-	-	(40,000)	-	-	(133,200)	-	(133,200)
	Rights	-	-	(10,000)	-	-	(141,000)	-	(141,000)
JM Stewart	Options	-	-	(900,000)	-	-	(1,386,000)	-	(1,386,000)
	Rights	-	-	(210,000)	77,000	-	(1,547,700)	2,353,890	806,190
Other named executives									
PG Coad	-	-	-	-	-	-	-	-	-
A Hagger	-	-	-	-	-	-	-	-	-

(1) *For LTI allocations in December 2008 and January 2009 (in respect of the 2008 performance year), half of the LTI reward value was delivered to senior executives (other than the Group Chief Executive Officer) in the form of performance options, and for the majority of senior executives the remainder provided in the form of LTI shares (not shown on this table). The allocations of performance rights for Mr Munro, Mr Thorburn and Mr Thodey are in lieu of such December 2008 LTI shares as performance rights are generally allocated in lieu of shares to employees located in New Zealand and Asia due to jurisdictional issues. The allocation of performance rights for the Group Chief Executive Officer is that approved by shareholders at the December 2008 AGM. No performance options or performance rights have been granted to the listed individuals since 30 September 2009.*

(2) *The following securities have lapsed during the financial year:*

- *Performance options and performance rights allocated in September 2004 to Mr Clyne, Mr Fahour, and Mr Ullmer and in December 2004 to Mr Hamar, and Mr Munro on commencement of their employment with the Group, which lapsed on the Expiry Date of 31 August 2009. They had not vested under the relative TSR performance hurdle (which was measured over the period from 1 September 2004 to 31 May 2009).*
- *Performance options allocated in September 2001 to Mr Hooper, Mr Slater, Mr Thodey and Mr Tucker as LTI, which lapsed on the Expiry Date of 13 September 2009. They had not vested under the relative TSR performance hurdle (which was measured over the period from 14 September 2001 to 14 June 2009).*
- *Performance options and performance rights allocated in February 2005 to Mr Stewart as LTI, which lapsed on the Expiry Date of 1 February 2009. They had not vested under the relative TSR performance hurdle (which was measured over the period from 16 January 2004 to 1 November 2008).*
- *Performance options and performance rights held by Mr Frazis which lapsed on his departure from the Company (allocations from December 2004, February 2006, February 2007, August 2007, February 2008, and January 2009).*

(3) *The following securities have vested during the financial year:*

- *Following the performance hurdle test in February 2009, tranche 1 (one third) of the performance options that had been allocated to employees in the Australian region in February 2006, including Ms Gray, vested under the relevant performance hurdle which measured Australian region Cash Earnings and ROE over the 2006, 2007 and 2008 financial years. The exercise price of these vested performance option is $34.53 and they will expire on 6 August 2011 if not exercised earlier.*
- *Following the performance hurdle test in August 2009, tranche 3 (one third) of the performance rights that had been allocated to Mr Stewart in March 2008, vested under the relevant performance hurdle which is set out in the section:* ***Summary of LTI****. The performance rights have no exercise price, and they will expire on 30 August 2012 if not exercised earlier. Any shares resulting from the exercise of the vested rights will be subject to restrictions on trading until 30 August 2011 (except for the purposes of meeting tax obligations arising from this grant).*

Under the option plan, a loan may be available to senior executives if and when they wish to exercise their performance options, subject to applicable laws and regulations. The rules of the option plan provide that the rate of interest on such a loan shall be the Company's base lending rate plus any margin determined by the Board. Dividends payable in respect of a share loan are applied firstly towards payment of any interest which is due, and secondly towards repayment of the principal amount outstanding under the loan. No senior executives have outstanding loans under the option plan.

Fair value basis used to determine equity remuneration

The grant date fair value of shares, performance options and performance rights in the previous tables is based upon the requirements of s300A of the *Corporations Act* 2001 (Cth), and in accordance with AASB 2. Under these requirements, each year a portion of the fair value of all unvested holdings is included in each individual's remuneration for disclosure purposes. The fair value is spread on a straight-line basis over the "expected vesting period" of each unvested share, performance option or performance right.

The fair value of each share is determined by the market value of the share as at the grant date, and is generally a 5-day weighted average share price. The fair value of each performance option and performance right is determined using an appropriate numerical pricing model depending on the type of security, and whether there is a market-based performance hurdle (Black Scholes, Monte Carlo simulation, and/or a discounted cash flow methodology). These models take account of factors including: the exercise price; the current level and volatility of the underlying share price; the risk-free interest rate; expected dividends on the underlying share; current market price of the underlying share; and the expected life of the securities. For market-based performance hurdles, the probability of the performance hurdle being reached is therefore taken into consideration in valuing the securities. For further details, refer to note 1 in the Financial Report.

Fair value of securities granted to senior executives

The fair value and exercise price per performance option and performance right (at grant) are set out below for grants provided to senior executives during 2009.

Grant date	Performance options		Performance rights		Exercise period	
	Fair value $	Exercise price $	Fair value $	Exercise price $	From	To
18 December 2008(1)	-	-	$12.69	-	1 January 2012	1 January 2016
18 December 2008(2)	$4.35	$19.89	-	-	16 January 2012	16 July 2014
31 December 2008(3)	-	-	$17.80	-	31 December 2011	30 June 2012
16 January 2009(2)	$3.54	$19.89	-	-	16 January 2012	16 July 2014

(1) *Approval of the granting of these performance rights to Mr Cameron Clyne was provided by shareholders at the AGM held on 18 December 2008. The grant date for the purposes of calculating the fair value and for equity-based payments purposes under AASB 2 is therefore 18 December 2008. Details of the performance rights are shown on the following page.*

(2) *These TSR-hurdled performance options were granted in three equal tranches (apart from rounding). Each tranche has a different testing schedule, expected vesting period, and exercise period, and therefore a different fair value. The fair value listed in the table is the average for the three tranches making up the allocation, and the exercise period shown is the total exercise period covering all tranches. Approval of the granting of performance options to Mr Ahmed Fahour and Mr Michael Ullmer was provided by shareholders at the AGM held on 18 December 2008, and the grant date for the purposes of calculating the fair value and for equity-based payments purposes under AASB 2 for those securities is therefore 18 December 2008. The relevant date for other senior executives was the actual issue date, being 16 January 2009. Details of the performance options are shown on the following page.*

(3) *These performance rights were granted to Mr Bruce Munro, Mr Peter Thodey, and Mr Andrew Thorburn, being based in New Zealand or Hong Kong instead of the LTI shares granted to other senior executives, due to jurisdictional issues.*

Fair value of securities for former senior executives

On cessation of their employment with the Company, Mr Fahour, Mr Hamar, and Mr Stewart were permitted to retain some LTI securities for which retention did not automatically apply. Under AASB 2, forfeiture accounting has been adopted, which resulted in the securities being reinstated at the fair values calculated on the date that the terms were agreed by the Company and each employee (being the grant date as shown in the table below). These are not shown as lapses or grants in the table on the previous page, as they are forfeitures and reinstatements under AASB 2 only. The securities remain subject to the performance hurdles as per the original grant, and may become exercisable after the employee's cessation date. The fair values of the securities are shown below:

Grant date	Performance options		Performance rights		Exercise period	
	Fair value $	Exercise price $	Fair value $	Exercise price $	From	To
19 June 2008(1)	$1.19	$34.53	$8.50	-	6 February 2009	6 August 2011
19 June 2008(1)	$1.00	$40.91	$8.14	-	7 February 2010	7 August 2012
19 June 2008(1)	$2.63	$31.70	-	-	14 February 2011	14 August 2013
18 December 2008(2)	$1.12	$34.53	$8.49	-	6 February 2009	6 August 2012
20 February 2009(3)	$0.46	$34.53	$5.48	-	6 February 2009	6 August 2011
20 February 2009(3)	$0.55	$40.91	$6.38	-	7 February 2010	7 August 2012
20 February 2009(3)	$1.48	$31.70	-	-	14 February 2011	14 August 2013

(1) *Securities reinstated for Mr Hamar under AASB 2 in relation to grants provided to him in February 2006, February 2007, and February 2008 respectively.*

(2) *Securities reinstated for Mr Stewart under AASB 2 in relation to the grant provided to him in March 2006 (following shareholder approval at the February 2006 AGM).*

(3) *Securities reinstated for Mr Fahour under AASB 2 in relation to grants provided to him in February 2006, February 2007, and February 2008 respectively (following applicable shareholder approvals).*

All of these performance options and performance rights were granted in either three or four equal tranches (apart from rounding). Each tranche has a different testing schedule, expected vesting period, and exercise period, and therefore a different fair value. The fair value listed in the table is the average for the three tranches making up the allocation, and the exercise period shown is the total exercise period covering all tranches. Details of the securities are shown on the following page.

Report of the directors

Summary of LTI: terms and conditions of the LTI currently held by senior executives (i.e. allocated to senior executives between March 2001 and September 2009):

The LTI programme has changed over time to reflect market practice, changes in regulation, and to progressively improve alignment with shareholder's experience. Key terms are defined in the **Table of key terms**.

Some details are provided at the end of this section for the following grants, where they vary from the summary information below:

- March 2008 allocation to Mr John Stewart, following approval by shareholders at the February 2008 AGM.
- June 2009 allocation to Mr Cameron Clyne, following approval by shareholders at the December 2008 AGM.

Frequency of offers

There is generally one main LTI allocation per annum. There are occasional intervening grants for individuals who join the Group or receive a significant promotion during the year, and each references the structure and hurdles of the preceding main grant (only the grant date and exercise price may be different - and for simplicity these intervening grants are combined with the related main grant in this summary, and not described separately).

Form of securities

- Until 2002, LTI rewards were provided solely in the form of performance options ('options').
- From 2003 to 2007, options were continued for approximately half of the grant value, with the remainder provided in performance rights ('rights') to enable delivery of rewards where the Company had performed well against the performance hurdles but market conditions were adverse (i.e. if the exercise price exceeded the Company's share price and the options were "under water").
- Since 2008, options have been continued for half of the grant value only for members of the Group Executive Committee (at the time of each allocation - excluding the Group CEO), with the remainder in shares (or rights in Asia and New Zealand due to jurisdictional issues). Other employees received the whole of any LTI reward in shares (or rights in Asia and New Zealand). The provision of shares creates a stronger link to the shareholder experience - especially where the hurdle does not incorporate a Total Shareholder Return (TSR) measurement.

Exercise Price

The exercise price for performance options is generally the weighted average price of ordinary Company shares traded on the ASX in the week up to and including the day of allocation. On occasion, for intervening grants made in relation to a previous grant, the price at the previous date may be used. There is no exercise price for performance rights.

Basis for allocation of LTI securities

Prior to March 2003, individual allocations were based on seniority and the assessed future value of the individual. From March 2003 they have been determined by assessment of an individual's performance and potential under the Executive Talent Review.

Life of the grant (and expiry date)

LTI allocations made prior to September 2004 have an overall life of 8 years after allocation, until the expiry date. Vested securities can be exercised until the expiry date and any securities that do not vest under the performance hurdles lapse on the expiry date. The March 2001 and September 2001 allocations have therefore expired during this financial year.

From September 2004 the life of the securities was reduced to 5 years, with the expiry date on the 5th anniversary of the grant. With the tranche-based performance testing introduced from 2006, the final of the three tests occurs on the 5th anniversary date, and an additional 6-month period has been added to allow time for participants to exercise any securities that might vest from that test. This approach also applies to rights granted since 2008, with one hurdle test on the 3rd anniversary, and an additional 6 month period for exercise. The shares allocated from 2008 are simply released from restrictions on trading upon achievement of the related performance hurdle (and have no expiry date).

Restriction period

The restriction period is three years during which no performance testing is conducted, and therefore no vesting occurs.

Performance hurdles

- LTI allocated prior to 2006 has a TSR performance hurdle - measured relative to peer companies.
- In 2006 and 2007, that hurdle was continued for the most senior executives at the time (approx. 80 positions) and for any grants made to individuals joining the Group. An internal hurdle applies to allocations to other employees:
  - 2006: vesting of the options is based on Cash Earnings (CE) results against the business plan for the Group or for the relevant regional business (once a Return on Equity (ROE) threshold has been met). Vesting of the rights is based on Earnings Per Share (EPS) for the Company relative to peer companies.
  - 2007: vesting of both the options and rights is based on Total Business Return (TBR) results against the business plan for the Group or for the relevant regional business. TBR is a combined measure including ROE and CE.
- From 2008 the relative TSR hurdle has been confined to the options allocated to the Group Executive Committee. The hurdle on their LTI shares (or rights), and on the LTI shares (or rights) for the remainder of the LTI participants, is based on ROE performance against the business plan for the Group or for the relevant regional business for each individual (once a CE threshold has been met).

Reasons for the performance hurdles

TSR is considered a relevant and direct link to shareholder returns over the medium to long term, and appropriate for the most senior executives. The CE/ROE hurdle on their shares provides a link to the LTI rewards for other employees. For those other LTI participants, the CE/ROE hurdle is more relevant as it can be measured on a regional business basis, and participants have better line of sight to regional results and achievement of the hurdle.

Peer groups used in performance hurdles

- Prior to September 2004, TSR performance for the Company is compared with that of the Top 50 Companies (as defined in the **Table of key terms**).
- From September 2004 the TSR hurdles have incorporated two peer groups, with each determining half of the TSR vesting. The first group is the Top 50 Companies as above, and the second is the Top Financials (as defined in the **Table of key terms**).
- The 2006 relative EPS hurdle uses only the Top Financials.

De-listed companies are replaced by new peers from a Reserve List approved at the time of each allocation (current listings are available at www.nabgroup.com).

Peer group selection criteria

Peer group selection is designed to provide a measure against the type of companies investors might reasonably hold as an alternative. Using a larger group helps to reduce volatility and lessens the impact of changes to the group (due to de-listings). The Top Financials group was introduced to ensure performance was specifically measured against comparable organisations as well as to the broader group.

Report of the directors

Performance hurdle testing

- Allocations made prior to September 2004 have ongoing performance testing - which is conducted continuously over the five year performance period following the end of the restriction period (with the last test being 3 months prior to the end of the performance period and 8-year expiry date).
- Allocations made from September 2004 until the end of 2005 have the same testing structure as above, but the performance period is only for three years (and the final test 3 months prior to the 5-year expiry date).
- For allocations made in 2006 and 2007, the hurdles are tested on three occasions over the two year performance period - i.e. at the 3rd, 4th, and 5th anniversaries of the allocation date. Each test affects the vesting of different tranches as described below. This approach is designed to balance the number of performance hurdle tests, with providing a fair level of reward to employees.
- From 2008 the TSR hurdles on performance options for the Group Executive Committee are tested on three separate occasions as above. The ROE/CE hurdle for the LTI shares (or rights) is tested once only, at the end of the performance period.

Performance hurdle methodology

- For grants before 2003, each TSR comparison is averaged over 5 trading days to prevent any short-term spikes in the share price affecting vesting. Performance is tested daily, during the performance period (for practical reasons tests are run quarterly).
- From 2003 to September 2004, the averaging is over a 30-day period to better guard against spikes.
- From September 2004, in addition to the 30-day averaging, the TSR ranking also be maintained for 30 consecutive trading days - i.e. vesting only occurs if there is sustained TSR performance.
- For allocations made in 2006 and 2007, individual allocations are divided into three equal tranches. Only tranche 1 is tested at the end of the restriction period, on the 3rd anniversary of grant. Tranche 1 and tranche 2 are tested one year later, and tranche 2 and tranche 3 are tested the following year. This minimises retesting of the hurdle while maintaining employee focus on medium to long term performance.
- From 2008, the options have the same 3-tranche progressive testing as above. The shares (or rights) are tested only once, measuring CE and ROE prior to the 3rd anniversary of grant, compared with business plan over 3 financial years.

Vesting schedule

- For grants before 2002, there is no vesting if the Company is ranked below the 25th percentile of the peer group, 25% to 49% progressive vesting for 25th to 49th percentile ranking (1% vesting per percentile), and 50% to 98% progressive vesting for 50th to 74th percentile ranking (2% vesting per percentile). All of the securities vest when the Company's performance ranking is at or above the 75th percentile of the peer group.
- For grants from 2002 to September 2004, the vesting below the 50th percentile was removed - with vesting from the 50th percentile as above (i.e. no change from prior years).
- From September 2004, vesting at the 50th percentile was removed - with 50% to 98% progressive vesting from the 51st to 75th percentiles (2% vesting per percentile), and vesting of all securities when the Company's performance ranking is at or above the 76th percentile of the peer group.
- From 2006, TSR vesting schedules have no vesting at the 50th percentile, and 35% to 97% progressive vesting from the 51st to 75th percentiles (2.6% vesting per percentile). All securities when the Company's performance ranking is at or above the 76th percentile of the peer group.
- For the participants with internal hurdles the following applies:
  - 2006: the EPS vesting schedule for the rights is the same as for the TSR as above. Under the ROE/CE hurdle, there is 35% to 100% progressive vesting when business results are 90% to 120% of business plan (i.e. achievement of 120% of business plan required for full vesting)
  - 2007: under the TBR hurdle, there is 50% to 100% progressive vesting when business results are 90% to 120% of business plan (i.e. achievement of 120% of business plan required for full vesting).
  - 2008: under the RO/CE hurdle, there is 50% to 100% progressive vesting (or retention of shares) when business results are 90% to 100% of business plan (i.e. achievement of 100% of business plan required for full vesting or retention). There is capacity for the Board to approve an additional allocation of securities if the Group significantly exceeds business plan over the 3-year hurdle period.

How shares are provided under the LTI

During 2007 the terms of the options and rights plans were altered to allow shares issued upon exercise of options or rights to be either issued as new shares or purchased on market. Previously only new shares could be issued.

Lapsing and forfeiture

Options and rights lapse if not exercised on or before their expiry date (as described above). Shares are forfeited if the holder fails the relevant performance, behaviours or compliance measures.

Unless the board determines otherwise:

If a senior executive is dismissed or resigns all unvested options and rights lapse immediately and shares are forfeited. All vested options and rights lapse immediately in the case of dismissal or after 90 days in the case of resignation. When a senior executive's employment ceases in other circumstances all vested and unvested options and rights will be retained subject to Board discretion under the relevant conditions and shares retained and released from restriction.

Conditions for retaining securities

In the majority of cases options and rights only vest as a result of achieving the relevant performance hurdle. Exceptions exist in some cases to provide flexibility in the case of death or permanent disability.

Board discretion

In relation to certain events including a takeover over or specific announcement to the holders of fully paid ordinary shares the board has discretion to allow holders to exercise securities regardless of the normal criteria and the restriction period on LTI would end.

March 2008 allocation to Mr Stewart

As Mr Stewart has left the Group with the Board's approval, he has retained the rights, with vesting still to be determined in accordance with the performance hurdles. Any shares resulting from the exercise of any rights that vest prior to 30 August 2011 will be subject to restrictions on trading until 30 August 2011 (except for the purposes of meeting tax obligations arising from this grant).

- **Form of Securities:** Performance rights in three equal tranches.
- **Restriction Period:** To August 2009.
- **Performance Hurdles:**
  - Tranche 1: Vesting is based on the TSR performance of the Company compared with that of 4 peer financial companies. No vesting if the Company ranked 4th or 5th, 50% vesting if the Company ranked 3rd, 100% vesting if the Company ranked 2nd or 1st. Tested 30 August 2009 and 30 August 2010.
  - Tranche 2: Vesting is based on achievement of the Group ROE plan since 30 August 2007. Half of the tranche is tested at August 2009 and 2010, a quarter tested at August 2010 and 2011, and the final quarter tested at August 2011.
  - Tranche 3: Vesting is based on the Board's assessment of CEO succession planning and cultural and management development, as assessed at August 2009.

June 2009 allocation to Mr Clyne

- **Form of Securities:** Half of the value of the allocation was provided in the form of rights, and the remainder in shares.
- **Restriction Period:** For the rights, no performance testing is conducted until 1 January 2012, and for the shares until 30 September 2012.
- **Performance Hurdles:**
  - Rights: Vesting is based on TSR performance of the Company compared with that of the Top Financials on 1 January 2012, 2013 and 2014. There is no vesting if the Company is below the 50th percentile (ranked 1st to 6th), progressive vesting to the 75th percentile (the Company ranked 7th to 9th) and full vesting if the Company is ranked above the 75th percentile (10th to 12th percentile). TSR is averaged over a 30-day period for each test.
  - Shares: Retention of the shares is based on the Company's performance against Group ROE plan (once a CE threshold has been achieved) for the period from 1 January 2009 to 30 September 2012. On 1 January 2013 all of the shares are forfeited if performance is below 90% of plan, and 50% to 100% progressive release of the shares from restrictions when business results are 90% to 100% of plan (i.e. achievement of 100% of business plan is required for all of the shares to be released from restrictions).

Statutory disclosure for the non-executive directors

The table below shows the individuals who were non-executive directors, and KMP of the Company and Group during 2009.

Name	Position
MA Chaney	Chairman
PA Cross	Director
DT Gilbert	Director
TK McDonald[(1)]	Director
PJ Rizzo	Director
JS Segal	Director
JG Thorn	Director
GA Tomlinson	Director
JA Waller[(2)]	Director
GM Williamson	Director

(1) *Mr TK McDonald retired as a non-executive director on 7 November 2008.*

(2) *Mr JA Waller joined the Board and became a non-executive director on 4 February 2009.*

Remuneration policy for non-executive directors

The fees paid to non-executive directors who serve on the Board are based on advice and market data from the Group's remuneration specialists and from independent external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members.

The Board annually reviews the fees paid to the Chairman and non-executive directors on the Board in line with general industry practice. Additional fees are paid, where applicable, for participation on Board committees and for serving on the boards of controlled entities and on internal advisory boards. Since October 2005, the fees have included the Company's compulsory contributions to superannuation. Non-executive directors are not paid any performance or incentive payments.

Fees were last reviewed in March 2008. The Board decided that no review of the fees payable to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board Committees, would be undertaken in March 2009. Fees will remain frozen until the March 2010 review.

The total fees paid by the Group to the Chairman and the non-executive directors on the Board, including fees paid for their involvement on Board committees and for, or in connection with, their services to controlled entities of the Company, are kept within the total approved by shareholders from time to time. The total fees paid in this regard during the 2008 and 2009 years are shown in the total row of the following table.

There is no change to the maximum fee pool of $4.5 million per annum which was last reviewed at the Company's February 2008 AGM.

At the Company's January 2007 AGM, shareholders approved the continuation of the non-executive directors' share arrangement under the Non-Executive Director Share Plan, which is operated through the National Australia Bank Staff Share Ownership Plan.

Under this arrangement, non-executive directors salary sacrificed a minimum of 10% of their fees, up to a maximum of 40%, to receive issued shares. The non-executive directors who are domiciled overseas purchased shares, on market, to a value equivalent to 10% of their Board fees.

As a result of proposed Australian tax changes impacting employee equity schemes, the non-executive director share plan was terminated in October 2009. Amounts that had been held from Australian directors' fees since April 2009 and were to be provided in shares in November 2009 have been provided to the directors in the form of cash.

Non-executive directors can elect to take part of their remuneration as additional Company superannuation contributions.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after 31 December 2002.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company's Constitution and the charters and policies approved by the Board from time to time (refer to the Corporate Governance section).

The Remuneration Committee

The Remuneration Committee is a committee of the Board. Its charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee. The full charter is available online at www.nabgroup.com.

The Committee:

- reviews and approves, at least annually, the remuneration policy and its adequacy and effectiveness;
- monitors the Group's reward strategy framework so that it continues to support effective risk management and does not expose the Group to excessive risk, attract and retain top talent to deliver superior performance, motivates employees to pursue the long-term growth and success of the Group, and demonstrates a clear relationship between individual performance and reward;
- approves policies for the Group's leaders in relation to reward, recruitment, retention, and succession planning;
- determines Total Reward outcomes for the Group Chief Executive Officer and executive directors;
- approves the remuneration structure in respect of employees in risk, compliance and financial control roles within the Group;
- recommends appropriate remuneration for non-executive directors;
- determines the Group's STI pools based on Company performance; and
- supports the Board in monitoring the Group's culture, and the process for managing behaviours against the Group's behavioural standards, and diversity in the workplace.

Committee members at 30 September 2009 were Mrs Patricia Cross (Chairman), Ms Jillian S Segal, Mr Daniel T Gilbert and Mr Geoff Tomlinson.

The Committee invites the Chairman of the Board and members of the management team to assist its deliberations (except concerning their own remuneration). It takes specialist remuneration advice during the year from external advisers, as appropriate. Where the Committee engages independent experts, their advice is provided directly to the Committee, independent of management.

Non-executive director remuneration

The following table sets out the nature and amount of each element of the remuneration of the non-executive directors of the Company in relation to services they provided in the 2009 year. No performance options or performance rights are granted to non-executive directors.

Board and Committee fees were last reviewed in March 2008, and figures shown in the table for 2008 therefore include a part year at the previous fee levels. The amounts in the table include Committee fees (as detailed in the table on the following page), and variances from one year to another will also reflect changes in Committee memberships.

Name		Short-term benefits Cash salary and fees(1) fixed $	Post-employment benefits Super-annuation(2) fixed $	Equity-based benefits Shares(3) fixed $	Total $
MA Chaney	**2009**	**711,159**	**13,924**	**44,917**	**770,000**
	2008	632,467	13,283	71,750	717,500
PA Cross	**2009**	**201,218**	**49,949**	**68,833**	**320,000**
	2008	127,637	17,863	97,000	242,500
DT Gilbert	**2009**	**123,256**	**90,952**	**28,292**	**242,500**
	2008	76,231	103,769	45,000	225,000
PJ Rizzo	**2009**	**241,917**	**50,000**	**18,083**	**310,000**
	2008	208,750	50,000	28,750	287,500
JS Segal	**2009**	**202,941**	**13,924**	**55,635**	**272,500**
	2008	150,842	13,283	88,375	252,500
JG Thorn	**2009**	**220,493**	**43,174**	**16,333**	**280,000**
	2008	170,368	63,632	26,000	260,000
GA Tomlinson	**2009**	**481,734**	**13,924**	**30,771**	**526,429**
	2008	416,467	13,283	47,750	477,500
JA Waller	**2009**	**323,238**	**9,228**	-	**332,466**
GM Williamson	**2009**	**635,492**	**-**	**-**	**635,492**
	2008	613,212	-	-	613,212
Former					
TK McDonald	**2009**	**41,102**	**1,532**	**-**	**42,634**
	2008	367,690	13,283	-	380,973
Total	**2009(4)**	**3,182,550**	**286,607**	**262,864**	**3,732,021**
	2008(4)	2,919,033	301,047	437,438	3,657,518

(1) Non-executive directors' remuneration represents 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 as set out on the following page.

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

(3) Represents the value of newly-issued ordinary shares in the Company that were allocated to Australian non-executive directors under the non-executive director share plan. The price used to determine the number of shares was the volume weighted average price of the Company's ordinary shares traded on the ASX during the one week up to and including the date of allocation. The non-executive director share plan was terminated in October 2009. Amounts which have been held from Australian directors' fees since April 2009 and were to be provided in shares in November 2009 have been provided to the directors in the form of cash and are included in the cash salary column.

During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after 31 December 2002. At the Company's December 2003 AGM, a proposal was approved permitting non-executive directors of the Company and its controlled entities who had accrued retirement benefits, to apply those benefits, which were frozen as at 31 December 2003, to either cash (to be paid on retirement), to additional superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement). Where non-executive directors elected to apply those benefits toward shares held in trust, the dividends earned on those shares are applied to the acquisition of further Company shares in the week up to and including the date of allocation, less $0.01, rounded down to the nearest whole number, on the Company's dividend payment date. The value of accumulated retirement benefit for Mr Tomlinson was subsequently provided to him during 2004 in the form of shares to be held on trust until retirement. The value of the accrued benefits provided at that time was $272,608. The dividends earned on those shares were applied to the acquisition of further Company shares as set out above. During 2009, 1,021 shares (2008: 693) were acquired in this way in respect of Mr Tomlinson. From 31 December 2003, neither new nor existing non-executive directors are entitled to additional retirement benefits. No retirement benefits have been accrued by non-executive directors since 1 January 2004.

(4) The 2009 Total includes the 2009 amounts for all of the 10 individuals in the table. The 2008 Total includes the 2008 amounts for the 10 relevant directors in that year.

Report of the directors

Non-executive director fees

The total fees paid by the Group to non-executive members of the Board, including fees paid for their involvement on Board committees, are kept within the total pool approved by shareholders from time to time. The following table sets out details of the components of non-executive directors' remuneration paid in the form of Board and committee fees. It also shows fees paid to those non-executive directors who provided services to controlled entities of the Company:

	Board	Audit Committee	Risk Committee	Remuneration Committee	Controlled Entities	Total
	$	$	$	$	$	$
Current						
MA Chaney	770,000	-	-	-	-	770,000
PA Cross[(1)]	220,000	-	30,000	45,000	25,000	320,000
DT Gilbert	220,000	-	-	22,500	-	242,500
PJ Rizzo	220,000	30,000	60,000	-	-	310,000
JS Segal	220,000	-	30,000	22,500	-	272,500
JG Thorn	220,000	60,000	-	-	-	280,000
GA Tomlinson[(2)]	220,000	25,358	-	3,571	277,500	526,429
JA Waller[(3)(4)]	153,882	19,750	19,750	-	139,084	332,466
GM Williamson[(3)(5)]	220,000	-	27,500	-	387,992	635,492
Former						
TK McDonald[(3)(6)]	23,017	3,125	-	-	16,492	42,634
Total	**2,486,899**	**138,233**	**167,250**	**93,571**	**846,068**	**3,732,021**

(1) *From 31 July 2009 the nabCapital Advisory Board was dissolved.*

(2) *From 5 August 2009, Mr Tomlinson was no longer a member of the Audit Committee and was appointed as a member of the Remuneration Committee.*

(3) *The fees that were paid to Mr Waller, Mr McDonald and Sir Malcolm Williamson in respect of their services performed as non-executive directors of controlled entity boards and committees were paid in New Zealand dollars and Sterling respectively. The exchange rates used to convert those fees to Australian dollars were A$1.00 = GBP 0.4721 and NZ$1.2269 respectively.*

(4) *Mr Waller became a member of the Principal Board, the Principal Board Audit Committee and the Principal Board Risk Committee on 4 February 2009.*

(5) *Sir Malcolm Williamson became a member of the Principal Board Risk Committee on 1 November 2008.*

(6) *Mr McDonald resigned as a non-executive director on 7 November 2008.*

Committee fee schedule

The following table shows the annual fees payable to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board committees, which became effective on 1 April 2008. The Board decided that no review of fees would be undertaken in March 2009, and fees will remain frozen until March 2010:

Board Fees	**$ pa**
Chairman	770,000
Director	220,000
Audit Committee Fees	
Chairman	60,000
Member	30,000
Risk Committee Fees	
Chairman	60,000
Member	30,000
Remuneration Committee Fees	
Chairman	45,000
Member	22,500

Appendices

Insider trading and derivatives policy

The Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested LTI with derivative instruments. Directors and employees can protect the value of vested securities in limited circumstances. Further details on the Group Securities Trading Policy are set out in the Corporate Governance section. The Group Securities Trading Policy is available online at www.nabgroup.com.

The Group treats compliance with the Group Securities Trading Policy as a serious issue, and takes appropriate measures to ensure the policy is adhered to. These measures include imposing staff trading blackout periods prior to each profit announcement, and at other relevant times. All “designated employees” as defined by the policy are required to complete a compliance certificate prior to any trading in Company securities to confirm that they do not hold any price-sensitive information, and the policy prevents short-term or speculative trading.

Any person found to be in breach of the policy is subject to appropriate sanctions, which could include forfeiture of the relevant securities and/or termination from the Group.

Table of key terms

These key terms and abbreviations are used in the Remuneration Report.

Cash earnings (CE)	The STI and LTI programmes use a measure of cash earnings from ongoing operations (before significant items). For senior executives, this is for the consolidated Group.
Group Executive Committee	The Group’s leadership team, comprising the individuals listed in the **Remuneration tables** on pages 18 and 19.
Key Management Personnel (KMP)	Key executives, including any director, of the Group and Company as defined in s300A of the *Corporations Act* 2001 (Cth) by reference to AASB 124 ‘Related Party Disclosures’ (AASB 124)
Long-term incentive (LTI)	An ‘at risk’ opportunity for individuals linked to the long term performance of the Company. LTI is allocated under the Group’s programme in the form of LTI shares as described below (performance rights in some jurisdictions). The LTI programme is described in the section: **LTI rewards**.
LTI shares	LTI shares are ordinary Company shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least three years on the employee’s behalf, are restricted from trading and are forfeited if the performance hurdles are not achieved, if the participant fails to meet individual performance standards or behaviour and compliance quality gates, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances (unless the Board determines otherwise) with vesting still subject to the performance hurdles.
Motivation and Retention programme	Shares were allocated under the Motivation & Retention programme in April 2008, with forfeiture conditions which include upon failure to meet the performance hurdle which is based on achievement of a combination of qualitative and quantitative Group performance measures from 1 April 2008 to 31 March 2010. The shares are also forfeited by the participant if they fail to meet individual performance standards or behaviour and compliance quality gates, or if they resign or their employment is prior to May 2010. The shares may be retained and released from restriction on cessation of employment in other circumstances (unless the Board determines otherwise). Performance rights were allocated to participants in New Zealand in lieu of shares on a similar basis.
Performance options	A performance option is a right to acquire one ordinary Company share, once the performance option has vested based on achievement of the related performance hurdle or at the Board’s discretion. The performance option is issued at no charge to the employee. To acquire a share, the holder must pay the exercise price, which is generally the weighted average price at which ordinary Company shares traded on the ASX over the one week up to and including the allocation date of the performance options.
Performance rights	A performance right is a right to acquire one ordinary Company share, once the performance right has vested based on achievement of the related performance hurdle or at the Board’s discretion. A performance right is similar to a performance option as described above, except that there is no exercise price payable to exercise the performance right.
Return on equity (ROE)	ROE is calculated as cash earnings (before significant items - ongoing operations) divided by average shareholders’ equity, excluding minority interests and other equity instruments and adjusted for treasury shares and exchangeable capital units valuation adjustments. For senior executives, the STI and LTI programmes use ROE performance for the consolidated Group.
Senior executives	Defined in this report as current and former members of the Group Executive Committee, comprising the individuals listed in the **Remuneration table**. **The senior executives** are all Key Management Personnel, as defined in this table.
Short-term incentive (STI)	An ‘at risk’ opportunity for individuals to receive an annual bonus. Each employee has a short term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 20% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in the section: **STI rewards**. STI rewards may be allocated in the form of STI shares as described below.

STI shares	STI shares are ordinary Company shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least one year on the employee's behalf, are restricted from trading and are forfeited if the participant fails to meet individual performance standards or behaviour and compliance quality gates, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances.
Top 50 Companies (used in the LTI performance hurdle)	The top 50 companies in the S&P/ASX100 by market capitalisation, excluding the Company, determined as at the effective date of the LTI allocation.
Top Financials (used in the LTI performance hurdle)	The top financial services companies in the S&P/ASX200 (approximately 12 companies) by market capitalisation, excluding the Company, determined as at the effective date of the LTI allocation.
Total Business Return (TBR)	Total Business Return (TBR) is a value management tool using the metrics of ROE and Cash Earnings growth to provide an assessment of relative value creation.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions, but does not include STI, LTI, and leave. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Company, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions.
Total Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Total shareholder return (TSR) (used in the LTI performance hurdle)	The return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. TSR is calculated on the basis that all dividends and distributions are reinvested in Company shares.

Report of the directors

Directors' signatures

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

Michael A Chaney
Chairman
13 November 2009

Cameron A Clyne
Group Chief Executive Officer

Corporate governance

The Board of directors of the Company is responsible for the governance of the Company and its controlled entities. Good corporate governance is a fundamental part of the culture and business practices of the Group. The key aspects of the Group's corporate governance framework (**Framework**) and primary corporate governance practices for the 2009 year are outlined below. The Framework and these practices comply with the revised "Corporate Governance Principles and Recommendations" published in August 2007 by the Australian Securities Exchange (**ASX**) Limited's Corporate Governance Council (**Revised ASX CGC Principles**).

THE BOARD OF DIRECTORS

The role and responsibilities of the Board

The Board has adopted a formal charter that details the functions and responsibilities of the Board, and a copy of the charter is available on the Group's website.

The Board's most significant responsibilities are:

Stakeholder interests

- guiding the Group with a view to long-term, sustainable returns for shareholders having regard to the interests of other stakeholders, including customers, regulators, staff and the communities in the regions in which the Group operates;
- providing strategic direction to the Group with a focus on consistent business performance, behaviour, transparency and accountability; and
- reviewing and monitoring corporate governance and corporate social responsibility throughout the Group;

Strategy

- reviewing, approving and monitoring corporate strategy and plans;
- making decisions concerning the Group's capital structure and dividend policy; and
- reviewing, approving and monitoring major investment and strategic commitments;

Performance

- reviewing business results; and
- monitoring budgetary controls;

Integrity of external reporting

- reviewing and monitoring the processes, controls and procedures which are in place to maintain the integrity of the Group's accounting and financial records and statements; and
- reviewing and monitoring reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the various markets in which the Company's securities are listed;

Risk management and compliance

- monitoring and reviewing the risk management processes, the Group's risk profile and the processes for compliance with prudential regulations and standards and other regulatory requirements; and
- reviewing and monitoring processes for the maintenance of adequate credit quality;

Executive review, succession planning and culture

- approving key executive appointments and remuneration, and monitoring and reviewing executive succession planning;
- reviewing and monitoring the performance of the Group Chief Executive Officer and senior management; and
- monitoring and influencing the Group's culture, reputation and ethical standards; and

Board performance

- monitoring Board composition, director selection, Board processes and performance with the Nomination Committee's guidance.

The Board has reserved certain powers for itself and delegated authority and responsibility for day-to-day management of the Company to the Group Chief Executive Officer. This authority is broad ranging and may be sub-delegated. Delegations are subject to strict limits. The Group Chief Executive Officer's authorities and responsibilities include:

- development and implementation of Board approved strategies;
- setting operational plans within both a comprehensive risk management framework and the Corporate Principles; and
- sound relationship management with the Group's stakeholders.

Composition of the Board

The Board requires that each of its directors possess unquestionable integrity and good character. The Nomination Committee identifies other appropriate skills and characteristics required for the Board and individual directors in order for the Company to fulfill its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is based on the following factors:

- the Board will be of a size to assist in efficient decision making;
- the Chairman of the Board should be an independent non-executive director;
- the Chairman must not be a former executive officer of the Group;
- the Board should comprise a majority of independent non-executive directors; and
- the Board should comprise directors with a broad range of expertise, skills and experience from a diverse range of backgrounds including sufficient skills and experience appropriate to the Group's business.

The Board is composed of a majority of independent non-executive directors. There are three executive directors and nine independent non-executive directors. The role of Chairman and that of Group Chief Executive Officer are held by two separate individuals. The Chairman is an independent non-executive director and the Group Chief Executive Officer is an executive director. The other executive directors are the Deputy Group CEO and the Executive Director, Finance.

In 2006, APRA introduced Prudential Standard 520 (**Prudential Standard**). This requires directors, senior management and auditors of an authorised deposit-taking institution to be assessed to determine whether or not they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

A 'Fit and Proper' policy that meets the requirements of the Prudential Standard has been approved by the Board and implemented by the Company. The assessment process includes police checks and confirming the authenticity of academic records and employment history. All 'responsible persons', as defined by the Prudential Standard, have been assessed as meeting the criteria to ensure that they are 'fit and proper'.

The skills, experience, expertise and commencement dates of the directors are set out in the report of the directors.

Independence of directors

Directors are expected to bring independent views and judgment to Board deliberations. An independent director must be independent of management and able to exercise unfettered and independent judgment, free of any business or other relationship that could materially interfere with the exercise of the director's ability to act in the best interests of the Company.

The independent directors are identified (with their period in office) in the report of the directors.

In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Revised ASX CGC Principles.

The Board considers that all of the non-executive directors are independent. That is, for the 2009 year, no non-executive director had any relationships that could materially interfere, or be perceived to materially interfere, with the director's unfettered and independent judgment. In determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board. Any assessment of independence for a non-executive director who does not meet the independence standards adopted by the Board will be specifically disclosed to the market.

The Board has procedures in place to ensure it operates independently of management. This is achieved by the non-executive directors meeting together in the absence of management prior at every scheduled Board and Board Committee meeting.

Disclosure of related party transactions is set out in note 47 in the financial report.

Appointment and re-election of Board members

The process for appointing a director is that, when a vacancy exists, the Nomination Committee identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by shareholders at the next annual general meeting of the Company.

The Company has formal letters of appointment for each of its directors, setting out the key terms and conditions of the appointment.

The process for re-election of a director is in accordance with the Company's Constitution, which requires that, other than the Group Chief Executive Officer and those directors appointed during the year, one-third (or the nearest number to one-third) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election.

Before each annual general meeting, the Board assesses the performance of each director due to stand for re-election, and the Board decides whether to recommend to shareholders that they vote in favour of the re-election of each director.

The Board has set a limit of 10 years for which an individual may serve as a director, subject to an annual review after this period. The Board regards this as an appropriate period of service. *(The commencement dates of the directors are set out in the report of the directors on pages 3 to 6).*

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors. The program includes discussions with executives and management, reading material, tutorials and workshops. These cover the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Conduct, its management structure, its internal and external audit programs, and directors' rights, duties and responsibilities.

Management periodically conducts additional presentations and tutorial sessions for directors about the Group, and the factors impacting, or likely to impact, on its businesses. These assist non-executive directors to gain a broader understanding of the Group. Directors are also encouraged to keep up to date on topical issues.

Board meetings

Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Committees. Directors are also expected to attend site visits. The Board meets once a year in each of the United Kingdom and New Zealand, where the Company has significant business interests. This allows directors to meet customers, employees and other stakeholders in those regions.

The number of Board meetings and each director's attendance at those meetings are set out in the report of the directors.

Performance of Board, its Committees and individual directors

The Board conducts an annual assessment of the performance and effectiveness of the Board as a whole and of its Committees and individual directors. Performance of each Committee of the Board is initially discussed and reviewed within each Committee and then subsequently reviewed as part of the Board's annual assessment.

External experts are engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance the overall effectiveness of the Board. Results of the evaluations are compiled by the external expert to include a quantitative and qualitative analysis, and a written report is provided to the Chairman. The external expert's report disclosing the overall results, and the various issues for discussion and recommendations for initiatives, are presented to the Board for discussion. Each director also participates in individual interviews with the Chairman.

This process is designed to assist the Board in fulfilling its functions and ensuring that it remains an effective decision-making body. The performance evaluation for the Board, its Committees and the individual directors in respect of the 2009 year has taken place in accordance with the process disclosed in this report.

Remuneration arrangements

The remuneration policy for the Board and the remuneration of each director is set out in the remuneration report which forms part of the report of the directors, and in *note 47* in the financial report.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group. This is a matter for ongoing consideration by all directors, and any director who has a material personal interest in a matter relating to the Group's affairs must notify the other directors of that interest.

The *Corporations Act* 2001 (Cth), together with the Company's Constitution, require that a director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

- the directors without a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;
- ASIC has made a declaration or order under the *Corporations Act* 2001 (Cth), which permits the director to be present and vote even though the director has a material personal interest;
- there are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; and
- the matter is of a type which the *Corporations Act* 2001 (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

Even though the *Corporations Act* 2001 (Cth) and the Company's Constitution allow these exceptions, the Group's corporate governance standards provide that when a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, in such circumstances, the director concerned takes no part in discussions and exercises no influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation after consultation with the Chairman.

The provision of financial services to directors is subject to any applicable legal or regulatory restrictions, including the *Corporations Act* 2001 (Cth). Financial services are provided to directors on arm's length terms and conditions.

Refer to note 47 in the financial report for further information, including details of related party dealings and transactions.

Access to management

Board members have complete and open access to management through the Chairman, CEO or Company Secretary at any time. In addition to regular presentations by management to Board and Board Committee meetings, directors may seek briefings from management on specific matters. The Board also consults with other Group employees and advisers and seeks additional information, where appropriate.

The Group Company Secretary also provides advice and support to the Board and is responsible for the Group's day-to-day governance framework.

