National Australia Bank

Annual Financial Report 2015

National Australia Bank Limited ABN 12 004 044 937

This 2015 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth) and Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. NAB deregistered from the United States Securities and Exchange Commission (SEC) effective 20 September 2007. Accordingly, NAB is not required to include SEC-related disclosures in the Report for either the current or comparative financial years.

NAB no longer produces a concise report under section 314(2) of the *Corporations Act 2001* (Cth), and instead compiles a non-statutory Annual Review which can be viewed online at nabgroup.com/annualreports.

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

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

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[(1)] *The remuneration report has been audited.*

Report of the Directors

Operating and financial review

The directors of National Australia Bank Limited (NAB) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2015.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2015 is referred to as 2015 and other financial years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

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

Forward-looking statements

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

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

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

Rounding of amounts

Pursuant to Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998, NAB has rounded off amounts in this report and the accompanying *Financial report* to the nearest million dollars, except where indicated.

Principal activities

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

Significant changes in the state of affairs

A number of changes to the composition of the Board have occurred or will occur after 30 September 2015:

- Three independent non-executive director appointments: Mr Peeyush Gupta in November 2014, Ms Anne Loveridge to take effect from 15 December 2015, and Mr Doug McKay to take effect from 1 February 2016.
- Four non-executive director retirements: Mr John Thorn and Mr Geoff Tomlinson at the 2014 Annual General Meeting, Mr John Waller in July 2015 and Mr Paul Rizzo, at the conclusion of the 2015 Annual General Meeting.
- Mr Michael Chaney will retire from his role as Chairman and non-executive director. The Directors have appointed Dr Ken Henry to succeed Mr Chaney as Chairman, effective from the conclusion of the 2015 Annual General Meeting.

The Group's intention to exit the UK Banking business was signalled in October 2014 as a result of the strategy to focus on the Australian and New Zealand franchise. The Group confirms the demerger and Initial Public Offering (IPO) of CYBG PLC (CYBG) which is expected to be complete in early February 2016. CYBG is the newly created holding company and equivalent to the entity previously referred to as 'ListCo' (Clydesdale Bank plc is one of the CYBG Group entities). Significant progress has been made on the proposed transaction, including advanced engagement with key regulators and listing authorities in both jurisdictions.

The Group's intention is to pursue a demerger of approximately 75% of CYBG to NAB shareholders and a sale of the balance by way of IPO (up to approximately 25%) to institutional investors. It is proposed that CYBG will have a primary listing on the London Stock Exchange (LSE) and a CHESS Depositary Interest (CDI) listing on the Australian Securities Exchange (ASX). The proposed demerger and IPO remain subject to a range of matters, including various court and regulatory approvals and NAB shareholder approval. Shareholder approval will be sought at a meeting expected to be held in late January 2016.

During the financial year to 30 September 2015, the Group divested its investment in Great Western Bancorp, Inc. (GWB), a US based subsidiary of the Group. The overall divestment of GWB was achieved in stages commencing with an initial and secondary public offering and a final offering in which the Group lost control over and de-consolidated its subsidiary. Total net consideration proceeds realised from these transactions was $1,464 million and resulted in an overall $406 million loss being recognised.

On 7 May 2015, NAB Wealth received APRA approval for its life insurance arm to enter into a reinsurance arrangement with a major global reinsurer for approximately 21% of its in-force retail advised insurance book. NAB Wealth's life reinsurance transaction took effect from 1 July 2015. The transaction released $496 million of CET1 capital (13 basis points) to the Group and reduced the Group's exposure to retail life insurance, while maintaining distribution of life insurance products and services to the Group's customers.

On 11 June 2015, NAB completed its fully underwritten 2 for 25 pro rata accelerated renounceable entitlement offer to raise approximately $5.5 billion. Approximately 194 million new shares were issued (approximately 8.0% of issued capital).

On 28 October 2015, NAB announced it had entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company (Nippon Life), while the Group will retain the remaining 20%. As part of the agreement, the Group will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. The Group will retain ownership of its investment business which includes superannuation, platforms, advice and asset management. The transaction will occur through the sale of 80% of MLC Limited after the extraction of the Group's superannuation and investment business and certain other restructuring steps. The Group will retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years. The transaction is expected to be completed in late 2016 subject to certain conditions including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the superannuation business from MLC Limited and the finalisation of certain agreements.

Report of the Directors

Operating and financial review

The Group's Business

The Group is a financial services organisation with approximately 42,000 employees, operating more than 1,500 branches and business banking centres[(1)], with more than 560,000 shareholders and serving over 12 million customers.

The Group's major financial services franchises are in Australia and New Zealand. Each of our brands is uniquely positioned, but built on a common commitment to provide our customers with quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice.

In 2015 the Group operated the following divisions:

- *Australian Banking*, including Personal Banking and Business Banking, offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking also comprises Fixed Income, Currencies and Commodities (FICC), Business Lending, Consumer Lending, Deposits & Transaction Services, Asset Servicing and Treasury.
- *NAB Wealth* provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. It operates one of the largest networks of financial advisers in Australia under brands which include MLC, JBWere, JANA and Plum.
- *NZ Banking* comprises the Retail, Business, Corporate and Insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand. It excludes BNZ's market operations, which form part of Australian Banking.
- *UK Banking* operates under the Clydesdale and Yorkshire Bank brands offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker-based channels.

Strategic Highlights and Developments

The Group is executing a refreshed strategy that has evolved in response to the changing business environment. The Group's vision is to be Australia and New Zealand's most respected bank.

The Group's objective is to deliver superior returns to shareholders. To deliver its objective, the Group has outlined three goals:

- Turning our customers into advocates.
- Engaging our people.
- Generating an attractive return on equity.

During the 2015 financial year, the Group took positive steps towards achieving its goals:

- Customer advocacy as measured by Net Promoter Score (NPS) improved modestly for priority segments from -18 to -16.
- Employee engagement improved significantly from 42% for the year ended September 2014 to 52% for the year ended September 2015.
- The Group delivered a statutory return on equity of 13.1% for the year ended September 2015, 100 basis points improvement from September 2014. The cash return on equity of 12.0% for the year ended September 2015 was a 40 basis points improvement from September 2014.

In pursuing these goals, the Group is focused on delivering initiatives in line with the strategic themes outlined below.

Focusing on priority customer segments

The Group has focused resources on Australia and New Zealand. Within these markets, the Group is focused on the most attractive customer segments and where it is best positioned to compete.

[(1)] Includes retail agencies, agribusiness branches, and private banking suites.

Micro, small and medium business customers have been prioritised, given the Group's strong market position, particularly in the Agriculture and Health industries. Personal Banking also remains a priority, especially mortgage and debt free customers.

The Group is actively reweighting resources towards parts of the business that support the priority segments. The share of Australian Banking operational expenditure and number of full time employees dedicated to the priority segments increased during the 2015 financial year.

To allow greater focus on Australian and New Zealand customers, the Group is exiting some lower returning, non-core assets. During the 2015 financial year the Group took a number of strategic actions to effect this:

- Divesting GWB.
- Selling a £1.2 billion parcel of higher risk loans from the NAB UK Commercial Real Estate (NAB UK CRE) portfolio.
- Reducing the size of the SGA portfolio from $4.1 billion to $2.1 billion in risk weighted assets and transferring the ongoing management of the remaining portfolio to the Australian Banking wholesale operations.

The Group is also committed to fully divesting its Clydesdale Bank and Yorkshire Bank operations and intends to exit through a demerger and IPO.

On 28 October 2015, NAB announced it has entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life for $2.4 billion, while the Group will retain the remaining 20%. As part of the agreement, NAB will enter into a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. The Group will retain ownership of its investment business which includes superannuation, platforms, advice and asset management. The partnership will enable the Group to continue to deliver insurance solutions to its customers while improving Wealth returns for shareholders.

Delivering a great customer experience

Delivering a great customer experience is central to the Group's strategy. The Group has made substantial progress in improving customer experiences by simplifying interactions, accelerating innovation and deepening relationships.

During the 2015 financial year, the Group focused on solving customer pain points through the simplification of policies, processes, products and technology. As a result, approximately 500,000 customers' sales and service experiences per annum have been improved across a range of financial products including mortgages, business lending and credit cards.

The Group continued to improve customer experiences by strengthening its network of skilled bankers, including recruiting additional business banking relationship managers and mobile bankers. A major professional training program was implemented for our business bankers, along with NAB View, an improved customer information tool to better equip bankers with insights into specific customer needs.

The Group has continued to invest in and improve its internet banking and mobile app services and recently announced the launch of NAB Prosper, a new innovative solution that provides affordable, simple wealth advice for customers online. NAB Labs was established as a dedicated capability to drive innovation and customer-led design. The Group also recently announced the launch of a $50 million innovation fund, NAB Ventures, and through commercial and equity investments it will further accelerate innovation by delivering access to new innovative capability, technology, intellectual property and business models.