Access to independent professional advice

Written guidelines entitle each director to seek independent professional advice at the Company's expense, with the prior approval of the Chairman.

The Board can conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to perform its duties.

Shareholding requirements

Within two months of appointment, a director must hold at least 2,000 fully paid ordinary shares in the Company.

Executive directors may receive shares, performance options and performance rights as approved by shareholders. Non-executive directors do not receive any securities via incentive schemes.

Details of all shareholdings by directors in the Company are set out in the report of the directors and note 48 in the financial report.

BOARD AND COMMITTEE OPERATIONS

Board Committees

To help it carry out its responsibilities, the Board has established the following Committees and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these Committees:
- Risk Committee;
- Audit Committee;
- Remuneration Committee; and
- Nomination Committee.

Other matters of special importance in relation to which Board Committees are established include consideration of borrowing programs, projects, capital strategies, major investments and commitments and capital expenditure.

Following each Committee meeting, the Board receives a copy of the minutes of meeting from the relevant Committee. Further, on an annual basis, the Board receives a report from each Committee on its activities undertaken during the year.

The qualifications of each Committee's members and the number of meetings they attended during the 2009 year are set out in the report of directors.

Risk Committee

Membership

The members of the Risk Committee are:

Mr Paul Rizzo (Chairman);
Mrs Patricia Cross;
Ms Jillian Segal;
Mr John Waller; and
Sir Malcolm Williamson.

The members of the Risk Committee have a range of different backgrounds, skills and experience supporting their oversight of the operational, financial and strategic risk profile of the Group.

Responsibilities and Risk Committee charter

The Risk Committee's role, responsibilities, composition and membership requirements are documented in the Risk Committee charter approved by the Board, which is available on the Group's website.

The Risk Committee's responsibilities include:
- review and oversight of the risk profile of the Group within the context of the Board determined risk appetite;
- making recommendations to the Board concerning the Group's risk appetite and particular risks or risk management practices of concern to the Committee;
- review of management's plans for mitigation of material risks faced by the various business units of the Group; and
- promoting awareness of a risk-based culture and the achievement of a balance between risk minimisation and reward for risks accepted.

Activities during the year

At each scheduled meeting, the Risk Committee receives a report from the Group Chief Risk Officer and updates in relation to key matters from the general managers of the Group's key risk functions. The Group's capital and liquidity position was also reviewed on a regular basis with the Group Treasurer. These are in addition to updates provided on topical issues by senior management as required.

The Group has continued to strengthen its risk management processes. Key activities undertaken by the Risk Committee during the year include:
- review of the Group's key risks and risk management framework as developed by management;
- review of the Group's Internal Capital Adequacy Assessment Process (ICAAP);
- ongoing critical review of credit environment, asset quality and provisioning;
- approval of the budget and headcount of the Group's risk management function;
- review of the Group's 2009 risk appetite statement;
- review of the certifications from management in relation to the Group's compliance with applicable prudential standard obligations;
- review of the certifications and assurances from internal audit and management in relation to the effectiveness of the Group's internal controls and risk management framework; and
- joint meetings of the Group's New Zealand and United Kingdom board risk committees to consider key local risk issues.

The Risk Committee met 10 times during the 2009 year, with senior representatives from the Company's external auditor, Ernst & Young, and Internal Audit invited to attend every scheduled meeting of the Risk Committee throughout the period.

Corporate governance

The Chairs of each main subsidiary board risk committee also commenced meeting regularly in the 2009 financial year, to discuss and share current issues and challenges in their respective jurisdictions of UK, USA, Australia and New Zealand. This informal gathering is chaired by the chair of the Board Risk Committee.

More comprehensive details in relation to the Group's risk oversight and management of its material business risks are available on the Company's website.

Audit Committee

Membership

The members of the Audit Committee are:

Mr John Thorn (Chairman);
Mr Paul Rizzo; and
Mr John Waller.

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the Revised ASX CGC Principles.

It is a requirement that all members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experience, having regard to the operations and financial and strategic risk profile of the Group. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, governance principles, recommendations and listing standards.

Members are appointed for an initial term of three years. The Audit Committee must consist of at least three members. Membership is reviewed every three years. Periodic rotation is encouraged so that no more than one Committee member each year resigns as a result of periodic rotation.

The Chairman of the Board cannot be a member of the Audit Committee.

Audit Committee finance professional

Although the Board has determined that Mr Thorn (as Chairman of the Audit Committee) has the requisite attributes defined under applicable governance principles and recommendations, his responsibilities are the same as those of the other Audit Committee members.

He is not an auditor or accountant for the Company, does not perform 'field work' and is not an employee of the Company.

Responsibilities and Audit Committee charter

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter approved by the Board, which is available on the Group's website.

The Audit Committee is responsible for review and oversight of:

- the integrity of the accounting and financial reporting processes of the Group;
- the Group's external audit;
- the Group's internal audit; and
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.

The Audit Committee has the authority to conduct or direct any investigation required to fulfill its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

The Audit Committee is responsible for the oversight of management in the preparation of the Group's financial statements and financial disclosures. The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not have the duty to plan or conduct audits or to determine that the Group's financial statements and disclosures are complete and accurate. These are the responsibility of management and the external auditor.

Activities during the year

Key activities undertaken by the Audit Committee during the year include:

- review of the scope of the annual audit plans for 2009 of the external auditor and internal auditor, and oversight of the work performed by the auditors throughout the year;
- review of significant accounting, financial reporting and other issues raised by the internal and external auditors;
- review of the performance and independence of the external auditor and internal auditor together with their assurances that all applicable independence requirements were met;
- holding of separate meetings without the presence of management with Internal Audit and key partners from the external auditor, Ernst & Young;
- consideration and recommendations to the Board on significant accounting policies and areas of accounting judgment; and
- review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements.

The Audit Committee met eight times during the 2009 year. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. A meeting of the Group's regional audit committee Chairmen was held in September 2009 at which key finance related issues from a regional and Group perspective were considered.

Access to the Committee

To draw appropriate matters to the attention of the Audit Committee, the following individuals have direct access to the Committee: Group Chief Executive Officer; Executive Director Finance and Group Chief Financial Officer; Deputy Group CEO; General Manager Group Finance; Group Chief Risk Officer; General Counsel Corporate; Chief Audit Officer and the external auditor. 'Direct access' means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols.

Other employees of the Group may have access to the Audit Committee through the 'Whistleblower Protection Program'. *Refer to page 46 for further information on the 'Whistleblower Protection Program'.*

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required.

The Audit Committee ensures that the lead external audit partner and concurring review partner rotate off the Group's audit at least every five years and that they are not reassigned to the Group's audit for another five years.

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the scope, quality and independence of the audit.

The Audit Committee receives assurances from the external auditor that they meet all applicable independence requirements.

Internal audit

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately staffed and funded. The Committee also assesses the performance of the Chief Audit Officer, Internal Audit and may recommend to the Board the appointment and dismissal of this officer.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the oversight of the work of the external auditor. To assist it in discharging its oversight responsibility, the Audit Committee has adopted a Group External Auditor Independence Policy which requires, among other things, pre-approval of all audit and non-audit services to be provided by the external auditor. The Group External Auditor Independence Policy incorporates auditor independence requirements of applicable laws, rules and regulations and applies these throughout the Group.

In accordance with the Group External Auditor Independence Policy, the external auditor may only provide a service to the Group if:

- the external auditor is not prohibited from providing that service by applicable auditor independence laws, rules and regulations;
- in the opinion of the Audit Committee or its delegate, the service does not otherwise impair the independence of the external auditor;
- in the opinion of the Audit Committee or its delegate, there is a compelling reason for the external auditor to provide the service; and
- the service is specifically pre-approved by the Audit Committee or delegate.

In accordance with the Group External Auditor Independence Policy, the Group will not employ a current or former partner or professional employee of the external auditor when prohibited by applicable independence laws, rules or regulations.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year.

The Audit Committee may delegate to one or more of its membership or to management as it sees fit, the authority to pre-approve audit and related audit services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or audit related service is presented to the Audit Committee at its next scheduled meeting. The Audit Committee has delegated the authority to pre-approve audit and non-audit services to the Audit Committee Chairman and certain members of management where the services meet specific requirements and fee limits as approved by the Audit Committee. Other non-audit services are required to be approved by the Audit Committee Chairman.

Details of the services provided by Ernst & Young to the Group and the fees paid or due and payable for those services are set out in the report of the directors and note 49 in the financial report.

Remuneration Committee

Membership

The Remuneration Committee's members are:

Mrs Patricia Cross (Chairman);
Mr Daniel Gilbert;
Ms Jillian Segal; and
Mr Geoff Tomlinson.

Responsibilities and Remuneration Committee charter

The Remuneration Committee's role, responsibilities, composition and membership requirements are documented in a Remuneration Committee charter approved by the Board, which is available on the Group's website.

The responsibilities of the Remuneration Committee are to:

- oversee the Group's general remuneration strategy;
- monitor, review and make recommendations to the Board concerning:
  - remuneration policy and Total Reward for the Group Chief Executive Officer and for senior executives who report directly to him;
  - remuneration arrangements for non-executive directors (as listed on page 35);
  - arrangements for recruiting, retaining and terminating senior executives; and
  - key appointments and proposals for the executive succession planning process; and
- support the Board with monitoring the Group's culture, and the process for managing behaviours against quality gates and standards.

Information in relation to the Group's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Group performance) can be found in the remuneration report which forms part of the report of the directors, together with details of the remuneration paid to Board members and senior executives who were the key management personnel of the Company during the 2009 year.

Activities during the year

Key activities undertaken by the Remuneration Committee during the year include:

- reviewing and recommending to the Board the remuneration package for the Group Chief Executive Officer and other senior executives;
- monitoring regulatory reform and stakeholder views on remuneration and reward in the financial services industry;
- in conjunction with independent experts undertaking a detailed review of the Group's performance and reward framework;
- reviewing and recommending to the Board the incentives payable to senior executives based on performance criteria structured to increase shareholder value;
- reviewing employee equity plans and allocations;
- reviewing remuneration of non-executive directors of subsidiary companies;
- reviewing and monitoring the Group's people and culture dashboard at regular intervals; and
- monitoring the Group's efforts to improve diversity in the workforce.

Nomination Committee

Membership

The Nomination Committee's members are:

Mr Michael Chaney (Chairman);
Mrs Patricia Cross;
Mr Daniel Gilbert;
Mr Paul Rizzo;
Ms Jillian Segal;
Mr John Thorn;
Mr Geoffrey Tomlinson;
Mr John Waller; and
Sir Malcolm Williamson.

All members of the Nomination Committee are independent directors.

Corporate governance

Responsibilities and Nomination Committee charter

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in a Nomination Committee charter approved by the Board, which is available on the Group's website.

The Nomination Committee is responsible for review and oversight of:

- Board performance and the methodology for Board performance reviews;
- Board and Committee membership and composition; and
- succession planning for the Board and senior management.

Activities during the year

Key activities undertaken by the Nomination Committee during the year include:

- assessment of the appropriate size and composition of the Board;
- succession planning for non-executive directors;
- review of the methodology for the annual Board performance review; and
- review of Committee composition and memberships.

Controlled entities

The activities of each company in the Group are overseen by its own respective board of directors. Mr Geoffrey Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities. Sir Malcolm Williamson is the Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC. Mr John Waller is the Chairman of Bank of New Zealand. The Board's confidence in the activities of a controlled entity board is based on having a high quality-controlled entity board committed to the Group's objectives.

There is a standing invitation to all Company's directors to attend any board meeting of a controlled entity through consultation with the relevant Chairman. Such visits are undertaken to develop a broader understanding of the Group's total operations.

COMMUNICATING WITH SHAREHOLDERS

Strategy

The Group aims to be open and transparent with all stakeholders, including the owners of the business - the shareholders. Information is communicated to shareholders regularly through a range of forums and publications. These include:

- the Company's annual general meeting;
- notices and explanatory memoranda of annual general meetings;
- the annual financial report (for those shareholders who have requested a copy), which is also located on the Group's website;
- the annual shareholder review;
- regular trading updates and market/investor briefings;
- disclosures to the stock exchanges (on which the Company's securities are listed) and to ASIC;
- letters from the Chairman to specifically inform shareholders of key matters of interest; and
- the Group's website, where there is a Shareholder Centre and News Centre providing access to Company announcements, media releases, previous years' financial results and investor presentations.

In response to the feedback received from shareholders in surveys and focus groups, the Company has sought to further improve the style and content of, and the approach to, its shareholder communications. The Company has produced a shorter, simpler shareholder communication featuring the highlights of the financial year and a summary of business performance. The Group also employs a wide range of communication approaches, including direct communication with shareholders, publication of all relevant Group information in the Shareholder Centre section of the Group's website and webcasting of significant market briefings (including the annual general meeting and interviews with the Chairman and Chief Executive Officer) for shareholders.

The Group is committed to maintaining a level of disclosure that meets the highest of standards and provides all investors with timely and equal access to information.

Continuous disclosure

The *Corporations Act* 2001 (Cth) and the ASX Listing Rules require that the Group discloses to the market matters which could be expected to have a material effect on the price or value of the Company's securities. In compliance with these continuous disclosure requirements, the Company's policy is that shareholders are informed in a timely manner of all major developments that impact the Group. There is a detailed disclosure policy in place, which has been formed to provide advice on the requirements for disclosure of information to the market and is intended to maintain the market integrity and market efficiency of the Company's securities. This policy is available on the Group's website.

The Company has established written guidelines and procedures to supplement the disclosure policy. These guidelines and procedures are designed to manage the Company's compliance with the continuous disclosure obligations of the various stock exchanges on which the Company's securities are listed (including the ASX) and to attribute accountability at a senior executive level for that compliance.

Pursuant to the disclosure policy and supplementary guidelines and procedures, all material matters which may potentially require disclosure are promptly reported to the Group Chief Executive Officer through established reporting lines. Matters reported are assessed and, where required by the ASX Listing Rules, advised to the market. The Company Secretary is responsible for communications with the ASX and for ensuring that such information is not released to any person until the ASX has confirmed its release to the market.

ASX CGC Principles

The Company has complied with the Revised ASX CGC Principles for the 2009 year.

In accordance with Recommendation 7.2 of the Revised ASX CGC Principles, the Board has received a report from management on the effectiveness of the Company's management of its material business risks.

Further, the Board received the relevant declarations required under section 295A of the *Corporations Act* 2001 (Cth) and the relevant assurances required under Recommendation 7.3 of the Revised ASX CGC Principles.

ETHICS AND BEHAVIOUR

Promote ethical and responsible decision-making

The Board has developed with management a set of Corporate Principles, as the basis for the Group's core beliefs and values. The five principles are:

- we will be open and honest;
- we take ownership and hold ourselves accountable (for all of our actions);
- we expect teamwork and collaboration across our organisation for the benefit of all stakeholders;
- we treat everyone with fairness and respect; and
- we value speed, simplicity and efficient execution of our promises.

The Corporate Principles set standards of behaviour required of all employees and directors, and the Group's reward strategy and performance management process are aligned to these Corporate Principles.

Corporate governance

Code of Conduct

The Company has a Code of Conduct which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees and directors of the Group, with the conduct of the Board and each director also governed by the Board charter.

The Code of Conduct covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;
- conflict of interest; and
- disclosure.

The Corporate Principles together with the Company's Code of Conduct take into account the Company's legal obligations and the reasonable expectations of the Group's stakeholders, and emphasise the practices necessary to maintain confidence in the Company's integrity. A copy of each of the Corporate Principles and Code of Conduct are available on the Group's website.

The Group has also adopted a code of conduct for financial professionals, which applies to the Group Chief Executive Officer, the Group Chief Financial Officer and all employees serving in finance, accounting, tax or investor relations roles. This code of conduct is available on the Group's website. In addition, the Company supports the Code of Banking Practice 2004 of the Australian Bankers' Association, which includes:

- major obligations and commitments to customers;
- principles of conduct; and
- the role and responsibilities of an independent external body, the Code Compliance Monitoring Committee, which investigates complaints about non-compliance with this Code.

Whistleblower Protection Program

The Group has a Whistleblower Protection Program for confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, directly to the Audit Committee.

The Group does not tolerate incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees. Accordingly, there are established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters. The Company will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) of any person taking reprisals against them.

Staff are also encouraged to escalate any issues they believe could have a material impact on the Group's profitability, reputation, governance or compliance.

Restrictions on dealings in securities

Directors, officers and employees are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so) if they are in possession of inside information. Inside information is information which is not generally available, and which if it were generally available a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Group. There are also legal restrictions on insider trading imposed by the laws of other jurisdictions that apply to the Group and its directors, officers and employees.

The Company has an established policy relating to trading in the Company's securities by directors, officers and certain other employees of the Group. These directors, officers and employees are prohibited from trading in the Company's securities during prescribed blackout periods prior to the release of the Group's annual and half-yearly results announcements. Directors, officers and certain employees are further required to notify their intention to trade in the Company's securities prior to trading.

The Group also expressly prohibits directors, officers and employees from:

- taking derivatives over unvested performance-based remuneration;
- short-term trading in any Company securities; and
- trading in the shares of any other entity if inside information in respect of such entity comes to their attention by virtue of their position as a director, officer or employee of the Group.

Financial report

Income statement

For the year ended 30 September	Note	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Interest income	3	**31,102**	39,385	**24,891**	30,488
Interest expense	3	**(19,034)**	(28,287)	**(16,223)**	(22,981)
Net interest income		**12,068**	11,098	**8,668**	7,507
Premium and related revenue		**846**	780	**-**	-
Investment revenue		**726**	(10,162)	**-**	-
Fee income		**439**	530	**-**	-
Claims expense		**(477)**	(492)	**-**	-
Change in policy liabilities		**(373)**	8,378	**-**	-
Policy acquisition and maintenance expense		**(755)**	(817)	**-**	-
Investment management expense		**(37)**	(34)	**-**	-
Movement in external unitholders' liability		**(12)**	1,427	-	-
Net life insurance income		**357**	(390)	**-**	-
Gains less losses on instruments at fair value	4	**665**	(118)	**1,051**	(181)
Other operating income	4	**3,687**	3,967	**3,694**	3,537
Total other income		**4,352**	3,849	**4,745**	3,356
Personnel expenses	5	**(4,402)**	(4,142)	**(2,999)**	(2,792)
Occupancy-related expenses	5	**(555)**	(492)	**(318)**	(277)
General expenses	5	**(3,022)**	(2,646)	**(1,867)**	(1,652)
Total operating expenses		**(7,979)**	(7,280)	**(5,184)**	(4,721)
Charge to provide for doubtful debts	5	**(3,815)**	(2,703)	**(2,683)**	(2,258)
Profit before income tax expense		**4,983**	4,574	**5,546**	3,884
Income tax expense	6	**(2,394)**	(39)	**(1,511)**	(496)
Net profit		**2,589**	4,535	**4,035**	3,388
Net loss attributable to minority interest		**-**	1	**-**	-
Net profit attributable to members of the Company		**2,589**	4,536	**4,035**	3,388
Basic earnings per share (cents)	8	**123.4**	262.7		
Diluted earnings per share (cents)	8	**122.5**	260.9		
Dividends per ordinary share (cents)					
Interim	7	**73**	97		
Final	7	**73**	97		

Balance sheet

As at 30 September	Note	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Assets					
Cash and liquid assets	9	**25,834**	18,209	**23,437**	14,985
Due from other banks	10	**33,265**	46,996	**26,200**	33,089
Trading derivatives	11	**37,030**	35,788	**36,587**	33,562
Trading securities	12	**22,219**	20,767	**19,210**	18,424
Investments - available for sale	13	**7,933**	1,542	**3,650**	444
Investments - held to maturity	14	**17,529**	17,154	**5,201**	2,198
Investments relating to life insurance business	15	**54,254**	52,896	**-**	-
Other financial assets at fair value	16	**31,530**	30,600	**4,343**	2,448
Hedging derivatives	11	**3,926**	2,126	**1,885**	673
Loans and advances	17	**344,774**	353,075	**259,665**	253,250
Due from customers on acceptances		**55,035**	53,381	**55,031**	53,375
Current tax assets		**-**	-	**210**	-
Property, plant and equipment	20	**1,716**	1,661	**902**	803
Due from controlled entities		**-**	-	**51,367**	43,243
Investments in controlled entities	21	**-**	-	**15,446**	15,800
Goodwill and other intangible assets	22	**6,243**	6,335	**520**	539
Deferred tax assets	23	**3,272**	2,851	**2,212**	1,537
Other assets	24	**9,560**	13,418	**5,435**	8,542
Total assets		**654,120**	656,799	**511,301**	482,912
Liabilities					
Due to other banks		**36,148**	52,423	**31,377**	42,290
Trading derivatives	11	**38,090**	32,263	**35,887**	30,459
Other financial liabilities at fair value	25	**21,311**	23,584	**3,671**	4,325
Hedging derivatives	11	**2,131**	1,172	**1,238**	705
Deposits and other borrowings	26	**336,188**	327,466	**251,083**	234,944
Liability on acceptances		**16,891**	16,075	**16,887**	16,069
Life policy liabilities	27	**47,314**	46,150	**-**	-
Current tax liabilities	28	**382**	25	**-**	7
Provisions	29	**1,555**	1,359	**1,064**	912
Due to controlled entities		**-**	-	**43,106**	35,449
Bonds, notes and subordinated debt	30	**90,792**	98,239	**78,438**	81,763
Other debt issues	31	**2,627**	1,622	**1,963**	906
Defined benefit pension scheme liabilities	32	**584**	-	**-**	-
External unitholders' liability		**7,458**	7,406	**-**	-
Deferred tax liabilities	28	**793**	702	**594**	136
Other liabilities	33	**14,021**	15,467	**9,065**	6,375
Total liabilities		**616,285**	623,953	**474,373**	454,340
Net assets		**37,835**	32,846	**36,928**	28,572
Equity					
Contributed equity	34	**22,781**	14,731	**21,351**	13,538
Reserves	35	**(976)**	549	**75**	345
Retained profits	36	**16,010**	17,510	**15,502**	14,689
Total equity (parent entity interest)		**37,815**	32,790	**36,928**	28,572
Minority interest in controlled entities		**20**	56	**-**	-
Total equity		**37,835**	32,846	**36,928**	28,572

Recognised income and expense statement

For the year ended 30 September	Note	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Actuarial (losses)/gains from defined benefit pension plans	36	**(1,125)**	4	**(13)**	(8)
Cash flow hedges					
Losses taken to equity	35	**(24)**	(445)	**(237)**	(419)
Losses/(gains) transferred to income statement	35	**66**	(94)	**23**	(105)
Exchange differences on translation of foreign operations	35	**(1,485)**	(180)	**(4)**	(56)
Tax on items taken directly to equity		**289**	167	**72**	160
Other		**37**	36	**(14)**	18
Net income recognised directly in equity		**(2,242)**	(512)	**(173)**	(410)
Net profit		**2,589**	4,535	**4,035**	3,388
Total net income recognised		**347**	4,023	**3,862**	2,978
Attributable to:					
Members of the parent		**347**	4,024	**3,862**	2,978
Minority interest		**-**	(1)	**-**	-
Total net income recognised		**347**	4,023	**3,862**	2,978

Cash flow statement

For the year ended 30 September	Note	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Cash flows from operating activities					
Interest received		**31,600**	39,270	**25,060**	30,801
Interest paid		**(20,406)**	(26,892)	**(17,193)**	(22,190)
Dividends received		**7**	7	**1,276**	1,118
Life insurance					
Premiums and other revenue received		**8,564**	10,105	**-**	-
Investment revenue received		**1,614**	2,911	**-**	-
Policy and other payments		**(7,030)**	(7,948)	**-**	-
Fees and commissions paid		**(400)**	(402)	**-**	-
Net trading revenue received		**1,223**	4,121	**348**	4,009
Other operating income received		**3,873**	4,574	**3,115**	2,687
Cash payments to employees and suppliers					
Personnel expenses paid		**(3,979)**	(4,023)	**(2,642)**	(2,646)
Other operating expenses paid		**(3,877)**	(2,682)	**(2,171)**	(1,738)
Goods and services tax paid		**(30)**	(50)	**(6)**	(9)
Cash payments for income taxes		**(1,419)**	(2,556)	**(1,082)**	(1,341)
Cash flows from operating activities before changes in operating assets and liabilities		**9,740**	16,435	**6,705**	10,691
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents		**(20)**	59	**(15)**	42
Net payments for and receipts from transactions in acceptances		**(864)**	(18,444)	**(864)**	(18,445)
Net funds advanced to and receipts from customers for loans and advances		**(11,018)**	(35,758)	**(11,381)**	(25,916)
Net acceptance from and repayment of deposits and other borrowings		**25,459**	59,119	**21,982**	47,824
Net movement in life insurance business investments		**(1,625)**	(3,118)	**-**	-
Net movement in other life insurance assets and liabilities		**(701)**	8	**-**	-
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		**(845)**	133	**(311)**	23
Net payments for and receipts from transactions in trading securities		**(405)**	720	**(973)**	1,542
Net payments for and receipts from trading derivatives		**3,211**	(8,275)	**2,631**	(7,308)
Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value		**(4,219)**	(7,308)	**(3,012)**	(1,947)
Net receipts from hedging derivative liabilities and other financial liabilities at fair value		**(391)**	2,598	**471**	673
Net increase in other assets		**(1,819)**	(6,500)	**(1,481)**	(6,960)
Net (decrease)/increase in other liabilities		**(3,802)**	9,534	**(3,299)**	6,708
Net cash provided by operating activities	40(a)	**12,701**	9,203	**10,453**	6,927
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(22,648)**	(20,039)	**(18,781)**	(19,596)
Proceeds from disposal		**618**	85	**74**	37
Proceeds on maturity		**18,624**	18,099	**18,430**	17,204
Movement in investments - held to maturity					
Purchases		**(19,410)**	(29,865)	**(18,246)**	(27,796)
Proceeds from disposal and on maturity		**20,177**	28,218	**17,262**	25,241
Net movement in amounts due from controlled entities		**-**	-	**(1,306)**	(2,263)
Net movement in shares in controlled entities		**-**	-	**(188)**	(645)
Purchase of controlled entities and business combinations, net of cash acquired	40(d)	**194**	(972)	**-**	-
Purchase of property, plant, equipment and software		**(951)**	(865)	**(466)**	(502)
Proceeds from sale of property, plant, equipment and software, net of costs		**208**	574	**-**	358
Net cash used in investing activities		**(3,188)**	(4,765)	**(3,221)**	(7,962)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(33,287)**	(20,368)	**(27,846)**	(16,216)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**30,600**	33,599	**27,773**	32,954
Proceeds from issue of ordinary shares, net of costs		**5,913**	20	**5,913**	20
Proceeds from issue of BNZ income securities, net of costs		**203**	380	**-**	-
Proceeds from other debt issues, net of costs		**1,082**	1,190	**1,082**	1,190
Dividends and distributions paid (excluding dividend reinvestment plan)		**(1,742)**	(1,702)	**(1,585)**	(1,550)
Net cash provided by financing activities		**2,769**	13,119	**5,337**	16,398
Net increase/(decrease) in cash and cash equivalents		**12,282**	17,557	**12,569**	15,363
Cash and cash equivalents at beginning of year		**12,789**	(4,330)	**5,771**	(9,213)
Effects of exchange rate changes on balance of cash held in foreign currencies		**(917)**	(438)	**(107)**	(379)
Cash and cash equivalents at end of year	40(b)	**24,154**	12,789	**18,233**	5,771

Notes to the financial statements

1 Principal accounting policies

The financial report of National Australia Bank Limited (Company) and its controlled entities during the year (Group) for the year ended 30 September 2009 was authorised for issue in accordance with a resolution of the directors on 13 November 2009.

(a) Basis of preparation

The Company is incorporated and domiciled in Australia. This general purpose financial report has been prepared in accordance with the requirements of the *Corporations Act* 2001 (Cth), Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board (AASB). The financial statements have been prepared under the historical cost convention, as modified by the application of fair value measurements required by the relevant accounting standards. These accounting policies have been consistently applied throughout the Group.

The preparation of financial statements in conformity with Australian Accounting Standards as issued by the AASB and International Financial Standards as issued by the International Accounting Standards Board (IASB) 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. Assumptions made at each balance sheet date, (e.g. the calculation of provisions for doubtful debts, defined benefit pensions and fair value adjustments), 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. It is not anticipated that such differences would be material.

Comparative amounts have been reclassified to accord with changes in presentations made in 2009, except where otherwise stated. Certain key terms used in this financial report are defined in the glossary.

(b) Statement of compliance

The financial report of National Australia Bank Limited complies with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards as issued by the IASB.

(c) Early adoptions

The Group elected to early adopt AASB 8 "Operating Segments" and AASB 2007-3 "Amendments to Australian Accounting Standards arising from AASB 8" in the financial year ended 30 September 2007. The application of these standards is not mandatory for the Group until the financial year commencing 1 October 2009. The Group has not elected to early adopt any accounting standards or amendments in the current year.

(d) Recently issued accounting standards to be applied in future reporting periods

The AASB has issued standards, amendments and interpretations which are available for adoption and which the Group has either applied in the current financial year or will apply in a future reporting period as follows:

Applied in the current financial year

- AASB Interpretation 13 "Customer Loyalty Programmes" (August 2007) (Interpretation 13) clarifies the accounting for certain types of customer loyalty programmes. Revenue is recognised when reward points have been redeemed or when the obligation has been assumed by a third party. On adoption, the Group has recognised a liability of $71 million and a deferred tax asset of $22 million for this liability resulting in a net reduction in opening retained earnings of $49 million;
- AASB Interpretation 14 "AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (August 2008) (Interpretation 14) provides guidance on the amount of surplus that can be recognised as an asset by an employer sponsor of a defined benefit pension scheme;
- AASB Interpretation 16 "Hedges of a Net Investment in a Foreign Operation" (August 2008) (Interpretation 16) provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements;
- AASB 2008-10 "Amendments to Australian Accounting Standards - Reclassification of Financial Assets" (October 2008) (AASB 2008-10) amends AASB 139 to permit an entity to reclassify certain non-derivative financial assets out of the fair value through profit and loss category when specific conditions are met;
- AASB 2008-12 "Amendments to Australian Accounting Standards - Reclassification of Financial Assets - Effective Date and Transition" (December 2008) (AASB 2008-12) clarifies the effective date of AASB 2008-10;
- AASB 2009-3 "Amendments to Australian Accounting Standards - Embedded Derivatives" (April 2009) (AASB 2009-3) requires an assessment of whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit and loss category.

Except for Interpretation 13, none of these amendments or interpretations had a material effect on the financial results or position of the Company or Group.

To be applied in future reporting period

The following standards, amendments and interpretations were available for adoption, but not mandatory, for the 30 September 2009 reporting period. Those amendments which are applicable to the Group and which are likely to have an impact on the Group's disclosures but have not yet been applied by the Group in preparing this financial report are:

- AASB 101 "Presentation of Financial Statements" (September 2007) (AASB 101) supersedes the previous version of AASB 101 and makes changes to nomenclature and content of the financial statements, including the presentation of a statement of comprehensive income;
- AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101" (September 2007) (AASB 2007-8) and AASB 2007-10 "Further Amendments to Australian Accounting Standards arising from AASB 101" (December 2007) (AASB 2007-10) both amend numerous standards arising from the application of AASB 101;
- AASB 2008-1 "Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations" (February 2008) (AASB 2008-1) clarifies that vesting conditions comprise service conditions and performance conditions only and that other features of a share based payment transaction are not vesting conditions. It also clarifies that all cancellations should receive the same accounting treatment;
- AASB 2008-2 "Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation" (March 2008) (AASB 2008-2) introduces an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation;
- AASB 3 "Business Combinations" (March 2008) (AASB 3) makes certain amendments to accounting for business combinations;

1 Principal accounting policies (continued)

- AASB 127 "Consolidated and Separate Financial Statements" (March 2008) (AASB 127) makes changes to accounting for non-controlling interests and loss of control;
- AASB 2008-3 " Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127" (March 2008) (AASB 2008-3) amends numerous standards arising from the application of AASB 3 and AASB 127;
- AASB 2008-5 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-5) and AASB 2008-6 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project;
- AASB 2008-7 "Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" (July 2008) (AASB 2008-7) amends several standards arising from amendments to AASB 1 and AASB 127;
- AASB 2008-8 "Amendments to Australian Accounting Standards - Eligible Hedged Items" (August 2008) (AASB 2008-8) amends AASB 139 and clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations;
- AASB 2008-13 "Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-cash Assets to Owners" (December 2008) (AASB 2008-13) amends AASB 5 and AASB 110 and relates to the classification of non-current assets as held for sale when there is an intention to distribute the assets to owners;
- AASB 2009-2 "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments" (April 2009) (AASB 2009-2) amends several standards and requires disclosure of valuation techniques used to determine the carrying value of financial instruments held at fair value;
- AASB 2009-4 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (May 2009) (AASB 2009-4) makes non-urgent amendments to several accounting standards arising from the annual improvements project;
- AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" (May 2009) (AASB 2009-5) makes further non-urgent amendments to several accounting standards arising from the annual improvements project;
- AASB 2009-6 "Amendments to Australian Accounting Standards" (May 2009) (AASB 2009-6) makes additional amendments arising from the issuance of the revised AASB 101 which were omitted from or incorrectly stated in AASB 2007-8;
- AASB 2009-7 "Amendments to Australian Accounting Standards" (June 2009) (AASB 2009-7) Amends AASB 5, 7, 139 and Interpretation 17 to correct errors that occurred in AASB 2008-12, AASB 2008-13 and Interpretation 17;
- AASB 2009-8 "Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions" (July 2009) (AASB 2009-8) clarifies the scope of AASB 2 and supersedes Interpretation 8 and 11; and
- AASB 101, AASB 3, AASB 127, AASB 2007-8, AASB 2007-10, AASB 2008-1, AASB 2008-2, AASB 2008-3, AASB 2008-5, 2008-7, AASB 2008-13, AASB 2009-2, AASB 2009-4, AASB 2009-6 and AASB 2009-7 will be applied from 1 October 2009. AASB 2009-5 and AASB 2009-8 will be applied from 1 October 2010. The initial application of these standards, amendments and interpretations is not expected to have a material impact on the financial results of the Company or the Group.

(e) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(f) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(g) Principles of consolidation

Controlled entities

The consolidated financial report comprises the financial report of the Company and its controlled entities. Controlled entities are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. Special purpose entities require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the special purpose entity.

An assessment of control, and in respect of special purpose entities an assessment of the Group's exposure to the majority of residual income or majority of residual risk are performed on an ongoing basis.

Entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated 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 Company are shown as a separate item, Minority interest in controlled entities, in the consolidated financial report.

Statutory funds of the Group's life insurance business have been consolidated into the financial report. The financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders. In addition, where the Group's life insurance statutory funds have the capacity to control managed investment schemes, the Group has consolidated all of the assets, liabilities, revenues and expenses of these managed investment schemes.

Investments in controlled entities are recorded at cost less any provision for impairment.

Change in presentation of income statement and balance sheet

In prior financial reports, the liability to external unitholders in managed investment schemes controlled by the Group has been disclosed in the consolidated balance sheet as "Managed fund units on issue". Additionally, in prior financial reports, the movement in this liability has been disclosed in the consolidated income statement as "Net (profit)/ loss attributable to minority interest". This item has been relabelled as "Movement in external unitholders' liability" and has been presented as part of Net life insurance income to better reflect its nature and to ensure consistency with the balance sheet presentation. The liability has also been relabelled as "External unitholders' liability" to better reflect its nature.

These are presentation changes only and have no impact on the earnings per share or the net profit attributable to the members of the Company.

Notes to the financial statements

1 Principal accounting policies (continued)

(h) 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.

(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. Such gains and losses will be deferred in equity as qualifying cash flow hedges and qualifying net investment hedges where applicable. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Controlled entities

The results and financial position of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are normally translated at average exchange rates for the period; and
- all resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(i) Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between willing parties in an arm's length transaction.

Where the classification of a financial asset or liability requires it to be stated 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 such active market exists for the 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 analyses, option pricing models and other valuation techniques based on market conditions and risks existing at balance 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 profit on initial recognition (i.e. on day one).

Assets

(j) Cash and cash equivalents

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

(k) Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate based upon the counterparty to the transaction.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between 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 deposits with other banks or cash and cash equivalents. Securities lent to counterparties are also retained in the financial statements. 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 a trading liability.

(l) Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value on trade date. All derivatives 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. The fair value of derivatives is determined by calculating the expected cash flows under the terms of each specific contract, discounted back to present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. 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. The Group designates certain derivatives as:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);

1 Principal accounting policies (continued)

- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges); or
- hedges of net investments in foreign operations.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

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.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item will affect profit or loss (e.g. when the forecast hedged variable cash flows are recognised within 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 that was recognised in equity is immediately transferred to the income statement.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- the derivative is held for the purpose of short-term profit taking; or
- the derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both of these cases, the derivative is classified as a trading derivative.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are separately measured at fair value with changes in fair value recognised in the income statement.

(m) Items classified as fair value through profit and loss

Purchases and sales of financial assets classified within fair value through profit and loss are recognised on trade date, being the date that the Group is committed to purchase or sell a financial asset.

(i) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling 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.

Assets held for trading purposes are classified as trading derivatives or trading securities within the balance sheet.

(ii) Financial instruments designated at fair value through profit and loss

Upon initial recognition, financial assets may be designated as held at fair value through profit and loss. Financial assets classified as fair value through profit and loss are initially recognised at fair value, with transaction costs being recognised in the income statement immediately. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

Restrictions are placed on the use of the designated fair value option and the classification can only be used in the following circumstances:

- if a host contract contains one or more embedded derivatives, the Group may designate the entire contract as being held at fair value;
- designating the instruments will eliminate or significantly reduce measurement or recognition inconsistencies (i.e. eliminate an accounting mismatch) that would otherwise arise from measuring assets or liabilities on a different basis; or
- assets and liabilities are both managed and their performance is evaluated on a fair value basis in accordance with documented risk management and investment strategies.

(iii) Assets relating to life insurance businesses

Refer to note 1(p) Assets relating to life insurance businesses for further details.

1 Principal accounting policies (continued)

(n) Investments - available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of:

- fair value through profit and loss;
- loans and receivables; or
- held to maturity.

Available for sale investments primarily comprise debt securities.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until sale when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated change in fair value within the available for sale investments reserve is recognised in the income statement.

(o) Investments - held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the intention and ability to hold to maturity. Held to maturity assets are initially recognised at fair value and subsequently recorded at amortised cost using the effective interest method, net of any provision for impairment.

(p) Assets relating to life insurance businesses

Assets held by the Group's life insurance businesses are recorded as follows:

(i) Assets backing policy liabilities

All assets held in statutory funds are considered to back policy liabilities and are therefore classified as fair value through profit and loss.

(ii) Restrictions on assets

The assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met. Therefore, assets held in statutory funds are not available for use by other parts of the Group's business other than any profits generated in the statutory funds.

(q) Loans and advances

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

Loans and advances are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, net of any provision for doubtful debts. They are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

As noted above, in certain limited circumstances the Group applies the fair value measurement option to financial assets. This option is applied to loans and advances where there is an embedded derivative within the loan contract and the Group has entered into a derivative to offset the risk introduced by the embedded derivative. The loan is designated as being carried at fair value through profit and loss to offset the movements in the fair value of the derivative within the income statement. When this option is applied, the asset is included within other financial assets at fair value and not loans and advances.

Where a loan is held at fair value, a statistical-based calculation is used to estimate expected losses attributable to adverse movements in credit on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying value of the loan held at fair value.

(r) Impairment

(i) Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date (a loss event) and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances and held to maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision account.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

1 Principal accounting policies (continued)

If the originally contracted terms of loans and advances are renegotiated, the amounts are classified as restructured. Such accounts accrue interest as long as the loan performs in accordance with the renegotiated terms.

In the case of equity instruments classified as available for sale, the Group seeks evidence of a significant or prolonged decline in the fair value of the security below its cost to determine whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for other financial assets. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement. Reversals of impairment of equity instruments classified as available for sale are not recognised in the income statement, but rather directly in equity.

(ii) Non-financial assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units (which are determined according to the lowest level of aggregation for which an active market exists, as this evidences the assets involved create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

(s) Acceptances

The Group's liability arising from the acceptance of bills of exchange and the asset under acceptance representing the claims against its customer are measured initially at fair value and subsequently at amortised cost. When the Group discounts its own acceptance, the acceptance liability is derecognised. When the Group rediscounts its own acceptance, an acceptance liability is re-recognised and the asset remains recognised as an acceptance. The difference between the purchase and sale of the Group's own acceptance gives rise to realised profits and losses that are recognised in the income statement. Bill acceptance fees are deferred and amortised on an effective yield basis over the life of the instrument.

(t) Property, plant and equipment

Land and buildings are measured at fair value and are revalued on a rolling three year cycle, effective 31 July, by directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date. Newly acquired property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months.

Revaluation increments are credited directly to the asset revaluation reserve. However, the increment will be recognised in the income statement to the extent it reverses a revaluation decrement previously recognised as an expense for a specific asset. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset. Any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Other items of plant and equipment are carried at cost, less accumulated depreciation and any impairment losses. The cost of plant and equipment includes an obligation for removal of the asset or restoration of the site where such an obligation exists and if that cost can be reliably estimated.

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight-line method at the rates appropriate to its estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation or amortisation are:

- buildings - 3.3%;
- leasehold improvements - up to 10%;
- furniture, fixtures and fittings and other equipment - from 10% to 20%;
- motor vehicles - 20%;
- personal computers - 33.3%; and
- other data processing equipment - from 20% to 33.3%.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of sale are included in the income statement.

Any realised amounts in the asset revaluation reserve are transferred directly to retained profits.

(u) Leases

(i) As lessee

The leases entered into by the Group as lessee are primarily operating leases. 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.

(ii) As lessor

Leases entered into by the Group as lessor, where the Group transfers substantially all the risks and rewards of ownership to the lessee are classified as finance leases. The net investment in the lease, which is comprised of the present value of the lease payments including any guaranteed residual value and initial direct costs, is recognised within loans and advances. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax), reflecting a constant periodic rate of return.

Assets leased under operating leases are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease

1 Principal accounting policies (continued)

rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(v) Goodwill and other intangible assets

(i) Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition.

(ii) 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 that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

Capitalised software costs and other intangible assets are amortised on a straight-line basis over their expected useful lives: usually, this is between three and five years.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Subsequent to acquisition they are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives which varies from three to 15 years.

(w) Business Combinations

The purchase method of accounting is used for all business combinations. Cost is measured as the fair value of assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where settlement of any part of any cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of acquisition over the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill.

(x) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both. Investment property is measured at fair value with any increments or decrements being recognised in other operating income. Valuations are carried out annually by professional valuers.

Liabilities

(y) Due to other banks

Due to other banks includes deposits, vostro balances, repurchase agreements and settlement account balances due to other banks.

These items are brought to account at the gross value of the outstanding balance.

(z) Financial liabilities

Financial liabilities comprise items such as due to other banks, due to customers, liabilities on acceptances, trading liabilities, and deposits and other borrowings. Financial liabilities may be held at fair value through profit and loss or at amortised cost.

A financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised from the balance sheet when the Group has discharged its obligation or the contract is cancelled or expires.

When a financial liability is recognised, initially it is measured at its fair value plus transaction costs, unless the financial instrument is designated as fair value through profit and loss.

Items held at fair value through profit and loss comprise both items held for trading and items specifically designated as fair value through profit and loss at initial recognition. Financial liabilities held at fair value through profit and loss are initially recognised at fair value, with transaction costs being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a liability is held at fair value, the movement in fair value attributable to changes in the Group's own credit quality is calculated through reference to an observable market rate where available or the derivation of a credit adjustment based upon observable market inputs. This adjustment to the credit quality of the liability is then applied to the carrying value of the liability held at fair value.

Bonds, notes and subordinated debt are held at fair value where an accounting mismatch is significantly reduced or eliminated that would otherwise occur if the liability was measured on another basis.

Financial liabilities may be designated as fair value through profit and loss providing they meet the same criteria set down in *note 1(m)*.

A financial liability is classified as held for trading if it is incurred principally for the purpose of selling 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 that is not in a qualifying hedge relationship.

(aa) 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 funds raised publicly by borrowing corporations. These items are brought to account at the gross value of the outstanding balance.

(bb) Life policy liabilities

Life policy liabilities in the Group's balance sheet and the change in policy liabilities disclosed as an expense have been calculated in accordance with Prudential Standard LPS1.04 "Valuation of Policy Liabilities" issued by APRA.

(i) Life insurance contracts

Policy liabilities from insurance contracts are measured predominantly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments

1 Principal accounting policies (continued)

(including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each balance date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each balance sheet date. Deferred acquisition costs are presented as an offset in policy liabilities.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations. Where the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

For reinsurance contracts, the Group retains the primary obligation of the underlying life insurance contract.

(ii) Life investment contracts

Policy liabilities for investment contracts are measured at fair value, with this value determined as equal to or greater than the surrender value of the policy. The discount rate reflects the return on assets backing the liabilities.

(cc) 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 it 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 considered 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.

(i) Operational risk events

Provisions for operational risk event losses are raised for losses incurred by the Group which do not relate directly to amounts of principal outstanding for loans and advances.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

(ii) Restructuring costs

Provisions for restructuring costs include provisions for expenses incurred but not yet paid and future expenses 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 it has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. 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 leased space. Costs related to ongoing activities are not provided for.

(dd) Financial guarantees

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.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary. Subsequently, the Group records and measures the financial guarantee contract at the higher of:

- where it is likely the Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable; and
- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee.

(ee) Employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the 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, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

Employees of the Group are entitled to benefits on retirement, disability or death, from the Group's superannuation plans. The Group operates pension plans which have both defined benefit and defined contribution components.

The defined contribution plans receive fixed contributions from Group companies and the Group's 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 the future payment is available.

The defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. An asset or liability in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the superannuation fund's assets at the reporting date.

The present value of the defined benefit obligations for each plan is discounted by either the government bond rate, or the average AA credit rated bond rate for bonds that have maturity dates approximating to the terms of the Group's obligations. The present value of the defined benefit obligations is calculated every three years using the projected unit credit method and updated on an annual basis for material movements in the plan position.

Notes to the financial statements

1 Principal accounting policies (continued)

The Group does not offset pension assets and liabilities arising from different defined benefit plans. Past service costs are recognised immediately in income. The Group's policy where actuarial gains and losses arise as a result of actual experience is to fully recognise such amounts directly in retained profits.

Future taxes that are funded by the entity and are part of the provision of existing benefit obligations are taken into account in measuring the net liability or asset.

(ff) Trustee and funds management activities

The Group acts as trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. Where the Group does not have direct or indirect control of these funds and trusts as defined by AASB 127 "Consolidated and Separate Financial Statements", the assets and liabilities are not included in the consolidated financial statements of the Group. When controlled entities, as responsible entities or trustees, incur liabilities in respect of their activities, a right of indemnity exists against the assets of the applicable trusts and funds. Where these assets are determined to be sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the Group does not include the liabilities in the consolidated financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the income statement.

(gg) Securitisation

Through its loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. 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 within the vehicles and all relevant financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction.

In addition to its loan securitisation program, the Group has various contractual relationships with entities that undertake securitisation of third party assets. The Group sponsors, manages and provides liquidity facilities and derivative contracts to these securitisation conduits.

(hh) Income tax

Income tax expense (or revenue) is the tax payable (or receivable) on the current period'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 related to items recognised directly in equity, in which case it is recognised in equity.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet 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.

The effects of income taxes arising from asset revaluation adjustments are recognised directly in the asset revaluation reserve where relevant. Deferred tax assets and liabilities related to fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly to equity, are also credited or charged directly to equity. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- superannuation policies - 15%;
- annuity policies - 0%; or
- other policies - 30%.

The life insurance business shareholders' funds are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies less deductible expenses.

Tax consolidation

The Group and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 October 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is National Australia Bank Limited.

Current tax expense/income 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/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/receivable from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. The inter-entity payable/receivable is at call. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The members of the tax-consolidated group have entered into a tax funding arrangement 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 arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

(ii) Bonds, notes and subordinated debt and other debt issues

Bonds, notes and subordinated debt and other debt issues are short and long-term debt issues of the Group including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues. Debt issues are typically recorded 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. Interest is charged to the income statement using the effective interest method. Embedded derivatives within debt instruments must also be separately accounted for where not closely related to the terms of the host debt instrument. These embedded derivative instruments are recorded at fair value with gains and losses on the embedded derivative recorded in the income statement.

1 Principal accounting policies (continued)

Where debt issues are classified as held at fair value through profit and loss, they are initially recognised at fair value, with transaction costs being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Equity

(jj) 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 directly 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. The Company's ordinary shares do not have a par value. 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.

(kk) Reserves

(i) General reserve

The general reserve includes statutory funds' retained profits from the Group's life insurance business. Profits from the statutory funds are not immediately available for distribution. These profits will only be available after the respective life company's board has approved the transfer of surpluses from the statutory funds to the shareholders' fund.

(ii) Asset revaluation reserve

The asset revaluation reserve includes revaluation increments and decrements arising from the revaluation of properties.

(iii) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company'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.

(iv) Cash flow hedge reserve

The cash flow hedge reserve records the fair value revaluation of derivatives designated as cash flow hedging instruments.

(v) Equity based payments reserve

The equity based payments reserve records the value of equity benefits provided to employees and directors as part of their remuneration.

Share capital tainting rules contained in the Australian tax legislation apply prospectively from 26th 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 NAB 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 payments reserve and ultimately recorded in paid-up capital without giving rise to a tainting of NAB's share capital account for tax purposes (ie. no adverse taxation consequences).

The share capital tainting rules and private binding ruling have no impact on the regulatory capital of the Group.

As a consequence of the private binding ruling $353 million of employee shares, which had vested since 26th May 2006, were reversed from the equity-based payments reserve and ultimately recorded in paid-up capital.

(ll) Treasury shares

If a controlled entity acquires shares in the Company (treasury shares), the cost of the acquired shares is recognised as a deduction from share capital. Dividends on treasury shares are not credited to income, but eliminated on consolidation. Gains and losses on sale of treasury shares are accounted for as adjustments to issued capital and not part of income.

Certain statutory funds of the Group's life insurance business hold investments in the Company. As these statutory funds are consolidated into the financial report, such investments held in the Company are accounted for as treasury shares. Additionally, shares purchased on-market to meet the requirements of employee incentive schemes, and held in trust by a controlled entity of the Company, are likewise accounted for as treasury shares.

Income and expense recognition

(mm) Interest income

Interest income is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly 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 liability.

Loan origination fees are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred until the commitment is exercised and are recognised over the life of the loan as an adjustment of yield or, if unexercised, recognised as income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as income over the commitment period. Loan-related administration and service fees are recognised as income over the period of service. Credit card fees are recognised as income over the card usage period. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as income over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

(nn) Life insurance business

The Group conducts its life insurance business through a number of controlled entities including MLC Lifetime Company Limited, MLC Limited and BNZ Life Insurance Limited.

Notes to the financial statements

1 Principal accounting policies (continued)

(i) Types of business

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act* 1995 (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Life investment contracts include investment-linked contracts where policyholders' investments are held within the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets; however, the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business. Fee income is derived from the administration of investment-linked policies and funds.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if an insured event could cause an insurer to pay significant additional benefits in any scenario that has commercial substance. Any products sold by a life insurer that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets.

Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all the financial risks).

(ii) Allocation of profit

Life insurance contracts

Profits are brought to account in the statutory funds on a Margin on Services basis (MoS) in accordance with Actuarial Standards. Under MoS, profit is recognised as fees are received and services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When fees are received but the service has not been provided, the profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of life insurance policies to be charged to the income statement over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable.

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimate life of the policies. The profit is systematically recognised over the estimated time period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act* 1995 (Cth) and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the income statement.

Life investment contracts

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested over operating expenses.

(iii) Premium and related revenue

Life insurance contracts

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the end of the year but not received at balance date are included as outstanding premiums receivable. Premiums due after but received before the end of the year are accounted for as premiums in advance.

Life investment contracts

The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as fee income. For the Group's investment contracts, all premiums are recognised as an increase in policy liabilities.

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income.

Net realised profits and losses and changes in the measurement of fair values in respect of all investments recognised at fair value are recognised in the income statement in the period in which they occur.

(v) Claims expense

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components.

Life insurance contracts

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

Life investment contracts

Claims incurred in respect of investment contracts, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities. For investment-linked contracts, all claims are recognised as a decrease in policy liabilities.

(vi) Basis of expense apportionment

All expenses charged to the income statement are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act* 1995 (Cth) as follows:

- expenses and other outgoings that relate specifically to a particular statutory fund have been directly charged to that fund; and
- expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) have been apportioned between each statutory fund and shareholders' fund.

1 Principal accounting policies (continued)

Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including sales support and marketing, new business processing and policyholder servicing. Expenses are then allocated to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit. Investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments have been directly credited or charged to the appropriate statutory fund or shareholders' fund.

(vii) Deferred acquisition costs

The extent to which policy acquisition costs are deferred varies according to the classification of the contract acquired (either life insurance or life investment).

Life insurance contracts

The costs incurred in selling or generating new business include adviser fees, commission payments, application processing costs, relevant advertising costs and costs for promotion of products and related activities. These costs are deferred to the extent they are deemed recoverable in the premiums or policy charges (as appropriate for each policy class). Acquisition costs deferred are amortised over the period that they will be recovered from premiums or policy charges.

Life investment contracts

The incremental costs incurred in selling or generating new business are expensed as incurred.

(oo) 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.

(pp) 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.

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. Account keeping charges, credit card fees, money transfer fees and loan servicing fees are recognised in the period the service is provided.

(qq) Gains less losses on instruments at fair value

Gains less losses on instruments at fair value comprises fair value gains and losses from four distinct activities:

- trading derivatives;
- trading securities;
- instruments designated in hedge relationships; and
- other assets and liabilities designated at fair value through profit and loss.

In general, gains less losses on trading derivatives recognises the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where the trading derivative is economically offsetting movements in the fair value of an asset or liability designated as being carried at fair value through profit and loss, the interest income and expense attributable to the derivatives is recorded within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are reported within interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness for both fair value and cash flow hedge relationships. Interest income and expense on both hedging instruments and instruments designated as fair value through profit and loss at initial recognition are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit and loss recognises fair value movements (excluding interest) on those items designated as fair value through profit and loss at inception.

(rr) Equity-based compensation

The Group provides equity-based compensation to its employees in respect of services received. The value of the services received is measured by reference to the grant date fair value of the shares, performance options or performance rights provided to employees. The fair value expense of each tranche of shares, performance options or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the services are received by the Group, (the vesting period), with a corresponding increase in reserves.

The fair value of share plans granted is generally determined by reference to the weighted average Company share price in the week up to, and including, the date on which the shares were granted. Existing employee share plans are linked to internal performance or service conditions and vest when these conditions are satisfied.

The fair value and expected vesting period of the performance options and performance rights granted are determined using a simulated version of the Black-Scholes model. The simulation approach allows the valuation to take into account both the probability of achieving the market-based performance hurdle required for the performance options or performance rights to vest and the potential for early exercise of vested performance options or performance rights.

The key assumptions and inputs for the valuation model are the exercise price of the performance option or performance right, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and 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.

Expected time to vesting from grant date of each performance option and performance right is an output of the valuation model, along with the fair valuations of the performance options and performance rights.

Notes to the financial statements

1 Principal accounting policies (continued)

Non-market-based performance hurdles are not taken into account when determining the fair value and expected time to vesting of performance options and performance rights. Instead, non-market-based performance conditions are taken into account by adjusting the number of performance options and performance rights included in the measurement of the expense so that ultimately, the amount recognised in the income statement reflects the number of performance options or performance rights that actually vest.

Expected time to vesting (from grant date) of each performance option and performance right is an output of the valuation model, along with the fair valuations of the performance options and performance rights.

Non-market-based performance hurdles are not taken into account when determining the fair value and expected time to vesting of performance options and performance rights. Instead, non-market-based performance conditions are taken into account by adjusting the number of performance options and performance rights included in the measurement of the expense so that ultimately, the amount recognised in the income statement reflects the number of performance options or performance rights that actually vest.

(ss) 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 within 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

2 Segment information

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

The Group's business is organised into four operating segments, three of which are managed along regional lines: Australia Region, United Kingdom Region and New Zealand Region, which include banking and wealth management products; as well as nabCapital (which is managed globally). nabCapital is a global division, with key lines of business comprising Institutional Banking, Corporate Finance, Markets and Treasury, and Structuring and Investments. It operates in three core regions of Australia (which incorporates the smaller businesses in the Americas and Asia), New Zealand and the United Kingdom. The Group's Central Functions are Group Finance, Group Risk, Group Economics, New Business & Development (including Great Western Bank), Corporate Legal, Group Funding and Group Treasury, People and Culture and other unallocated items which are not considered to be separate reportable operating segments.

The accounting policies of the operating segments are consistent with those described in *note 1* to these financial statements.

The Group evaluates operating segments performance on the basis of cash earnings and return on equity. Cash earnings represents the net profit attributable to members of the Company, adjusted for certain non-cash items, distributions, and significant items. The segment information provided below is prepared on an ongoing basis, such that operations that will not form part of the continuing Group are excluded from all periods presented.

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

On 12 March 2009 the Group announced a new organisational strategy and structure. Reporting on the basis of this new structure will be effective from 1 October 2009.

Major customers

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

Operating segments

	Operating segments						
Year ended 30 September 2009	Australia Region $m	United Kingdom Region $m	New Zealand Region $m	nabCapital $m	Central Functions $m	Eliminations/ Distributions $m	Total $m
Net interest income	7,299	1,868	883	1,925	97	-	12,072
Total MLC and other operating income	2,801	669	311	869	258	(74)	4,834
Net operating income	10,100	2,537	1,194	2,794	355	(74)	16,906
Total operating expenses	4,226	1,417	561	911	539	(74)	7,580
Charge to provide for doubtful debts	1,601	892	151	1,061	110	-	3,815
Cash earnings before tax	4,273	228	482	822	(294)	-	5,511
Income tax expense/(benefit)	1,208	64	139	190	(150)	-	1,451
Investment earnings on shareholders' retained profits	26	-	-	-	-	-	26
Distributions and minority interest	-	-	-	2	(2)	(245)	(245)
Cash earnings	3,091	164	343	634	(146)	(245)	3,841
Year ended 30 September 2008							
Net interest income	6,229	1,910	908	2,152	(57)	-	11,142
Total MLC and other operating income	3,178	773	311	(26)	115	(79)	4,272
Net operating income	9,407	2,683	1,219	2,126	58	(79)	15,414
Total operating expenses	4,108	1,557	579	817	294	(79)	7,276
Charge to provide for doubtful debts	605	381	56	1,446	1	-	2,489
Cash earnings before tax	4,694	745	584	(137)	(237)	-	5,649
Income tax expense/(benefit)	1,366	203	180	(91)	(250)	-	1,408
Investment earnings on shareholders' retained profits	(14)	-	-	-	-	-	(14)
Distributions and minority interest	-	-	-	2	(1)	(312)	(311)
Cash earnings	3,314	542	404	(44)	12	(312)	3,916

	Operating segments						
Reportable segment assets	Australia Region $m	United Kingdom Region $m	New Zealand Region $m	nabCapital $m	Central Functions $m	Eliminations/ Distributions $m	Total $m
Year ended 30 September 2009	363,508	78,514	43,519	223,128	36,977	(91,526)	654,120
Year ended 30 September 2008	344,607	93,691	41,441	242,279	36,404	(101,623)	656,799

2 Segment information (continued)

Reconciliations between segment and statutory results are as follows:

The tables below reconcile the information in the business segment tables on the previous page, which has been prepared on an ongoing cash earnings basis, to the relevant statutory information presented in the financial report. In addition to the sum of the four operating segments, the ongoing cash earnings basis includes the Group's Central Functions and intra group eliminations. The MLC net adjustment represents income or expenses excluded from management results for the MLC business.

	Group	
	2009 $m	2008 $m
Net interest income		
Total net interest income for operating segments	**12,072**	11,142
Disposed operations	**-**	(11)
MLC net adjustment	**(4)**	(33)
Total net interest income	**12,068**	11,098
Total life insurance and other income		
MLC net operating income and other operating income for operating segments	**4,834**	4,272
Disposed operations	**-**	45
MLC net adjustment	**307**	(1,462)
Treasury shares	**(311)**	445
Fair value and hedge ineffectiveness	**(115)**	(119)
Investment earnings on shareholders' retained profits discount rate variation	**(6)**	36
Gain on Visa initial public offering	**-**	242
Total life insurance and other income	**4,709**	3,459
Total operating expenses		
Total operating expenses for operating segments	**7,580**	7,276
Disposed operations	**-**	30
MLC net adjustment	**(42)**	(142)
Efficiency, quality and service initiatives	**254**	-
Provision for litigations	**157**	-
Provision for tax on NZ structured finance transactions	**5**	-
Great Western Bank integration costs	**25**	10
Provision for new business initiatives	**-**	106
Total operating expenses	**7,979**	7,280
Charge to provide for doubtful debts		
Provision for doubtful debts cash earnings	**3,815**	2,489
Charge to provide for bad and doubtful debts - economic cycle adjustment(1)	-	214
Charge to provide for doubtful debts	**3,815**	2,703

(1) *During 2009 further economic cycle adjustment of $36 million was recognised within the Group's cash earnings, therefore does not appear in this reconciliation.*

Income tax expense		
Income tax expense - ongoing	**1,451**	1,408
Disposed operations	**-**	1
Income tax expense/(benefit) on non-cash earnings items:		
MLC net adjustment	**319**	(1,339)
Treasury shares	**(55)**	70
Fair value hedge ineffectiveness	**(36)**	(30)
Investment earnings on shareholders' retained profits discount rate variation	**(2)**	11
Efficiency, quality and service initiatives	**(75)**	-
Provision for litigation	**(47)**	-
Provision for tax on NZ structured finance transactions	**537**	-
Impairment of exchangeable capital units tax receivable	**309**	-
Great Western Bank integration costs	**(7)**	(3)
Gain on Visa initial public offering	**-**	17
Charge to provide for bad and doubtful debts - economic cycle adjustment	**-**	(64)
Provision for new business initiatives	**-**	(32)
Total income tax expense	**2,394**	39
Investment earnings on shareholders' retained profits		
Investment earnings on shareholders' retained profits	**26**	(14)
MLC net adjustment	**(26)**	14
Total investment earnings on shareholders' retained profits	-	-

Notes to the financial statements

2 Segment information (continued)

	Group	
	2009 $m	2008 $m
Distributions and minority interest		
Distributions and minority interest	**(245)**	(311)
Distributions	**245**	312
Net loss attributable to minority interest	**-**	1
Cash earnings		
Group cash earnings - ongoing[1]	**3,841**	3,916
Disposed operations	**-**	3
Non-cash earnings items (after tax):		
Distributions	**245**	312
Treasury shares	**(256)**	375
Fair value and hedge ineffectiveness	**(79)**	(89)
Investment earnings on shareholders' retained profits discount rate variation	**(4)**	25
Efficiency, quality and service initiatives	**(179)**	-
Provision for litigation	**(110)**	-
Provision for tax on NZ structured finance transactions	**(542)**	-
Impairment of exchangeable capital units tax receivable	**(309)**	-
Great Western Bank integration costs	**(18)**	(7)
Gain on Visa initial public offering	**-**	225
Charge to provide for bad and doubtful debts - economic cycle adjustment	**-**	(150)
Provision for new business initiatives	**-**	(74)
Net profit attributable to members of the Company	**2,589**	4,536

(1) *Includes eliminations and distributions.*

	Group	
Reportable segment assets		
Total assets for operating segments	**654,120**	656,799
Total assets	**654,120**	656,799

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 revenue and assets is based on the geographical location in which transactions are booked.

	Group			
	Revenue		Non-current assets[1]	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Australia	**27,369**	21,374	**6,004**	5,340
Europe	**5,779**	7,490	**1,245**	1,402
New Zealand	**3,571**	4,792	**501**	440
United States	**699**	624	**880**	887
Asia	**180**	229	**6**	6
Total before inter-geographic eliminations	**37,598**	34,509	**8,636**	8,075
Elimination of inter-geographic items	**(133)**	(127)	**-**	-
Total	**37,465**	34,382	**8,636**	8,075

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

3 Net interest income

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Interest income				
Due from other banks	**1,155**	1,813	**883**	1,420
Marketable debt securities[(1)]	**2,320**	3,389	**1,195**	1,818
Loans and advances[(2)]	**23,426**	29,147	**16,639**	20,284
Due from customers on acceptances	**3,604**	4,315	**3,604**	4,315
Due from controlled entities	**-**	-	**1,985**	1,958
Interest income accrued on impaired financial assets	**293**	168	**293**	168
Other interest income	**304**	553	**292**	525
Total interest income	**31,102**	39,385	**24,891**	30,488
Interest expense				
Due to other banks and official institutions	**1,272**	2,473	**1,041**	2,143
Deposits and other borrowings[(3)]	**11,530**	17,128	**8,284**	11,966
Liability on acceptances	**1,200**	1,466	**1,200**	1,466
Bonds, notes and subordinated debt[(4)]	**4,871**	6,987	**4,105**	5,735
Due to controlled entities	**-**	-	**1,549**	1,590
Other debt issues	**71**	79	**44**	40
Other interest expense	**90**	154	**-**	41
Total interest expense	**19,034**	28,287	**16,223**	22,981
Net interest income	**12,068**	11,098	**8,668**	7,507

(1) *Consists of interest on trading securities, investments - available for sale, and investments - held to maturity.*

(2) *Includes $1,706 million (2008: $1,993 million) of interest income on loans and advances accounted for at fair value for the Group, and $207 million (2008: $47 million) for the Company.*

(3) *Includes $451 million (2008: $988 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and $44 million (2008: $124 million) for the Company.*

(4) *Includes $239 million (2008: $256 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and nil (2008: nil) for the Company.*

4 Other income

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Gains less losses on instruments at fair value				
Trading securities	**551**	(343)	**556**	(348)
Trading derivatives[(1)]	**(119)**	(270)	**631**	160
Assets, liabilities and derivatives designated in hedge relationships	**(51)**	(197)	**43**	(227)
Assets and liabilities designated at fair value[(1)]	**435**	602	**(23)**	110
Gain on Visa initial public offering	**-**	242	**-**	185
Impairment of investments - available for sale	**(52)**	(93)	**(57)**	(2)
Other	**(99)**	(59)	**(99)**	(59)
Total gains less losses on instruments at fair value	**665**	(118)	**1,051**	(181)
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,276**	1,116
Other entities	**7**	7	**-**	2
Gains from sale of investments - available for sale	**12**	38	**5**	37
Gains from sale of property, plant and equipment and other assets	**25**	25	**-**	3
Banking fees	**1,018**	918	**825**	800
Money transfer fees	**693**	676	**499**	453
Fees and commissions[(2)]	**1,525**	1,735	**462**	758
Investment management fees	**338**	434	**-**	-
Fleet management fees	**18**	17	**18**	17
Rentals received on leased vehicle assets	**28**	103	**11**	54
Revaluation losses on investment properties	**(15)**	(32)	**-**	-
Other income	**38**	46	**598**	297
Total other operating income	**3,687**	3,967	**3,694**	3,537

(1) *Gains less losses on derivatives designated under the fair value option (FVO) are reported within trading derivatives and amounted to a loss of $499 million for the 2009 year (2008: $524 million loss). For the Company, a gain of $113 million (2008: $162 million loss) was recorded. The net profit and loss impact of this amount and assets and liabilities designated at fair value represents the volatility attributable to the Group's application of the FVO.*

(2) *Included in fees and commissions is $111 million (2008: $108 million) with respect to fee income relating to trustee and funds management activities for the Group, and $104 million (2008: $102 million) for the Company.*

Notes to the financial statements

5 Operating expenses

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Personnel expenses				
Salaries and related on-costs	**3,020**	2,903	**1,986**	1,899
Superannuation costs - defined contribution plans	**214**	199	**168**	157
Superannuation costs - defined benefit plans	**11**	(7)	**4**	4
Performance-based compensation				
Cash	**413**	367	**313**	219
Equity-based compensation	**230**	206	**172**	157
Other expenses	**514**	474	**356**	356
Total personnel expenses	**4,402**	4,142	**2,999**	2,792
Occupancy-related expenses				
Operating lease rental expense	**372**	329	**234**	200
Other expenses	**183**	163	**84**	77
Total occupancy-related expenses	**555**	492	**318**	277
General expenses				
Fee and commission expense	**262**	131	**76**	61
Depreciation and amortisation of property, plant and equipment	**295**	273	**184**	166
Amortisation of intangible assets	**280**	245	**168**	138
Depreciation on leased vehicle assets	**9**	11	**5**	3
Operating lease rental expense	**30**	41	**16**	24
Advertising and marketing	**219**	241	**155**	167
Charge to provide for operational risk event losses	**209**	44	**195**	33
Communications, postage and stationery	**329**	323	**175**	166
Computer equipment and software	**316**	304	**226**	215
Data communication and processing charges	**140**	117	**65**	50
Transport expenses	**74**	72	**58**	55
Professional fees	**324**	260	**216**	164
Travel	**82**	105	**53**	67
Loss on disposal of property, plant and equipment and other assets	**18**	1	**8**	-
Impairment losses recognised	**19**	32	**31**	70
Other expenses	**416**	446	**236**	273
Total general expenses	**3,022**	2,646	**1,867**	1,652
Charge to provide for doubtful debts				
Investments - held to maturity[1]	**52**	1,011	**52**	1,011
Loans and advances	**3,763**	1,692	**2,631**	1,247
Total charge to provide for doubtful debts	**3,815**	2,703	**2,683**	2,258

[1] *Includes provisions for impairment of intercompany loans to securitisation conduits by the Company.*

6 Income tax expense

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Total income tax expense				
Current tax	**1,964**	2,010	**1,556**	1,045
Deferred tax	**430**	(1,971)	**(45)**	(549)
Total income tax expense	**2,394**	39	**1,511**	496

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Profit before income tax expense	**4,983**	4,574	**5,546**	3,884
Deduct (profit)/loss before income tax expense attributable to the life insurance statutory funds and their controlled trusts	**(673)**	827	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business, before income tax expense	**4,310**	5,401	**5,546**	3,884
Prima facie income tax at 30%	**1,293**	1,620	**1,664**	1,165
Add/(deduct): Tax effect of amounts which are not deductible/(assessable)				
Tax provision for New Zealand structured finance tax case	**339**	-	**-**	-
Tax provision for interest on New Zealand structured finance tax case	**200**	-	**-**	-
Impairment of exchangeable capital units tax receivable	**309**	-	**309**	-
Treasury shares adjustment	**38**	(64)	**-**	-
Foreign tax rate differences	**13**	(19)	**27**	30
Assessable foreign income	**8**	2	**5**	2
Depreciation on buildings not deductible	**5**	1	**1**	1
Foreign branch income not assessable	**(65)**	(62)	**(65)**	(62)
Over provision in prior years	**(54)**	(46)	**(5)**	(22)
Offshore banking unit income	**(24)**	-	**(24)**	-
Investment allowance	**(24)**	-	**(24)**	-
Restatement of deferred tax balances for changes in UK and NZ tax rates	**(5)**	(1)	**-**	-
Gain on Visa shares reduced by previously unrecognised tax losses	**-**	(56)	**-**	(56)
Dividend income adjustments	**(1)**	(1)	**(369)**	(318)
Previously unrecognised tax losses	**-**	(93)	**-**	(56)
Other	**(43)**	(53)	**(8)**	(188)
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business	**1,989**	1,228	**1,511**	496
Income tax expense/(benefit) attributable to the statutory funds of the life insurance business	**405**	(1,189)	**-**	-
Total income tax expense	**2,394**	39	**1,511**	496

7 Dividends and distributions

	Amount per share cents	Total Amount $m	Franked amount per share %
Dividends recognised by the Company for the years shown below at 30 September:			
2009			
Final 2008 ordinary	**97**	**1,669**	**100**
Interim 2009 ordinary	**73**	**1,400**	**100**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(60)**	**n/a**
Total dividends paid		**3,009**	
2008			
Final 2007 ordinary	95	1,540	100
Interim 2008 ordinary	97	1,584	100
Deduct: Bonus shares in lieu of dividend	n/a	(83)	n/a
Total dividends paid		3,041	

Franked dividends declared or paid during the year or declared after year end were franked at a tax rate of 30% (2008: 30%).

Proposed final dividend

On 28 October 2009, the directors declared the following dividend:

Final 2009 ordinary	**73**	**1,532**	**100**

The final 2009 ordinary dividend is payable on 17 December 2009. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2009 and will be recognised in subsequent financial reports.

7 Dividends and distributions (continued)

Australian franking credits

The franking credits available to the Group at 30 September 2009, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as receivable at balance date, are estimated to be $617 million (2008: $748 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $657 million (2008: $716 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 and any changes to the dividend imputation system as a result of the Australian Government's review of the Australian tax system.

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 2009 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	
	2009 $m	2008 $m	**2009 $m**	2008 $m
National Income Securities	**116**	174	**116**	174
Trust Preferred Securities	**48**	49	**-**	-
Trust Preferred Securities II	**60**	48	**-**	-
National Capital Instruments	**21**	41	**-**	-
Total distributions on other equity instruments	**245**	312	**116**	174

Dividends on preference shares

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
BNZ Income Securities	**25**	13	**-**	-
BNZ Income Securities 2	**3**	-	**-**	-
Total dividends on preference shares	**28**	13	**-**	-

8 Earnings per share

	Group			
	2009		2008	
	Basic	**Diluted[1]**	Basic	Diluted[1]
Earnings ($m)				
Net profit attributable to members of the Company	**2,589**	**2,589**	4,536	4,536
Distributions on other equity instruments	**(273)**	**(273)**	(312)	(312)
Potential dilutive adjustments				
Interest expense on convertible notes (after tax)	**-**	**-**	-	1
Adjusted earnings	**2,316**	**2,316**	4,224	4,225
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares	**1,922,189**	**1,922,189**	1,642,935	1,642,935
Treasury shares	**(45,368)**	**(36,135)**	(35,285)	(31,006)
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**895**	-	1,046
Partly paid ordinary shares	**-**	**117**	-	159
Employee share plans	**-**	**4,211**	-	6,073
Convertible notes	**-**	**-**	-	207
Total weighted average ordinary shares	**1,876,821**	**1,891,277**	1,607,650	1,619,414
Earnings per share (cents)	**123.4**	**122.5**	262.7	260.9

[1] During the year ended 30 September 2009 the impact of convertible notes has not been included in the diluted earnings per share because they were anti-dilutive. During the year ended 30 September 2008, the impact of some convertible notes was not included in the diluted earnings per share because they were anti-dilutive.

There have been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since 30 September 2009 and before the completion of this financial report.

9 Cash and liquid assets

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Coins, notes and cash at bank	**2,026**	2,732	**766**	850
Securities purchased under agreements to resell	**21,217**	14,117	**21,130**	13,897
Other (including bills receivable and remittances in transit)	**2,591**	1,360	**1,541**	238
Total cash and liquid assets	**25,834**	18,209	**23,437**	14,985

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $675 million (2008: $1,116 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

Cash collateral on securities borrowed and reverse repurchase agreements

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Cash collateral on securities borrowed	**3,098**	1,586	**-**	-

As part of the reverse repurchase and securities borrowing agreements included within "Cash and liquid assets" and "Due from other banks" *(note 10)*, the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2009 amounts to $42,186 million (2008: $32,679 million) for the Group and $42,086 million (2008: $32,592 million) for the Company, of which $2,590 million (2008: $5,948 million) for the Group and $2,590 million (2008: $5,948 million) for the Company has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

The Group is obliged to return equivalent securities. The associated liability to return these securities is included in trading liabilities. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing activities.

10 Due from other banks

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Central banks and other regulatory authorities	**6,632**	15,029	**669**	2,891
Other banks	**26,633**	31,967	**25,531**	30,198
Total due from other banks	**33,265**	46,996	**26,200**	33,089

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related services and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. All positions held for trading purposes are revalued on a daily basis to reflect market movements, and any revaluation profit or loss is recognised immediately in the income statement. It is the Group's policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies and net exposure to exchange risk in this respect is not material.

In certain instances, the fair value movements of derivatives held within the trading classification are offset by the fair value movements on underlying assets or liabilities held at fair value upon initial recognition. This approach has been adopted by the Group for certain economically hedged relationships that do not qualify for hedge accounting. *The fair value of these assets and liabilities is disclosed in note 44.*

Derivative financial instruments held for hedging purposes

The operations of the Group are subject to risk of interest rate fluctuations, to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held or issued for the purposes of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors its non-trading interest rate risk by simulating future net interest income requirements by applying a range of possible future interest rate environments to its projected balance sheet.

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge foreign currency borrowings and anticipated cash flows.

The Group measures hedge effectiveness on a prospective basis at inception and retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression analysis. Through this application, the Group ensures that on both a retrospective and prospective basis the correlation in change in value of the hedging derivative and hedged item is within requirements specified within accounting standards to apply hedge accounting.

(a) Fair value hedges
The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk and/or assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges
The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities and assets and liabilities subject to foreign exchange risk. *For further information, refer to cash flow hedge reserve in note 35.*

The table below sets out the fair value of both trading and hedging derivatives including the notional principal values:

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Trading derivatives				
Assets	**37,030**	35,788	**36,587**	33,562
Liabilities	**38,090**	32,263	**35,887**	30,459
Hedging derivatives				
Assets	**3,926**	2,126	**1,885**	673
Liabilities	**2,131**	1,172	**1,238**	705

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Group					
	Notional principal 2009 $m	**Fair value assets 2009 $m**	**Fair value liabilities 2009 $m**	Notional principal 2008 $m	Fair value assets 2008 $m	Fair value liabilities 2008 $m
Foreign exchange rate-related contracts						
Spot and forward contracts to purchase foreign exchange	**373,777**	**8,072**	**9,640**	498,083	14,026	11,510
Cross currency swaps	**281,466**	**8,438**	**7,945**	256,640	9,212	8,915
Options/swaptions purchased	**12,862**	**267**	**8**	8,115	314	-
Options/swaptions written	**34,922**	**27**	**291**	9,851	13	344
Total foreign exchange rate-related contracts	**703,027**	**16,804**	**17,884**	772,689	23,565	20,769
Interest rate-related contracts						
Forward rate agreements	**399,595**	**171**	**205**	202,786	69	83
Swaps	**1,114,927**	**18,121**	**18,591**	1,233,345	9,747	10,062
Futures	**705,718**	**295**	**93**	989,858	140	30
Options/swaptions purchased	**36,854**	**344**	**3**	66,556	364	1
Options/swaptions written	**24,530**	**39**	**375**	64,565	12	289
Total interest rate-related contracts	**2,281,624**	**18,970**	**19,267**	2,557,110	10,332	10,465
Credit derivatives	**28,365**	**619**	**318**	24,165	1,305	518
Commodity derivatives	**3,222**	**245**	**230**	4,347	414	341
Other derivatives	**2,728**	**392**	**391**	3,310	172	170
Total derivatives held for trading	**3,018,966**	**37,030**	**38,090**	3,361,621	35,788	32,263

Hedging derivative financial instruments

Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**34,570**	**1,905**	**104**	45,045	1,186	264
Total foreign exchange rate-related contracts	**34,570**	**1,905**	**104**	45,045	1,186	264
Interest rate-related contracts						
Swaps	**47,756**	**796**	**690**	36,406	427	310
Total interest rate-related contracts	**47,756**	**796**	**690**	36,406	427	310
Total derivatives held for hedging - fair value hedges	**82,326**	**2,701**	**794**	81,451	1,613	574
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**107,296**	**1,225**	**1,337**	106,693	513	598
Total interest rate-related contracts	**107,296**	**1,225**	**1,337**	106,693	513	598
Total derivatives held for hedging - cash flow hedges	**107,296**	**1,225**	**1,337**	106,693	513	598
Total hedging derivative financial instruments	**189,622**	**3,926**	**2,131**	188,144	2,126	1,172

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Company					
	Notional principal 2009 $m	**Fair value assets 2009 $m**	**Fair value liabilities 2009 $m**	Notional principal 2008 $m	Fair value assets 2008 $m	Fair value liabilities 2008 $m
Foreign exchange rate-related contracts						
Spot and forward contracts to purchase foreign exchange	**347,870**	**7,439**	**8,668**	551,391	12,806	10,457
Cross currency swaps	**284,076**	**8,498**	**7,638**	252,604	8,929	9,121
Options/swaptions purchased	**12,409**	**263**	**31**	8,930	325	-
Options/swaptions written	**34,440**	**27**	**268**	7,914	7	351
Total foreign exchange rate-related contracts	**678,795**	**16,227**	**16,605**	820,839	22,067	19,929
Interest rate-related contracts						
Forward rate agreements	**397,228**	**172**	**205**	193,235	63	79
Swaps	**1,095,197**	**18,177**	**17,665**	1,128,497	8,935	9,123
Futures	**695,886**	**295**	**93**	974,457	140	30
Options/swaptions purchased	**37,905**	**455**	**3**	70,252	435	-
Options/swaptions written	**24,158**	**8**	**377**	63,546	12	307
Total interest rate-related contracts	**2,250,374**	**19,107**	**18,343**	2,429,987	9,585	9,539
Credit derivatives	**28,365**	**619**	**318**	23,715	1,305	512
Commodity derivatives	**2,928**	**243**	**229**	4,115	414	341
Other derivatives	**2,728**	**391**	**392**	3,310	191	138
Total derivatives held for trading	**2,963,190**	**36,587**	**35,887**	3,281,966	33,562	30,459

Hedging derivative financial instruments

Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**29,484**	**838**	**31**	37,122	154	127
Total foreign exchange rate-related contracts	**29,484**	**838**	**31**	37,122	154	127
Interest rate-related contracts						
Swaps	**26,900**	**462**	**246**	16,855	194	113
Total interest rate-related contracts	**26,900**	**462**	**246**	16,855	194	113
Total derivatives held for hedging - fair value hedges	**56,384**	**1,300**	**277**	53,977	348	240
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**72,515**	**585**	**961**	59,574	325	465
Total interest rate-related contracts	**72,515**	**585**	**961**	59,574	325	465
Total derivatives held for hedging - cash flow hedges	**72,515**	**585**	**961**	59,574	325	465
Total hedging derivative financial instruments	**128,899**	**1,885**	**1,238**	113,551	673	705

Notes to the financial statements

11 Trading and hedging derivative assets and liabilities (continued)

In certain instances, the Group has applied cash flow hedge accounting to hedged highly probable cash flows, which primarily vary with interest rates. These cash flows are expected to impact the income statement in the following periods:

Group

	0 to 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years	Total
As at 30 September 2009	$m	$m	$m	$m	$m	$m	$m
Forecast receivable cash flows	1,163	933	662	347	235	423	3,763
Forecast payable cash flows	2,067	1,557	1,133	572	386	791	6,506

	0 to 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years	Total
As at 30 September 2008	$m	$m	$m	$m	$m	$m	$m
Forecast receivable cash flows	1,660	904	589	436	194	357	4,140
Forecast payable cash flows	3,667	2,135	1,416	880	389	901	9,388

Company

	0 to 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years	Total
As at 30 September 2009	$m	$m	$m	$m	$m	$m	$m
Forecast receivable cash flows	1,007	779	537	296	213	416	3,248
Forecast payable cash flows	1,518	1,218	951	499	358	780	5,324

	0 to 1 year	1 to 2 year(s)	2 to 3 years	3 to 4 years	4 to 5 years	Greater than 5 years	Total
As at 30 September 2008	$m	$m	$m	$m	$m	$m	$m
Forecast receivable cash flows	1,201	585	320	288	143	355	2,892
Forecast payable cash flows	2,619	1,645	989	656	327	880	7,116

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Hedge ineffectiveness - cash flow hedges	**(66)**	55	**(23)**	12
Gains or losses arising from fair value hedges[(1)]				
Gains/(losses)				
- on hedging instruments	**1,696**	1,069	**93**	242
- on the hedged items attributable to the hedged risk	**(1,936)**	(1,107)	**(281)**	(247)

[(1)] *Comparative information has been restated to accord with 2009.*

12 Trading securities

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Government bonds, notes and securities	**5,136**	1,338	**2,689**	946
Semi-government bonds, notes and securities	**5,672**	3,847	**5,672**	3,847
Corporate/financial institution bonds, notes and securities	**11,314**	15,423	**10,764**	13,477
Other bonds, notes and securities	**97**	159	**85**	154
Total trading securities	**22,219**	20,767	**19,210**	18,424

13 Investments - available for sale

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Government bonds, notes and securities	**3,891**	922	**-**	8
Corporate/financial institution bonds, notes and securities	**3,683**	303	**3,447**	303
Other bonds, notes and securities	**359**	317	**203**	133
Total investments - available for sale	**7,933**	1,542	**3,650**	444

14 Investments - held to maturity

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Government bonds, notes and securities	**392**	17	**392**	17
Corporate/financial institution bonds, notes and securities	**6,765**	3,226	**4,809**	2,179
Other bonds, notes and securities	**10,542**	14,042	**-**	2
Deduct: Provisions for impairment	**(170)**	(131)	**-**	-
Total investments - held to maturity	**17,529**	17,154	**5,201**	2,198
Provisions				
Balance at beginning of year	**131**	-	**-**	-
Charge to income statement	**52**	1,011	**-**	-
Amounts written off	**(2)**	(880)	**-**	-
Foreign currency translation adjustments	**(11)**	-	**-**	-
Balance at end of year	**170**	131	**-**	-

15 Investments relating to life insurance business

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Equity security investments				
Direct	**497**	408	**-**	-
Indirect	**34,979**	31,923	**-**	-
	35,476	32,331	**-**	-
Debt security investments				
Direct	**2,147**	1,849	**-**	-
Indirect	**13,659**	15,188	**-**	-
	15,806	17,037	**-**	-
Units held in property trusts				
Indirect	**2,972**	3,528	**-**	-
	2,972	3,528	**-**	-
Total investments relating to life insurance business	**54,254**	52,896	**-**	-

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investment assets held in statutory funds are not available for use by other parts of the Group's business *(refer to note 1(p))*.

16 Other financial assets at fair value

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Loans	**29,567**	25,732	**4,039**	1,928
Securities at fair value	**819**	3,149	**-**	24
Other financial assets at fair value	**1,144**	1,719	**304**	496
Total other financial assets at fair value[(1)]	**31,530**	30,600	**4,343**	2,448

[(1)] *This amount includes a positive fair value adjustment of $890 million (2008: $428 million positive) being derived from valuation techniques rather than directly from quoted market prices for the Group, and $208 million positive (2008: $158 million positive) for the Company.*

Loans

Included in the financial assets at fair value through profit and loss (designated at initial recognition) is a portfolio of loans which is economically hedged with interest rate derivatives. The hedges do not achieve the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is $29,567 million (2008: $25,732 million) for the Group and $4,039 million (2008: $1,928 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a loss of $345 million (2008: $260 million loss) for the Group and a $24 million loss (2008: $10 million loss) for the Company and the change for the current year is a loss of $216 million (2008: $104 million loss) for the Group and $14 million loss (2008: $10 million loss) for the Company.

The changes in fair value of the designated loans attributable to changes in credit risk have been calculated by determining the changes in credit spreads above the market interest rates, established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risks.

17 Loans and advances

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Overdrafts	**16,196**	18,863	**7,039**	7,005
Credit card outstandings	**7,338**	7,575	**5,325**	5,249
Asset and lease financing	**17,350**	18,498	**13,860**	13,370
Housing loans	**202,538**	199,749	**158,201**	151,866
Other term lending	**100,258**	106,245	**73,769**	74,500
Other lending	**8,288**	8,260	**7,091**	5,768
Total gross loans and advances	**351,968**	359,190	**265,285**	257,758
Deduct:				
Unearned income and deferred net fee income	**(2,793)**	(3,152)	**(2,149)**	(2,262)
Provision for doubtful debts (refer to note 18)	**(4,401)**	(2,963)	**(3,471)**	(2,246)
Total net loans and advances	**344,774**	353,075	**259,665**	253,250

As at 30 September 2009, there was $6,283 million (2008: $9,217 million) of loans sold or transferred within the Group under external securitisation programs that do not qualify for derecognition from the balance sheet of the Company and Group. The loans do not qualify for derecognition because the Company and Group remain exposed to the risks and rewards of ownership on an ongoing basis. The Company and Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated into the Group.