Report of the Directors

Operating and financial review

Executing flawlessly and relentlessly

The Group is continuing to drive improved performance and execution.

During the 2015 financial year, the Group introduced a new performance management framework within its Australian operations. The new framework fosters greater performance discipline and accountability for leaders through more granular insights into business performance.

The Group continued to execute change with the finalisation of several large, transformative technology investments including commencement of the Personal Banking Origination Platform pilot.

A key focus in the 2015 financial year has also been transforming processes to improve speed and reliability. Programs focused on operational and management excellence have improved customer service outcomes in key areas such as business loan origination as well as delivering improved operational productivity.

Great people living the Group's values

The Group's people and culture are fundamental to driving performance and accelerating the execution of its strategy.

During the 2015 financial year, the Group reviewed its values to better reflect the culture that is required to deliver its strategy. The Group's five values are: *Passion for Customers*; *Will to Win; Be Bold; Respect for People;* and *Do the Right Thing.* The values create a direct link between the culture and the strategy and have been incorporated into employees' performance reviews, staff induction and training materials, and people coaching processes.

Maintaining foundations

The Group's strategy is supported by maintaining strength in its balance sheet, risk management capability and technology platforms.

The Group remained well capitalised in the September 2015 full year compared to historical levels and is operating above the Common Equity Tier 1 (CET1) target ratio of 8.75% - 9.25%, with a CET1 of 10.24% as of 30 September 2015. The Group's CET 1 ratio for September 2015 exceeds the operating target in anticipation of the planned demerger of CYBG and in response to APRA's recent announcements for ADI's to increase risk-weighted assets (RWA) for residential mortgage loans from 1 July 2016.

Risk management continued to be a key focus for the Group. Asset quality remained strong, reflecting the Group's actions to reduce risk over recent periods including reducing the Group's exposure to NAB UK CRE.

The Group continued to transform its IT platforms to support the strategy by making them more stable and reliable; improving simplicity and agility to support innovation; and improving the speed of return on IT investments.

Financial performance summary

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

Information about cash earnings

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

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

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

A full reconciliation between statutory net profit and cash earnings including a description of each non-cash earnings item are included on page 100 in *Note 2 - Segment information* in the *Financial report.*

Operating and financial review

5 Year Financial Performance Summary

	Group				
	2015 (1) (6) $m	2014 (6) (7) $m	2013 $m	2012 $m	2011 $m
Net interest income	**13,982**	13,415	13,351	13,242	13,034
Net life insurance income	**568**	542	479	740	360
Other income	**5,626**	4,899	4,373	3,733	3,449
Operating expenses	**(10,252)**	(10,227)	(8,305)	(8,822)	(8,365)
Charge to provide for bad and doubtful debts	**(844)**	(847)	(1,810)	(2,734)	(1,750)
Profit before income tax expense	**9,080**	7,782	8,088	6,159	6,728
Income tax expense	**(2,717)**	(2,598)	(2,725)	(2,076)	(1,508)
Net profit for the period from continuing operations	**6,363**	5,184	-	-	-
Profit or loss after tax for the period from discontinued operations	**29**	114	-	-	-
Net profit for the period	**6,392**	5,298	5,363	4,083	5,220
Attributable to owners of NAB	**6,338**	5,295	5,355	4,082	5,219
Attributable to non controlling interests	**54**	3	8	1	1

Group performance indicators	Year to				
	Sep-15	Sep-14	Sep-13	Sep-12	Sep-11
Key Indicators					
Statutory earnings per share (cents) - basic	**252.7**	219.0	225.9	175.3	233.6
Statutory earnings per share (cents) - diluted	**245.4**	215.4	224.0	174.4	231.5
Statutory return on equity	**13.1%**	12.1%	13.0%	10.3%	14.2%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**198**	198	190	180	172
Net interest margin (6)	**1.87%**	1.91%	2.02%	2.10%	2.24%
Capital					
Common Equity Tier 1 ratio (2)	**10.24%**	8.63%	8.43%	7.90%	7.58%
Tier 1 ratio	**12.44%**	10.81%	10.35%	9.79%	9.70%
Total capital ratio	**14.15%**	12.16%	11.80%	11.58%	11.26%
Risk-weighted assets (3) ($bn)	**399.8**	367.7	362.1	346.3	341.1
Volumes ($bn)					
Gross loans and acceptances (3) (4) (6)	**584.1**	537.6	522.1	500.9	482.1
Average interest earning assets (6)	**748.4**	703.0	661.6	630.0	580.6
Total average assets (6)	**945.0**	853.4	802.5	758.4	700.7
Total deposits (3) (6)	**418.9**	383.0	428.4	408.4	388.6
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**0.71%**	1.19%	1.69%	1.78%	1.77%
Collective provision to credit risk-weighted assets	**1.01%**	0.83%	0.94%	1.00%	1.10%
Collective provision including GRCL to credit risk-weighted assets	**1.04%**	1.08%	1.16%	1.24%	1.41%
Specific provision to gross impaired assets	**32.7%**	35.5%	32.0%	30.3%	24.2%
Other					
Funds under management and administration (5) ($bn)	**171.0**	158.1	145.1	124.7	110.3
Annual inforce premiums ($m)	**1,794.7**	1,690.6	1,611.4	1,523.5	1,466.3
Full Time Equivalent Employees (FTE) (spot) (6)	**41,826**	41,420	42,164	43,336	44,645
Full Time Equivalent Employees (FTE) (average) (6)	**41,849**	41,153	42,783	43,753	45,155