The carrying amount of the associated liability within the Group is $5,986 million (2008: $9,037 million).

Investment in finance lease receivables

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Due within 1 year	**3,472**	3,583	**2,354**	2,736
Due within 1 - 5 year(s)	**5,340**	5,942	**3,877**	4,772
Due after 5 years	**1,335**	1,690	**113**	129
Total investment in finance lease receivables	**10,147**	11,215	**6,344**	7,637

Investment in finance lease receivables net of unearned income

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Due within 1 year	**3,015**	2,682	**1,969**	1,931
Due within 1 - 5 year(s)	**4,825**	4,771	**3,456**	3,725
Due after 5 years	**1,325**	1,662	**105**	105
Total investment in finance lease receivables, net of unearned income	**9,165**	9,115	**5,530**	5,761

Maximum exposure to credit risk

The amounts disclosed are the maximum exposure to credit risk of "Loans and advances", before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements set out in *note 43*. For financial assets recognised on the balance sheet, the 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.

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; and
- loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

17 Loans and advances (continued)

Distribution of loans and advances by credit quality

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2009 $m	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Gross loans and advances:								
Neither past due nor impaired	**136,404**	148,278	**197,080**	194,166	**107,805**	109,650	**143,322**	135,652
Past due but not impaired	**5,706**	5,704	**7,644**	8,893	**3,941**	3,366	**6,401**	7,565
Impaired	**4,333**	1,619	**801**	530	**3,132**	1,070	**684**	455
Total gross loans and advances	**146,443**	155,601	**205,525**	203,589	**114,878**	114,086	**150,407**	143,672

Credit quality of loans and advances

The Group has an internally developed credit rating system that uses data drawn from a number of sources to assess the potential risk in lending to the Bank's customers. The Group has a single common masterscale across all (non-retail and retail) counterparties for Probability of Default. This probability of default masterscale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post default) grades. Impaired assets consist of retail loans (excluding credit card loans and 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 90 days and there is sufficient doubt about the ultimate collectibility of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired when they become 180 days past due (if not written off).

Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's standard credit rating. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

The table below presents the analysis of credit quality of loans and advances that are neither past due nor impaired:

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2009 $m	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Senior investment grade	**52,537**	64,037	**183,245**	179,098	**46,369**	55,438	**133,943**	126,576
Investment grade	**48,219**	47,942	**5,650**	6,164	**37,836**	33,116	**4,745**	4,661
Sub-investment grade	**35,648**	36,299	**8,185**	8,904	**23,600**	21,096	**4,634**	4,415
Total loans and advances neither past due nor impaired	**136,404**	148,278	**197,080**	194,166	**107,805**	109,650	**143,322**	135,652

Senior investment grade: Broadly corresponds with Standard & Poor's ratings of AAA to A-.
Investment grade: Broadly corresponds with Standard & Poor's ratings of BBB+ to BBB-.
Sub-investment grade: Broadly corresponds with BB+ or worse.

Renegotiated Loans:
2009: $384 million (2008: nil) of loans that would be past due or impaired have had their terms renegotiated.

Loans and advances which were past due but not impaired

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2009 $m	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
1 to 7 day(s) past due	**3,574**	3,460	**3,459**	4,620	**2,651**	2,339	**3,242**	4,325
8 to 29 days past due	**683**	1,045	**1,509**	1,664	**343**	412	**1,202**	1,314
30 to 59 days past due	**495**	555	**930**	1,085	**392**	279	**681**	753
60 to 89 days past due	**166**	287	**400**	375	**120**	149	**266**	281
Past due over 90 days	**788**	357	**1,346**	1,149	**435**	187	**1,010**	892
Total loans and advances past due but not impaired	**5,706**	5,704	**7,644**	8,893	**3,941**	3,366	**6,401**	7,565

Loans and advances that are past due but are not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

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 sectors 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. *Refer to note 43 for a disclosure of industry concentrations of assets.*

18 Provisions for doubtful debts

	Group		Company	
	2009	2008	**2009**	2008
	$m	$m	**$m**	$m
Specific provision for doubtful debts	**1,453**	645	**1,186**	614
Collective provision for doubtful debts	**2,948**	2,318	**2,285**	1,632
Total provision for doubtful debts	**4,401**	2,963	**3,471**	2,246

	2009				
	Specific				
Group	**Non-retail**	**Retail**	**Total**	**Collective**	**Total**
Balance at beginning of year	**512**	**133**	**645**	**2,318**	**2,963**
Transfer to/(from) specific/collective provision	**2,332**	**643**	**2,975**	**(2,975)**	**-**
Bad debts recovered	**7**	**158**	**165**	**-**	**165**
Bad debts written off	**(1,510)**	**(772)**	**(2,282)**	**-**	**(2,282)**
Charge to income statement[1]	**-**	**-**	**-**	**3,763**	**3,763**
Foreign currency translation and other adjustments	**(48)**	**(2)**	**(50)**	**(158)**	**(208)**
Balance at end of year	**1,293**	**160**	**1,453**	**2,948**	**4,401**

[1] *Excludes $52 million of impairment charges on conduit assets classified as Investments - held to maturity. Refer to note 14.*

	2008				
	Specific				
Group	Non-retail	Retail	Total	Collective	Total
Balance at beginning of year	236	71	307	1,800	2,107
Acquisition of controlled entities	5	-	5	36	41
Transfer to/(from) specific/collective provision	716	486	1,202	(1,202)	-
Bad debts recovered	23	169	192	-	192
Bad debts written off	(458)	(594)	(1,052)	-	(1,052)
Charge to income statement[1]	-	-	-	1,692	1,692
Foreign currency translation and other adjustments	(10)	1	(9)	(8)	(17)
Balance at end of year	512	133	645	2,318	2,963

[1] *Excludes $1,011 million of impairment charges on conduit assets classified as Investments - held to maturity. Refer to note 14.*

	2009				
	Specific				
Company	**Non-retail**	**Retail**	**Total**	**Collective**	**Total**
Balance at beginning of year	**500**	**114**	**614**	**1,632**	**2,246**
Transfer to/(from) specific/collective provision	**1,598**	**340**	**1,938**	**(1,938)**	**-**
Bad debts recovered	**7**	**62**	**69**	**-**	**69**
Bad debts written off	**(872)**	**(406)**	**(1,278)**	**-**	**(1,278)**
Charge to income statement[1]	**-**	**-**	**-**	**2,631**	**2,631**
Foreign currency translation and other adjustments	**(157)**	**-**	**(157)**	**(40)**	**(197)**
Balance at end of year	**1,076**	**110**	**1,186**	**2,285**	**3,471**

[1] *Excludes $52 million of impairment charges on intercompany loans to securitisation conduits.*

	2008				
	Specific				
Company	Non-retail	Retail	Total	Collective	Total
Balance at beginning of year	178	68	246	1,156	1,402
Transfer to/(from) specific/collective provision	468	307	775	(775)	-
Bad debts recovered	9	41	50	-	50
Bad debts written off	(162)	(302)	(464)	-	(464)
Charge to income statement[1]	-	-	-	1,247	1,247
Foreign currency translation and other adjustments	7	-	7	4	11
Balance at end of year	500	114	614	1,632	2,246

[1] *Excludes $1,011 million of impairment charges on intercompany loans to securitisation conduits.*

19 Asset quality disclosures

The following table provides an analysis of the asset quality of the Group's loans and advances. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2009 $m	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Net impaired assets								
Gross impaired assets(1)(2)(3)	**4,699**	1,619	**801**	530	**3,132**	1,070	**684**	455
Specific provision for doubtful debts(4)	**(1,391)**	(512)	**(160)**	(133)	**(1,076)**	(500)	**(110)**	(114)
Net impaired assets	**3,308**	1,107	**641**	397	**2,056**	570	**574**	341

(1) *Impaired assets consist of retail loans (excluding credit card loans and 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 90 days and there is sufficient doubt about the ultimate collectibility of principal and interest, and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired loans when they become 180 days past due (if not written off).*

(2) *Gross impaired assets include $366 million of gross impaired fair value assets. Whilst not included above, the value was $90 million for September 2008.*

(3) *Gross impaired assets includes $384 million of restructured loans representing facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but excludes $312 million of facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty.*

(4) *Specific provision for doubtful debts for 30 September 2009 include $98 million of specific provisions on impaired fair value assets. Whilst not included above, the value was $36 million for 30 September 2008.*

The following table provides additional information regarding non-impaired assets past due 90 days or more and fair value of security.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Total non-impaired assets past due 90 days or more with adequate security	**1,905**	1,259	**1,306**	930
Total non-impaired assets portfolio facilities past due 90 to 180 days	**229**	247	**139**	149
Fair value of security in respect of impaired assets(1)	**1,930**	851	**1,510**	591

(1) *Fair value of security is the amount for which that security could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. Amounts of security held in excess of the outstanding balance of individual impaired assets are not included in this table.*

Collateral and other credit enhancements obtained

Generally, 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 its balance sheet.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for its own business use.

Notes to the financial statements

20 Property, plant and equipment

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Land and buildings(1)				
Freehold				
At cost (acquired subsequent to previous valuation date)	**30**	126	**-**	-
At directors' valuation	**238**	219	**15**	15
Leasehold				
At cost (acquired subsequent to previous valuation date)	**9**	27	**-**	-
At directors' valuation	**10**	-	**-**	-
Deduct: Accumulated depreciation on buildings	**(3)**	(24)	**-**	-
	284	348	**15**	15
Leasehold improvements				
At cost	**1,338**	1,278	**971**	874
Deduct: Accumulated amortisation	**(661)**	(630)	**(468)**	(437)
Deduct: Accumulated impairment losses	**(2)**	(2)	**-**	-
	675	646	**503**	437
Furniture, fixtures and fittings and other equipment				
At cost	**703**	747	**191**	156
Deduct: Accumulated depreciation and amortisation	**(422)**	(462)	**(126)**	(116)
Deduct: Accumulated impairment losses	**(3)**	(6)	**-**	-
	278	279	**65**	40
Data processing equipment(2)				
At cost	**1,130**	1,149	**848**	751
Under finance lease	**102**	107	**95**	95
Deduct: Accumulated depreciation and amortisation	**(897)**	(925)	**(675)**	(590)
	335	331	**268**	256
Leased assets held as lessor				
At cost	**158**	67	**61**	60
Deduct: Accumulated amortisation	**(14)**	(10)	**(10)**	(5)
	144	57	**51**	55
Total property, plant and equipment	**1,716**	1,661	**902**	803

(1) *Included within land and buildings are freehold and leasehold land and buildings that are carried at directors' valuation. Had these land and buildings been recognised under the cost model, the carrying amount would have been:*

Land and buildings under the cost model	***176***	*257*	***1***	*1*

(2) *Net carrying value of assets under finance lease comprises the following:*

Data processing equipment	***55***	*70*	***54***	*70*

Reconciliations of movements in property, plant and equipment

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Land and buildings				
Balance at beginning of year	**348**	354	**15**	24
Additions from the acquisition of controlled entities and business combinations	**18**	69	**-**	-
Additions	**18**	53	**-**	2
Disposals	**(44)**	(101)	**-**	(9)
Net amount of revaluation increments/(decrements) to asset revaluation reserve	**3**	(9)	**-**	-
Depreciation	**(9)**	(10)	**-**	(2)
Impairment losses recognised	**(19)**	(1)	**-**	-
Foreign currency translation adjustments	**(31)**	(7)	**-**	-
Balance at end of year	**284**	348	**15**	15
Leasehold improvements				
Balance at beginning of year	**646**	571	**437**	377
Additions	**163**	166	**125**	115
Disposals	**(22)**	(6)	**(6)**	(7)
Amortisation	**(88)**	(82)	**(53)**	(48)
Impairment losses recognised	**-**	(2)	**-**	-
Foreign currency translation adjustments	**(24)**	(1)	**-**	-
Balance at end of year	**675**	646	**503**	437

20 Property, plant and equipment (continued)

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**279**	202	**40**	37
Additions from the acquisition of controlled entities and business combinations	**8**	8	**-**	-
Additions	**125**	130	**38**	19
Disposals	**(62)**	(17)	**(1)**	(6)
Depreciation and amortisation	**(46)**	(39)	**(12)**	(10)
Foreign currency translation adjustments	**(26)**	(5)	**-**	-
Balance at end of year	**278**	279	**65**	40
Data processing equipment				
Balance at beginning of year	**331**	293	**256**	208
Additions from the acquisition of controlled entities and business combinations	**-**	4	**-**	-
Additions	**165**	197	**132**	165
Disposals	**(2)**	(18)	**(1)**	(11)
Depreciation and amortisation	**(152)**	(142)	**(119)**	(106)
Foreign currency translation adjustments	**(7)**	(3)	**-**	-
Balance at end of year	**335**	331	**268**	256
Leased assets held as lessor				
Balance at beginning of year	**57**	538	**55**	395
Additions	**99**	10	**2**	10
Disposals	**(2)**	(452)	**-**	(322)
Depreciation	**(9)**	(11)	**(5)**	(3)
Impairment losses recognised	**-**	(28)	**-**	(27)
Foreign currency translation adjustments	**(1)**	-	**(1)**	2
Balance at end of year	**144**	57	**51**	55

21 Investments in controlled entities

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Investments in controlled entities				
At cost	**-**	-	**15,624**	15,965
Deduct: Provision for diminution in value	**-**	-	**(178)**	(165)
Total investments in controlled entities	**-**	-	**15,446**	15,800

22 Goodwill and other intangible assets

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Goodwill				
At cost	**5,182**	5,227	**-**	-
Total goodwill	**5,182**	5,227	**-**	-
Internally generated software[(1)]				
At cost	**1,762**	1,684	**1,073**	932
Deduct: Accumulated amortisation	**(890)**	(817)	**(628)**	(494)
Deduct: Accumulated impairment losses	**(38)**	(38)	**-**	-
Total internally generated software	**834**	829	**445**	438
Acquired software[(1)]				
At cost	**421**	443	**304**	302
Deduct: Accumulated amortisation	**(321)**	(309)	**(229)**	(201)
Total acquired software	**100**	134	**75**	101
Other acquired intangible assets				
At cost	**189**	187	**-**	-
Deduct: Accumulated amortisation	**(62)**	(42)	**-**	-
Total other acquired intangible assets	**127**	145	**-**	-
Total goodwill and other intangible assets	**6,243**	6,335	**520**	539

22 Goodwill and other intangible assets (continued)

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Reconciliation of movements in goodwill and other intangible assets				
Goodwill				
Balance at beginning of year	**5,227**	4,434	**-**	-
Additions from the acquisition of controlled entities and business combinations	**24**	782	**-**	-
Foreign currency translation adjustments	**(69)**	11	**-**	-
Balance at end of year	**5,182**	5,227	**-**	-
Internally generated software[1]				
Balance at beginning of year	**829**	772	**438**	383
Additions from internal development	**342**	268	**141**	164
Disposals and write-offs	**(64)**	-	**-**	-
Amortisation	**(217)**	(197)	**(134)**	(109)
Impairment losses recognised	**-**	(4)	**-**	-
Foreign currency translation adjustments	**(56)**	(10)	**-**	-
Balance at end of year	**834**	829	**445**	438
Acquired software[1]				
Balance at beginning of year	**134**	95	**101**	60
Additions	**19**	86	**9**	76
Disposals and write-offs	**(4)**	(6)	**-**	(6)
Amortisation	**(45)**	(40)	**(34)**	(29)
Foreign currency translation adjustments	**(4)**	(1)	**(1)**	-
Balance at end of year	**100**	134	**75**	101
Other acquired intangible assets				
Balance at beginning of year	**145**	67	**-**	-
Additions	**-**	4	**-**	-
Additions from the acquisition of controlled entities and business combinations	**8**	83	**-**	-
Disposals and write-offs	**(1)**	(1)	**-**	-
Amortisation	**(18)**	(8)	**-**	-
Foreign currency translation adjustments	**(7)**	-	**-**	-
Balance at end of year	**127**	145	**-**	-

(1) *Comparative amounts have been reclassified to accord with changes made to presentation in 2009.*

Impairment and cash generating units

For the purposes of undertaking impairment testing, cash generating units (CGUs) are identified. CGUs are 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.

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on three year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The key assumptions in determining the recoverable amount of CGUs to which goodwill or indefinite life intangible assets has been allocated are as follows by Geographic region:

Geographic	Goodwill at cost 2009 $m	Goodwill at cost 2008 $m	Discount rate[1] 2009 %	Discount rate[1] 2008 %	Terminal value growth rate[2] 2009 %	Terminal value growth rate[2] 2008 %
Australia	**3,754**	3,716	**10.2%**	11.2%	**5.0%**	5.5%
United Kingdom	**457**	494	**9.4%**	9.9%	**4.5%**	5.0%
New Zealand	**264**	264	**12.3%**	11.3%	**4.5%**	5.5%
United States	**707**	753	**11.3%**	9.2%	**5.4%**	4.5%

(1) *The discount rate reflects the market determined, risk-adjusted, discount rate which was adjusted for specific risks relating to the CGUs and the countries in which they operate.*

(2) *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.*

23 Deferred tax assets

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Deferred tax assets	**3,272**	2,851	**2,212**	1,537
Deferred tax assets				
Life company statutory funds	**545**	920	**-**	-
Specific provision for doubtful debts	**428**	304	**352**	258
Collective provision for doubtful debts	**777**	605	**660**	463
Employee entitlements	**257**	237	**204**	195
Tax losses	**224**	179	**153**	74
Pension liabilities	**158**	3	**-**	-
Other	**883**	603	**843**	547
Total deferred tax assets	**3,272**	2,851	**2,212**	1,537
Deferred tax asset amounts recognised in the income statement				
Life company statutory funds	**-**	844	**-**	-
Provision for doubtful debts	**310**	201	**283**	185
Employee entitlements	**3**	(42)	**11**	(18)
Tax losses	**96**	131	**106**	61
Pension liabilities	**(1)**	(1)	**(1)**	(1)
Other	**249**	322	**100**	320
Total deferred tax asset amounts recognised in the income statement	**657**	1,455	**499**	547
Deferred tax asset amounts recognised in equity				
Available for sale reserve	**(13)**	-	**-**	-
Cash flow hedge reserve	**100**	-	**100**	-
Equity-based payments reserve	**6**	(12)	**6**	(12)
Retained profits	**291**	(19)	**(6)**	(7)
Total deferred tax asset amounts recognised in equity	**384**	(31)	**100**	(19)
Total deferred tax asset amounts recognised during the year	**1,041**	1,424	**599**	528

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:

Capital gains tax losses	**813**	806	**758**	739
Income tax losses	**4**	9	**-**	-
Temporary differences	**27**	14	**-**	-

24 Other assets

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Accrued interest receivable	**2,657**	4,000	**1,767**	2,066
Prepayments	**201**	170	**64**	79
Receivables[(1)]	**2,773**	6,113	**1,863**	5,793
Other life insurance assets	**377**	224	**-**	-
Defined benefit pension scheme assets[(2)]	**22**	627	**9**	23
Investment properties carried at fair value	**25**	412	**-**	-
Other	**3,505**	1,872	**1,732**	581
Total other assets	**9,560**	13,418	**5,435**	8,542

[(1)] *Included within this amount is $1,833 million within the Group (2008: $5,118 million) and $1,833 million (2008: $5,118 million) within the Company with respect to the principal receivable on cross currency swaps of the Group and the Company.*

[(2)] *Refer to note 32 for detailed disclosures.*

25 Other financial liabilities at fair value

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Deposits and other borrowings				
On-demand and short-term deposits	**404**	361	**-**	-
Certificates of deposit	**2,435**	3,211	**292**	-
Term deposits	**2,353**	4,167	**968**	2,063
Borrowings	**5,016**	6,829	**-**	-
Bonds, notes and subordinated debt	**6,433**	6,632	**-**	-
Securities sold short	**2,138**	2,163	**2,138**	2,163
Other financial liabilities	**2,277**	304	**129**	116
Fair value adjustment	**255**	(83)	**144**	(17)
Total other financial liabilities at fair value	**21,311**	23,584	**3,671**	4,325

Where a liability is held at fair value, the movement in fair value attributable to changes in the Group's own credit quality is calculated through reference to an observable market rate where available or the derivation of a credit adjustment based upon observable market inputs. This adjustment to the credit quality of the liability is then applied to the carrying value of the liability held at fair value.

Bonds, notes and subordinated debt are held at fair value (designated at initial recognition) where an accounting mismatch is significantly reduced or eliminated that would occur if the financial liability was measured on another basis.

The changes in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss for the year of $100 million (2008: $121 million gain) for the Group and nil (2008: nil) for the Company. The cumulative change in fair value attributable to changes in credit risk amounts to a gain of $31 million (2008: $131 million gain) for the Group and nil (2008: nil) for the Company. The carrying amount at 30 September 2009 and 30 September 2008 was equal to the contractual amount at maturity for both the Group and the Company.

The change in fair value attributable to changes in credit risk has been calculated by reference to the change in the credit spread above the observable benchmark market interest rates.

26 Deposits and other borrowings

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Deposits				
Deposits not bearing interest	**14,309**	12,457	**11,430**	9,505
On-demand and short-term deposits	**125,684**	116,030	**88,365**	77,492
Certificates of deposit	**64,392**	73,757	**58,737**	69,436
Term deposits	**115,294**	95,898	**85,989**	65,981
Securities sold under agreements to repurchase	**1,283**	2,286	**1,283**	2,285
Borrowings	**15,226**	27,038	**5,279**	10,245
Total deposits and other borrowings	**336,188**	327,466	**251,083**	234,944

27 Life policy liabilities

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**5,486**	5,590	**-**	-
Value of future expenses	**1,688**	1,912	**-**	-
Future charges for acquisition costs	**(49)**	(53)	**-**	-
Value of future revenues	**(8,051)**	(8,729)	**-**	-
Total best estimate liabilities for life insurance contracts	**(926)**	(1,280)	**-**	-
Value of future profits				
Value of policyholder bonuses	**365**	423	**-**	-
Value of future shareholder profit margins	**1,927**	2,393	**-**	-
Total value of future profits	**2,292**	2,816	**-**	-
Unvested policyholder benefits	**148**	149	**-**	-
Net policy liabilities for life insurance contracts	**1,514**	1,685	**-**	-
Policy liabilities ceded under reinsurance	**155**	97	**-**	-
Gross policy liabilities for life insurance contracts	**1,669**	1,782	**-**	-
Life investment contracts				
Life investment contract liabilities	**45,645**	44,368	**-**	-
Total life policy liabilities	**47,314**	46,150	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *note 51*. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund *(refer to note 1(bb))*.

In respect of life insurance contracts with a discretionary participating feature, there are $1,482 million (2008: $1,517 million) of liabilities that relate to guarantees. In respect of investment contracts, there are $2,455 million (2008: $2,222 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group 2009 $m	Group 2008 $m
Life insurance contract liabilities		
Balance at beginning of year	**1,782**	2,162
(Decrease)/increase reflected in the income statement	**(113)**	(380)
Balance at end of year	**1,669**	1,782
Life investment contract policy liabilities		
Balance at beginning of year	**44,368**	50,935
Increase/(decrease) reflected in the income statement	**546**	(7,996)
Premiums recognised in policy liabilities	**7,260**	8,809
Claims recognised in policy liabilities	**(6,529)**	(7,380)
Balance at end of year	**45,645**	44,368
Total gross policy liabilities at end of year	**47,314**	46,150
Liabilities ceded under reinsurance		
Balance at beginning of year	**(97)**	(95)
Increase in reinsurance assets reflected in the income statement	**(58)**	(2)
Balance at end of year[(1)]	**(155)**	(97)
Net policy liabilities at end of year	**47,159**	46,053

(1) *The $155 million (2008: $97 million) reinsurance balance is included within "Other assets".*

28 Current and deferred tax liabilities

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Current tax liabilities	**382**	25	**-**	7
Deferred tax liabilities	**793**	702	**594**	136
Total income tax liabilities	**1,175**	727	**594**	143
Deferred tax liabilities				
Depreciation	**118**	276	**(103)**	(78)
Life company statutory funds	**4**	23	**-**	-
Pension assets	**7**	21	**3**	7
Other	**664**	382	**694**	207
Total deferred tax liabilities	**793**	702	**594**	136
Deferred tax liability amounts recognised in the income statement				
Depreciation	**(11)**	12	**(26)**	(2)
Life company statutory funds	**621**	(552)	**-**	-
Pension assets	**(1)**	(27)	**-**	(25)
Other	**478**	51	**480**	25
Total deferred tax liability amounts recognised in the income statement	**1,087**	(516)	**454**	(2)
Deferred tax liability amounts recognised in equity				
Available for sale reserve	**(3)**	4	**1**	-
Cash flow hedge reserve	**101**	(111)	**33**	(128)
Foreign currency translation reserve	**4**	-	**-**	-
Asset revaluation reserve	**1**	-	**-**	-
Retained profits	**(16)**	(20)	**(4)**	-
Total deferred tax liability amounts recognised in equity	**87**	(127)	**30**	(128)
Total deferred tax liability amounts recognised during the year	**1,174**	(643)	**484**	(130)

The amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is nil (2008: $75 million).

29 Provisions

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Employee entitlements	**924**	768	**772**	681
Operational risk event losses	**227**	74	**211**	46
Restructuring costs	**31**	48	**27**	44
Other	**373**	469	**54**	141
Total provisions	**1,555**	1,359	**1,064**	912

Reconciliations of movements in provisions

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Employee entitlements				
Balance at beginning of year	**768**	835	**681**	749
Provisions made	**636**	671	**460**	408
Payments out of provisions	**(465)**	(748)	**(348)**	(482)
Provision no longer required and net foreign currency movements	**(15)**	10	**(21)**	6
Balance at end of year	**924**	768	**772**	681
Operational risk event losses				
Balance at beginning of year	**74**	92	**46**	50
Provisions made	**209**	45	**195**	33
Payments out of provisions	**(53)**	(62)	**(30)**	(37)
Provision no longer required and net foreign currency movements	**(3)**	(1)	**-**	-
Balance at end of year	**227**	74	**211**	46
Restructuring costs				
Balance at beginning of year	**48**	77	**44**	73
Payments out of provisions	**(20)**	(28)	**(18)**	(28)
Provision no longer required and net foreign currency movements	**3**	(1)	**1**	(1)
Balance at end of year	**31**	48	**27**	44
Other				
Balance at beginning of year	**469**	355	**141**	89
Provisions made	**366**	412	**121**	145
Payments out of provisions	**(457)**	(285)	**(207)**	(83)
Provision no longer required and net foreign currency movements	**(5)**	(13)	**(1)**	(10)
Balance at end of year	**373**	469	**54**	141

Other provisions include provisions for establishment of new business initiatives, government guarantee fees, legal and other business claims, provisions for indemnities granted for controlled entities sold, provisions for redemption of National Gold Rewards points and other smaller items.

30 Bonds, notes and subordinated debt

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Medium-term notes	**70,421**	69,643	**65,907**	64,247
Other senior notes	**10,140**	14,496	**3,581**	4,833
Subordinated medium-term notes	**9,937**	13,873	**9,066**	12,868
Other subordinated notes	**411**	413	**-**	-
Total bonds, notes and subordinated debt	**90,909**	98,425	**78,554**	81,948
Net discounts	**(117)**	(186)	**(116)**	(185)
Total net bonds, notes and subordinated debt	**90,792**	98,239	**78,438**	81,763

Medium-term notes

The Group operates a number of medium-term note programs:

- under the discontinued Euro medium-term note program of the Company, notes could have been issued up to an aggregate amount of US$25,000 million for terms of three months or more. No further issues are envisaged under this program as it has been replaced by the Global medium-term note program which permits the Company, Clydesdale Bank PLC or BNZ International Funding Limited to issue notes. Outstanding under this program are $996 million (2008: $2,928 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 1.00% - 4.70% (2008: 1.00% - 4.75%), $24 million (2008: $25 million) fixed rate notes maturing greater than 5 years with a fixed rate of 3.89% (2008: 3.89%) and $83 million (2008: $2,502 million) floating rate notes maturing between 0 to 5 years;
- under the Domestic debt issuance program of the Company, the aggregate issue amount is not limited. Outstanding under this program are $11,552 million (2008: $5,232 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 4.25% - 8.50% (2008: 5.50% - 8.50%), $9,206 million (2008: $6,450 million) floating rate notes maturing between 0 to 5 years and $57 million (2008: $40 million) floating rate notes maturing greater than 5 years;
- under the Global medium-term note program of the Company, Clydesdale Bank PLC and BNZ International Funding Limited notes may be issued up to an aggregate amount of US$100,000 million. Outstanding under this program are $19,787 million (2008: $15,924 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 0.01% - 8.00% (2008: 0.01% - 9.14%), $5,792 million (2008: $3,201 million) fixed rate notes maturing greater than 5 years with fixed rates between 1.93% - 6.25% (2008: 1.93% - 6.25%), $21,017 million (2008: $30,859 million) floating rate notes maturing between 0 to 5 years and $77 million (2008: $176 million) floating rate notes maturing greater than 5 years; and
- the Group has conducted a number of stand-alone medium-term note issues: $880 million (2008: $847 million) fixed rate notes maturing between 0 to 5 years with fixed rates between 1.70% - 8.43% (2008: 1.70% - 8.43%) and $950 million (2008: $1,459 million) floating rate notes maturing between 0 to 5 years.

The Group has designated certain debt issues as being carried at fair value, which are included within other financial liabilities at fair value on the balance sheet; refer to *note 25* for further information. At 30 September 2009, these debt issues totalling $6,433 million (2008: $6,632 million) have been issued under the Global medium-term note program by BNZ International Funding Limited and the Domestic debt issuance program of BNZ.

Other senior notes

The Group issued a number of other senior notes under stand-alone issues or programs:

- under the Extendible note program of the Company, notes may be issued up to an aggregate amount of US$10,000 million. Outstanding under this program are $3,581 million (2008: $904 million) maturing between 0 to 5 years, nil (2008: $3,929 million) maturing greater than 5 years, including $3,581 million (2008: $904 million) not being extended by investors;
- National RMBS Trust mortgage backed floating rate notes of $1,805 million (2008: $2,709 million) maturing up to 2037;
- Medfin Trust lease backed floating rate notes of $18 million (2008: $30 million) maturing between 2009 and 2012;
- TSL Trust floating rate notes of $20 million (2008: $20 million) maturing up to 2020;
- under the National Wealth Management Holdings Limited medium-term note program, $158 million (2008: $151 million) fixed rate note maturing in 2011 with fixed rate of 6.50% (2008: 6.50%) and $300 million (2008: $300 million) floating rate notes maturing between 2010 and 2011; and
- Clydesdale RMBS Trust floating rate notes of $4,258 million (2008: $6,454 million) maturing up to 2013.

Subordinated notes

Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes with an original maturity of at least five years constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

Subordinated medium-term notes

Subordinated notes have been issued under the Euro medium-term note program, US medium-term note program, Domestic debt issuance program and the Global medium-term note program of the Group:

- under the Euro medium-term note program of the Company, $2,193 million (2008: $2,408 million) fixed rate notes maturing between 2015 and 2016 with fixed rates between 3.88% - 5.38% (2008: 3.88% - 5.38%) are outstanding and nil (2008: $2,010 million) floating rate notes;
- under the previously registered US medium-term note program of the Company, $1,023 million (2008: $1,213 million) fixed rate notes maturing between 0 to 5 years with a fixed rate of 8.60% (2008: 8.60%) are outstanding;
- under the Domestic debt issuance program of the Company, $300 million (2008: $756 million) fixed rate notes maturing 2017 with fixed rate of 7.25% (2008: 6.50% - 7.25%) and $1,200 million (2008: $1,420 million) floating rate notes maturing between 2017 and 2018 are outstanding;

30 Bonds, notes and subordinated debt (continued)

- under the Global medium-term note program, $2,826 million (2008: $3,100 million) fixed rate notes maturing between 2016 and 2023 with fixed rates between 4.55% - 7.13% (2008: 4.55% - 7.13%) and $2,238 million (2008: $2,793 million) floating rate notes maturing between 2016 and 2017 are outstanding; and
- the Group has conducted a number of stand-alone subordinated medium-term note issues: $57 million (2008: nil) fixed rate notes maturing between 0 to 5 years with a fixed rate of 5.47%, $40 million (2008: $108 million) fixed rate notes maturing greater than 5 years with a fixed rate of 7.50% (2008: 5.47% - 7.50%), $60 million (2008: $3 million) floating rate notes maturing between 0 to 5 years and nil (2008: $62 million) floating rate notes maturing greater than 5 years.

Other subordinated notes

The Group has issued a number of other subordinated notes under stand-alone issues or programs:

- under the National Wealth Management Holdings Limited medium-term note program, $214 million (2008: $204 million) fixed rate notes maturing in 2026 with fixed rate of 6.75% (2008: 6.75%) and $100 million (2008: $100 million) floating rate notes maturing 2026;
- Great Western Bank trust preferred fixed rate notes of nil (2008: $6 million) and floating rate notes of $64 million (2008: $103 million) maturing between 2033 and 2035; and
- Securitisation conduits' floating rate notes of $33 million maturing up to 2015.

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *note 11* for further information on the Group's trading and hedging derivative assets and liabilities.

Issued bonds, notes and subordinated debt (by currency):

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
AUD	**24,443**	16,070	**23,029**	14,476
USD	**25,274**	32,210	**22,744**	27,991
EUR	**21,286**	25,662	**18,148**	20,654
GBP	**9,648**	12,692	**4,376**	7,088
Other	**10,141**	11,605	**10,141**	11,554
Total bonds, notes and subordinated debt	**90,792**	98,239	**78,438**	81,763

Notes to the financial statements

31 Other debt issues

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Perpetual floating rate notes	**487**	609	**487**	609
Stapled Securities	**793**	297	**793**	297
National Capital Instruments	**664**	716	**-**	-
Capital Notes	**683**	-	**683**	-
Total other debt issues	**2,627**	1,622	**1,963**	906

Perpetual floating rate notes

On 9 October 1986, the Group issued US$250 million undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The notes are unsecured and have no final maturity. All or some of the notes may be redeemed at the option of the Company with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million undated subordinated floating rate notes, which were subsequently cancelled by the Group.

On 24 September 2008, the Group issued A$300 million Convertible Notes. The Group extended the terms of the Convertible Notes on 19 August 2009. The Convertible Notes continue to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day Bank Bill Swap Rate (BBSW). Subject to APRA approval, the notes are redeemable at the Group's option on or about 24 September 2010, or every monthly interest payment date thereafter. The notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2010 or every three months thereafter.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The notes are unsecured and all or some of them may be redeemed at the option of the Company with the prior consent of APRA.

Stapled Securities

On 24 September 2008, the Group issued A$300 million Stapled Securities (2008 Stapled Securities). The Group extended the terms of the 2008 Stapled Securities on 19 August 2009. The 2008 Stapled Securities are perpetual capital instruments. Each 2008 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 24 September 2010. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 24 September 2010.

On 30 September 2009, the Group issued A$500 million Stapled Securities (2009 Stapled Securities). The 2009 Stapled Securities are perpetual capital instruments. Each 2009 Stapled Security pays a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 30 December 2009, 30 March 2010 or every monthly distribution payment date thereafter. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 30 March 2010.

Capital Notes

On 24 September 2009, the Group issued US$600 million hybrid tier 1 Capital Notes. The Capital Notes are perpetual capital instruments. The Capital Notes initially carry a fixed distribution of 8.0% per annum, payable semi annually in arrears, from and including 24 September 2009 up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the seven year US Treasury benchmark rate of 3.06% (the base rate) plus an initial margin of 4.94%. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the notes are redeemable at the Group's option after seven years or on any interest payment date thereafter.

32 Defined benefit pension scheme assets and liabilities

The Group maintains several defined benefit superannuation plan and pension scheme arrangements within different geographies. Three of the plans are currently in actuarial surplus and two are in deficit. Surpluses and deficiencies depend on many diverse factors and can vary significantly over time having regard, for example, to movements in investment markets, future salary increases and changes in employment patterns. This note sets out the Group's position in relation to its defined benefit plans. Plans listed below show the position using the most recent information available.

(a) Superannuation plans

The Group's accounting policy for superannuation commitments is set out in *note 1(ee).* In 2009, the Group contributed to five material superannuation plans, four of which had a defined benefit section. The defined benefit section provides lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit pension plans have been closed to new members. The defined contribution section of any plan receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit sections only.

32 Defined benefit pension scheme assets and liabilities (continued)

(b) Balance sheet amounts

The amounts recognised in the Group's balance sheet are as follows:

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Net asset in the balance sheet				
Fair value of plan assets	**2,779**	7,334	**2,663**	3,043
Present value of funded obligations	**(2,758)**	(6,714)	**(2,655)**	(3,023)
Net asset before adjustment for contribution tax	**21**	620	**8**	20
Adjustment for contribution tax	**1**	7	**1**	3
Net asset in the balance sheet[1]	**22**	627	**9**	23
Net liability in the balance sheet				
Fair value of plan assets	**3,334**	-	**-**	-
Present value of partly funded obligations	**(3,918)**	-	**-**	-
Net liability in the balance sheet	**(584)**	-	-	-
Adjustment for contribution tax	**-**	-	-	-
Net liability in the balance sheet	**(584)**	-	-	-

(1) *Included within "Other assets" (refer to note 24).*

(c) Categories of plan assets

Set out below is the fair value of the Group's defined benefit pension plan asset allocation including the percentage of the total plan assets as at 30 September:

	Group				Company			
	2009		2008		**2009**		2008	
	$m	**%**	$m	%	**$m**	**%**	$m	%
Cash	**127**	**2.1**	185	2.5	**61**	**2.3**	61	2.0
Equity instruments	**3,354**	**54.9**	3,626	49.4	**1,548**	**58.1**	1,583	52.0
Debt instruments	**1,773**	**29.0**	2,440	33.3	**358**	**13.5**	496	16.3
Property	**579**	**9.4**	703	9.6	**416**	**15.6**	524	17.2
Other assets	**280**	**4.6**	380	5.2	**280**	**10.5**	379	12.5
Fair value of plan assets	**6,113**	**100.0**	7,334	100.0	**2,663**	**100.0**	3,043	100.0

The fair value of plan assets includes land and buildings occupied by the Group with a fair value of $45 million (2008: nil).

(d) Reconciliations

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Net asset in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year[1]	**(3,127)**	(7,549)	**(3,023)**	(3,195)
Current service cost	**(140)**	(196)	**(136)**	(133)
Interest cost	**(251)**	(477)	**(246)**	(237)
Actuarial gains	**633**	1,152	**641**	413
Benefits paid	**221**	412	**205**	254
Member contributions	**(95)**	(125)	**(96)**	(125)
Foreign currency translation adjustments	**1**	69	**-**	-
Balance at end of year	**(2,758)**	(6,714)	**(2,655)**	(3,023)
Reconciliation of the fair value of plan assets				
Balance at beginning of year[1]	**3,187**	8,049	**3,043**	3,287
Expected return on plan assets[2]	**250**	556	**242**	244
Actuarial losses	**(670)**	(1,151)	**(652)**	(421)
Contributions by Group companies	**179**	259	**173**	80
Benefits paid	**(221)**	(412)	**(205)**	(254)
Member contributions	**95**	125	**95**	125
Plan expenses	**(13)**	(10)	**(7)**	(6)
Contributions tax paid on period contributions by Group companies	**(27)**	(13)	**(26)**	(12)
Foreign currency translation adjustments	**(1)**	(69)	**-**	-
Balance at end of year	**2,779**	7,334	**2,663**	3,043

32 Defined benefit pension scheme assets and liabilities (continued)

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Net liability in the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year[(1)]	**(3,587)**	-	**-**	-
Current service cost	**(53)**	-	**-**	-
Interest cost	**(236)**	-	**-**	-
Actuarial losses	**(889)**	-	**-**	-
Benefits paid	**155**	-	**-**	-
Past service cost	**(8)**	-	**-**	-
Foreign currency translation adjustments	**700**	-	**-**	-
Balance at end of year	**(3,918)**	-	**-**	-
Reconciliation of the fair value of plan assets				
Balance at beginning of year[(1)]	**4,147**	**-**	**-**	**-**
Expected return on plan assets[(2)]	**293**	**-**	**-**	**-**
Actuarial losses	**(205)**	**-**	**-**	**-**
Contributions by Group companies	**67**	**-**	**-**	**-**
Benefits paid	**(155)**	**-**	**-**	**-**
Foreign currency translation adjustments	**(815)**	**-**	**-**	**-**
Effect of transfer from defined contribution scheme	**2**	**-**	**-**	**-**
Balance at end of year	**3,334**	-	**-**	-

(1) The portion of total defined benefit assets and obligations which relate to the Group's UK pension schemes, which have moved to a net liability position, have been moved to the net liability table.

(2) The actual return on plan assets for the Group was a reduction of $332 million (2008: $595 million reduction) and for the Company was a reduction of $410 million (2008: $177 million reduction).

	Group				
Historic summary	**2009 $m**	2008 $m	2007 $m	2006 $m	2005 $m
Plan assets	**6,113**	7,334	8,049	7,556	6,152
Plan obligation	**(6,676)**	(6,714)	(7,549)	(7,645)	(7,038)
(Deficit)/surplus	**(563)**	620	500	(89)	(886)
Plan assets - actuarial (losses)/gains	**(875)**	(1,151)	414	356	536
Plan obligations - actuarial gains/(losses)	**(256)**	1,152	45	(174)	(643)

(e) Amounts recognised in the income statement

The amounts recognised in the income statement are as follows:

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Current service cost	**193**	196	**136**	133
Interest cost	**487**	477	**246**	237
Expected return on plan assets	**(543)**	(556)	**(242)**	(244)
Plan expenses	**13**	10	**7**	6
Contributions tax expense	**27**	12	**26**	12
Past service cost	**8**	**-**	**-**	**-**
Effect of transfer from defined contribution scheme	**(2)**	-	**-**	-
Total defined benefit plan expense	**183**	139	**173**	144

AASB 119 "Employee Benefits" requires that where a superannuation fund has both defined benefit and defined contribution elements, the entire fund is treated as defined benefit. The total defined benefit plan expense shown above reflects the treatment of the Australian funds in this manner. However, in the income statement the defined benefit expense above is split to reflect separately the component that drives the expense and other elements of the pension arrangements. The total defined benefit plan expense shown above is split between superannuation cost - defined benefit plans and a portion of superannuation costs - defined contribution plans *(refer to note 5)* in the income statement.

The total cumulative amount of actuarial losses recognised directly in retained profits for the Group is $577 million (2008: $548 million gain) and for the Company is an actuarial gain of $71 million (2008: $84 million gain). Actuarial gains and losses are translated at the closing spot rate and have been grossed up for contribution taxes.

32 Defined benefit pension scheme assets and liabilities (continued)

(f) Principal actuarial assumptions

The investment policy and strategy for defined benefit plan assets are based on an expectation that equity securities will outperform debt securities over the long term. The composition of plan assets is broadly maintained at a ratio of approximately 2.5:1 allocation between equity and debt securities. By managing the composition of plan assets, the Group aims to minimise investment risk. The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the following year is $258 million. The Group's expected rate of return on defined benefit plan assets is determined by the plan assets' historical long-term investment performance, the current asset allocation and estimates of future long-term returns by asset class.

The assets of all the plans are held independently of the Group's assets in separate administered funds. Defined benefit schemes are valued every year by independent actuaries for accounting purposes using the projected unit credit method. The latest actuarial valuations were made by applying the following principal average actuarial assumptions at 30 September (weighted averages):

	Group	
	2009 %	2008 %
Discount rate (per annum)	**5.2**	6.4
Expected return on plan assets (per annum)	**7.0**	7.8
Rate of compensation increase (per annum)	**3.4**	3.8
Future pension increases (per annum)	**3.0**	3.2

Expected future lifetime at the age of 60

	Group			
	2009		2008	
	Australia / New Zealand years	**United Kingdom years**	Australia / New Zealand years	United Kingdom years
Male retired	**20.3**	**25.5**	20.3	25.5
Female retired	**24.8**	**27.3**	24.8	27.3
Male non-retired	**21.7**	**26.5**	21.7	26.5
Female non-retired	**25.4**	**28.2**	25.4	28.2

33 Other liabilities

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Accrued interest payable	**3,846**	5,582	**2,528**	3,540
Payables and accrued expenses	**1,404**	1,942	**800**	964
Notes in circulation	**2,121**	2,726	**-**	-
Other life insurance liabilities[1]				
Outstanding policy claims	**51**	54	**-**	-
Other	**91**	309	**-**	-
Other[2]	**6,508**	4,854	**5,737**	1,871
Total other liabilities	**14,021**	15,467	**9,065**	6,375

(1) *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to note 1(p)).*

(2) *Included within this amount is $4,745 million (2008: $2,530 million) within the Group and $4,599 million (2008: $2,530 million) within the Company with respect to the principal repayable on cross currency swaps of the Group and the Company.*

Notes to the financial statements

34 Contributed equity

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**17,867**	10,020	**17,995**	10,182
Ordinary shares, partly paid to 25 cents[(1)]	**-**	-	**-**	-
Issued and paid-up preference share capital				
BNZ Income Securities	**380**	380	**-**	-
BNZ Income Securities 2	**203**	-	**-**	-
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II	**1,014**	1,014	**1,014**	1,014
National Capital Instruments	**397**	397	**397**	397
	22,781	14,731	**21,351**	13,538

(1) Ordinary shares, partly paid to 25 cents have a total value of less than $1 million.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Reconciliation of movements in contributed equity				
Ordinary share capital				
Balance at beginning of year	**10,020**	8,110	**10,182**	7,898
Shares issued				
Dividend reinvestment plan	**1,540**	1,668	**1,540**	1,668
Exercised price: Executive share option plan no. 2	**-**	20	**-**	20
Shares issued under placement	**4,914**	-	**4,914**	-
Share purchase plan	**999**	-	**999**	-
Employee share savings plan	**7**	5	**7**	242
Debt conversion to equity	**-**	598	**-**	598
Vesting of issued equity-based payments	**267**	-	**267**	-
Net loss realised on treasury shares	**(114)**	(40)	**-**	-
Purchase and vesting of treasury shares	**234**	(341)	**86**	(244)
Balance at end of year	**17,867**	10,020	**17,995**	10,182

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

	Company	
	2009 No. '000	2008 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**1,717,627**	1,621,066
Shares issued		
Dividend reinvestment plan	**74,899**	60,395
Bonus share plan	**2,953**	2,590
Debt conversion to equity	**-**	25,450
Employee share plans	**9,701**	7,179
Exercised price: Executive share option plan no. 2	**4**	899
Shares issued under placement	**243,023**	-
Share purchase plan	**47,366**	-
Paying up of partly paid shares	**22**	48
	2,095,595	1,717,627
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**225**	273
Paying up of partly paid shares	**(22)**	(48)
	203	225
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,095,798**	1,717,852
Deduct: Treasury shares	**(47,629)**	(43,108)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,048,169**	1,674,744

34 Contributed equity (continued)

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Treasury shares				
Balance at beginning of year	**1,287**	906	**338**	94
Net loss realised on treasury shares	**114**	40	**-**	-
Purchase and vesting of treasury shares	**(234)**	341	**(86)**	244
Balance at end of year	**1,167**	1,287	**252**	338

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
BNZ Income Securities				
Balance at beginning of year	**380**	-	**-**	-
Issued during the year	**-**	380	**-**	-
Balance at end of year	**380**	380	**-**	-

On 28 March 2008, the Group raised $380 million through the issue by BNZ Income Securities Limited of 449,730,000 perpetual non-cumulative shares (BNZIS Shares) at NZ$1 each. Each BNZIS Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to but excluding, 28 March 2013, of 9.89% per annum. The dividend rate is reset on every fifth anniversary from the issue date.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities Limited has the right to acquire the BNZIS Shares for their issue price (plus any accrued distributions) on any dividend payment date on or after 28 March 2013, or at any time after the occurrence of certain specified events. The BNZIS Shares have no maturity date, are quoted on the NZDX, and on liquidation of BNZ Income Securities Limited will hold a right to participate in its surplus assets.

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
BNZ Income Securities 2				
Issued during the year	**203**	-	**-**	-
Balance at end of year	**203**	-	**-**	-

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding 30 June 2014, as 28 June 2014 is not a business day, of 9.10% per annum. The dividend rate is reset on every fifth anniversary from the issue date.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities 2 Limited has the right to acquire the BNZIS 2 Shares for their issue price (plus any accrued distributions) on any dividend payment date on or after 28 June 2014, or at any time after the occurrence of certain specified events. The BNZIS 2 Shares have no maturity date, are quoted on the NZDX, and on liquidation of BNZ Income Securities 2 Limited will hold a right to participate in its surplus assets.

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
National Income Securities				
Balance at beginning of year	**1,945**	1,945	**1,945**	1,945
Balance at end of year	**1,945**	1,945	**1,945**	1,945

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior 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, are quoted on the ASX and on a winding-up of the Company will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Trust Preferred Securities				
Balance at beginning of year	**975**	975	**-**	-
Balance at end of year	**975**	975	**-**	-

34 Contributed equity (continued)

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 consent of APRA, the Trust Preferred Securities may be redeemed by the issuer on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a 'make-whole' adjustment. In a winding-up of the Company, the Trust Preferred Securities will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Trust Preferred Securities II				
Balance at beginning of year	**1,014**	1,014	**1,014**	1,014
Balance at end of year	**1,014**	1,014	**1,014**	1,014

On 23 March 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 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 23 March 2015 equal to 5.486%. For all distribution periods ending after 23 March 2015, each Trust Preferred Security earns a non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month LIBOR.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed on or after 23 March 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the distributions for the last distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a 'make-whole' adjustment. In a winding-up of the Company, the Trust Preferred Securities will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
National Capital Instruments				
Balance at beginning of year	**397**	397	**397**	397
Balance at end of year	**397**	397	**397**	397

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 earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after 30 September 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016. In a winding-up of the Company, the Australian NCIs and (if issued) the Australian NCI preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

35 Reserves

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
General reserve	**1,009**	997	**5**	5
Asset revaluation reserve	**76**	76	**14**	14
Foreign currency translation reserve	**(2,525)**	(1,040)	**(180)**	(176)
Cash flow hedge reserve	**(142)**	(178)	**(326)**	(178)
Equity-based payments reserve	**560**	663	**560**	663
General reserve for credit losses	**-**	-	**-**	-
Available for sale investments reserve	**46**	31	**2**	17
Total reserves	**(976)**	549	**75**	345

Reconciliations of movements in reserves				
General reserve				
Balance at beginning of year	**997**	866	**5**	5
Transfer from retained profits	**12**	131	**-**	-
Balance at end of year	**1,009**	997	**5**	5
Asset revaluation reserve				
Balance at beginning of year	**76**	102	**14**	20
Revaluation of land and buildings	**3**	(9)	**-**	-
Tax on revaluation adjustments	**(1)**	3	**-**	-
Transfer to retained profits	**(2)**	(20)	**-**	(6)
Balance at end of year	**76**	76	**14**	14
Foreign currency translation reserve				
Balance at beginning of year	**(1,040)**	(860)	**(176)**	(120)
Currency translation adjustments	**(1,485)**	(180)	**(4)**	(56)
Balance at end of year	**(2,525)**	(1,040)	**(180)**	(176)
Cash flow hedge reserve				
Balance at beginning of year	**(178)**	197	**(178)**	187
Losses on cash flow hedging instruments	**(24)**	(445)	**(237)**	(419)
Losses/(gains) transferred to income statement	**66**	(94)	**23**	(105)
Tax on cash flow hedging instruments	**(6)**	164	**66**	159
Balance at end of year	**(142)**	(178)	**(326)**	(178)
Equity-based payments reserve				
Balance at beginning of year	**663**	451	**663**	451
Current period equity-based payments expense	**244**	224	**244**	224
Transfer of vested equity-based payments:				
Vesting of issued equity-based payments	**(267)**	-	**(267)**	-
Purchase and vesting of treasury shares	**(86)**	-	**(86)**	-
Tax on equity-based payments	**6**	(12)	**6**	(12)
Balance at end of year	**560**	663	**560**	663
General reserve for credit losses[1]				
Balance at beginning of year	**-**	325	**-**	541
Transfer to retained profits	**-**	(325)	**-**	(541)
Balance at end of year	**-**	-	**-**	-

[1] *From 1 July 2006, a general reserve for credit losses was established to align with APRA's proposed benchmark of 0.5% of collective provisions on a post tax basis to credit risk-weighted assets under Basel I. This reserve was reversed upon the Group becoming accredited under Basel II.*
The Group has been engaged in discussions with APRA in relation to the calculation of the general reserve for credit losses. This is an industry issue, and also foreshadows probable changes to loan loss methodology being deliberated by the International Accounting Standards Board. The calculation of the general reserve for credit losses is expected to be finalised by 31 December 2009, with an estimated reduction in the Group's Tier 1 capital ratio by approximately 10 to 12 basis points. A general reserve will be created through a deduction from retained earnings. This will not impact cash earnings, net profit or the Total Capital ratio.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Available for sale investments reserve				
Balance at beginning of year	**31**	(10)	**17**	(1)
Net revaluation (losses)/gains	**(18)**	(48)	**(71)**	16
Impairment transferred to income statement	**52**	93	**57**	2
Tax on available for sale investments reserve	**(19)**	(4)	**(1)**	-
Balance at end of year	**46**	31	**2**	17

36 Retained profits

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Balance at beginning of year	**17,510**	16,059	**14,689**	13,976
Adjustment from adoption of new accounting standard	**(49)**	-	**(49)**	-
Actuarial (losses)/gains on defined benefit pension plans	**(1,125)**	4	**(13)**	(8)
Tax on items taken directly to equity	**315**	4	**7**	1
Net profit attributable to members of the Company	**2,589**	4,536	**4,035**	3,388
Total available for appropriation	**19,240**	20,603	**18,669**	17,357
Transfer to general reserve	**(12)**	(131)	**-**	-
Transfer from asset revaluation reserve	**2**	20	**-**	6
Transfer from/(to) foreign currency translation reserve	**3**	-	**(42)**	-
Transfer from general reserve for credit losses	**-**	325	**-**	541
Dividends paid	**(2,978)**	(2,995)	**(3,009)**	(3,041)
Distributions on other equity instruments	**(245)**	(312)	**(116)**	(174)
Balance at end of year	**16,010**	17,510	**15,502**	14,689

37 Shares, performance options and performance rights

The Group's employee equity plans provide Company shares, performance options and performance rights to employees of the Group, and Company shares to non-executive directors. 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 under the terms of the plan (e.g. NZ staff share allocation plan, UK share incentive plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula used in calculating the price per share. Each plan provides that the total number of shares issued in the last five years under the Company's employee share, performance option or performance right plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, must not exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. The calculation does not include offers or grants made of shares, performance options or performance rights acquired as a result of an offer made to a person situated outside Australia at the time of the offer or offers which did not require disclosure under section 708 of the *Corporations Act* 2001 (Cth), otherwise than as a result of relief granted by ASIC. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration strategy in rewarding current and future contributions to the Group's performance and strengthening the link between value created for shareholders and rewards for employees.

The proposed changes to tax legislation in Australia (effective from 1 July 2009) have affected the structure of some offers, which are being reviewed to ensure that they continue to be valued by employees. Under the terms of most offers there is a minimum period during which the shares are held in trust and cannot be dealt with by the employee. There may be forfeiture conditions particular to each program as described below.

Salary sacrifice shares are allocated to United Kingdom and Australian employees when they nominate to contribute a portion of their gross salary to receive Company shares. Shares are allocated monthly under the UK program, and quarterly under the Australian program. The Australian program provides an effective discount of 5% on the share purchase price, up to a maximum amount of $1,500 per annum and these shares are subject to forfeiture on serious misconduct involving dishonesty. The Australian program was suspended in May 2009, and will be reconsidered once pending changes to taxation legislation in Australia are final.

Short-term incentives (STI) may be provided under the Up-to-Target, Above-Target or Exceptional Behaviour programs. Employees become eligible for these shares based on their individual or business performance (or both). Australian employees may be provided their Up-to-Target STI component in the form of shares, cash or superannuation, depending on employee preference. Employees were not able to express a preference for shares for their Up-To-Target STI component for the 2009 year as the program has been suspended and will be reconsidered once the new Australian tax legislation is final. Employees are generally required to take any Above-Target STI in Company shares for awards in excess of $500 (different limits may apply in countries outside Australia). In addition, shares may be offered to employees in the Australian Region who demonstrate exceptional behaviour.

Generally STI shares are forfeited if the employee is terminated for serious misconduct. Above-Target shares are forfeited during the first year and Exceptional Behaviour shares during the first three years after allocation if the employee resigns or fails to pass both quality gates (behaviour and compliance) in respect of their performance review at the end of the following financial year or is terminated for serious misconduct. *For further details on STI awards granted to the executive directors of the Company, refer to the Remuneration report.*

Commencement and recognition/retention shares respectively enable the buy-out of equity from previous employment, based on evidentiary information, for significant new hires or provide retention awards for key individuals in roles where retention is critical over a medium-term timeframe. The shares may be subject to individual and business performance hurdles including behaviour and compliance quality gates, regional return on equity (ROE) and cash earnings, and internal qualitative measures. The shares are subject to forfeiture, or staggered forfeiture, if the participant resigns or retires before specified key dates or key milestones are not achieved, or if the individual engages in a breach of the Company's Code of Conduct (or other applicable standards set from time to time) or in the event of misconduct.

37 Shares, performance options and performance rights (continued)

General employee shares up to a value of $1,000 of Company shares are offered to each eligible employee when the Group's performance is on target, measured against a scorecard of objectives for the financial year. These shares are held in trust restricted from dealing for three years and in Australia, the US and Asia are not subject to forfeiture. In NZ, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years and in the UK these shares are forfeited if an employee is summarily dismissed prior to the end of three years.

Long-term incentive shares have attached performance hurdles designed to align any rewards for employees to business and Group outcomes over a long-term timeframe and are subject to forfeiture if performance hurdles are not met. More information on performance hurdles is set out in the 'performance options and performance rights' section below. The shares are also generally forfeited if employment ceases or if the employee fails to pass performance quality gates during the restriction period.

Other employee share offers include various other offers made to employees of the Group from time to time. These include MLC Ownership shares which are provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. These are restricted for at least three years from allocation and forfeited for serious misconduct involving dishonesty.

Under the Staff Share Ownership Plan, the Board may invite any employee to apply for a loan to acquire shares subject to the provisions of applicable laws and regulations. No loan has been made available to any employee under this scheme since 1999.

Non-executive directors' shares were provided to non-executive directors to ensure they receive at least 10% of their fees in the form of Company shares. Non-executive directors were also able to nominate to receive up to 40% of their fees in shares to provide flexibility in their remuneration structure. As a result of proposed Australian tax changes to employee equity schemes, the Board terminated the non-executive director share plan in October 2009. *For further details on non-executive remuneration, refer to the Remuneration report.*

Performance options and performance rights are used to provide long-term incentives in recognition of executive potential and talent in the Group. They are also used instead of shares, to provide rewards under the above employee programs to employees in some countries (such as New Zealand and Hong Kong) for jurisdictional reasons.

A variety of performance measures are used for different grants of long-term incentives (as shares, performance options, or performance rights) including total shareholder return (TSR) compared against peer group companies, and regional or Group ROE and cash earnings. The measures used will depend on the level and impact of the participant's role, the business or region in which they work, and the relevant program. Vesting generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). The performance options and performance rights generally have an expiry date between three and five and eight years from the effective date if unexercised.

Each performance option or performance right is exchanged for one fully paid ordinary share in the Company upon exercise. The exercise price for performance options is generally the market price for the Company's fully paid ordinary shares as at the date the performance option was granted or such other relevant date determined by the Board Remuneration Committee. No exercise price is payable by the holder on exercise of performance rights.

Performance options are predominantly offered only to key senior executives of the Group.

A loan may be available to executives if and when they wish to exercise their performance options, subject to the provisions of applicable laws and regulations detailed under the rules of the National Australia Bank Executive Share Option Plan No. 2.

Details of shares are set out in table 1. Details of performance options and performance rights are set out in tables 2, 3 and 4.

Table 1 Employee share plans

Current employee share plans	No. of fully paid ordinary shares agreed for the year ended 30 Sep 2009	Weighted average fair value	No. of fully paid ordinary shares agreed for the year ended 30 Sep 2008	Weighted average fair value
Salary sacrifice shares	493,340	$19.87	379,665	$30.16
Short-term incentive shares	2,483,751	$25.15	1,731,998	$43.93
Enterprise Agreement shares	-	-	202,279	$28.36
Commencement and recognition shares	1,659,865	$19.69	2,147,969	$30.45
General employee shares	1,654,120	$19.19	794,924	$38.16
Long-term incentive shares	3,814,762	$19.76	2,332,470	$31.72
Other employee shares	142,393	$23.40	100,612	$37.65
Non-executive directors' shares	24,589	$22.36	15,623	$34.60

The market price of the Company's shares at 30 September 2009 was $30.76 (2008: $24.26). The volume weighted average share price during the year ended 30 September 2009 was $22.27 (2008: $30.45).

37 Shares, performance options and performance rights (continued)

Table 2 Summary of executive share option plan and performance rights movements

	Performance options		Performance rights	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Equity instruments outstanding as at 30 September 2007	56,812,364	$33.91	9,596,680	-
Granted	1,374,862	$31.70	687,700	-
Forfeited[1]	(1,531,604)	$34.47	(252,801)	-
Exercised	(898,980)	$22.53	(226)	-
Expired	(1,211,154)	$30.83	(82,461)	-
Equity instruments outstanding as at 30 September 2008	54,545,488	$34.09	9,948,892	-
Granted	1,760,911	$24.53	701,446	-
Forfeited[1]	(1,481,529)	$33.93	(272,686)	-
Exercised	(780)	$28.87	(2,769)	-
Expired	(9,225,071)	$28.59	(548,354)	-
Equity instruments outstanding as at 30 September 2009	45,599,019	$34.84	9,826,529	-
Equity instruments exercisable as at 30 September 2009	1,146,237	$34.53	2,854	-

(1) *Performance options and performance rights generally lapse after a specified number of days after cessation of employment as determined by the Board.*

Table 3 Executive share option plan and performance rights outstanding

Terms and conditions	No. outstanding at 30 Sep 2009	Range of exercise prices	Weighted average remaining life (months)	No. outstanding at 30 Sep 2008	Range of exercise prices	Weighted average remaining life (months)
Performance options						
External hurdle[1]	31,940,448	$19.89 - $43.43	20	40,481,667	$21.29 - $43.43	26
Internal hurdle[2]	13,658,571	$34.53 - $40.91	30	14,063,821	$34.53 - $40.91	42
Individual hurdle[3]	-	-	-	-	-	-
Performance rights						
External hurdle[1]	5,395,596	-	22	5,901,040	-	32
Internal hurdle[2]	4,200,235	-	30	3,970,852	-	41
Individual hurdle[3]	230,698	-	25	77,000	-	47

(1) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as Cash Earnings and ROE compared to business plan.*

(3) *Vesting is determined by individual performance or time-based hurdles.*

Table 4 Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair valuation calculation of performance options and 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 options and performance rights which have non-market based performance hurdles attached. For further details on the fair value methodology, refer to *note 1(m)*.

Grant dates	Feb 2009 - Sep 2009	Feb 2008 - Sep 2008
Weighted average values		
Contractual life (years)	4.9	4.9
Risk-free interest rate (per annum)	2.49%	5.02%
Expected volatility of share price	25.27%	14.68%
Closing share price on grant date	$19.67	$31.54
Dividend yield (per annum)	5.30%	4.51%
Exercise price of performance options	$19.89	$31.70
Fair value of performance options	$3.63	$4.00
Fair value of performance rights	$12.69	$16.67
'No hurdle' value of performance options	-	-
'No hurdle' value of performance rights	$17.45	$27.32
Expected time to vesting (years)	3.61	3.45

38 Average balance sheets and related interest

The following tables set forth the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest rates earned or paid by the Group. Averages are predominantly daily averages. Interest income figures include interest income on impaired assets to the extent cash payments have been received. Amounts classified as Other International represent interest-earning assets or interest-bearing liabilities of the controlled entities and overseas branches, excluding Europe. Impaired assets are included within interest-earning assets within loans and advances or marketable debt securities if classified as held to maturity.

Average assets and interest income

	2009			2008		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-earning assets						
Due from other banks						
Australia	**14,923**	**608**	**4.1%**	15,925	968	6.1%
Europe	**23,305**	**462**	**2.0%**	13,642	644	4.7%
Other International	**4,591**	**85**	**1.9%**	3,874	201	5.2%
Marketable debt securities						
Australia	**29,239**	**1,595**	**5.5%**	30,033	2,247	7.5%
Europe	**14,498**	**347**	**2.4%**	13,040	712	5.5%
Other International	**12,881**	**378**	**2.9%**	8,409	430	5.1%
Loans and advances - housing						
Australia	**153,565**	**9,375**	**6.1%**	145,816	11,697	8.0%
Europe	**25,333**	**982**	**3.9%**	25,065	1,467	5.9%
Other International	**21,634**	**1,572**	**7.3%**	20,774	1,708	8.2%
Loans and advances - non-housing						
Australia	**93,275**	**6,680**	**7.2%**	85,535	7,626	8.9%
Europe	**58,738**	**2,903**	**4.9%**	54,223	4,026	7.4%
Other International	**33,176**	**1,914**	**5.8%**	30,133	2,576	8.5%
Acceptances						
Australia	**55,303**	**3,604**	**6.5%**	51,858	4,315	8.3%
Europe	**4**	**-**	**-**	6	-	-
Other interest-earning assets						
Australia	**2,951**	**395**	**n/a**	4,592	576	n/a
Europe	**11,924**	**166**	**n/a**	1,268	72	n/a
Other International	**4,017**	**36**	**n/a**	2,315	120	n/a
Total average interest-earning assets and interest revenue by						
Australia	**349,256**	**22,257**	**6.4%**	333,759	27,429	8.2%
Europe	**133,802**	**4,860**	**3.6%**	107,244	6,921	6.5%
Other International	**76,299**	**3,985**	**5.2%**	65,505	5,035	7.7%
Total average interest-earning assets and interest revenue	**559,357**	**31,102**	**5.6%**	506,508	39,385	7.8%
Average non-interest-earning assets						
Investments relating to life insurance business(1)						
Australia	**48,853**			58,426		
Other International	**38**			44		
Other assets	**84,664**			45,998		
Total average non-interest-earning assets	**133,555**			104,468		
Provision for doubtful debts						
Australia	**(2,532)**			(1,586)		
Europe	**(1,393)**			(632)		
Other International	**(297)**			(329)		
Total average assets	**688,690**			608,429		

38 Average balance sheets and related interest (continued)

Average liabilities and interest expense

	2009			2008		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-bearing liabilities						
Term deposits and certificates of deposit						
Australia	**97,966**	**5,028**	**5.1%**	82,734	5,973	7.2%
Europe	**52,752**	**1,221**	**2.3%**	34,946	1,725	4.9%
Other International	**35,324**	**1,330**	**3.8%**	29,793	2,032	6.8%
On-demand deposits and savings (short-term) deposits						
Australia	**85,852**	**2,313**	**2.7%**	72,869	3,763	5.2%
Europe	**32,359**	**284**	**0.9%**	30,058	939	3.1%
Other International	**12,505**	**232**	**1.9%**	11,095	436	3.9%
Due to other banks and official institutions						
Australia	**17,641**	**684**	**3.9%**	17,966	1,150	6.4%
Europe	**23,625**	**402**	**1.7%**	22,366	973	4.4%
Other International	**9,958**	**186**	**1.9%**	8,882	350	3.9%
Short-term borrowings						
Australia	**12,417**	**576**	**4.6%**	19,225	1,168	6.1%
Europe	**145**	**5**	**3.5%**	107	5	4.7%
Other International	**16,630**	**251**	**1.5%**	16,459	557	3.4%
Long-term borrowings						
Australia	**89,453**	**4,213**	**4.7%**	75,925	5,996	7.9%
Europe	**13,082**	**413**	**3.2%**	11,805	700	5.9%
Other International	**6,929**	**245**	**3.5%**	6,141	291	4.7%
Liability on acceptances						
Australia	**17,049**	**1,200**	**7.0%**	22,755	1,466	6.4%
Europe	**4**	**-**	-	6	-	-
Other interest-bearing liabilities						
Australia	**265**	**73**	**n/a**	277	151	n/a
Europe	**47**	**27**	**n/a**	582	54	n/a
Other International	**1,504**	**351**	**n/a**	987	558	n/a
Total average interest-bearing liabilities and interest expense by						
Australia	**320,643**	**14,087**	**4.4%**	291,751	19,667	6.7%
Europe	**122,014**	**2,352**	**1.9%**	99,870	4,396	4.4%
Other International	**82,850**	**2,595**	**3.1%**	73,357	4,224	5.8%
Total average interest-bearing liabilities and interest expense	**525,507**	**19,034**	**3.6%**	464,978	28,287	6.1%
Average non-interest-bearing liabilities						
Deposits not bearing interest						
Australia	**9,894**			9,160		
Europe	**1,942**			1,357		
Other International	**1,444**			1,368		
Life insurance policy liabilities						
Australia	**42,950**			49,610		
Other liabilities	**70,459**			50,853		
Total average non-interest-bearing liabilities	**126,689**			112,348		
Total average liabilities	**652,196**			577,326		

38 Average balance sheets and related interest (continued)

Average equity

	2009			2008		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Ordinary shares	**13,954**			8,503		
Trust Preferred Securities	**975**			975		
Trust Preferred Securities II	**1,014**			1,014		
National Income Securities	**1,945**			1,945		
National Capital Instruments	**397**			397		
BNZ Income Securities	**380**			193		
BNZ Income Securities 2	**53**			-		
Contributed equity	**18,718**			13,027		
Reserves	**31**			594		
Retained profits	**17,730**			17,318		
Parent entity interest	**36,479**			30,939		
Minority interest in controlled entities	**15**			164		
Total average equity	**36,494**			31,103		
Total average liabilities and equity	**688,690**			608,429		

(1) *Included within investments relating to life insurance business are interest-earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to the restrictions of the Life Insurance Act 1995 (Cth).*

39 Interest rate risk

The following tables represent a breakdown, by repricing dates or contractual maturity, whichever is the earlier, of the Group's assets, liabilities and off-balance sheet items for the last two years at 30 September. Fluctuations in interest over time can expose the Group to reduced expected earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, basis risk and other characteristics of assets and their corresponding liabilities. These mismatches are actively managed as part of the overall interest rate risk management framework which is conducted on a regional basis in accordance with Group Treasury and nabCapital policies and guidelines. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholder wealth.

The tables below provide details of the earlier of repricing periods or contractual maturity of all assets and liabilities of the Group. Repricing periods/contract maturities of greater than 12 months indicate an exposure to fixed rate interest rate risk. Repricing periods/contract maturities of less than 12 months indicate an exposure to variable rate interest rate risk and may also contain fixed rate interest rate risk elements. To obtain an understanding of the effective interest earned or paid on each of the assets and liabilities set out below, *refer to note 38*.

Off-balance sheet items include undrawn lending commitments and the notional value of derivatives.

39 Interest rate risk (continued)

	Repricing period/contract maturity									
	0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/bearing $m	Total $m	Weighted average effective interest rate % pa
Group - 2009										
Assets										
Cash and liquid assets	18,510	4,844	-	-	-	-	-	2,480	25,834	0.8%
Due from other banks	29,950	3,163	-	-	-	-	-	152	33,265	1.9%
Trading derivatives	-	-	-	-	-	-	-	37,030	37,030	-
Trading securities	22,174	45	-	-	-	-	-	-	22,219	2.6%
Investments - available for sale	5,767	50	426	515	9	116	1,032	18	7,933	2.3%
Investments - held to maturity	15,220	438	-	-	227	512	1,132	-	17,529	3.3%
Investments relating to life insurance business	78	240	2,692	303	343	5,158	2,182	43,258	54,254	5.0%
Other financial assets at fair value	14,773	3,582	3,001	2,421	1,834	1,820	4,099	-	31,530	5.0%
Hedging derivatives	-	-	-	-	-	-	-	3,926	3,926	-
Loans and advances	266,832	26,138	21,231	16,517	6,203	4,543	3,310	-	344,774	5.5%
Due from customers on acceptances	55,031	-	-	-	-	-	-	4	55,035	6.5%
All other assets	-	-	-	-	-	-	-	20,791	20,791	-
Total assets	428,335	38,500	27,350	19,756	8,616	12,149	11,755	107,659	654,120	n/a
Liabilities and equity										
Due to other banks	32,087	2,176	-	912	-	-	-	973	36,148	1.7%
Trading derivatives	-	-	-	-	-	-	-	38,090	38,090	-
Other financial liabilities at fair value	12,016	5,323	321	1,293	410	1,077	871	-	21,311	2.5%
Hedging derivatives	-	-	-	-	-	-	-	2,131	2,131	-
Deposits and other borrowings	269,314	45,954	4,613	1,478	154	364	2	14,309	336,188	2.6%
Liability on acceptances	16,887	-	-	-	-	-	-	4	16,891	7.1%
Life policy liabilities	-	-	-	-	-	-	-	47,314	47,314	-
Bonds, notes and subordinated debt	47,516	6,455	7,707	9,977	6,399	5,594	7,144	-	90,792	3.3%
Other debt issues	1,944	-	-	-	-	-	683	-	2,627	5.2%
All other liabilities and equity	-	-	-	-	-	-	-	62,628	62,628	-
Total liabilities and equity	379,764	59,908	12,641	13,660	6,963	7,035	8,700	165,449	654,120	n/a
Off-balance sheet items attracting interest rate sensitivity	(41,335)	23,010	4,336	2,660	3,651	4,686	2,992	-	-	
Total interest rate repricing gap	7,236	1,602	19,045	8,756	5,304	9,800	6,047	(57,790)	-	
Cumulative interest rate repricing gap	7,236	8,838	27,883	36,639	41,943	51,743	57,790	-		

Notes to the financial statements

39 Interest rate risk (continued)

	Repricing period/contract maturity									
	0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/bearing $m	Total $m	Weighted average effective interest rate % pa
Group - 2008										
Assets										
Cash and liquid assets	16,910	-	-	-	-	-	-	1,299	18,209	4.2%
Due from other banks	46,852	-	-	-	-	-	-	144	46,996	6.1%
Trading derivatives	-	-	-	-	-	-	-	35,788	35,788	-
Trading securities	20,765	-	-	-	-	-	-	2	20,767	7.0%
Investments - available for sale	600	160	96	71	163	96	303	53	1,542	5.5%
Investments - held to maturity	17,154	-	-	-	-	-	-	-	17,154	5.9%
Investments relating to life insurance business	130	103	262	107	3,543	126	7,785	40,840	52,896	6.2%
Other financial assets at fair value	15,777	2,624	2,697	2,311	1,669	1,696	3,817	9	30,600	8.0%
Hedging derivatives	-	-	-	-	-	-	-	2,126	2,126	-
Loans and advances	258,586	32,581	26,607	15,766	9,886	5,709	3,691	249	353,075	8.3%
Due from customers on acceptances	53,375	-	-	-	-	-	-	6	53,381	8.1%
All other assets	-	-	-	-	-	-	-	24,265	24,265	-
Total assets	430,149	35,468	29,662	18,255	15,261	7,627	15,596	104,781	656,799	n/a
Liabilities and equity										
Due to other banks	46,938	5,485	-	-	-	-	-	-	52,423	4.7%
Trading derivatives	-	-	-	-	-	-	-	32,263	32,263	-
Other financial liabilities at fair value	17,617	3,927	611	198	414	375	417	25	23,584	5.2%
Hedging derivatives	-	-	-	-	-	-	-	1,172	1,172	-
Deposits and other borrowings	275,007	35,884	3,066	658	143	235	16	12,457	327,466	5.5%
Liability on acceptances	16,069	-	-	-	-	-	-	6	16,075	7.1%
Life policy liabilities	-	-	-	-	-	-	-	46,150	46,150	-
Bonds, notes and subordinated debt	64,007	3,463	7,738	8,052	2,943	6,800	5,236	-	98,239	6.8%
Other debt issues	1,622	-	-	-	-	-	-	-	1,622	7.4%
All other liabilities and equity	-	-	-	-	-	-	-	57,805	57,805	-
Total liabilities and equity	421,260	48,759	11,415	8,908	3,500	7,410	5,669	149,878	656,799	n/a
Off-balance sheet items attracting interest rate sensitivity	(22,883)	22,214	(4,058)	1,411	(445)	3,522	239	-	-	
Total interest rate repricing gap	(13,994)	8,923	14,189	10,758	11,316	3,739	10,166	(45,097)	-	
Cumulative interest rate repricing gap	(13,994)	(5,071)	9,118	19,876	31,192	34,931	45,097	-		

40 Notes to the cash flow statement

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
(a) Reconciliation of net profit attributable to members of the Company to net cash provided by operating activities				
Net profit attributable to members of the Company	**2,589**	4,536	**4,035**	3,388
(Deduct)/add:				
Decrease/(increase) in interest receivable	**1,008**	(481)	**269**	(53)
(Decrease)/increase in interest payable	**(1,372)**	1,395	**(970)**	791
(Decrease)/increase in unearned income and deferred net fee income	**(510)**	366	**(100)**	366
Fair value movements				
Assets, liabilities and derivatives held at fair value	**407**	4,329	**(859)**	4,314
Net adjustment to bid/offer valuation	**99**	59	**99**	59
Increase/(decrease) in personnel provisions	**162**	(92)	**103**	(75)
Increase in other operating provisions	**54**	71	**70**	23
Equity-based payments recognised in equity or reserves	**244**	225	**244**	225
Superannuation costs - defined benefit pension plans	**11**	(7)	**4**	4
Impairment losses on non-financial assets	**19**	32	**31**	70
Impairment losses on financial assets	**52**	93	**57**	2
Charge to provide for bad and doubtful debts	**3,815**	2,703	**2,683**	2,258
Increase in provision for new business initiatives	**-**	106	**-**	80
Depreciation and amortisation expense	**584**	529	**357**	307
Movement in life insurance policyholder liabilities	**1,099**	(6,060)	**-**	-
Unrealised loss on investments relating to life insurance business	**589**	11,561	**-**	-
Decrease in other assets[1]	**541**	231	**702**	308
Decrease in other liabilities	**(607)**	(340)	**(452)**	(306)
(Increase)/decrease in income tax payable	**545**	(546)	**474**	(297)
(Increase)/decrease in deferred tax liabilities	**1,087**	(516)	**454**	(2)
Increase in deferred tax assets	**(657)**	(1,455)	**(499)**	(546)
Deduct: Operating cash flow items not included in profit	**2,961**	(7,232)	**3,748**	(3,764)
(Deduct)/add: Investing or financing cash flows included in profit				
Profit on investments classified as available for sale and held to maturity	**(12)**	(280)	**(5)**	(222)
(Profit)/loss on sale of property, plant, equipment and other assets	**(7)**	(24)	**8**	(3)
Net cash provided by operating activities	**12,701**	9,203	**10,453**	6,927

(1) *Movement in Other Assets for the Group includes $825 million consideration paid on 30 September 2009 for the acquisition of 100% of the issued share capital of Aviva Australia Holdings Limited, effective 1 October 2009.*

(b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
Assets				
Cash and liquid assets (excluding money at short call)	**25,834**	18,209	**23,437**	14,985
Treasury and other eligible bills	**1,283**	79	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**33,185**	46,924	**26,173**	33,076
	60,302	65,212	**49,610**	48,061
Liabilities				
Due to other banks	**(36,148)**	(52,423)	**(31,377)**	(42,290)
Total cash and cash equivalents[1]	**24,154**	12,789	**18,233**	5,771

(1) *Refer to note 1(j) for the Group's definition of Cash and cash equivalents.*

(c) Non-cash financing and investing activities

	Group 2009 $m	Group 2008 $m	Company 2009 $m	Company 2008 $m
New share issues				
Dividend reinvestment plan	**1,540**	1,668	**1,540**	1,668
Bonus share plan	**60**	83	**60**	83
Movement in assets under finance lease	**(16)**	34	**(16)**	34

40 Notes to the cash flow statement (continued)

(d) Acquisitions of controlled entities and business combinations

The following acquisitions were made during the last two years to 30 September 2009:

- on 26 June 2009, Great Western Bank purchased certain assets and assumed certain liabilities of First Community Bank headquartered in New Mexico and Wachovia Bank headquartered in North Carolina in the United States of America;
- on 7 August 2008, the Group acquired 70% of an investment property business, NabInvest Oxley Singapore Pte Ltd;
- on 3 June 2008, National Americas Investment Inc. acquired 100% of the ordinary shares of Great Western Bancorporation, the holding company of Great Western Bank, based in the United States;
- on 9 November 2007, MLC Limited acquired 51% of a funds management business, Northward Capital Pty Ltd;
- on 2 November 2007, the Group acquired 90% of an investment property business, New City Living Japan KK; and
- on 31 October 2007, the Group acquired 100% of an investment property business, Austcorp 670 Hunter Street Fund.

Details of the acquisitions for the year to 30 September 2009 were as follows:

Cost of acquisition of business combinations for 30 September 2009 was nil.

	Group	
	Fair value 2009 $m	Carrying value 2009 $m
Cash and liquid assets	194	194
Loans and advances	434	428
Property, plant and equipment	26	26
Goodwill and other intangible assets	8	8
Deposits and other borrowings	(679)	(681)
Other liabilities	(7)	(7)
Net identifiable assets and liabilities acquired	(24)	(32)
Goodwill on acquisition	24	
Total purchase consideration	-	
Less: Cash and cash equivalents acquired		
Cash and liquid assets	(194)	
Net cash inflow	(194)	

The net profit contributed by the acquired branches of First Community Bank and Wachovia Bank for the period from acquisition to 30 September 2009 is immaterial.

Details of the acquisitions for the year to 30 September 2008 were as follows:

	Group	
	Great Western Bank 2008 $m	Other businesses 2008 $m
Cost of acquisitions		
Cash paid	924	101
Deferred cash consideration	94	-
Direct costs of acquisition	10	-
Total cost of acquisitions	1,028	101

40 Notes to the cash flow statement (continued)

	Group			
	Great Western Bank		Other businesses	
	Fair value 2008 $m	Carrying value 2008 $m	Fair value 2008 $m	Carrying value 2008 $m
Cash and liquid assets	227	227	13	13
Due from other banks	72	72	-	-
Investments - available for sale	678	678	2	2
Loans and advances	3,257	3,281	-	-
Property, plant and equipment	81	83	-	-
Goodwill and other intangible assets	82	109	1	1
Deferred tax assets	9	27	-	-
Other assets	33	33	333	333
Due to other banks	-	-	(249)	(249)
Deposits and other borrowings	(4,030)	(4,035)	(24)	(24)
Bonds, notes and subordinated debt	(51)	(51)	-	-
Other liabilities	(83)	(83)	(4)	(4)
Net identifiable assets and liabilities acquired	275	341	72	72
Goodwill on acquisition	753		29	
Total purchase consideration	1,028		101	
Less: Deferred consideration	(94)		-	
Less: Cash and cash equivalents acquired				
Cash and liquid assets	(227)		(13)	
Due from other banks	(72)		-	
Due to other banks	-		249	
Net cash outflow	635		337	

Goodwill arising in the Great Western Bank and other business acquisitions is attributable to the control premium, future market development and the assembled workforce.

Great Western Bank contributed net profit of $17 million to the Group for the period from 3 June 2008 to 30 September 2008. The other acquired businesses contributed an aggregate net loss of $22 million to the Group for the period from their acquisition dates to 30 September 2008. If all business acquisitions had been effected at 1 October 2007, the pro-forma revenue and net profit of the Group for the year ended 30 September 2008 would have been $16,422 million and $4,572 million respectively. These pro-forma amounts have been calculated by adjusting the results of the acquired subsidiaries to reflect additional amortisation that would have been charged assuming the fair value adjustments arising had applied from 1 October 2007, together with consequential tax effects.

41 Particulars in relation to controlled entities

The following table presents the material controlled entities of the Group. Investment vehicles holding life policyholder assets are excluded from the below list.

Entity name	Ownership %	Incorporated/formed in
National Australia Bank Limited		Australia
National Equities Limited[(1)]	100	Australia
National Americas Holdings LLC	100	United States of America
Great Western Bancorporation Inc	100	United States of America
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
BNZ Investments Limited	100	New Zealand
BNZ Branch Properties Limited	100	New Zealand
National Australia Group Europe Limited	100	England
National Europe Holdings Limited	100	England
Clydesdale Bank PLC	100	Scotland
National Australia Group Europe Investments Limited	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Lifetime Company Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
National Wealth Management International Holdings Limited	100	Australia
National Corporate Investment Services Limited	100	Australia
National Australia Trustees Limited	100	Australia
National Australia Group Services Limited	100	Australia
NBA Properties Limited[(1)]	100	Australia
National Australia Corporate Services Limited[(1)]	100	Australia
ARDB Limited[(1)]	100	Australia
National Australia Finance (Asia) Limited	100	Hong Kong

(1) These controlled entities and those listed hereunder have entered into a deed of cross guarantee (refer to note 42(c) for details) with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. The controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief, therefore, was granted to these controlled entities from the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report.

Australian Banks' Export Re-Finance Corporation Limited	*C.B.C. Holdings Limited*	*C.B.C. Properties Limited*
NBA Leasing Pty Limited	*NBA Properties (Qld) Limited*	*NBA Properties (Vic) Limited*
VPL Securities Pty Limited[(A)]		

(A) VPL Securities Pty Ltd was released from the deed of cross guarantee effective from 22 March 2009, and was placed into voluntary liquidation on 22 June 2009.

Section 323D(3) of the *Corporations Act* 2001 (Cth) requires the Company to ensure that its controlled entities have the same financial year as the Company. Pursuant to ASIC instrument 06/480 dated 5 June 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

In addition, pursuant to ASIC instrument 09-00818 dated 30 September 2009, the Company is relieved from this requirement in respect of certain securitisation special purpose entities ("customer trusts") to which the Group provides liquidity facilities and which are consolidated by the Company. Each customer trust prepares annual and half-year financial reports in accordance with its constitution. The relief is granted until September 2012.

42 Contingent liabilities and credit commitments

The following table shows the level of the Group's contingent liabilities for the last two years as at 30 September:

	Group Notional amount[1]		Company Notional amount[1]	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Contingent liabilities				
Guarantees	**4,006**	3,999	**6,005**	6,157
Standby letters of credit	**2,239**	3,509	**2,239**	3,497
Documentary letters of credit	**724**	1,472	**335**	1,041
Performance-related contingencies	**4,109**	4,691	**2,679**	2,700
Total contingent liabilities[2]	**11,078**	13,671	**11,258**	13,395

(1) *The notional amount represents the maximum credit risk.*

(2) *The maximum potential amount of future payments disclosed is undiscounted and not reduced by any amounts that may be recovered under the recourse provisions that are outlined below.*

	Group Notional amount		Company Notional amount	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Credit-related commitments				
Underwriting facilities	**10**	1	**10**	1
Binding credit commitments[1]	**110,554**	137,624	**82,440**	97,496
Total credit-related commitments	**110,564**	137,625	**82,450**	97,497

(1) *Includes the notional amount and the credit equivalent for credit derivatives where the Group has sold credit protection.*

Geographical concentrations of credit-related commitments

The following table shows the level of geographical concentrations of credit-related commitments for the last two years as at 30 September:

	Group	
	2009 $m	2008 $m
Australia	**76,301**	85,347
Europe	**19,944**	32,683
New Zealand	**10,698**	11,946
United States	**3,371**	6,846
Asia	**250**	803
Total	**110,564**	137,625

Investment commitments contracted for as the reporting date are set out below:

	Group	
	2009 $m	2008 $m
Investment commitments		
Statutory funds[1]	**1,598**	1,699
Total investment commitments	**1,598**	1,699

(1) *In the normal course of business of the Group's life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.*

Other commitments contracted for as the reporting date are set out below:

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Information technology and telecommunication services				
Less than one year	**91**	85	**24**	14
One to five year(s)	**127**	63	**15**	36
Greater than five years	**-**	-	**-**	-
Total information technology and telecommunication services	**218**	148	**39**	50
Operational, property and support services				
Less than one year	**121**	166	**48**	39
One to five year(s)	**176**	253	**106**	108
Greater than five years	**-**	10	**-**	7
Total operational, property and support services	**297**	429	**154**	154

42 Contingent liabilities and credit commitments (continued)

Assets pledged

Assets are pledged as collateral predominantly under repurchase agreements with other banks. The 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.