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal Accounting Policies on page 76 for further information.*

(2) *Basel III Common Equity Tier 1 (CET1) from 2012 to 2014, Basel II Core Tier 1 Ratio for 2011.*

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

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

(5) *Excludes Trustee and Cash Management within NAB Wealth.*

(6) *Information is presented on a continuing operations basis including restatement for September 2014.*

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

On a statutory basis, net profit attributable to owners of NAB increased by $1,043 million or 19.7% compared to 2014. Excluding foreign exchange rate movements and specified items taken in the September 2015 and September 2014 years (detailed on page 6), net profit increased by $353 million or 5.2% reflecting favourable movements in fair value and hedge ineffectiveness and higher revenue, partially offset by higher expenses.

Net interest income increased by $567 million or 4.2% compared to 2014. Excluding foreign exchange rate movements, net interest income increased by $359 million or 2.7% with $104 million of the increase relating to movements in economic hedges offset in other operating income. This remaining increase was driven by higher housing and business lending volumes, lower funding and deposit costs and favourable outcomes in interest rate risk management activities. These were partially offset by lower margins mainly in business lending combined with a lower income from Group funding and hedging activities.

The Group's net interest margin fell four basis points from 1.91% to 1.87% in 2015 largely as a result of competitive pressure on customer pricing, partially offset by lower deposit costs as a result of lower term deposit and at call deposit costs.

Net life insurance income increased by $26 million or 4.8% driven by management actions relating to claims and lapses, premium growth and pricing increases.

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Total other income increased by $727 million or 14.8% compared to 2014. Excluding foreign exchange rate movements, other income increased by $638 million or 13.0%. This result includes a decrease of $104 million due to movements in economic hedges, offset in net interest income. The underlying increase was due to favourable movements in fair value and hedge ineffectiveness, coupled with an increase in the sales of risk management products to the Group's customers and gains on the sale of loans in NAB UK CRE.

Total operating expenses increased by $25 million or 0.2% compared to 2014. Excluding foreign exchange rate movements and specified items (detailed below), operating expenses increased by $462 million or 5.4%. This was driven by investment in the Group's priority segments, including additional service roles and capabilities to support customer needs and the hiring of additional front line bankers, combined with higher technology costs, increased regulatory project spend and increased costs within UK Banking as they position themselves for separation.

The charge to provide for bad and doubtful debts from continuing operations decreased by $3 million or 0.4% compared to 2014. Excluding foreign exchange rate movements, the charge to provide for bad and doubtful debts decreased by $8 million or 1.0%. This was primarily due to lower charges in Australian Banking and UK Banking, reflecting improvement in asset quality.

Income tax expense increased by $119 million or 4.6% compared to 2014 largely due to an increase in profit before tax.

Review of Group [(1)] and Divisional Results

	Group	
	2015 [(1)] **$m**	2014 [(1)] $m
Australian Banking	**5,111**	4,947
NZ Banking	**762**	738
NAB Wealth	**464**	365
UK Banking	**307**	284
Corporate Functions and Other [(2)]	**(630)**	(1,099)
Distributions	**(175)**	(180)
Cash earnings	**5,839**	5,055
Non-cash earnings items	**518**	126
Net profit/(loss) from discontinued operations	**(19)**	114
Net profit attributable to owners of NAB	**6,338**	5,295

There have been the following changes to the presentation of divisional results.