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Cash	**-**	5	**-**	-
Available for sale investments	**484**	510	**-**	-
Assets at fair value through profit and loss	**11,656**	8,337	**11,328**	7,230
Total assets pledged	**12,140**	8,852	**11,328**	7,230
Secured liabilities	**9,231**	14,516	**8,734**	13,190

(a) Contingent liabilities

The Group's exposure to potential loss in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit, letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. 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.

(i) Guarantees

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 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; and
- 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 letters of credit and financial 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.

Fees in relation to guarantees are collected over the life of the contract. Revenue is recognised on an accruals basis.

(ii) Clearing and settlement obligations

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

(iii) Inter-bank deposit agreement

The Company is a party to an inter-bank deposit agreement between the four major Australian banks. Each participant, including the Company, has a maximum commitment to provide a deposit of an amount of up to $2,000 million, for a period of 30 days, to any other participant experiencing liquidity problems. Repayment of the deposit by the recipient bank may be by cash or by transfer of mortgages securing eligible housing loans to the value of the deposit. The agreement is certified by APRA as an industry support contract under section 11CB of the *Banking Act* 1959 (Cth).

(iv) Legal proceedings

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

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

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

42 Contingent liabilities and credit commitments (continued)

(v) Contingent liability - exchangeable capital units capital raising

The Australian Taxation Office (ATO) has disallowed various deductions made by the Group in relation to exchangeable capital units (ExCaps) for the tax years 1997 to 2003. As at 30 September 2009, taking into account the ATO's decision to remit or reduce some interest and penalties, the maximum aggregate contingent exposure is approximately $479 million, being $309 million primary tax and penalties $170 million interest and (after tax). The Group has paid approximately $309 million of that exposure to the ATO in accordance with ATO practice on disputed assessments which was recognised in tax expense during 2009. Interest may accrue on the unpaid disputed amounts.

The Group did not claim tax deductions on outgoings in relation to the ExCaps after 1 October 2003 whilst the tax treatment was in dispute, and the ExCaps were redeemed during the 2007 year.

The Group disputes the ATO's tax treatment of the ExCaps and intends to appeal.

(vi) Contingent liability - Wealth Management Re-Insurance

In August 2007 the ATO concluded a review of a reinsurance contract entered into by the Australian Wealth Management business in the 1998 tax year and amended in the 2000 tax year. The ATO issued an amended assessment to MLC Lifetime for approximately $54 million of primary tax and interest and penalties of $16 million (after tax), a total of $70 million (after tax).

In accordance with ATO practice on disputed assessments, the NAB Group has paid 50 per cent of the amounts owing under the amended assessments. This payment has been recognised as an asset by the NAB Group on the basis that the NAB Group expects full recovery of the amount paid to the ATO. Interest may accrue on the unpaid disputed amount.

An objection was lodged by the NAB Group disputing the ATO's amended assessment. The ATO disallowed the objection. The NAB Group is confident that its position in relation to the application of the taxation law to this transaction is correct and intends to vigorously defend its position. Accordingly, the NAB Group has lodged an appeal to the Federal Court. The Court hearing is likely to be scheduled for July 2010.

Based on this treatment no provision has been raised for this matter.

(vii) Contingent liability - New Zealand structured finance transactions

Following a review by the New Zealand Inland Revenue Department (the "IRD") of certain structured finance transactions in the New Zealand banking industry, Bank of New Zealand (BNZ) and some of its wholly owned controlled entities have received amended tax assessments for the 1998 to 2005 years from the IRD with respect to six structured finance transactions. The amended assessments are for income tax of NZ$416 million. In addition, as at 30 September 2009, interest of approximately NZ$245 million (net of tax) will be payable. Penalties, which could possibly be up to 100% of the tax shortfall, have not yet been imposed by the IRD.

These amended assessments were challenged in the NZ High Court and a judgment was delivered on 15 July 2009, finding against BNZ. BNZ considers that elements of the judgment are wrong in fact and law and lodged an appeal with the Court of Appeal on 11 August 2009.

A provision of NZ$661 million has been raised (NZ$416 million core tax, NZ$245 million interest (net of tax)) to reflect the impact of the High Court decision. The provision is recognised under income tax expense.

(viii) Contingent liability - Investigation of potential class action

In April 2009, Maurice Blackburn Lawyers (an Australian law firm) announced that it was investigating a potential class action against the Group for alleged non-disclosures relating to the Group's exposure to Asset Backed Securities Collateralised Debt Obligations. The Group has no detailed information as to the nature of the possible claim. No proceeding has been initiated, nor ever may be initiated. If it is, it will be vigorously defended.

(ix) Contingent liability - United Kingdom test case on unarranged overdraft charges

The unarranged overdraft charges legal test case is ongoing at present. The High Court has ruled that none of the Bank's unarranged overdraft charges amount to penalties at common law. In relation to accounts held by consumers, the Court of Appeal has ruled that such charges can be assessed for fairness under the Unfair Terms in Consumer Contracts Regulations (UK) 1999. The banks participating in the test case, which include Clydesdale Bank PLC, were given leave to appeal to the House of Lords and that appeal was heard between 23 and 25 June 2009. As yet there has been no judgment.

There has not been any ruling on whether the charges are in fact unfair; that aspect is proceeding and the OFT has chosen Clydesdale Bank PLC as one of three banks to advance that matter with. The three banks have been chosen because they represent a fair cross-section of the industry and not because their terms are regarded as any less fair than any of the others. In the meantime, the Financial Services Authority (FSA) has extended the waiver (under the terms of which banks do not have to process claims for a return of charges where no financial hardship is involved) until January 2010 and the stays of individual cases in the Courts remain in place.

In relation to business accounts, the High Court has ruled that none of the banks' contracts contain penalties at common law.

(x) Contingent liability - United Kingdom financial services compensation scheme

The UK Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, claims have been triggered against the FSCS, initially to pay interest on borrowing which the FSCS has raised from the UK Government to support the protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions, and in the interim the FSCS has estimated levies due to 31 March 2010 and a charge of £12 million has been recognised in the period for the Group's calculated liability. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies will become payable in future periods.

42 Contingent liabilities and credit commitments (continued)

(xi) Contingent liability - claims for potential mis-selling of payment protection insurance (PPI)

Following the investigation by the UK Competition Commission into the sale of Payment Protection Insurance, a report was published on 29 January 2009 concluding a lack of competition in the UK market as a result of various factors including lack of transparency and barriers to entry for stand alone providers. A range of remedies to address the issue have been imposed and further to the investigation, the FSA announced proposals on 30 September 2009 to require banks to re-open previously rejected complaints and to re-assess them in light of new guidance. Provision has been made for costs arising from expected claims, although at this stage there remains some uncertainty surrounding legislative changes and their potential impact.

(b) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer as 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. 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; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

(c) Parent entity guarantees and undertakings

Excluded from the Group amounts disclosed above are the following guarantees and undertakings to entities in the Group:

- commercial paper issued by National Australia Funding (Delaware), Inc. totalling $7,666 million (2008: $9,335 million) is guaranteed by the Company;
- from time to time, the Company provides letters to the UK Financial Services Authority in relation to its controlled entity Clydesdale Bank PLC. The letters acknowledge that the Company will make up any regulatory capital deficiency in Clydesdale Bank PLC as a result of losses on exposures to certain designated parties. As at 30 September 2009, the only such letter related to facilities provided by Clydesdale Bank PLC to its wholly owned controlled entity Clydesdale Bank Asset Finance Limited;
- the Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer;
- the Company has agreed to provide a guarantee and indemnity with respect to the obligations of NBA Properties (Vic) Limited under the leases and car park licences of the Group's premises at 800 and 808 Bourke Street, Docklands, Melbourne;
- National Australia Bank Limited (NABL) 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, NABL has agreed that in the event it is proposed that NWMSL no longer continue as a wholly owned subsidiary of NABL, NABL will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- the Company has provided a guarantee of the obligations of National Australia Group Services Limited (a wholly owned controlled entity) pursuant to the sale agreement relating to the sale of the Custom Fleet business. In certain limited circumstances, the Company may also be required to guarantee the obligations of National Europe Holdings Limited (a wholly owned controlled entity) under that sale agreement. The primary ongoing obligations of these companies under the sale agreement relate to warranties and indemnities to the buyers consistent with agreements of this nature; and
- pursuant to ASIC Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities *(refer to note 41, footnote (1))* from the *Corporations Act* 2001 (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act* 2001 (Cth). If a winding-up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up. The table below presents consolidated pro forma income statements and balance sheets for the Company and controlled entities which are party to the deed, after eliminating all transactions between parties to the deed, which is known as a closed group.

It is not envisaged that any material unrecorded loss is likely to arise from any of the transactions described in this note.

42 Contingent liabilities and credit commitments (continued)

Closed group

The table below presents consolidated pro forma income statements and balance sheets for the Company and controlled entities which are party to the deed, after eliminating all transactions between parties to the deed, which is known as a closed group.

	2009 $m	2008 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**5,382**	4,068
Income tax expense	**(1,524)**	(515)
Net profit	**3,858**	3,553
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**23,529**	15,062
Due from other banks	**26,200**	33,089
Trading derivatives	**36,368**	33,392
Trading securities	**19,210**	18,424
Investments - available for sale	**3,659**	447
Investments - held to maturity	**5,201**	2,198
Other financial assets at fair value	**4,343**	2,448
Hedging derivatives	**1,885**	673
Loans and advances	**259,665**	253,250
Due from customers on acceptances	**55,031**	53,375
Current tax assets	**210**	-
Property, plant and equipment	**1,074**	972
Investments in controlled entities	**15,780**	16,370
Goodwill and other intangible assets	**520**	539
Deferred tax assets	**2,226**	1,546
Other assets	**56,303**	51,514
Total assets	**511,204**	483,299
Liabilities		
Due to other banks	**31,377**	42,290
Trading derivatives	**35,610**	30,300
Other financial liabilities at fair value	**3,671**	4,325
Hedging derivatives	**1,238**	705
Deposits and other borrowings	**251,083**	234,944
Liability on acceptances	**16,887**	16,069
Current tax liabilities	**-**	7
Provisions	**1,064**	912
Bonds, notes and subordinated debt	**78,438**	81,763
Other debt issues	**1,963**	906
Deferred tax liabilities	**597**	175
Other liabilities	**52,178**	41,798
Total liabilities	**474,106**	454,194
Net assets	**37,098**	29,105
Equity		
Contributed equity	**21,351**	13,538
Reserves	**(60)**	398
Retained profits	**15,807**	15,169
Total equity (parent entity interest)	**37,098**	29,105
Total equity	**37,098**	29,105

Notes to the financial statements

43 Financial risk management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances, but the Group also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

The Group also trades in financial instruments where it takes positions in exchange traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(a) Fair value hedges
The Group hedges part of its existing interest rate and foreign currency risk resulting from any potential decrease in the fair value of fixed rate assets or increase in fair value of fixed rate liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The net fair value of these swaps is disclosed in *note 11*.

(b) Cash flow hedges
The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable interest rate assets and liabilities, using interest rate swaps, forward rate agreements and futures contracts. The Group also utilised derivatives to hedge a portion of the variability in future cash flows attributable to foreign exchange risk, created by assets, liabilities and forecast transactions denominated in a foreign currency.

There were no forecasted transactions for which cash flow hedge accounting had to be ceased in 2009 as a result of the hedge accounting criteria no longer being met.

(c) Hedges of net investments in foreign operations
At 30 September 2009, a borrowing of GBP723 million (2008: GBP757 million) has been designated as a hedge of a net investment in a subsidiary with a GBP functional currency. The hedge has been designated to protect against the Group's exposure to foreign exchange risk on this investment. The fair value of the borrowing is GBP723 million (2008: GBP757 million).

Any gains or losses on the translation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investment in the subsidiary. For the year ended 30 September 2009, there was no hedge ineffectiveness (2008: nil) recognised in profit or loss on hedges of net investments in foreign operations.

Credit risk

Credit is defined as any transaction that creates an actual or potential obligation for a borrower to pay the Group. Credit risk is the potential that a borrower will fail to meet its obligations to the Group in accordance with agreed terms.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives
The Group maintains control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

(b) Master netting arrangements
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 a counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(c) Credit-related commitments
Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation to withdraw or suspend the facilities. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

43 Financial risk management (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is 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 longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through use of master netting and collateral agreements. Unless otherwise noted, the amount that best represents the maximum credit exposure at reporting date is the carrying value of the financial asset.

	Group		**Company**	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Assets				
Cash and liquid assets	**23,808**	15,477	**22,671**	14,135
Due from other banks	**33,265**	46,996	**26,200**	33,089
Trading derivatives	**37,030**	35,788	**36,587**	33,562
Trading securities	**22,219**	20,767	**19,210**	18,424
Investments - available for sale	**7,933**	1,542	**3,650**	444
Investments - held to maturity	**17,529**	17,154	**5,201**	2,198
Investments relating to life insurance business	**54,254**	52,896	**-**	-
Other financial assets at fair value	**31,530**	30,600	**4,343**	2,448
Hedging derivatives	**3,926**	2,126	**1,885**	673
Loans and advances	**351,968**	359,190	**265,285**	257,758
Due from customers on acceptances	**55,035**	53,381	**55,031**	53,375
Other assets	**5,430**	10,113	**3,630**	7,859
	643,927	646,030	**443,693**	423,965
Contingent liabilities	**11,078**	13,671	**11,258**	13,395
Commitments	**110,564**	137,625	**82,450**	97,497
	121,642	151,296	**93,708**	110,892
Total credit risk exposure	**765,569**	797,326	**537,401**	534,857

Credit risk

The credit quality of financial assets other than loans and advances, that are neither past due nor impaired, are as follows:

	Group							
	2009				2008			
	Due from other banks $m	**Investments - HTM[(1)] $m**	**Investments - AFS[(2)] $m**	**Acceptances $m**	Due from other banks $m	Investments - HTM[(1)] $m	Investments - AFS[(2)] $m	Acceptances $m
Senior investment grade	**30,400**	**12,842**	**6,604**	**13,772**	44,418	16,747	346	16,495
Investment grade	**1,337**	**4,164**	**1,177**	**28,769**	1,928	227	1,064	25,089
Sub-investment grade	**1,528**	**523**	**36**	**12,494**	650	180	4	11,797
	33,265	**17,529**	**7,817**	**55,035**	46,996	17,154	1,414	53,381

	Company							
	2009				2008			
	Due from other banks $m	**Investments - HTM[(1)] $m**	**Investments - AFS[(2)] $m**	**Acceptances $m**	Due from other banks $m	Investments - HTM[(1)] $m	Investments - AFS[(2)] $m	Acceptances $m
Senior investment grade	**23,386**	**4,223**	**3,535**	**13,772**	30,602	2,116	265	14,892
Investment grade	**1,286**	**978**	**-**	**28,765**	1,837	17	60	26,580
Sub-investment grade	**1,528**	**-**	**27**	**12,494**	650	65	-	11,903
	26,200	**5,201**	**3,562**	**55,031**	33,089	2,198	325	53,375

(1) *Held to maturity*
(2) *Available for sale (excluding equity investments)*

Senior investment grade: Broadly corresponds with Standard & Poor's ratings of AAA to A-.
Investment grade: Broadly corresponds with Standard & Poor's ratings of BBB+ to BBB-.
Sub-investment grade: Broadly corresponds with BB+ or worse.

Refer to note 17 for information about the credit quality of loans and advances that are neither past due nor impaired.

43 Financial risk management (continued)

Market risk

The Group takes on exposure to market risks. Market risk arises from open positions in interest rate, currency, commodity, credit spread and equity products, all of which are exposed to general and specific market movements. The Group applies a Value at Risk (VaR) methodology to estimate the market risk of positions held and the losses expected, based upon a number of statistical assumptions for various changes in market conditions. The Board sets limits on the VaR that may be accepted, which is monitored on a daily basis.

Market risk of derivative financial instruments held or issued is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying instrument, reference rate or index. Not all risks associated with intermediation can be effectively hedged. The residual market exposures together with trading positions are managed within established limits approved by the Board. A unit independent of the trading activities monitors compliance within delegated limits on a daily basis.

Risk concentrations

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector.

Industry concentration of assets

The following table shows the level of industry concentrations of assets as at 30 September:

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts[1]		Contingent liabilities and credit-related commitments	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Group	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Government and public authorities	**858**	706	**1,168**	908	**-**	-	**3,172**	1,339
Agriculture, forestry, fishing and mining	**7,061**	5,982	**13,537**	12,346	**257**	112	**6,529**	7,978
Financial, investment and insurance[2]	**1,865**	1,165	**15,171**	17,603	**355**	116	**14,045**	18,903
Real estate - construction	**429**	397	**3,676**	4,884	**121**	91	**1,652**	1,794
Manufacturing	**2,048**	1,882	**7,406**	8,339	**298**	230	**8,181**	9,205
Instalment loans to individuals and other personal lending (including credit cards)	**401**	303	**15,699**	17,297	**360**	214	**18,475**	21,371
Real estate - mortgage	**-**	-	**202,538**	199,749	**233**	138	**26,851**	24,395
Asset and lease financing	**-**	-	**17,350**	18,498	**272**	140	**772**	1,401
Commercial property services	**9,688**	8,424	**33,697**	36,207	**577**	465	**8,768**	12,097
Other commercial and industrial	**7,217**	6,873	**41,726**	43,359	**1,928**	1,457	**33,197**	52,813
Total	**29,567**	25,732	**351,968**	359,190	**4,401**	2,963	**121,642**	151,296

	Due from other banks		Investments - HTM		Investments - AFS		Acceptances	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Group	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Government and public authorities	**23**	993	**392**	17	**1,119**	31	**17**	16
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**41**	-	**6,161**	5,965
Financial, investment and insurance	**33,242**	46,003	**13,329**	12,711	**6,604**	1,465	**1,757**	2,741
Real estate - construction	**-**	-	**-**	-	**-**	4	**691**	808
Manufacturing	**-**	-	**-**	-	**-**	-	**3,068**	3,004
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**132**	172
Real estate - mortgage	**-**	-	**3,091**	3,578	**89**	-	**-**	-
Asset and lease financing	**-**	-	**504**	585	**-**	-	**-**	-
Commercial property services	**-**	-	**213**	200	**68**	-	**30,275**	28,037
Other commercial and industrial	**-**	-	**-**	63	**12**	42	**12,934**	12,638
Total	**33,265**	46,996	**17,529**	17,154	**7,933**	1,542	**55,035**	53,381

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts[1]		Contingent liabilities and credit-related commitments	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Company	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Government and public authorities	**264**	149	**1,044**	796	**-**	-	**1,791**	816
Agriculture, forestry, fishing and mining	**894**	481	**8,157**	7,687	**218**	98	**5,208**	6,422
Financial, investment and insurance[2]	**519**	61	**13,432**	15,130	**349**	111	**13,456**	19,208
Real estate - construction	**125**	67	**1,620**	1,685	**88**	28	**1,319**	1,357
Manufacturing	**151**	84	**5,630**	6,325	**267**	192	**6,091**	7,102
Instalment loans to individuals and other personal lending (including credit cards)	**4**	2	**8,855**	9,183	**239**	186	**11,561**	11,391
Real estate - mortgage	**-**	-	**158,201**	151,866	**175**	117	**21,791**	19,863
Asset and lease financing	**-**	-	**13,860**	13,370	**223**	120	**358**	380
Commercial property services	**1,014**	497	**21,481**	19,528	**393**	211	**7,402**	10,279
Other commercial and industrial	**1,068**	587	**33,005**	32,188	**1,519**	1,183	**24,731**	34,074
Total	**4,039**	1,928	**265,285**	257,758	**3,471**	2,246	**93,708**	110,892

43 Financial risk management (continued)

Company	Due from other banks 2009 $m	Due from other banks 2008 $m	Investments - HTM 2009 $m	Investments - HTM 2008 $m	Investments - AFS 2009 $m	Investments - AFS 2008 $m	Acceptances 2009 $m	Acceptances 2008 $m
Government and public authorities	**13**	1	**392**	17	**1,069**	8	**17**	16
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**6,161**	5,965
Financial, investment and insurance	**26,187**	33,088	**4,596**	1,981	**2,431**	436	**1,757**	2,741
Real estate - construction	**-**	-	**-**	-	**-**	-	**691**	808
Manufacturing	**-**	-	**-**	-	**-**	-	**3,065**	2,998
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**132**	172
Real estate - mortgage	**-**	-	**-**	-	**89**	-	**-**	-
Commercial property services	**-**	-	**213**	200	**60**	-	**30,275**	28,037
Other commercial and industrial	**-**	-	**-**	-	**1**	-	**12,933**	12,638
Total	**26,200**	33,089	**5,201**	2,198	**3,650**	444	**55,031**	53,375

(1) *Relates to provisions for doubtful debts raised on loans at amortised cost only.*

(2) *One exposure has been reclassified from Financial, investments and insurance for the year ended 30 September 2008.*

Concentrations of assets and liabilities

Group	Australia 2009 $m	Australia 2008 $m	Europe 2009 $m	Europe 2008 $m	New Zealand 2009 $m	New Zealand 2008 $m	Other 2009 $m	Other 2008 $m
Assets								
Cash and liquid assets	**3,141**	5,898	**18,379**	4,686	**217**	314	**4,097**	7,311
Due from other banks	**10,770**	16,878	**20,552**	28,136	**1,398**	1,197	**545**	785
Trading derivatives	**16,449**	18,683	**14,700**	11,451	**3,637**	3,271	**2,244**	2,383
Trading securities	**16,104**	16,381	**3,032**	1,776	**2,918**	2,333	**165**	277
Investments - available for sale	**417**	441	**3,908**	17	**277**	38	**3,331**	1,046
Investments - held to maturity	**6,030**	8,254	**7,896**	6,512	**246**	-	**3,357**	2,388
Investments relating to life insurance business	**54,215**	52,855	**-**	-	**39**	41	**-**	-
Other financial assets at fair value	**4,886**	5,283	**10,084**	8,915	**16,560**	16,402	**-**	-
Hedging derivatives	**1,730**	626	**1,881**	1,409	**315**	91	**-**	-
Loans and advances	**244,992**	237,771	**61,521**	77,044	**29,402**	28,219	**8,859**	10,041
Due from customers on acceptances	**55,031**	53,375	**4**	6	**-**	-	**-**	-
Property, plant and equipment	**1,051**	951	**444**	539	**116**	80	**105**	91
Goodwill and other intangible assets	**4,329**	4,352	**797**	863	**336**	318	**781**	802
Deferred tax assets	**2,512**	2,352	**311**	110	**250**	131	**199**	258
Other assets	**6,084**	8,819	**1,602**	3,726	**1,000**	557	**874**	316
Total assets	**427,741**	432,919	**145,111**	145,190	**56,711**	52,992	**24,557**	25,698
Liabilities								
Due to other banks	**14,515**	16,368	**16,880**	28,749	**940**	853	**3,813**	6,453
Trading derivatives	**16,472**	17,935	**15,037**	9,033	**4,375**	2,920	**2,206**	2,375
Other financial liabilities at fair value	**1,034**	967	**2,728**	3,728	**17,529**	18,869	**20**	20
Hedging derivatives	**1,238**	701	**207**	83	**686**	387	**-**	1
Deposits and other borrowings	**199,308**	198,833	**85,174**	73,860	**21,911**	21,344	**29,795**	33,429
Liability on acceptances	**16,887**	16,069	**4**	6	**-**	-	**-**	-
Life policy liabilities	**47,314**	46,150	**-**	-	**-**	-	**-**	-
Current tax liabilities	**(143)**	14	**(19)**	7	**531**	-	**13**	4
Provisions	**1,375**	1,197	**61**	69	**76**	61	**43**	32
Bonds, notes and subordinated debt	**81,086**	85,299	**9,642**	12,269	**-**	-	**64**	671
Other debt issues	**183**	306	**-**	-	**-**	-	**2,444**	1,316
Defined benefit pension scheme liabilities	**-**	-	**584**	-	**-**	-	**-**	-
External unitholders' liability	**7,458**	7,406	**-**	-	**-**	-	**-**	-
Deferred tax liabilities	**424**	279	**320**	362	**26**	33	**23**	28
Other liabilities	**5,859**	5,149	**6,875**	9,115	**587**	756	**700**	447
Total liabilities	**393,010**	396,673	**137,493**	137,281	**46,661**	45,223	**39,121**	44,776

Notes to the financial statements

43 Financial risk management (continued)

	Australia		Europe		New Zealand		Other	
Company	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Assets								
Cash and liquid assets	**1,346**	3,612	**18,095**	4,093	**-**	-	**3,996**	7,280
Due from other banks	**10,769**	16,865	**15,053**	15,620	**12**	1	**366**	603
Trading derivatives	**17,694**	19,206	**16,492**	11,878	**-**	-	**2,401**	2,478
Trading securities	**16,092**	16,378	**3,032**	1,775	**-**	-	**86**	271
Investments - available for sale	**295**	329	**1,098**	3	**-**	-	**2,257**	112
Investments - held to maturity	**-**	2	**3,715**	1,979	**-**	-	**1,486**	217
Other financial assets at fair value	**4,343**	2,448	**-**	-	**-**	-	**-**	-
Hedging derivatives	**1,723**	620	**162**	53	**-**	-	**-**	-
Loans and advances	**244,864**	237,542	**11,549**	11,693	**-**	-	**3,252**	4,015
Due from customers on acceptances	**55,031**	53,375	**-**	-	**-**	-	**-**	-
Current tax assets	**210**	-	**-**	-	**-**	-	**-**	-
Property, plant and equipment	**865**	761	**29**	34	**-**	-	**8**	8
Goodwill and other intangible assets	**515**	534	**3**	3	**-**	-	**2**	2
Deferred tax assets	**1,996**	1,277	**41**	55	**-**	-	**175**	205
Other assets	**57,090**	44,906	**7,736**	18,083	**63**	123	**7,359**	4,473
Total assets	**412,833**	397,855	**77,005**	65,269	**75**	124	**21,388**	19,664
Liabilities								
Due to other banks	**14,326**	15,975	**13,379**	19,832	**35**	83	**3,637**	6,400
Trading derivatives	**17,477**	18,462	**16,610**	9,536	**-**	-	**1,800**	2,461
Other financial liabilities at fair value	**1,034**	967	**2,617**	3,338	**-**	-	**20**	20
Hedging derivatives	**1,238**	701	**-**	3	**-**	-	**-**	1
Deposits and other borrowings	**198,375**	195,319	**36,559**	23,013	**-**	-	**16,149**	16,612
Liability on acceptances	**16,887**	16,069	**-**	-	**-**	-	**-**	-
Current tax liabilities	**52**	-	**(67)**	-	**-**	1	**15**	6
Provisions	**1,024**	883	**17**	15	**-**	-	**23**	14
Bonds, notes and subordinated debt	**78,438**	81,763	**-**	-	**-**	-	**-**	-
Other debt issues	**183**	306	**-**	-	**-**	-	**1,780**	600
Deferred tax liabilities	**551**	123	**43**	13	**-**	-	**-**	-
Other liabilities	**34,993**	22,158	**11,967**	14,067	**3**	-	**5,208**	5,599
Total liabilities	**364,578**	352,726	**81,125**	69,817	**38**	84	**28,632**	31,713

Market risk

The management of market risk is segregated between risks resulting from mainstream banking activities and risks derived from the Group's trading activities.

Market risk - Trading

The use of derivatives for trading purposes within the Group is subject to disciplines prescribed in the Traded Market Risk Policy. Traded market risk is primarily managed and controlled using VaR which is a standard measure used in the industry.

43 Financial risk management (continued)

Objectives and limitations of the VaR methodology

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, traded credit spreads, option volatility, equity prices and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is rolled monthly so as to have the most recent two year 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 in the VaR measure;
- 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 positions taken and closed before the end of each trading session; and
- VaR measure 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.

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

Value at risk for 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)]	
Group	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**1**	2	**4**	3	**1**	1	**9**	7
Interest rate risk	**6**	10	**9**	6	**5**	3	**15**	10
Volatility risk	**1**	3	**3**	1	**1**	1	**6**	3
Credit risk	**6**	9	**8**	10	**4**	2	**16**	15
Diversification benefit	**(6)**	(10)	**(11)**	(7)	**(4)**	(3)	**(26)**	(18)
Total value at risk for physical and derivative positions	**8**	14	**13**	13	**7**	4	**20**	17

	As at 30 September		Average value during reporting period		Minimum value during reporting period[(1)]		Maximum value during reporting period[(1)]	
Company	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m	**2009 $m**	2008 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**1**	2	**3**	2	**1**	-	**8**	6
Interest rate risk	**5**	8	**8**	6	**5**	2	**12**	9
Volatility risk	**1**	3	**3**	1	**-**	1	**6**	3
Credit risk	**6**	9	**7**	9	**4**	2	**14**	14
Diversification benefit	**(7)**	(10)	**(10)**	(7)	**(3)**	(2)	**(24)**	(16)
Total value at risk for physical and derivative positions	**6**	12	**11**	11	**7**	3	**16**	16

(1) *Value at risk is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk and credit risk. Risk limits are applied in these categories separately, and against the total risk position.*

43 Financial risk management (continued)

Market risk - Non-trading / Banking positions

Interest rate risk in the banking book (IRRBB)

IRRBB, introduced as part of Basel II, is measured, monitored, and managed on a regional basis from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the Group IRRBB policy. Risk measurement techniques include: Value at Risk (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:

- 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 twelve month forecast period;
- 8 years of business day historical data (updated daily by Group Non-Traded Market Risk);
- Rate changes are proportional rather than absolute;
- Investment term for capital is modelled with an established benchmark term of between 1 and 5 years; and
- Investment term for core “Non Bearing Interest” (non-interest rate bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

Model parameters and assumptions are reviewed and updated on at least an annual basis by Group Non-Traded Market Risk, in consultation with Group Treasury. Material changes require the approval of the Group/regional Asset and Liability Committee and are advised to the local regulatory authorities.

The table below shows the Group and Company aggregate VaR figures for Non-Traded Market Risk:

	2009			
Group	As at 30 September **$m**	Average value **$m**	Minimum value **$m**	Maximum value **$m**
Value at risk				
Australia Region	**99**	**87**	**51**	**151**
UK Region	**5**	**16**	**5**	**31**
New Zealand Region	**66**	**50**	**27**	**75**
Other	**5**	**12**	**3**	**24**
Earnings at risk				
Australia Region	**59**	**32**	**17**	**59**
UK Region	**25**	**15**	**6**	**28**
New Zealand Region	**2**	**3**	**2**	**5**
Other	**1**	**2**	**1**	**4**

	2008			
Group	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	85	70	35	123
UK Region	32	24	9	48
New Zealand Region	32	16	13	32
Earnings at risk				
Australia Region	28	17	13	28
UK Region	9	6	3	11
New Zealand Region	4	3	2	7

43 Financial risk management (continued)

Company	2009 As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	**99**	**87**	**51**	**151**
Earnings at risk				
Australia Region	**59**	**32**	**17**	**59**

Company	2008 As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	85	70	35	123
Earnings at risk				
Australia Region	28	17	13	28

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Group's balance sheet for the last two years as at 30 September according to when they are expected to be recovered or settled. The majority of the longer-term monetary assets are variable rate products, with actual maturities shorter than the contractual terms. Accordingly, this information is not relied upon by the Group in its management of interest rate risk *(refer to note 39 for information on interest rate sensitivity)*. See below "Cash flows payable under financial liabilities by contractual maturities" for the Group's contractual undiscounted repayment obligations.

Notes to the financial statements

43 Financial risk management (continued)

Group	At call $m	Overdrafts $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
2009								
Assets								
Cash and liquid assets	25,834	-	-	-	-	-	-	25,834
Due from other banks	16,210	109	13,490	3,456	-	-	-	33,265
Trading derivatives[1]	-	-	-	-	-	-	37,030	37,030
Trading securities	-	-	22,219	-	-	-	-	22,219
Investments - available for sale	-	-	2,265	103	4,354	1,043	168	7,933
Investments - held to maturity	-	-	4,051	524	3,789	9,165	-	17,529
Investments relating to life insurance business	-	-	16	162	8,506	2,534	43,036	54,254
Other financial assets at fair value	444	-	10,478	4,323	10,877	5,356	52	31,530
Loans and advances	6,532	16,196	17,814	45,093	69,224	189,915	-	344,774
Due from customers on acceptances	-	-	53,797	1,238	-	-	-	55,035
All other assets	-	-	-	-	-	-	24,717	24,717
Total assets	49,020	16,305	124,130	54,899	96,750	208,013	105,003	654,120
Liabilities								
Due to other banks	6,454	24	25,214	2,136	2,320	-	-	36,148
Trading derivatives[1]	-	-	-	-	-	-	38,090	38,090
Other financial liabilities at fair value	419	-	6,704	4,944	6,192	2,986	66	21,311
Deposits and other borrowings	138,794	-	131,569	53,803	10,976	1,046	-	336,188
Liability on acceptances	-	-	15,653	1,238	-	-	-	16,891
Life policy liabilities	-	-	-	-	-	-	47,314	47,314
Bonds, notes and subordinated debt	-	-	5,950	12,238	61,081	10,582	941	90,792
Other debt issues	-	-	-	-	-	-	2,627	2,627
All other liabilities	-	-	-	-	-	-	26,924	26,924
Total liabilities	145,667	24	185,090	74,359	80,569	14,614	115,962	616,285
Net (liabilities)/assets	(96,647)	16,281	(60,960)	(19,460)	16,181	193,399	(10,959)	37,835

Group	At call $m	Overdrafts $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
2008								
Assets								
Cash and liquid assets	18,209	-	-	-	-	-	-	18,209
Due from other banks	32,396	269	12,353	1,965	13	-	-	46,996
Trading derivatives[1]	-	-	-	-	-	-	35,788	35,788
Trading securities	-	-	20,767	-	-	-	-	20,767
Investments - available for sale	3	-	128	259	245	718	189	1,542
Investments - held to maturity	-	-	1,997	147	4,799	10,211	-	17,154
Investments relating to life insurance business	-	-	130	103	4,038	7,785	40,840	52,896
Other financial assets at fair value	1,421	-	8,668	5,501	10,277	4,658	75	30,600
Loans and advances	8,816	18,863	19,720	47,874	68,122	189,680	-	353,075
Due from customers on acceptances	-	-	52,218	1,163	-	-	-	53,381
All other assets	-	-	-	-	-	-	26,391	26,391
Total assets	60,845	19,132	115,981	57,012	87,494	213,052	103,283	656,799
Liabilities								
Due to other banks	9,883	602	30,102	5,526	6,310	-	-	52,423
Trading derivatives[1]	-	-	-	-	-	-	32,263	32,263
Other financial liabilities at fair value	362	-	9,849	5,129	5,731	2,446	67	23,584
Deposits and other borrowings	128,808	-	131,217	55,831	11,473	137	-	327,466
Liability on acceptances	-	-	14,912	1,163	-	-	-	16,075
Life policy liabilities	-	-	-	-	-	-	46,150	46,150
Bonds, notes and subordinated debt	-	-	6,206	22,230	59,358	10,088	357	98,239
Other debt issues	-	-	-	-	-	-	1,622	1,622
All other liabilities	-	-	-	-	-	-	26,131	26,131
Total liabilities	139,053	602	192,286	89,879	82,872	12,671	106,590	623,953
Net (liabilities)/assets	(78,208)	18,530	(76,305)	(32,867)	4,622	200,381	(3,307)	32,846

Notes to the financial statements

43 Financial risk management (continued)

Company	At call $m	Overdrafts $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
				2009				
Assets								
Cash and liquid assets	23,437	-	-	-	-	-	-	23,437
Due from other banks	10,126	8	12,610	3,456	-	-	-	26,200
Trading derivatives[(1)]	-	-	-	-	-	-	36,587	36,587
Trading securities	-	-	19,210	-	-	-	-	19,210
Investments - available for sale	-	-	2,257	53	1,244	-	96	3,650
Investments - held to maturity	-	-	2,823	478	1,900	-	-	5,201
Other financial assets at fair value	-	-	371	534	2,380	1,058	-	4,343
Loans and advances	6,532	7,039	15,216	35,161	57,864	137,853	-	259,665
Due from customers on acceptances	-	-	53,793	1,238	-	-	-	55,031
All other assets	-	-	-	-	-	-	77,977	77,977
Total assets	40,095	7,047	106,280	40,920	63,388	138,911	114,660	511,301
Liabilities								
Due to other banks	5,624	-	23,605	1,000	1,148	-	-	31,377
Trading derivatives[(1)]	-	-	-	-	-	-	35,887	35,887
Other financial liabilities at fair value	-	-	-	51	1,045	2,513	62	3,671
Deposits and other borrowings	98,623	-	106,387	39,189	6,884	-	-	251,083
Liability on acceptances	-	-	15,649	1,238	-	-	-	16,887
Bonds, notes and subordinated debt	-	-	5,463	11,324	51,380	9,330	941	78,438
Other debt issues	-	-	-	-	-	-	1,963	1,963
All other liabilities	-	-	-	-	-	-	55,067	55,067
Total liabilities	104,247	-	151,104	52,802	60,457	11,843	93,920	474,373
Net (liabilities)/assets	(64,152)	7,047	(44,824)	(11,882)	2,931	127,068	20,740	36,928

Company	At call $m	Overdrafts $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
				2008				
Assets								
Cash and liquid assets	14,985	-	-	-	-	-	-	14,985
Due from other banks	20,128	59	10,937	1,965	-	-	-	33,089
Trading derivatives[(1)]	-	-	-	-	-	-	33,562	33,562
Trading securities	-	-	18,424	-	-	-	-	18,424
Investments - available for sale	-	-	111	136	74	-	123	444
Investments - held to maturity	-	-	1,997	-	201	-	-	2,198
Other financial assets at fair value	-	-	144	566	1,434	304	-	2,448
Loans and advances	6,923	7,005	16,146	34,887	55,702	132,587	-	253,250
Due from customers on acceptances	-	-	52,212	1,163	-	-	-	53,375
All other assets	-	-	-	-	-	-	71,137	71,137
Total assets	42,036	7,064	99,971	38,717	57,411	132,891	104,822	482,912
Liabilities								
Due to other banks	9,875	-	26,286	4,823	1,306	-	-	42,290
Trading derivatives[(1)]	-	-	-	-	-	-	30,459	30,459
Other financial liabilities at fair value	-	-	77	868	1,414	1,903	63	4,325
Deposits and other borrowings	87,462	-	97,148	45,008	5,198	128	-	234,944
Liability on acceptances	-	-	14,906	1,163	-	-	-	16,069
Bonds, notes and subordinated debt	-	-	4,617	21,587	49,715	5,487	357	81,763
Other debt issues	-	-	-	-	-	-	906	906
All other liabilities	-	-	-	-	-	-	43,584	43,584
Total liabilities	97,337	-	143,034	73,449	57,633	7,518	75,369	454,340
Net (liabilities)/assets	(55,301)	7,064	(43,063)	(34,732)	(222)	125,373	29,453	28,572

(1) *The underlying derivative contracts have varying contractual maturity dates; however, the fair value of these contracts at balance date is more appropriately classified as no specific maturity. This is because the fair value amounts at balance date do not necessarily represent the future cash flows of the derivative contracts at their maturity dates and would therefore not be indicative of their liquidity and solvency position. Trading derivative positions are managed on a net basis and are highly liquid.*

Notes to the financial statements

43 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will require the Group to sell positions at a value which is below their underlying worth, or may result in the inability to exit from the positions. The liquidity of a derivative, or an entire market, can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants. In order to counter such risk, the Group concentrates its derivative activity in highly liquid markets.

The Group manages liquidity and funding risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets, maintenance of a prudent funding strategy and diversification of its funding base. The Group undertakes a conservative approach by imposing internal prudential limits that are in addition to regulatory requirements.

Cash flows payable under financial liabilities by contractual maturities

	2009							
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
Group	$m	$m	$m	$m	$m	$m	$m	$m
Due to other banks	6,037	24	22,029	5,830	2,391	-	-	36,311
Trading derivatives[(1)]	-	-	-	-	-	-	38,090	38,090
Other financial liabilities at fair value[(1)]	412	-	6,850	5,381	6,273	3,189	62	22,167
Deposits and other borrowings	138,147	-	133,779	54,435	11,204	1,047	-	338,612
Liability on acceptances	-	-	15,950	1,086	-	-	-	17,036
Life policy liabilities	-	-	-	-	-	-	47,314	47,314
Bonds, notes and subordinated debt	-	-	6,748	13,990	68,868	9,934	1,295	100,835
Other debt issues[(2)]	-	-	-	-	-	-	2,627	2,627
External unitholders' liability	-	-	-	-	-	-	7,458	7,458
All other liabilities[(3)]	-	-	-	-	-	-	7,321	7,321
Hedging derivatives								
- contractual amounts payable	-	-	2,594	9,144	16,366	1,611	-	29,715
- contractual amounts receivable	-	-	(2,170)	(6,932)	(13,233)	(1,379)	-	(23,714)
	144,596	24	185,780	82,934	91,869	14,402	104,167	623,772

	2008							
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
Group	$m	$m	$m	$m	$m	$m	$m	$m
Due to other banks	9,983	602	30,472	5,852	6,787	-	-	53,696
Trading derivatives[(1)]	-	-	-	-	-	-	32,263	32,263
Other financial liabilities at fair value[(1)]	367	-	10,430	5,392	6,607	2,652	67	25,515
Deposits and other borrowings	129,064	-	132,198	58,563	12,081	147	-	332,053
Liability on acceptances	-	-	15,018	1,188	-	-	-	16,206
Life policy liabilities	-	-	-	-	-	-	46,150	46,150
Bonds, notes and subordinated debt	-	-	7,634	26,122	66,384	11,635	357	112,132
Other debt issues[(2)]	-	-	-	-	-	-	1,622	1,622
External unitholders' liability	-	-	-	-	-	-	7,406	7,406
All other liabilities[(3)]	-	-	-	-	-	-	5,335	5,335
Hedging derivatives								
- contractual amounts payable	-	-	2,062	3,543	15,811	4,263	-	25,679
- contractual amounts receivable	-	-	(1,755)	(3,162)	(14,571)	(3,956)	-	(23,444)
	139,414	602	196,059	97,498	93,099	14,741	93,200	634,613

43 Financial risk management (continued)

	2009							
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
Company	$m	$m	$m	$m	$m	$m	$m	$m
Due to other banks	5,624	-	20,064	4,585	1,133	-	-	31,406
Trading derivatives[(1)]	-	-	-	-	-	-	35,887	35,887
Other financial liabilities at fair value[(1)]	2	-	22	149	1,095	2,350	62	3,680
Deposits and other borrowings	98,301	-	107,346	39,948	7,334	-	-	252,929
Liability on acceptances	-	-	15,946	1,086	-	-	-	17,032
Bonds, notes and subordinated debt	-	-	6,154	12,928	58,723	8,605	1,272	87,682
Other debt issues[(2)]	-	-	-	-	-	-	1,963	1,963
All other liabilities[(3)]	-	-	-	-	-	-	5,054	5,054
Hedging derivatives								
- contractual amounts payable	-	-	2,247	8,029	15,076	1,594	-	26,946
- contractual amounts receivable	-	-	(2,062)	(6,270)	(12,601)	(1,382)	-	(22,315)
	103,927	-	149,717	60,455	70,760	11,167	44,238	440,264

	2008							
	At call	Overdrafts	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	No specific maturity	Total
Company	$m	$m	$m	$m	$m	$m	$m	$m
Due to other banks	9,974	-	26,452	4,905	1,328	-	-	42,659
Trading derivatives[(1)]	-	-	-	-	-	-	30,459	30,459
Other financial liabilities at fair value[(1)]	-	-	88	996	1,580	2,090	63	4,817
Deposits and other borrowings	87,717	-	97,787	47,541	5,582	134	-	238,761
Liability on acceptances	-	-	15,011	1,188	-	-	-	16,199
Bonds, notes and subordinated debt	-	-	5,571	24,206	55,926	6,879	357	92,939
Other debt issues[(2)]	-	-	-	-	-	-	906	906
External unitholders' liability	-	-	-	-	-	-	-	-
All other liabilities[(3)]	-	-	-	-	-	-	2,607	2,607
Hedging derivatives								
- contractual amounts payable	-	-	2,038	3,525	15,693	4,216	-	25,472
- contractual amounts receivable	-	-	(1,743)	(3,149)	(14,491)	(3,915)	-	(23,298)
	97,691	-	145,204	79,212	65,618	9,404	34,392	431,521

(1) *Trading derivatives and certain portions of other financial liabilities at fair value have not been recognised by contractual maturity because they are typically held for varying periods of time.*

(2) *Certain debt issues have no dated maturity (refer to note 31 for further details). Therefore, the face value of these issues are disclosed as "no specific maturity". The next interest cash flows payable under these floating rate financial liabilities are $5 million monthly, $3 million quarterly and $29 million semi-annually (2008; nil monthly, $10 million quarterly, and $10 million semi-annually) for the Group, and $5 million monthly and $29 million semi-annually (2008: nil monthly and $10 million semi-annually) for the Company.*

(3) *Included in all other liabilities are only financial liabilities, which have not been recognised by contractual maturity as they are typically held for varying periods of time.*

The balances in the above table will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Liabilities in the trading portfolios have not been analysed by contractual maturities because they are typically held for short periods of time.

The table below shows the contractual expiry by maturity of the Group and Company contingent liabilities and commitments:

	2009					
	On-demand	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	Total
Group	$m	$m	$m	$m	$m	$m
Contingent liabilities	2,020	1,846	2,910	2,522	1,780	11,078
Commitments	24,226	14,322	31,808	29,505	12,301	112,162
	26,246	16,168	34,718	32,027	14,081	123,240

	2008					
	On-demand	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	Total
Group	$m	$m	$m	$m	$m	$m
Contingent liabilities	2,311	2,121	4,328	3,214	1,697	13,671
Commitments	21,827	18,759	49,469	36,402	12,867	139,324
	24,138	20,880	53,797	39,616	14,564	152,995

	2009					
	On-demand	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	Total
Company	$m	$m	$m	$m	$m	$m
Contingent liabilities	1,410	1,765	3,935	1,966	2,182	11,258
Commitments	10,124	11,121	28,353	24,328	8,524	82,450
	11,534	12,886	32,288	26,294	10,706	93,708

43 Financial risk management (continued)

	2008					
	On-demand	0 to 3 month(s)	3 to 12 months	1 to 5 year(s)	Over 5 years	Total
Company	$m	$m	$m	$m	$m	$m
Contingent liabilities	1,716	1,973	5,064	3,032	1,610	13,395
Commitments	10,025	16,318	34,783	28,324	8,047	97,497
	11,741	18,291	39,847	31,356	9,657	110,892

The Group expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

44 Fair value of financial instruments

AASB 7 “Financial Instruments: Disclosures” requires disclosure of the net fair value of on and off-balance sheet financial instruments. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet.

The estimated fair values are based on relevant information available for the last two years at 30 September. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. The methodologies and assumptions used in the fair value estimates are described below.

There are various limitations inherent in this fair value disclosure particularly in the current market where, due to the dislocation in the market, prices may not represent the underlying value. Not all of the Group’s financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investments securities from quoted market prices, where available. 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 difference to fair value represents the significant change in discount rates in the current distressed markets. This is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances. This is consistent with the treatment of assets of the wider Group.

		2009		2008	
Group	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**25,834**	**25,834**	18,209	18,209
Due from other banks	(a)	**33,265**	**33,265**	46,996	46,996
Trading derivatives	(b)	**37,030**	**37,030**	35,788	35,788
Trading securities	(c)	**22,219**	**22,219**	20,767	20,767
Investments - available for sale	(c)	**7,933**	**7,933**	1,542	1,542
Investments - held to maturity	(c)	**17,529**	**15,231**	17,154	15,138
Investments relating to life insurance business	(d)	**54,254**	**54,254**	52,896	52,896
Other financial assets at fair value	(e)	**31,530**	**31,530**	30,600	30,600
Hedging derivatives	(b)	**3,926**	**3,926**	2,126	2,126
Loans and advances	(f)	**344,774**	**345,382**	353,075	353,267
Due from customers on acceptances	(a)	**55,035**	**55,035**	53,381	53,381
Financial liabilities					
Due to other banks	(a)	**36,148**	**36,148**	52,423	52,423
Trading derivatives	(b)	**38,090**	**38,090**	32,263	32,263
Other financial liabilities at fair value	(e)	**21,311**	**21,311**	23,584	23,584
Hedging derivatives	(b)	**2,131**	**2,131**	1,172	1,172
Deposits and other borrowings	(g)	**336,188**	**337,118**	327,466	327,901
Liability on acceptances	(a)	**16,891**	**16,891**	16,075	16,075
Life insurance policy liabilities	(h)	**47,314**	**47,314**	46,150	46,150
Bonds, notes and subordinated debt	(i)	**90,792**	**91,254**	98,239	97,154
Other debt issues	(i)	**2,627**	**2,627**	1,622	1,622
External unitholders’ liability	(d)	**7,458**	**7,458**	7,406	7,406
Notes in circulation	(a)	**2,121**	**2,121**	2,726	2,726

44 Fair value of financial instruments (continued)

Company	Footnote	2009 Carrying value $m	2009 Fair value $m	2008 Carrying value $m	2008 Fair value $m
Financial assets					
Cash and liquid assets	(a)	**23,437**	**23,437**	14,985	14,985
Due from other banks	(a)	**26,200**	**26,200**	33,089	33,089
Trading derivatives	(b)	**36,587**	**36,587**	33,562	33,562
Trading securities	(c)	**19,210**	**19,210**	18,424	18,424
Investments - available for sale	(c)	**3,650**	**3,650**	444	444
Investments - held to maturity	(c)	**5,201**	**5,252**	2,198	2,114
Other financial assets at fair value	(e)	**4,343**	**4,343**	2,448	2,448
Hedging derivatives	(b)	**1,885**	**1,885**	673	673
Loans and advances	(f)	**259,665**	**260,017**	253,250	253,527
Due from customers on acceptances	(a)	**55,031**	**55,031**	53,375	53,375
Financial liabilities					
Due to other banks	(a)	**31,377**	**31,377**	42,290	42,290
Trading derivatives	(b)	**35,887**	**35,887**	30,459	30,459
Other financial liabilities at fair value	(e)	**3,671**	**3,671**	4,325	4,325
Hedging derivatives	(b)	**1,238**	**1,238**	705	705
Deposits and other borrowings	(g)	**251,083**	**251,383**	234,944	235,461
Liability on acceptances	(a)	**16,887**	**16,887**	16,069	16,069
Bonds, notes and subordinated debt	(i)	**78,438**	**78,900**	81,763	80,888
Other debt issues	(i)	**1,963**	**1,963**	906	906

The fair value estimates are based on the following methodologies and assumptions:

a) the carrying amounts of **cash and liquid assets, due from and to other banks, due from customers and liability on acceptances** and **notes in circulation** approximate their fair value as they are short term in nature or are receivable or payable on demand;

b) the fair values of **trading and hedging derivatives**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate. The fair value of SCDO risk mitigation derivatives are included;

c) the fair value of **trading securities**, **available for sale investments** and **held to maturity investments**, are based on quoted closing market prices at 30 September. 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 value of the SCDO assets held by securitisation conduits as held to maturity reflects the Group's exposure subsequent to the risk mitigation strategy;

d) the fair values of equity and debt securities held as **investments relating to life insurance business** and **external unitholders' liability** are based on quoted closing market prices at 30 September. Where no quoted market value exists, various valuation methods have been adopted as detailed in *note 1(p)*. In those instances, the values adopted are deemed equivalent to net fair value;

e) the fair value of **other financial assets and liabilities accounted for at fair value** are based on quoted market prices and data or valuation techniques based upon observable market data as appropriate to the nature and type of the underlying instrument;

f) the carrying value of **loans and advances** is net of specific and collective provision for doubtful debts and unearned income. The fair values of loans and advances that reprice within six months of year end are assumed to equate to the carrying value. The net fair values of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on the current interest rates at 30 September of similar types of loans and advances, if the loans and advances were performing at balance date. The differences between estimated fair values of loans and advances and carrying value reflect changes in interest rates and creditworthiness of borrowers since loan or advance origination;

g) with respect to **deposits and other borrowings**, the fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is the carrying value at 30 September. The fair value of other term deposits is calculated using discounted cash flow models based on the deposit type and its related maturity;

h) the fair value of **life insurance policy liabilities** is calculated using the Margin on Services methodology as detailed in *note 1(nn);*

i) the fair value 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

j) **commitments to extend credit, letters of credit, guarantees and warranties and indemnities issued** are considered to be financial instruments. These financial instruments 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 Group to a predetermined rate of interest. Also, the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements. Finally, the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material.

45 Operating leases

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Where the Group is the lessee, the future minimum lease payment under non-cancellable operating leases are:				
Due within 1 year	**299**	312	**251**	225
Due within 1 - 5 year(s)	**949**	970	**810**	682
Due after 5 years	**1,381**	1,157	**551**	518
Total non-cancellable operating lease commitments	**2,629**	2,439	**1,612**	1,425

The Group leases various offices, branches 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.

The total of future minimum sub-lease payments to be received under non-cancellable sub-leases at 30 September 2009 is $8 million (2008: $5 million). During the 2009 year, sub-lease payments received amounted to $17 million (2008: $15 million) and were netted against operating lease rental expense.

The Group enters into sale and leaseback arrangements for various properties. These transactions are generally for a term of five years, or 10 years for major properties. There is no ongoing involvement in the properties other than rental payments.

Where the Group is the lessor, the future minimum lease receipts under non-cancellable operating leases are:

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Due within 1 year	**4**	5	**-**	-
Due within 1 - 5 year(s)	**6**	9	**-**	-
Due after 5 years	**4**	7	**-**	-
Total non-cancellable operating lease receivables	**14**	21	**-**	-

46 Capital expenditure commitments

	Group		Company	
	2009 $m	2008 $m	**2009 $m**	2008 $m
Land and buildings				
Due within 1 year	**90**	126	**88**	105
Due within 1 - 5 year(s)	**-**	18	**-**	18
Data processing and other equipment				
Due within 1 year	**34**	50	**29**	48
Other				
Due within 1 year	**19**	25	**15**	15
Due within 1 - 5 year(s)	**1**	1	**1**	-
Due after 5 years	**-**	1	**-**	-
Total capital expenditure commitments	**144**	221	**133**	186

47 Related party disclosures

Transactions during the year with related parties

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company 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 with overseas controlled entities and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to these share issues is recharged from the Company to the employing subsidiaries in the Group. *For further details, refer to note 37*.

The aggregate of material amounts receivable from or payable to controlled entities, at balance date, is disclosed in the balance sheet. *Refer to note 21 for details of the Company's investment in controlled entities. Refer to note 41 for details of controlled entities.* The Company has certain guarantees and undertakings with entities in the Group. *For further details, refer to note 42.*

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 from subsidiaries for the last two years to 30 September were:

	Company	
	2009 $m	2008 $m
Subsidiaries		
Balance at beginning of year	**7,794**	6,900
Net cash flows in amounts due from/to controlled entities	**1,306**	2,263
Provisions for impairment of intercompany loans to securitisation conduits	**(52)**	(1,011)
Foreign currency translation adjustments	**(787)**	(358)
Balance at end of year	**8,261**	7,794

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2009 $m	2008 $m
Net interest income	**436**	368
Net operating lease revenue	**15**	21
Net management fees	**64**	132
Dividend revenue	**1,276**	1,116

Superannuation funds

The following payments were made to superannuation funds sponsored by the Group:

	Group		Company	
Payment from Group/Company to:	**2009 $m**	2008 $m	**2009 $m**	2008 $m
National Australia Bank Group Superannuation Fund A	**173**	80	**173**	80
Clydesdale Bank Pension Scheme	**75**	128	**-**	-
National Australia Bank UK Retirement Benefits Plan	**4**	5	**4**	5
Yorkshire Bank Pension Fund	**10**	61	**-**	-
National Wealth Management Superannuation Plan (Australia)	**6**	5	**-**	-

Transactions between the superannuation funds and Group during the last two years were made on commercial terms and conditions and are considered trivial in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

47 Related party disclosures (continued)

Details of key management personnel (KMP) of the Group

Name	Position
CA Clyne	Executive Director, Group Chief Executive Officer
MA Joiner	Executive Director, Group Chief Financial Officer
MJ Ullmer	Executive Director, Deputy Group Chief Executive Officer
LJ Gray[(2)]	Group Executive Personal Banking
MJ Healey[(2)]	Group Executive Governance
JC Healy[(2)]	Group Executive Business Banking
BF Munro[(1)]	Group Chief Risk Officer
LM Peacock	Group Executive United Kingdom
RJ Sawers[(2)]	Group Executive Wholesale Banking
GR Slater[(2)]	Group Executive Group Business Services
AG Thorburn[(3)]	Group Executive New Zealand, Asia and United States
SJ Tucker[(2)]	Group Executive MLC and NAB Wealth
JE Hooper[(5)]	KMP Position: Chief Executive Officer, nabCapital Current Position: Executive Director - UK Business
PL Thodey[(4)]	KMP Position: Group Executive Office of the CEO Current Position: Executive General Manager Specialised Group Assets
A Fahour[(6)]	Former Director (Executive) and Former Executive Director and Chief Executive Officer, Australia
G Frazis[(7)]	Former Group Executive General Manager, Development and New Business
MJ Hamar[(8)]	Former Group Chief Risk Officer
JM Stewart[(9)]	Former Executive Director and Former Group Chief Executive
MA Chaney	Non-executive director, Chairman
PA Cross	Non-executive director
DT Gilbert	Non-executive director
PJ Rizzo	Non-executive director
JS Segal	Non-executive director
JG Thorn	Non-executive director
GA Tomlinson	Non-executive director
JA Waller[(11)]	Non-executive director
GM Williamson	Non-executive director
TK McDonald[(10)]	Non-executive director

(1) *Commenced as KMP from 1 January 2009.*
(2) *Commenced as KMP from 12 March 2009.*
(3) *Commenced as KMP from 1 December 2008.*
(4) *Ceased as KMP from 31 August 2009.*
(5) *Ceased as KMP from 11 March 2009.*
(6) *Retired from the Board effective 20 February 2009 and ceased employment with the Company effective 10 July 2009.*
(7) *Ceased employment with the Company effective 5 December 2008.*
(8) *Ceased employment with the Company effective 5 January 2009.*
(9) *Retired from the Board effective 31 December 2008 and ceased employment with the Company effective 31 December 2008.*
(10) *Retired from the Board effective 7 November 2008.*
(11) *Commenced as Non-executive director on 4 February 2009.*

Details of directors of the Company who held office during the year are set out in the Report of the directors.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended 30 September:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
Company and Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2009	**17,340,468**	**7,430,736**	**625,026**	**1,110,496**	**51,646**	**11,228,992**	**7,805,762**	**5,123,333**	**50,716,459**
2008	14,560,629	8,329,717	795,122	1,018,858	50,045	8,781,741	10,453,200	-	43,989,312

The Group applies AASB 2008-4 “Amendments to Australian Accounting Standard - Key Management Personnel Disclosures by Disclosing Entities”. AASB 2008-4 amends AASB 124 “Related Party Disclosures” such that disclosing entities that are companies are not required to provide further detailed remuneration disclosures, in relation to KMP, where it would result in the duplication of disclosures provided in the remuneration report. For further KMP remuneration disclosures, refer to the remuneration report.

Performance options, performance rights and shareholdings of KMP are set out in *note 48*.

47 Related party disclosures (continued)

Loans to KMP and their related parties

Loans made to directors of the Company are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions.

Loans to other KMP of the Company and Group may be made on similar terms and conditions generally available to other employees within the Group. Loans to KMP of the Company and Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act* 2001 (Cth).

Loans to KMP of the Company and 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 2008, the balance at the beginning of 2009 reflects the actual opening balance, and therefore, may differ from the prior year closing balance. Additionally, the balance as at the end of 2008 does not equal the balance at the beginning of 2009 because of changes to the KMP of the Group and Company between 2008 and 2009. The table below categorises the KMP and their related party loans:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP in Group during year No.
KMP							
2009	**Normal**	**12,829,011**	**818,403**	**-**	**-**	**15,374,431**	**15**
	Employee	**9,757,478**	**393,760**	**-**	**-**	**5,780,922**	**10**
2008	Normal	6,735,372	687,450	-	-	9,938,739	8
	Employee	1,993,724	243,700	-	-	5,346,549	3
Other related parties[(1)]							
2009	**Normal**	**22,752,023**	**1,910,079**	**-**	**-**	**29,856,894**	**10**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2008	Normal	24,398,771	2,751,352	-	-	21,676,161	7
	Employee	-	-	-	-	-	-

(1) *Includes close family members of KMP and any entity KMP or close family members of KMP control, jointly control or significantly influence.*

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended 30 September 2009 were:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year[(1)] $
KMP							
AG Thorburn	Employee	847,222	80,007	-	-	684,159	1,004,850
	Normal	594	77,157	-	-	1,646,509	4,432
BF Munro	Employee	138,651	8,843	-	-	162,368	166,655
CA Clyne[(2)]	Employee	3,579,000	75,438	-	-	-	-
	Normal	3,691	91,318	-	-	3,803,529	3,803,529
DT Gilbert[(3)]	Normal	22,031,015	1,758,389	-	-	27,190,010	799,116
GR Slater	Employee	-	11,931	-	-	1,677,739	1,684,000
	Normal	-	1,218	-	-	290,783	290,783
G Frazis	Normal	8,869,839	480,092	-	-	7,871,697	8,906,322
JA Waller	Normal	10,212	208	-	-	420	104,273
JE Hooper	Employee	26,824	1,259	-	-	255,154	255,154
	Normal	225,640	6,683	-	-	183,686	213,334
JC Healy	Normal	1,077,191	59,838	-	-	-	1,085,930
LJ Gray	Employee	388,120	18,838	-	-	199,037	383,245
	Normal	1,800,952	114,123	-	-	1,936,660	1,800,566
MA Joiner[(2)]	Employee	1,742,934	42,713	-	-	-	1,742,934
	Normal	-	30,421	-	-	766,710	-
MJ Healey	Employee	461,000	26,974	-	-	461,000	461,000
	Normal	1,500,000	107,148	-	-	1,500,000	-
PA Cross	Normal	5,723	1,367	-	-	18,092	178,479
RJ Sawers	Employee	325,000	19,500	-	-	325,000	325,000
SJ Tucker	Employee	2,248,728	108,256	-	-	2,016,466	2,650,374

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

(2) *Effective from the date Mr Clyne and Mr Joiner were appointed directors of the Company, the terms of loans provided are on terms equivalent to those that prevail in arm's length transactions rather than on terms and conditions generally available to employees of the Group.*

(3) *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. The loans provided are on terms equivalent to those that prevail in arm's length transactions.*

Other financial instrument transactions

All other transactions with KMP of the Company and Group and their related parties 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 of the Company and Group 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 financial report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.

48 Equity instrument holdings of key management personnel

Equity instrument disclosures relating to key management personnel (KMP)

(i) Terms and conditions of performance options and performance rights grants

Performance options and performance rights granted by the Company to KMP of the Company and Group, including executive directors of the Company, are over ordinary shares under the Company's National Australia Bank Executive Share Option Plan No. 2 (option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right granted to KMP during the year, including fair value, exercise period, exercise price and performance conditions, are detailed in the remuneration report. The Company is moving to a policy of generally providing performance shares rather than options and rights as long-term incentives.

Performance options holdings

The number of performance options over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance options						
Name	Balance at beginning of year[1]	Granted during year as remuneration	Exercised during year	Other changes during year[2]	Balance at end of year	Vested during year	Vested and exercisable at end of year
KMP on 30 September 2009							
Executive directors							
CA Clyne	412,962	-	-	(55,000)	357,962	-	-
MA Joiner	423,446	156,250	-	-	579,696	-	-
MJ Ullmer	582,637	162,760	-	(100,000)	645,397	-	-
Other senior executives							
LJ Gray	204,000	-	-	-	204,000	5,917	5,917
MJ Healey	36,525	-	-	-	36,525	-	-
JC Healy	12,500	-	-	-	12,500	-	-
BF Munro	130,000	-	-	(35,000)	95,000	-	-
LM Peacock	813,115	190,338	-	-	1,003,453	-	-
RJ Sawers	81,250	-	-	-	81,250	-	-
GR Slater	225,250	-	-	(10,000)	215,250	-	-
AG Thorburn	242,250	-	-	-	242,250		
SJ Tucker	382,250	-	-	(25,000)	357,250	-	-
Other KMP during the year to 30 September 2009							
A Fahour	1,093,224	265,625	-	(160,000)	1,198,849	-	-
G Frazis	298,238	121,094	-	(419,332)	-	-	-
MJ Hamar	241,469	-	-	(40,000)	201,469	-	-
JE Hooper	532,772	156,250	-	(20,000)	669,022	-	-
PL Thodey	804,833	121,094	-	(100,000)	825,927	-	-
JM Stewart	1,675,000	-	-	(900,000)	775,000	-	-

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

(2) *Performance options lapsed or expired during the year.*

No performance options were vested and unexercisable at 30 September 2009.

48 Equity instrument holdings of key management personnel (continued)

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance rights						
Name	Balance at beginning of year[(1)]	Granted during year as remuneration	Exercised during year	Other changes during year[(2)]	Balance at end of year	Vested during year	Vested and exercisable at end of year
KMP on 30 September 2009							
Executive directors							
CA Clyne	107,558	100,969	-	(13,750)	194,777	-	-
MA Joiner	57,032	-	-	-	57,032	-	-
MJ Ullmer	102,879	-	-	(25,000)	77,879	-	-
Other senior executives							
LJ Gray	32,876	-	-	-	32,876	-	-
MJ Healey	9,132	-	-	-	9,132	-	-
JC Healy	3,125	-	-	-	3,125	-	-
BF Munro	37,552	49,823	-	(8,750)	78,625	-	-
LM Peacock	160,366	-	-	-	160,366	-	-
RJ Sawers	20,313	-	-	-	20,313	-	-
GR Slater	47,563	-	-	-	47,563	-	-
AG Thorburn	60,563	53,381	-	-	113,944	-	-
SJ Tucker	74,313	-	-	-	74,313	-	-
Other KMP during the year to 30 September 2009							
A Fahour	182,063	-	-	(40,000)	142,063	-	-
G Frazis	67,913	-	-	(67,913)	-	-	-
MJ Hamar	35,970	-	-	(10,000)	25,970	-	-
JE Hooper	80,586	-	-	-	80,586	-	-
PL Thodey	145,420	27,581	-	-	173,001	-	-
JM Stewart	649,750	-	-	(210,000)	439,750	-	-

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

[(2)] *Performance rights lapsed or expired during the year.*

No performance rights were vested and unexercisable at 30 September 2009.

48 Equity instrument holdings of key management personnel (continued)

(ii) Shareholdings

The numbers of shares in the Company held by each KMP of the Company and 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:

	Balance at beginning of year(1)	Granted during year as remuneration(2)	Received during year on exercise of performance options or rights	Other changes during year	Balance at end of year(3)
KMP on 30 September 2009					
Executive directors					
CA Clyne	16,105	78,891	-	-	94,996
MA Joiner	240,528	58,892	-	-	299,420
MJ Ullmer	103,384	52,023	-	13,049	168,456
Other senior executives					
LJ Gray	17,104	25,782	-	-	42,886
MJ Healey	25,804	24,327	-	808	50,939
JC Healy	66,492	61,415	-	703	128,610
BF Munro	22,510	3,407	-	-	25,917
LM Peacock	112,232	145,678	-	-	257,910
RJ Sawers	56,742	12,652	-	202	69,596
GR Slater	43,919	44,759	-	(2,000)	86,678
AG Thorburn	75,933	6,538	-	-	82,471
SJ Tucker	49,661	14,337	-	(6,600)	57,398
Other KMP during the year to 30 September 2009					
A Fahour	648,208	125,056	-	(770,689)	2,575
G Frazis	115,995	26,297	-	(133,071)	9,221
MJ Hamar	31,714	-	-	(12,814)	18,900
JE Hooper	77,604	30,365	-	-	107,969
PL Thodey	23,106	5,527	-	-	28,633
JM Stewart	144,746	-	-	-	144,746
Non-executive directors					
MA Chaney	24,969	3,404	-	-	28,373
PA Cross	13,617	5,028	-	-	18,645
DT Gilbert	17,044	2,146	-	-	19,190
TK McDonald	3,130	-	-	(3,130)	-
PJ Rizzo	4,452	1,372	-	-	5,824
JS Segal	12,766	4,220	-	-	16,986
JG Thorn	11,094	1,239	-	-	12,333
GA Tomlinson	36,174	3,379	-	60	39,613
JA Waller	-	-	-	2,000	2,000
GM Williamson	9,096	311	-	-	9,407

(1) *Balance may include shares granted prior to individuals becoming KMP.*
(2) *For details regarding the terms and conditions of shares granted as remuneration under NAB employee share plans to KMP during the year, refer to the remuneration report.*
(3) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company.*

Transactions involving equity instruments, other than equity-based remuneration, with KMP of the Company and Group or their related parties are set out below:

Non-executive directors	Balance at beginning of year	Changes during year	Balance at end of year
National Income Securities			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180
GA Tomlinson	350	-	350
MJ Ullmer	-	841	841
Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd			
JA Waller	-	250,000	250,000

49 Remuneration of external auditor

	Group 2009 $'000	Group 2008 $'000	Company 2009 $'000	Company 2008 $'000
Total fees paid or due and payable to Ernst & Young Australia:[1]				
Audit fees				
Audit and review of financial statements	**11,166**	10,344	**7,009**	7,331
Comfort letters	**172**	318	**172**	318
Total audit fees	**11,338**	10,662	**7,181**	7,649
Audit-related fees				
Regulatory	**4,190**	4,833	**2,251**	2,775
Non-regulatory	**881**	652	**673**	507
Total audit-related fees	**5,071**	5,485	**2,924**	3,282
All other fees	**4,708**	2,060	**2,952**	939
Total remuneration of Ernst & Young Australia	**21,117**	18,207	**13,057**	11,870
Amounts paid or due and payable to overseas practices for Ernst & Young:[1]				
Audit fees				
Audit and review of financial statements	**6,834**	7,619	**1,217**	1,204
Comfort letters	**322**	182	**-**	-
Total audit fees	**7,156**	7,801	**1,217**	1,204
Audit-related fees				
Regulatory	**1,197**	424	**63**	54
Non-regulatory	**71**	24	**-**	-
Total audit-related fees	**1,268**	448	**63**	54
All other fees	**171**	12	**-**	-
Total remuneration of overseas practices of Ernst & Young	**8,595**	8,261	**1,280**	1,258
Amounts paid or due and payable to BKD LLP for:[1][2]				
Audit fees				
Audit and review of financial statements of Great Western Bank	**328**	-	**-**	-
Total audit fees	**328**	-	**-**	-
Total remuneration of BKD LLP	**328**	-	**-**	-

(1) *Fees exclude goods and services tax, value-added tax or equivalent taxes.*

(2) *BKD LLP were appointed auditor of the National's US subsidiary, Great Western Bancorporation, Inc on 17 January 2009.*

Audit fees consist of fees for the audit of the annual consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings.

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls. For 2009 and 2008 this included assurance services relating to the Group's Basel II programme and APRA reporting requirements and audits of the Group's Australian Financial Services Licenses.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. For 2009 and 2008 these services include assurance services relating to the Group's credit assessments, procedures in relation to financial disclosures by the Group such as its annual and half-year results announcements and corporate responsibility detailed fact and information pack. For 2009, this included agreed upon procedures relating to the Group's conduit assets.

For 2009 and 2008, all other fees includes regulatory or compliance audits/attestations for Wealth Management entities and assessments of the Group's IT transformation program. For 2009, all other fees included payments totalling $2.73 million (2008: $0.3 million) under an indemnity in a receivership agreement pre-dating the appointment of Ernst & Young as National's auditor. The payments were for reimbursement of legal fees and settlement costs incurred by Ernst & Young in relation to a third party legal action.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 44. Further details of the non-audit services provided by Ernst & Young to the Group during 2009 and the fees paid or due and payable for those services are set out in the report of the directors.

50 Fiduciary activities

The Group's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. The aggregate amounts of funds concerned, which are not included in the Group's balance sheet, are as follows:

	Group	
	2009 **$m**	2008 $m
Funds under management	**17,407**	24,603
Funds under trusteeship	**7,375**	6,485
Funds under custody and investment administration	**632,238**	515,562

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

51 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) and MLC Lifetime Company Limited (MLC Lifetime) in Australia and BNZ Life Insurance Limited in New Zealand. This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities.

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this annual financial report, including compliance with the regulations of the *Life Insurance Act* 1995 (Cth) where appropriate. Further details are set out in the various insurance statutory returns of these life insurers.

(a) Details of the solvency position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act* 1995 (Cth), life insurers are required to hold reserves in excess of policy liabilities to meet certain solvency and capital adequacy requirements. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long-term risks. In Australia, the Australian Prudential Regulation Authority has issued Prudential Standard LPS 2.04 "Solvency Standard" for determining the level of solvency reserves. This standard prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund. Capital adequacy is determined in accordance with Prudential Standard LPS 3.04 "Capital Adequacy Standard".

The summarised information provided below has been extracted from the financial statements prepared by each Australian life insurer in the Group for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules for 2009 and 2008. For detailed solvency information on a statutory funds basis, users of this annual financial report should refer to the financial statements prepared by each life insurer.

	MLC		MLC Lifetime	
	2009 **$m**	2008 $m	**2009** **$m**	2008 $m
Solvency reserve as at 30 September	**541**	610	**126**	112
Assets available for solvency as at 30 September	**828**	982	**254**	248
Coverage of solvency reserve (times)	**1.5**	1.6	**2.0**	2.2

Non-Australian life insurers

The non-Australian life insurers in the Group are not governed by the *Life Insurance Act* 1995 (Cth) as they are foreign-domiciled life insurance companies. Each of these companies is required to meet similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

(b) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

The policy liabilities have been calculated in accordance with Prudential Standard LPS 1.04 "Valuation of Policy Liabilities" issued by the Australian Prudential Regulation Authority *(refer to note 1(bb))*. This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 for life insurance contracts, and AASB 139 and AASB 118 for life investment contracts.

51 Life insurance business disclosures (continued)

(ii) Types of business and profit carriers

The methods used, and in the case of insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	Actuarial method	Profit carrier
Investment-linked	Fair value	n/a
Non-investment-linked		
Traditional business - participating	Projection	Bonuses
Traditional business - non-participating	Projection	Claims
Term life insurance - regular premiums	Projection	Claims
Term life insurance - single premium	Projection	Claims
Disability income insurance	Projection	Claims
Annuity business	Projection	Annuity payments

(iii) Discount rates

These are the rates used to discount future cash flows to determine their net present value. To the extent that policy benefits are contractually linked to the performance of assets held, the rate used is based on the market returns of those assets. For other policy liabilities, the rates used are based on risk-free rates.

Discount rates	MLC and MLC Lifetime **2009**	2008
Traditional business - participating		
Ordinary(1)	**5.7%**	5.4%
Superannuation(1)	**6.9%**	6.6%
Traditional business - non-participating		
Ordinary	**6.3%**	6.2%
Term life and disability income (excluding claims in payment) insurance	**5.3 - 6.5%**	6.1 - 6.2%
Disability claims in payment	**6.2%**	6.2%
Annuity business(2)	**4.3 - 6.1%**	5.9 - 6.0%

(1) *After tax.*

(2) *After investment expense of 0.20%.*

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by inflation of 2.4% (2008: 3.4%) per annum for MLC Limited and MLC Lifetime. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the consumer price index. The policy liabilities assume a future take-up of these indexation options based on the relevant company's recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability and salary continuance claims was 2.3% (2008: 3.4%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *note 1(hh)*.

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, with adjustments to claim incidence and termination rates based on recent experience as follows:

	MLC and MLC Lifetime
Traditional business	Male: 95% of IA 95-97(1) Female: 100% of IA 95-97(1)
Term life insurance	Male: 65 - 72.5% of IA 95-97 for non-smokers with adjustments for smokers(1) Female: 65 - 75% of IA 95-97 for non-smokers with adjustments for smokers(1)
Loan cover term life insurance	Male/Female: 80 - 110% of IA 95-97 for non-smokers with adjustments for smokers(1)
Disability income insurance	Male: Rates similar to 105% of incidence and 40 - 105% of termination rates of IAD 89-93(2) Female: Rates similar to 75% of incidence and 40 - 105% of termination rates of IAD 89-93(2)
Loan cover disability income insurance	Male/Female: Rates similar to 115 - 150% for non-smokers and 145 - 185% for smokers of incidence and 100% of termination rates of IAD 89-93(2)
Annuity business	Male: 61.75% + 0.95% for each year > 75 to max 95% of IM 92(3) Female: 47.5% + 1.5% for each year > 75 to max 100% of IF 92(3)

(1) *IA 95-97 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.*

(2) *IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.*

(3) *IM 92 and IF 92 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1991 to 1994. The tables refer to male and female lives, respectively and incorporate factors which allow for mortality improvements since the date of the investigation (there is no standard Australian annuitant mortality table).*

51 Life insurance business disclosures (continued)

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows:

Product type	MLC and MLC Lifetime 2009	2008
Traditional business - participating		
Ordinary	**6%**	6%
Superannuation	**7%**	7%
Term life insurance	**10% - 11%**	10%
Disability insurance	**11% - 12%**	11 - 12%
Loan cover term life and disability income insurance	**30% - 32%**	31%

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts. The surrender value basis for traditional policies typically includes a recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Insurance Act* 1995 (Cth).

(ix) Future participating benefits

For participating business, the Group's policy is to set bonus rates such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of business are:

	Ordinary business		Superannuation business	
	2009	2008	**2009**	2008
Bonus rate on sum assured	**1.6%**	1.4%	**2.2%**	2.2%
Bonus rate on existing bonuses	**1.6%**	1.4%	**2.2%**	2.2%

(c) Disclosure of assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(d) Effects of changes in actuarial assumptions from 30 September 2008 to 30 September 2009

	Change in future profit margins increase/ (decrease) $m	Change in net policy liabilities increase/ (decrease) $m
Assumption category		
Market-related changes to discount rates	(18)	8
Non-market-related changes to discount rates	-	-
Inflation rate	10	(23)
Mortality and morbidity	(92)	17
Discontinuance rates	(81)	-
Maintenance expenses	(17)	-
Other assumptions	-	-
Total	(198)	2

Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as risk discount rate, mortality, morbidity, discontinuances and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The following table illustrates how changes in key assumptions (other than interest rates) would impact the reported profit and policy liabilities of the Group in respect of life insurance business. The Group's exposure to interest rate risk is disclosed in *note 39*.

51 Life insurance business disclosures (continued)

	Change in variable	Gross (before reinsurance) Profit/(loss) and Shareholder's Equity $m	Gross (before reinsurance) Policy liabilities $m	Net (of reinsurance) Profit/(loss) and Shareholder's Equity $m	Net (of reinsurance) Policy liabilities $m
Inflation rate	0.5% increase in inflation rate	8	-	8	(1)
Annuitant mortality	50% increase in rate of mortality improvements	(2)	3	(2)	3
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(13)	19	(12)	17
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

Terms and conditions of insurance contracts

The key terms and conditions of the life insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows are outlined below:

Type of contract	Nature of product	Key risks affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapse rates, investment earnings

	Group 2009 $m	Group 2008 $m
Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	**168**	179
Experience profit/(loss)	**(38)**	8
Life investment contracts		
Fees earned	**85**	120
Investment earnings on shareholder retained profits and capital	**49**	52

	Total life insurance funds 2009 $m	Total life insurance funds 2008 $m
Schedule of expenses		
Outward reinsurance expense	**149**	132
Claims expense	**477**	492
Change in policy liabilities	**373**	(8,378)
Policy acquisition expense		
Commission	**207**	230
Other	**157**	146
Policy maintenance expense		
Commission	**182**	215
Other	**209**	226
Investment management expense	**37**	34
Total life insurance expenses	**1,791**	(6,903)

52 Capital adequacy

As an authorised deposit-taking institution (ADI), the National Australia Bank Limited is subject to regulation by APRA under the authority of the *Banking Act* 1959. APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel II Framework.

The Group's capital structure comprises various forms of capital. For regulatory purposes, capital has two base elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at net Tier 1 and net Tier 2 capital. Tier 1 capital is made up of largely what is presented in the financial accounts being shareholders equity. From this a number of elements must be deducted such as goodwill. As such it is sometimes also referred to as core equity. Tier 2 capital is the next group that, when combined with Tier 1 capital, represents the total capital available to support the Group from a regulatory view against unexpected losses. It generally includes long term subordinated debt and unrealised market gains.

APRA has set minimum ratios that compare the regulatory capital with risk-weighted assets (on and off balance sheet). Australian banks are required to maintain a minimum ratio of total eligible capital to total risk-weighted assets of 8.0%, of which a minimum of 4.0% must be held in Tier 1 capital. The numerator of the ratio is the Total Capital base. The denominator of the ratio is the total risk-weighted asset exposure (i.e. the sum of all credit, operational, IRRBB and market risk-weighted exposure).

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

Under APRA's Prudential Standards, life insurance and funds management activities are de-consolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital with the balance of the investment deducted 50% from Tier 1 and 50% from Tier 2 capital. Additionally any profits from these activities included in the Group's results are excluded from the determination of Tier 1 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 Principal Board. Target ranges are set by reference to factors such as the risk appetite of the Principal Board, and market, regulatory and rating agencies expectations. In the current environment the Group's target Tier 1 ratio is above 7%.

53 Events subsequent to balance date

Business combinations

On 22 June 2009, the Group announced that it had agreed to acquire Aviva Australia Holdings Limited (AAHL). Effective 1 October 2009, National Wealth Management Holdings Limited completed the acquisition of 100% of the issued share capital of AAHL for initial cash consideration of $825 million, subject to adjustment for the movement in net assets of the acquired business from 31 December 2008 to the acquisition date. As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition is expected to enhance the Group's offering in key wealth management segments including life insurance and investment platforms. The name AAHL has subsequently been changed to MLC Wealth Management Limited.

On 29 July 2009, the Group announced that it had agreed to enter into a strategic alliance with Goldman Sachs JBWere in private wealth management. On 30 October 2009, National Wealth Management Holdings Limited completed the acquisition of 80.1% of JBWere Pty Limited for $85.5 million, subject to adjustment for movement in net assets, plus additional consideration which may become payable over the next three years depending on performance. Additional payments will be made to contribute to working capital and employee retention. As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition is expected to provide an enhanced outcome for clients of the Group and JBWere through their ability to access an expanded service offering.

On 18 August 2009, the Group announced that it had agreed to acquire Challenger Financial Services Group Limited's mortgage management business. On 30 October 2009, National Australia Bank Limited completed the acquisition of 100% of the issued share capital of Challenger Mortgage Management Holdings Pty Ltd for initial cash consideration of $360 million, subject to adjustment for movement in net assets. As part of the transaction the Group also acquired a selected portfolio of residential mortgage loans for $4.5 billion and 17.5% of the ordinary issued share capital of Homeloans Ltd for $10.7 million (with the potential to increase this to 41% for an additional $14.3 million). As at the date of this financial report, the acquisition balance sheet is still being prepared and information on the pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed is not yet available. The acquisition provides the Group with additional distribution and capability in the Australian mortgage market. The name of Challenger Mortgage Management Holdings Pty Ltd has subsequently been changed to Advantedge Financial Services Holdings Pty Ltd.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1. (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 48 to 143 and the additional disclosures included in the audited pages of the remuneration report, comply with Accounting Standards in Australia 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 the Company and the Group as at 30 September 2009, and of the performance of the Company and the Group for the year ended 30 September 2009;
   (c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
   (d) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and
2. there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 *(refer to notes 41 and 42 to the financial statements for further details).*

Dated this 13th day of November 2009 and signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

Cameron A Clyne
Group Chief Executive Officer

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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Independent auditor's report to the members of National Australia Bank Limited

Report on the Financial Report

We have audited the accompanying financial report of National Australia Bank Limited (the Company), which comprises the balance sheet as at 30 September 2009, and the income statement, recognised income and expense statement and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled (the Group) at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act* 2001 (Cth). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act* 2001 (Cth). We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the Directors. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1 the financial report of National Australia Bank Limited is in accordance with the *Corporations Act* 2001 (Cth), including:

   (i) giving a true and fair view of the financial position of the Company and the Group at 30 September 2009 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations* 2001.

2 the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 38 of the Report of the Directors for the year ended 30 September 2009. 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 (Cth). Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of the Company for the year ended 30 September 2009, complies with section 300A of the *Corporations Act* 2001 (Cth).

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne
13 November 2009

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 30 October 2009

	Number of shares	%
HKBA Nominees Limited	347,777,731	16.60
J P Morgan Nominees Australia Limited	254,158,485	12.13
National Nominees Limited	244,701,348	11.68
Citicorp Nominees Pty Limited	62,378,274	2.98
ANZ Nominees Limited, Cash Income A/C	42,774,174	2.04
Cogent Nominees Pty Limited	35,956,656	1.72
National Australia Trustees, SSAP & SSOP Control A/Cs	23,639,880	1.13
AMP Group	21,966,984	1.05
Queensland Investment Corporation	20,952,556	1.00
RBC Dexia Investor Services Australia Nominees Pty Limited, PIPOOLED A/C	20,600,868	0.98
Citicorp Nominees Pty Limited, CFS WSLE Geared SHR Fund A/C	11,436,146	0.55
UBS Nominees Pty Limited	10,822,871	0.52
UBS Wealth Management Australia Nominees Pty Limited	9,542,292	0.46
Australia Foundation Investment Company Limited	8,723,569	0.42
RBC Dexia Investor Services Australia Nominees Pty Limited, BKCust A/C	7,143,294	0.34
Cogent Nominees Pty Limited, SMP A/C	6,752,668	0.32
Citicorp Nominees Pty Limited, CFS WSLE Imputation Fund A/C	6,686,032	0.32
ANZ Nominees Limited, Income Reinvest Plan A/C	6,249,725	0.30
Australian Reward Investment Alliance	6,019,723	0.29
Argo Investments Limited	4,982,301	0.24
	1,153,265,577	55.07

Substantial shareholders

As at 30 October 2009 there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Range (number)				
1 - 1,000	275,622	61.2	107,952,608	5.2
1,001 - 5,000	144,572	32.1	306,149,527	14.6
5,001 - 10,000	18,991	4.2	129,844,725	6.2
10,001 - 100,000	10,852	2.4	219,722,809	10.5
100,001 and over	407	0.1	1,331,939,068	63.5
	450,444	100.0	2,095,608,737	100.0
Less than marketable parcel of $500	10,743		79,619	

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 30 October 2009

	Number of securities	%
ANZ Nominees Limited, Cash Income A/C	836,055	4.18
RBC Dexia Investor Services Australia Nominees Pty Limited, MLCI A/C	566,785	2.83
J P Morgan Nominees Australia Limited	473,419	2.37
HSBC Custody Nominees (Australia) Limited	404,179	2.02
National Nominees Limited	366,222	1.83
Daytree Pty Ltd, The ARJO Investment A/C	328,250	1.64
UBS Wealth Management Australia Nominees Pty Limited	322,741	1.61
Daytree Pty Ltd, ARJO Investment A/C	225,050	1.13
Questor Financial Services Limited, TPS RF A/C	200,582	1.00
Citicorp Nominees Pty Limited	122,459	0.61
Netwealth Investments Limited, Wrap Services A/C	110,376	0.55
Australian Executor Trustees Limited, No.1 Account	108,711	0.54
UBS Nominees Pty Limited, TP00014 10 A/C	86,809	0.43
Custodial Services Limited, Beneficiaries Holdings A/C	78,400	0.39
Peninsula Harbour Pty Ltd, Peninsula Harbour Unit A/C	76,740	0.38
Private Nominees Limited	67,354	0.34
Invia Custodian Pty Limited, Best Superannuation P/L A/C	66,480	0.33
Cambooya Pty Limited	63,130	0.32
Dudley Pines Pty Ltd	57,816	0.29
Kingsby Pty Ltd	54,000	0.27
	4,615,558	23.06

Distribution of NIS holdings

	Number of Shareholders	% of Holders	Number of Shares	% of Shares
Range (number)				
1 - 1,000	36,417	94.0	8,005,426	40.0
1,001 - 5,000	2,061	5.3	4,153,607	20.8
5,001 - 10,000	146	0.4	1,034,548	5.2
10,001 - 100,000	124	0.3	2,741,590	13.7
100,001 and over	12	0.0	4,064,829	20.3
	38,760	100.0	20,000,000	100.0
Less than marketable parcel of $500	41		161	

Voting rights

Holders of the 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 proporsal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Shareholder information

Chairman
Mr Michael A Chaney
AO, BSc, MBA, Hon. LLD W. Aust, FAIM, FCID

Group Chief Executive Officer
Mr Cameron A Clyne
BA

Deputy Group Chief Executive Officer
Mr Michael J Ullmer
BSc (Maths) (Hons), FCA, SF Fin

Group Chief Financial Officer
Mr Mark A Joiner
ACA, MBA

Registered office

Level 4, (UB4440)
800 Bourke Street
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Tel: 1300 367 647

Auditor

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000
Australia
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777

Company Secretary

Ms Michaela J Healey
LLB, FCIS

Shareholders' centre website

The Group's website at **www.nabgroup.com** 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 ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder 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
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Australia

Postal address:
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Melbourne Victoria 3001
Australia

Local call: 1300 367 647
Fax: (03) 9473 2500

Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500

Email: nabservices@computershare.com.au

Website: www.computershare.com

UK share register

Computershare Investor Services PLC
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United States ADR depositary, Transfer agent and registrar

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
United States of America

US Toll Free for Domestic calls
Tel : 1-888-BNY-ADRS
Tel : +1 201 680 6825 (outside US)

Email: shrrelations@bnymellon.com

Website: www.bnymellon.com\shareowner

Shareholder information

Official quotation

Fully paid ordinary shares of the Company are quoted on the Australian Securities Exchange.

The Group has also issued:

- National Income Securities which are quoted on the stock market of the Australian Securities Exchange;
- Perpetual shares through BNZ Income Securities Ltd and BNZ Income Securities 2 Ltd which are quoted on NZDX the New Zealand Exchange;
- Trust Preferred Securities, National Capital Instruments, Medium Term Notes, Mortgage Backed Securities and Subordinated Bonds which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities II which are quoted on the stock market of the Channel Islands Stock Exchange;
- Undated Subordinated Floating Rate Notes which are listed on the London Stock Exchange;
- Medium Term Notes which are listed on the Swiss Stock Exchange;
- Medium Term Notes and Mortgage Backed Securities which are listed on the Australian Securities Exchange; and
- Subordinated Bonds which are listed on the NZDX of the New Zealand Exchange.

Supplementary information - Capital adequacy

Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessment of required capital, meeting regulatory requirements, maintaining capital consistent with the Group's target credit rating and ensuring debt and equity investors' expectations are met.

While economic conditions remain difficult to predict in the current environment, the Group continues to target a strong capital position as one of its main priorities. Recent data suggests the global economy has commenced its recovery, although the strong capital position acts as a buffer against future headwinds, including domestic and global regulatory change and continued volatility in the UK pension position. APRA has indicated the Group can expect specific changes to the classification of commercial property exposures and the general reserve for credit losses in addition to the expectation of wider ranging capital reforms as regulators seek to update the global regulatory landscape.

To be efficient on capital, the Group targets an optimal mix of common equity and other capital instruments.

Finally, the Group aims to remain flexible in executing capital initiatives, so that it is well positioned in the current environment and able to support the growth agenda.

Following recent hybrid issuance, the Group will seek to maintain the efficiency of the capital base as existing hybrid securities are scheduled for redemption or conversion to equity and the balance sheet grows.

Clydesdale Bank and BNZ, our major banking subsidiaries, remain strongly capitalised.

Capital ratios

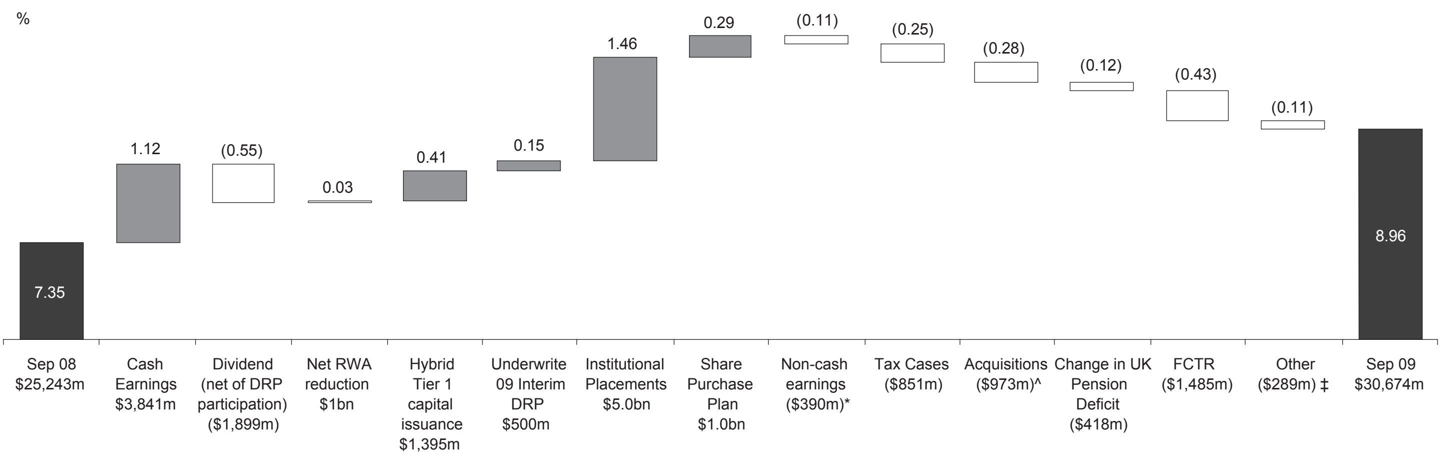
Capital ratios and risk-weighted assets are set out below:

	Target Ratio %	As at 30 Sep 09 %	31 Mar 09 %	30 Sep 08 %	Sep 09 v Mar 09	Sep 09 v Sep 08
Core Tier 1 ratio(1)		**6.81**	6.59	5.60	22 bps	121 bps
Tier 1 ratio	above 7.00%	**8.96**	8.31	7.35	65 bps	161 bps
Total capital ratio		**11.48**	12.19	10.93	(71 bps)	55 bps

(1) *Core Tier 1 ratio equals Total Tier 1 Capital less Tier 1 Hybrids*

	As at 30 Sep 09 $m	31 Mar 09 $m	30 Sep 08 $m	Sep 09 v Mar 09%	Sep 09 v Sep 08%
Risk-weighted assets - credit risk	**311,975**	321,616	310,131	(3.0)	0.6
Risk-weighted assets - market risk	**3,415**	5,121	5,088	(33.3)	(32.9)
Risk-weighted assets - operational risk	**22,972**	24,336	23,649	(5.6)	(2.9)
Risk-weighted assets - interest rate risk in the banking book	**4,160**	1,300	4,643	large	(10.4)
Total risk-weighted assets	**342,522**	352,373	343,511	(2.8)	(0.3)

Movement in Tier 1 Capital



* *Non-cash earnings impacts Tier 1 after adjusting for Distributions and Treasury Shares.*

^ *Includes acquisition of Aviva (-15bps), JB Were (-3bps), Challenger (-9bps), and TierOne branches (-1bps). RWAs associated with Challenger and TierOne branches will not impact the Tier 1 Ratio until 1Q10 when the acquisitions are completed (-8bps).*

‡ *Other relates primarily to changes in Wealth Management related deduction plus other immaterial movements.*

Supplementary information - Capital adequacy

Capital Movements during the Period

The Group's Tier 1 ratio of 8.96% at September 2009 is consistent with the Group's objective of maintaining a strong capital position.

The key movements in the capital ratios in the September half were:

- Earnings less dividend net of DRP participation.
- Core equity raising through a $3 billion institutional placement in November, $247 million Share Purchase Plan participation in December, underwriting $500 million of 2009 interim DRP shortfall, a $2 billion institutional placement in July, and a $750 million Share Purchase Plan participation in August.
- Hybrid capital raising through US$600 million Capital Notes and $500 million stapled securities in September.
- Goodwill and net tangible asset impacts of Aviva, Challenger, JBWere and TierOne acquisitions. Risk Weighted Asset impacts will be reflected post settlement.
- Provisioning associated with the BNZ structured finance tax case and impairment of ExCap's prepaid tax assets.
- Other non-cash earnings impacts arising primarily from fair value and hedge ineffectiveness.
- The movement in the deficit in the Group's defined benefit pension scheme in the UK.
- A decrease in the FCTR driven by FX movements. This represents a natural hedge to RWA movements discussed below.

There was a net decrease in total RWAs as subdued lending growth and the effects of the change in credit quality have been more than fully offset by Basel II portfolio optimisation and favourable FX movements.

Tier 1 Capital Initiatives

To support Tier 1 capital, the Group completed core capital raisings through institutional placements of $3 billion in November 2008 and $2 billion in July 2009, Share Purchase Plans of $247 million in December 2008 and $750 million in August 2009 and underwrote $500 million of the 2009 interim DRP in July 2009. The Group also raised hybrid capital of US$600 million through an offshore issuance of Capital Notes, $500 million through issuance of a stapled securities and NZ$260 million through issuance of perpetual hybrid securities through its New Zealand subsidiary. Cumulatively these initiatives generated 231 basis points of Tier 1 capital, which is included in the Group's 30 September 2009 position.

On 24 September 2009, National Australia Bank Ltd issued US$600 million perpetual, subordinated, unsecured capital notes (Capital Notes) through its New York branch. The Capital Notes initially carry a fixed distribution of 8.0% per annum, payable semi-annually in arrears, up to, but not including, 24 September 2016. The fixed distribution of 8.0% is made up of the 7 year US Treasury benchmark rate of 3.06% (the base rate) plus an initial margin of 494 basis points.

The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. While the Capital Notes are perpetual, they are redeemable by National Australia Bank Ltd after seven years or on any interest payment date thereafter, or prior on the occurrence of certain events, subject to obtaining the prior written approval of APRA in all cases.

On 30 September 2009, the Group issued $500 million stapled securities. The stapled securities are perpetual capital instruments each paying a non-cumulative distribution at a rate of 2.0% over the 30-day bank bill swap rate ("BBSW"). Subject to APRA approval, the securities are redeemable at the Group's option on or about 30 December 2009, 30 March 2010 or every monthly distribution payment date thereafter. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares on 30 March 2010, subject to the satisfaction of conversion conditions.

On 26 June 2009, BNZ Income Securities 2 Limited, an indirectly owned subsidiary of National Australia Bank Limited, issued NZ$260 million of perpetual non-cumulative shares. The perpetual non cumulative shares initially carry a fixed distribution of 9.10% per annum, payable quarterly in arrears, up to, but not including 30 June 2014. The fixed distribution of 9.10% is made up of the New Zealand 5 year swap rate of 5.01% per annum (the Base Rate) plus an initial margin of 409 basis points.

The Base Rate is reset to the then prevailing New Zealand 5 year swap rate every five years. While the shares are perpetual, they are redeemable after five years or any interest payment date thereafter, or prior on the occurrence of certain events, subject to obtaining the prior written approval from APRA in all cases.

On 24 September 2008, the Group issued AUD$300 million in stapled securities. National Australia Bank Ltd amended the terms of the stapled securities on 19 August 2009. The Stapled Securities are perpetual capital instruments each paying a non-cumulative distribution at a rate of 2.0% over the 30-day bank bill swap rate ("BBSW"). Subject to APRA's approval, the securities are redeemable at the Group's option on 24 September 2010. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2010, subject to the satisfaction of conversion conditions.

On 24 September 2008, the Group issued AUD$300 million Convertible Notes. National Australia Bank Ltd amended the terms of the Convertible Notes on 19 August 2009. The Convertible Notes pay a non-cumulative distribution at a rate of 2.00% over the 30-day BBSW. On 24 September 2010, subject to APRA approval, the notes are redeemable at the Group's option. The notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares from 24 September 2010.

Any conversion will have no impact on the Tier 1 capital ratio but will increase core Tier 1.

Dividend Reinvestment Plan (DRP)

For the final dividend, the Group will offer a 1.5% discount on the DRP with no participation limit. These settings reflect our strong capital position. The final dividend accrual has been reduced by an amount equal to 30% of the final dividend to reflect assumed DRP participation.

UK Defined Pension Schemes

The Group's UK operations operate a defined benefit pension scheme. APRA's prudential standards require the Group to deduct the value of any net surplus in the pension schemes from Tier 1 capital. During the September half, the Scheme's deficit increased to GBP311 million, reducing Tier 1 capital by a further $189 million (5 basis points). The pension position was affected by three key factors:

- A decrease in the discount rate used to calculate the liability net present value.
- An increase in the long-term inflation assumption.
- An increase in the value of the investment portfolio, partially offsetting the other two factors.

Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management will be made in the Risk and Capital Report, as required by Australian Prudential Standard APS 330.

Supplementary information - Disclosure on special purpose entities

The following supplementary disclosures are based on Financial Stability Forum (FSF) recommendations that were included in the Forum's report dated 7 April 2008; entitled *Enhancing Market and Institutional Resilience*.

(a) Special Purpose Entities (SPEs)

Controlled entities are those entities, including special purpose entities (SPEs), over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Control rather than ownership interest is the sole criterion for determining a parent entity relationship. SPEs require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the SPE.

(b) Securitisation SPEs

Objectives

The Group engages in securitisation activities for two main purposes:

- Securitisation activities for business purposes, including arranging and managing securitisations for third parties (clients) as well as securities arbitrage (funding of purchased assets) activities[1], primarily through SPEs that provide funding for single or multiple transactions.
- Securitisation of its own assets for funding and liquidity purposes, primarily for risk and capital management reasons. These transactions have always been recorded on the balance sheet since the adoption of AIFRS as the derecognition criteria is not met (refer to *note 17*).

The first category represents third-party asset securitisation SPEs. The Group's participation in these SPEs is discussed below.

Third Party Asset Securitisation SPEs

NAB sponsored securitisation SPEs for client securitisation assets and third party transactions

For these transactions, securitisation structures are established by the Group, comprising one or numerous SPEs to purchase and fund customer assets, including in securitised form. Previously securitisation structures also included purchasing of rated securities arbitrage assets (purchased assets). Securities arbitrage activities have been discontinued by the Group. Each SPE funds the acquisition of assets or securities backed by the assets by:

- The issuance of debt securities (medium-term notes or MTN) directly into the market (term securitisation); or
- The issuance of debt securities (asset backed commercial paper or ABCP) via an issuing entity (ABCP conduit funding). Standby liquidity facilities are typically made available to the ABCP conduits to fund acquired assets in the event that ABCP cannot be reissued to external investors; or
- The drawdown under funding facilities (securitisation funding facilities and warehouse facilities) provided by the Group directly to the SPE.

Ordinary equity in the securitisation SPE is typically held by a third party.

These supplementary disclosures focus on the exposure of the Group through its use of SPEs for various types of programmes (both on and off balance sheet) including:

- Securitisation SPEs.
- Funding program SPEs.
- Other SPEs.

Most of the transactions in which the Group gains exposure to the securitisation SPEs are funded through its sponsored multi-seller ABCP conduits and by securitisation funding facilities and warehouse facilities. These facilities are provided to the NAB sponsored SPEs established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation. The Group undertakes one or more of the following roles of arranger, manager (through wholly-owned subsidiaries), standby liquidity provider, securitisation funding facility provider, asset liquidity provider, warehouse facility provider, derivative provider and dealer.

The NAB sponsored securitisation SPEs are consolidated in the financial statements.

Non-NAB sponsored securitisation SPEs for third party securitisation assets

For these transactions, securitisation SPEs are established by market participants, other than the Group, to acquire and fund various assets by issuing securities to external investors. The Group's exposures to these SPEs arise from provision of standby liquidity facilities that can be drawn in the event that ABCP cannot be reissued to external investors and, in some cases, other facilities provided to fund and support acquired assets. These entities are generally not consolidated, with facilities provided by the Group (and drawn) being included in loans and advances.

Securitisation Funding and Standby Liquidity Facilities

The Group's securitisation SPE exposures fall into two categories: purchased assets, which were acquired on set investment criteria to seed a new ABCP conduit and/or achieve critical mass; and client originated assets, which were originated as part of a broader client relationship. Within these categories the SPE exposures are categorised by asset class, resulting in the grouping of the exposures based on common features and risks.

Table 1 summarises the Group's exposures to both NAB-sponsored and non-NAB sponsored SPEs via securitisation funding facilities and standby liquidity facilities provided to ABCP conduits. The table shows the facility limits extended by the Group, the amount drawn and available to be drawn under the respective facilities, and related provisions. It also shows the total securities issued by the relevant SPEs including ABCP, MTN and third party funding, the carrying value of the SPE assets (other than cash), and the associated fair value.

Note: The standby liquidity facilities are only available to fund repayment of outstanding ABCP in cases where it cannot be rolled. For these facilities, the unutilised limit over and above the drawn and available amount cannot be accessed to fund additional assets until ABCP is reissued.

Selected comparative information for 31 March 2009 is provided, with further detail available in the 31 March 2009 half-year Financial Report.

[1] Securities arbitrage (funding of purchased assets) activities are being wound down by the Group and, along with several client originated SPE exposures, no longer deemed part of the Group's core activities (largely Northern Hemisphere originated exposures), are being quarantined and will be managed separately as part of the Group's Specialised Group Assets portfolio.

Supplementary information - Disclosure on special purpose entities

Table 1 As at 30 September 2009	Group facilities Limit $m	Drawn & Available[1] $m	Drawn-down $m	Provisions[2] $m	SPE Securities on issue[3] $m	Total asset value[4] $m	Fair value[5] $m
SPE purchased ABS CDOs:							
Senior tranche ABS CDO	265	**265**	265		-	265	78
Mezzanine tranche ABS CDO	1	**1**	1		-	1	5
Total SPE purchased ABS CDOs[6]	266	**266**	266	(120)	-	266	83
SPE other purchased assets:							
Infrastructure (credit wrapped bonds)[7]	378	**375**	375		60	435	418
Leveraged loans (CLOs)	1,653	**1,653**	1,653		-	1,653	1,387
Commercial property (CMBS)	674	**674**	674		-	674	427
Corporates (SCDO)	1,585	**1,585**	1,585		-	1,585	972
Total SPE other purchased assets	4,290	**4,287**	4,287	-	60	4,347	3,204
NAB client originated assets:							
Auto / Equipment	954	**537**	516		399	914	911
Credit wrapped bonds	772	**726**	726		500	1,226	1,153
Prime residential mortgages	4,344	**3,344**	2,712		652	3,364	3,364
Non-conforming residential mortgages	1,280	**1,244**	1,047		327	1,373	1,308
Sub-prime residential mortgages	162	**162**	162		-	162	118
Subscription loans	1,131	**1,015**	-		1,015	1,013	1,013
Commercial Property (CMBS)	58	**58**	58		-	58	51
NAB CLO	466	**466**	466		-	466	466
Credit wrapped ABS	786	**786**	786		-	786	358
Other	252	**224**	224		10	233	205
Total NAB client originated assets	10,205	**8,562**	6,697	-	2,903	9,595	8,947
Represented by:							
NAB sponsored SPEs	8,588	**7,354**	6,339		1,819	8,153	7,505
Non-NAB sponsored SPEs	1,617	**1,208**	358		1,084	1,442	1,442
Total NAB client originated assets	10,205	**8,562**	6,697	(93)	2,903	9,595	8,947
Total[8]	14,761	**13,115**	11,250	(213)	2,963	14,208	12,234

As at 31 March 2009	Group facilities Limit $m	Drawn & Available[1] $m	Drawn-down $m	Provisions[2] $m	SPE Securities on issue[3] $m	Total asset value[4] $m	Fair value[5] $m
Total SPE purchased ABS CDOs[6]	360	**360**	360	(153)	-	360	79
Total SPE other purchased assets	5,112	**4,972**	4,972	-	-	5,032	2,703
Total NAB client originated assets	14,300	**11,666**	6,717	-	6,000	12,718	11,458
Represented by							
NAB sponsored conduits	12,388	**9,754**	6,124	-	4,681	10,817	9,571
Non-NAB sponsored conduits	1,912	**1,912**	593	-	1,319	1,901	1,887
Total NAB client originated assets	14,300	**11,666**	6,717	(35)	6,000	12,718	11,458
Total standby liquidity facilities	19,772	**16,998**	12,049	(188)	6,000	18,110	14,240

(1) *Drawn and available represents amounts drawn-down under the facility, and amounts currently available to be drawn (for standby liquidity facilities, this is limited to the amounts that may be required to repay maturing ABCP if it cannot be rolled).*

(2) *Includes both specific and collective provisions. An additional $50 million provision has been recorded in the September 2009 half year relating to credit wrapped ABS due to monoline downgrades. A management overlay of $160 million was taken in March 2009 in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and the impact of any potential default.*

(3) *Securities on issue exclude amounts drawn under the facilities and include ABCP issued of $1,866 million, including $60 million supported by a third party liquidity facility provider, and medium term notes of $1,037 million.*

(4) *Comprises total non-cash assets of the SPEs excluding any provisions. For non-NAB sponsored SPEs, this only includes that portion of the SPE assets to which the Group is exposed through the securitisation funding facilities or the standby liquidity facilities. This is the amount recorded on the Group's balance sheet.*

(5) *Consistent with Note 44 Fair value of financial instruments to the Annual Financial Report there is a requirement to disclose the net fair value of on and off-balance sheet financial instruments and this is included in the table. The estimated fair values are based on relevant information available at 30 September. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. There are various limitations inherent in this fair value disclosure, particularly in the current market, where, due to the uncertainty in the market, prices may not represent the underlying value. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices, where available. 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. In addition, it is the Group's intent to hold its financial instruments to maturity. The difference to fair value represents the significant change in discount rates in the current distressed markets. This is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances. This is consistent with the treatment of the assets of the wider Group. The fair value of the SCDO portfolio reflects the Group's exposure subsequent to the purchase of additional protection (refer "Protection purchased to hedge exposure to SPE other purchased assets" for further information). The fair value of infrastructure (credit wrapped bonds), credit wrapped bonds and credit wrapped ABS assigns zero value to the protection afforded by insurance policies from financial guaranty (monoline) insurers.*

(6) *nabCapital has exposure to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. Provisions in the aggregate of $1,011 million were taken in 2008 to reflect expected losses on this portfolio. While most assets within this portfolio were written off in full, a single asset remains. The specific provision against this asset is approximately 46% of its current balance.*

(7) *The total asset value of infrastructure (credit wrapped bonds) purchased by other SPEs is substantially funded by facilities provided by the Group. The balance of $60 million is funded externally to the group.*

(8) *In the 31 March 2009 half year results, $17.0 billion was drawn and available. The movement comprises a reduction for repayments of $4.8 billion, a decrease for exchange rate movements of $1.6 billion and an increase for redraws and new business of $2.5 billion.*

Supplementary information - Disclosure on special purpose entities

Table 2 shows the total drawn and available securitisation funding and standby liquidity facility of the Group to all securitisation SPEs by Geography.

Table 2 **Geographic distribution**(1)	**Australia & New Zealand $m**	**Europe $m**	**North America $m**	**Asia & Other $m**	**Total drawn & available $m**	**Weighted Average Term to Maturity(2) yrs**
As at 30 September 2009						
SPE purchased ABS CDOs:						
Senior tranche ABS CDO	-	-	265	-	**265**	28.0
Mezzanine tranche ABS CDO	-	-	1	-	**1**	28.2
Total SPE purchased ABS CDOs	-	-	266	-	**266**	28.0
SPE other purchased assets:						
Infrastructure (credit wrapped bonds)(3)	265	110	-	-	**375**	1.6
Leveraged loans (CLOs)(4)	-	871	780	2	**1,653**	5.2
Commercial property (CMBS)(5)	-	674	-	-	**674**	4.0
Corporates (SCDO)(6)	52	529	905	99	**1,585**	6.1
Total SPE other purchased assets	317	2,184	1,685	101	**4,287**	5.0
NAB client originated assets:						
Auto / Equipment	537	-	-	-	**537**	3.7
Credit wrapped bonds(3)	726	-	-	-	**726**	8.2
Prime residential mortgages	3,344	-	-	-	**3,344**	23.4
Non-conforming residential mortgages	654	590	-	-	**1,244**	21.4
Sub-prime residential mortgages	-	-	162	-	**162**	25.2
Subscription loans	10	236	669	100	**1,015**	1.9
Commercial Property (CMBS)	2	-	56	-	**58**	4.5
NAB CLO	345	99	22	-	**466**	3.2
Credit wrapped ABS(3)(7)	-	-	752	34	**786**	24.7
Other	102	35	62	25	**224**	3.4
Total NAB client originated assets	5,720	960	1,723	159	**8,562**	16.5
Total exposure to standby liquidity facilities	6,037	3,144	3,674	260	**13,115**	12.8

As at 31 March 2009	**Australia & New Zealand $m**	**Europe $m**	**North America $m**	**Asia & Other $m**	**Total drawn & available $m**	**Weighted Average Term to Maturity yrs**
Total SPE purchased ABS CDOs	-	-	360	-	**360**	28.0
Total SPE other purchased assets	300	2,438	2,098	136	**4,972**	4.4
Total NAB client originated assets	6,660	1,061	3,834	111	**11,666**	15.4
Total exposure to standby liquidity facilities	6,960	3,499	6,292	247	**16,998**	12.4

(1) *Location of underlying exposure i.e. the location of the ultimate borrower/reference entity.*

(2) *Reflects the weighted average contractual maturity of the underlying assets of the SPE.*

(3) *Credit wrapped bonds and ABS are wrapped by financial guaranty (monoline) insurers.*

(4) *Includes nine transactions, in all but one case with exposure to the most senior class of notes, and initial subordination ranging from 27 - 38%. Reported defaults to date range from 1.6 - 9.7% with modest realised losses on underlying corporate loan collateral. Excess spread available to cover ongoing losses generally exceeds 1% per annum of the current principal balance of each CLO transaction.*

(5) *Includes four UK transactions backed by Greater London and regional properties, with exposure to the most senior bonds, and ratio of relevant note tranche to property value ranging from 62 - 76%. Generally speaking, the properties securing larger loans are let with quality tenants, have low vacancy rates and good lease profiles. The loan vintages are generally 2006 and 2007.*

(6) *Includes six credit linked notes backed by six single tranche corporate credit CDOs (portfolios of credit default swaps). Additional protection has been purchased (refer "Protection purchased to hedge exposure to SPE other purchased assets").*

(7) *Amount reclassified from North America at 31 March 2009 to Asia and Other to reflect the disaggregation of the underlying structure.*

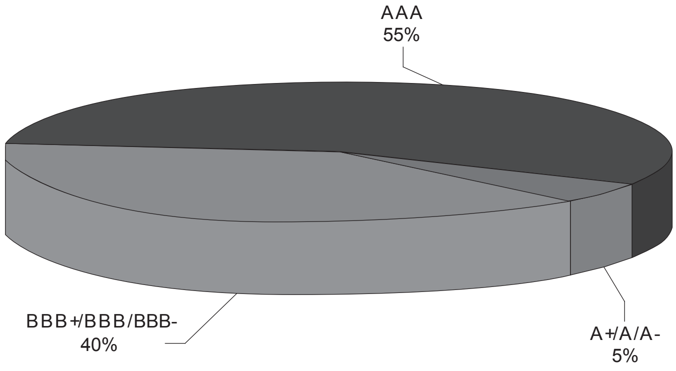
Supplementary information - Disclosure on special purpose entities

Further Analysis of Facilities

Rating analysis

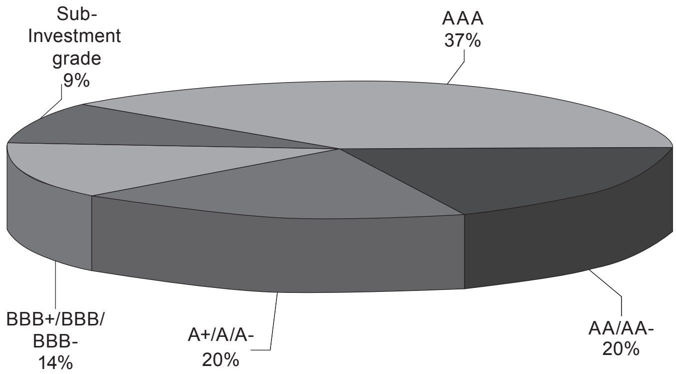
The ABS CDO of $266 million not written off is currently rated CC- by S&P and Ca by Moody's

S&P equivalent ratings at 30 September 2009 - $4.3 billion SPE other purchased assets[(1)]



(1) *Includes internally rated assets mapped to S&P risk grades, taking into account the risk mitigation strategy on the SCDOs. Subsequent to year end two of the SCDOs fell below internal investment grade based on NAB's modelling as a result of a credit event.*

S&P equivalent ratings at 30 September 2009 - $8.6 billion NAB client originated assets[(1)(2)]



(1) *Includes NAB internally rated assets mapped to S&P risk grades.*

(2) *The current ratings of three credit wrapped bonds based on the A- and BBB ratings of the underlying assets.*

Asset quality information relevant to specific exposures

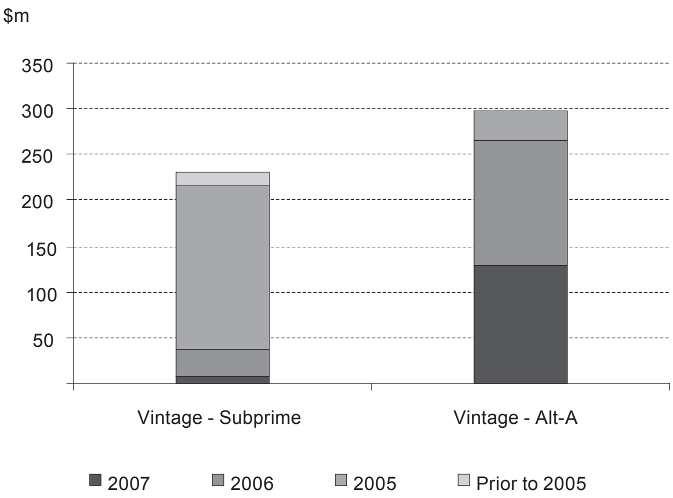
Table 3 shows asset quality and past due analysis of the underlying collateral of NAB client originated assets.

Table 3 **As at 30 September 2009**	**Weighted average current LVR** **%**	**Mortgage Insurance coverage** **%**	**Days Past Due** **31-60** **%**	 **61-90** **%**	 **>90** **%**
NAB client originated assets:					
Auto / Equipment[(1)]	n/a	n/a	1.28	0.30	0.59
Prime residential mortgages	61.60	100.00	0.44	0.16	0.27
Non-conforming residential mortgages	70.71	-	2.71	2.58	8.23
Sub-prime residential mortgages[(2)]	82.63	50.50	5.34	2.40	7.23

(1) *All auto/equipment transactions benefit from various types of credit enhancements including subordination, excess spread, etc.*

(2) *Current mortgage insurance coverage on sub-prime residential mortgages is shown. The >90 days percentage does not include loans in foreclosure or homes foreclosed upon but not liquidated, which together represent an additional 28% of the current principal balance.*

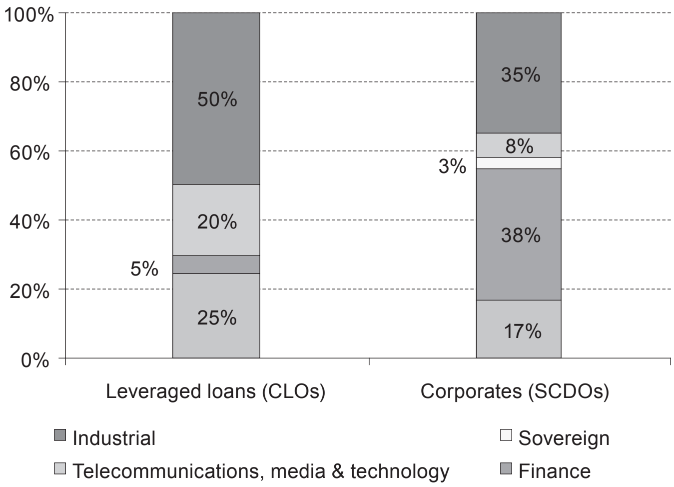
Vintage of sub-prime and Alt-A exposures[(1)(2)]



(1) *US sub-prime exposure of the Group was $232 million as at 30 September 2009. This amount represents $23 million included in ABS CDOs not written off, $162 million of sub-prime residential mortgage backed securities and $47 million as part of credit wrapped ABS in the NAB client originated assets.*

(2) *US Alt-A exposure of the Group was $298 million as at 30 September 2009. This amount represents $126 million included in ABS CDOs not written off, and $172 million as part of credit wrapped ABS in the NAB client originated assets.*

Industry splits - SPE other purchased assets[(1)(2)]



(1) *Leveraged loans (CLOs) total $1.7 billion.*

(2) *Coporates (SCDOs) total $1.6 billion.*

Supplementary information - Disclosure on special purpose entities

Securitisation SPE Credit Exposure to the Financial Guarantor Sector (monoline insurers)

Table 4 summarises the indirect exposures to third party transactions supported by monoline financial guarantees and contingent risk via guaranteed investment contracts (SCDOs). In the event of monoline failure, the benefit of the financial guarantee falls away, resulting in exposure to the underlying asset.

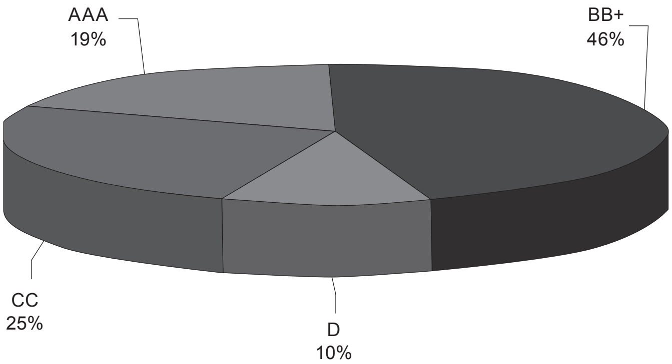
Table 4	Carrying value of assets with exposure to monoline insurers Sep 09 $m	Mar 09 $m
Against SPE other purchased assets:		
Infrastructure (credit wrapped bonds)(1)	378	375
Guaranteed investment contracts (provided to SCDOs)(2)	455	947
Against NAB client originated assets:		
Credit wrapped bonds(1)	772	722
Credit wrapped ABS(3)	786	1,095
Other	40	51
Total	2,431	3,190

(1) *These bonds are issued by well known essential infrastructure and energy borrowers and are themselves high quality investment grade assets.*

(2) *Funds invested by SPEs in two of six SCDOs have been placed in guaranteed investment contracts, which have been guaranteed by monolines resulting in a contingent exposure.*

(3) *Monoline-wrapped portfolio of ABS, some of which have also been individually monoline-wrapped.*

Current S&P rating of monolines(1)



(1) *The D rated monoline provides a guarantee for one of the credit wrapped bonds. Rating of the underlying corporate is BBB+. The CC rated monoline provides a guarantee for three of the credit wrapped securities. The ratings of the underlying assets are A-, BBB+ and B. An additional provision of $50 million has been raised in respect of credit wrapped ABS.*

Protection Purchased to Hedge Exposure to SPE Other Purchased Assets

In September 2008 the Group completed a risk mitigation strategy in relation to its exposure to Corporates (SCDO) within its securitisation SPE portfolio. As a result, long-dated hedges were entered into with a large, highly reputable, global bank counterparty which strengthened the Group's position and substantially reduced the likelihood of loss arising from the SCDOs. Subordination was improved as a result of risk mitigation activities, and the portfolio is generally managed to maintain the credit quality of the tranche.

Additional smaller hedges on certain SCDOs were executed in June 2009. Further ratings migration and defaults are expected. The exposure is being managed by a dedicated specialised team, together with input from an external portfolio manager. Additional modest hedging may be considered from time to time. The SCDOs are currently externally rated between AA+ and BBB-. As a result of the changes to the external ratings models by external ratings agencies in the first half of 2009, the current ratings are trending downwards towards the Group's own internal ratings. During March 2009 a management overlay of $160 million was taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and any potential default.

Other Exposures

In addition to securitisation funding facilities and standby liquidity facilities discussed in Table 2, there are securitisation SPE exposures arising from warehouse facilities (refer Table 5), asset liquidity facilities ($118 million), credit enhancements ($156 million), investments in non-NAB sponsored SPEs ($228 million), derivatives ($660 million), redraw facilities ($15 million).

Credit enhancements are arrangements in which the Group holds a securitisation exposure that is available to absorb losses in the pool and thereby provides credit protection. Derivative transactions include interest rate and currency derivatives provided to securitisation SPEs.

Warehouse facilities are funding facilities provided to SPEs holding client assets until such time as the facility is refinanced by ABCP conduits or the term securitisation market. Typically these facilities are reviewed annually. These facilities are in addition to securitisation funding facilities and standby liquidity facilities.

Table 5 shows the limit and drawn amount under the facility. All underlying exposures are in Australia and New Zealand. The undrawn limit is available to fund additional assets.

Table 5 As at 30 September 2009	Limit $m	Drawn-down $m
NAB client originated assets:		
Auto / Equipment	57	57
Prime residential mortgages	2,592	2,093
Non-conforming residential mortgages	297	224
Other	124	124
Total warehouse facilities(1)	3,070	2,498

As at 31 March 2009	Limit $m	Drawn-down $m
Total warehouse facilities	2,329	1,739

(1) *Of the drawn down amount $394 million is via consolidated NAB-sponsored SPEs resulting in the recognition of the underlying assets on the balance sheet.*

Table 6 shows available asset quality and past due analysis of underlying collateral of warehouse facilities.

Table 6 As at 30 September 2009	Weighted average current LVR %	Mortgage Insurance coverage %	Days Past Due 31-60 %	Days Past Due 61-90 %	Days Past Due > 90 %
NAB client originated assets:					
Auto / Equipment	n/a	n/a	0.10	0.04	0.10
Prime residential mortgages(1)	73.76	100.00	2.20	0.38	13.85
Non-conforming residential mortgages	64.45	-	0.95	0.28	1.92

(1) *Includes the most senior position in a transaction structured to invest in fully insured non-performing prime mortgages.*

Supplementary information - Disclosure on special purpose entities

Risk Weights for Securitisation Exposure

This table shows the risk weights for securitisation exposures as calculated under APS 120, predominately using the Standardised Approach and includes conduit exposures (table 1), warehouse facilities (table 5) and other securitisation SPE exposures disclosed in the "Other Exposures" section above.

The Group has further developed its risk weighting and collective provisioning for its conduits portfolio over 2009, in consultation with APRA. The Group will continue to engage with APRA, to update them on portfolio developments.

Table 7	Sep 09 Exposure $m	Sep 09 RWA $m	Mar 09 Exposure $m	Mar 09 RWA $m
≤ 10%	3,742	270	-	-
> 10% ≤ 25%	6,754	1,076	16,706	2,197
> 25% ≤ 35%	183	64	977	342
> 35% ≤ 50%	621	309	640	320
> 50% ≤ 75%	536	370	536	389
> 75% ≤ 100%	2,935	2,935	2,311	2,311
>100% ≤ 650%	2,375	5,944	920	2,301
Deductions(1)	484	-	448	-
Total securitisation exposure	17,630	10,968	22,538	7,860

(1) *Exposure comprises the limit from tables 1 and 5, certain other securitisation SPE exposures (asset liquidity facilities ($118 million), redraw facilities ($15 million) and certain derivative transactions ($88 million)), credit enhancements ($156 million), and excludes loans and receivables included in the banking book ($457 million) and an ABS CDO specific provision ($120 million).*

Roles in securitisation

The Group may undertake any of the following roles in its third party asset securitisation activities:

- Arranger (the structurer of securitisation transactions);
- Sponsor (the entity that established the securitisation SPEs and often provides other services). NAB sponsored SPEs are established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation;
- Manager (operator of securitisation SPEs including managing assets and liabilities and providing accounting and administrative services);
- Securitisation funding facility provider (a lender to securitisation SPEs where tenor of the funding extends beyond 1 year and may match the expected redemption date of the underlying security held by the SPE);
- Standby liquidity provider (a provider of liquidity available to repay ABCP if unable to reissue);
- Asset liquidity provider (a provider of liquidity to cover mismatches in cashflow for securitisation structures);
- Warehouse facility provider (a lender to securitisation SPEs pending refinance via issuance of securities);
- Derivative provider;
- Investor in securities issued;
- Letter of credit provider (a provider of credit enhancement to securitisation structures); and
- Dealer (a buyer and seller in the primary and secondary markets of securities).

Accounting Treatment

In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty.

Interest and line fees received are treated as revenue in the period in which they are accrued. Arrangement fees are treated as revenue and recognised as revenue over the life of the securitisation transaction. Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

NAB sponsored securitisation SPEs are consolidated by the Group.

(c) Funding program SPEs

The Group has established programs to raise funding from the issue of equity instruments or debt instruments.

Material funding programs of the Group that use SPEs are as follows:

Table 8	Sep 09 $m	Mar 09 $m
Trust Preferred Securities	975	975
Trust Preferred Securities II	1,014	1,014
National Capital Instruments	397	397
BNZ Income Securities	380	380
BNZ Income Securities 2	203	-

The SPEs used in the above funding programs are controlled by the Group under Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards as issued by the IASB and are recorded on-balance sheet as equity items of the Group.

Other funding programs of the Group do not use SPEs and are recorded in the books of the Company. Further details on funding programs can be found at www.nabgroup.com.

(d) Other SPEs

nabCapital is involved in transactions that involve the use of SPEs. All of these SPEs are recorded on the balance sheet.

Table 9	Sep 09 $m	Mar 09 $m
Consolidated SPEs		
Investments in debt securities	1,361	1,837
Investments in property trusts	155	188
Funding transactions	(1,277)	(1,457)
Lease finance	1,118	1,263

The Group invests in debt instruments through various SPEs, mainly in the form of Bonds, Certificates of Deposits and Loans. The assets within the portfolio are subject to the Group's normal credit approval and review processes and all assets continue to perform.

The Group also utilises SPEs to invest in a range of property and other equity related investments as well as a means to access alternate sources of funding.

Lease Financing involves extending finance to clients in order to meet their particular asset financing requirements mainly in the mining, mobile infrastructure and transport industries.

Glossary

Term Used	Brief description
AASB	Australian Accounting Standards Board
ADR	American depositary receipt
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange
Cash earnings	A key performance measure and financial target used by the Group. It does not refer to any amount represented on a Cash Flow Statement.
Company	National Australia Bank Limited
Group	National Australia Bank Limited and its controlled entities
NAB	National Australia Bank Limited
nabCapital	Wholesale Banking under revised corporate structure. The Group will report under the revised structure from 1 October 2009.
NZ	New Zealand
SEC	Securities and Exchange Commission
UK	United Kingdom
US	United States of America

Shareholders' centre website

The Group's website at **www.nabgroup.com** 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 ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

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This 2009 Annual Financial Report is lodged with the Australian Securities and Investments Commission and ASX Limited.

National Australia Bank Limited (NAB) is publicly listed in Australia and overseas. This report contains information prepared on the basis of the *Banking Act* 1959 (Cth), *Corporations Act* 2001 (Cth) and Australian equivalents to International Financial Reporting Standards. The Group de-registered from the United States Securities Exchange Commission (SEC) effective 20 September 2007. Accordingly, NAB is not required to include SEC related disclosures in this financial report for either the current or comparative financial years.

NAB no longer produces a concise report under s314(2) of the *Corporations Act* 2001 (Cth), and instead compiles a non-statutory shareholder review.

To view the annual financial report online, visit www.nabgroup.com. 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 this 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 this document are in Australian dollars unless otherwise stated.

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