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

(2) *Corporate Functions & Other includes Group Funding, NAB UK CRE, specified items, other supporting units and the results of SGA.*

Group

Cash earnings increased by $784 million or 15.5% compared to the September 2014 year. Excluding foreign exchange rate movements and specified items incurred during the September 2015 and September 2014 years (detailed below), cash earnings increased by $76 million or 1.2%. This was largely driven by higher revenue combined with lower charges for bad and doubtful debts, which were partially offset by higher expenses.

Australian Banking

Cash earnings increased by $164 million or 3.3% compared to the September 2014 full year (excluding foreign exchange impacts cash earnings increased by $132 million or 2.7%), driven by higher net operating income and a lower charge to provide for bad and doubtful debts, partially offset by higher expenses.

NZ Banking

Cash earnings increased by $24 million or 3.3% compared to the September 2014 full year (excluding foreign exchange impacts cash earnings increased by $15 million or 2.0%) driven by improved revenue, offset by higher operating expenses and charges for bad and doubtful debts.

NAB Wealth

Cash earnings increased by $99 million or 27.1% compared to the September 2014 full year, reflecting strong insurance results, positive investment markets and efficiencies in operating expenses.

UK Banking

Cash earnings increased by $23 million or 8.1% compared to the September 2014 full year. Excluding foreign exchange impacts cash earnings decreased by $2 million or 0.7% due to reduced other operating income and increased expenses, partially offset by lower bad and doubtful debt charges.

Corporate Functions and Other

Cash earnings increased by $469 million or 42.7% against September 2014. Excluding the impact of specified items which impacted the September 2014 half (detailed below) and foreign exchange, cash earnings decreased by $183 million to $222 million. This decrease was driven by lower net operating income and an increase in operating expenses combined with lower write backs of bad and doubtful debts.

Specified items

	Group	
	2015 $m	**2014 $m**
UK conduct - IRHP	**(163)**	(654)
UK conduct - PPI	**(849)**	(756)
UK conduct - Fine	**(40)**	-
Capitalised software	**-**	(297)
R&D tax impact on opex	**-**	40
Operating expenses impact	**(1,052)**	(1,667)
Tax on specified Items	**173**	363
NY DTA	**-**	(132)
R&D tax credits	**-**	(68)
Income tax expense impact	**173**	163
Cash earnings impact	**(879)**	(1,504)

During the year ended 30 September 2015, several specified items impacted on NAB's cash earnings all of which have been reported in the Corporate Functions and Other division:

- UK conduct charges IRHP – Additional provisions of $163 million (£75 million) in relation to customer redress and related costs for interest rate hedging products (IRHP) and fixed rate tailored business loans sold in the UK.
- UK conduct charges PPI – Additional provisions of $849 million (£390 million) in relation to customer redress and related costs for Payment Protection Insurance (PPI) sold in the UK.
- During the March 15 half year, a $40 million (£21 million) fine was issued to Clydesdale Bank in relation to its management of PPI claims.

During the year ended 30 September 2014, several specified items had an impact on NAB's cash earnings, all of which were reported in the Corporate Functions and Other division:

- UK conduct charges IRHP – Additional provisions of $654 million (£365 million) in relation to customer redress and related costs for interest rate hedging products (IRHP) and fixed rate tailored business loans sold in the UK.

Operating and financial review

- UK conduct charges PPI – Additional provisions of $756 million (£420 million) in relation to customer redress and related costs for Payment Protection Insurance (PPI) sold in the UK.
- Capitalised Software – Following an annual impairment assessment of capitalised software, an impairment charge of $297 million was taken against individually significant assets, predominantly in NAB Wealth and Australian Banking businesses and other smaller assets in the UK and NZ region. Included within the impairment charge was a charge of $106 million for certain assets relating to NextGen, other than the core banking platform assets where no impairment was required.
- R&D Tax – As a result of a change in accounting policy for tax offsets, the Group is now recognising research and development (R&D) tax offsets as a reduction to the related software expense or carrying value of software assets. The impact of the changes was a $68 million increase in tax expense, a $40 million decrease in operating expenses, a $40 million reduction in the software assets and a $12 million decrease to the Deferred Tax Liability.
- NY DTA – Following an assessment of regulatory changes and business model changes in the USA and their impact on projections of future taxable income, and in turn the recoverability of the deferred tax assets (DTA) held in the New York (NY) branch, a DTA provision of $132 million (US$120 million) was taken during the September 2014 half year. The tax losses related to the DTA still remain available to the Group for up to 20 years.

Group Balance Sheet Review

	Group	
	2015[(1)] **$m**	2014 $m
Assets		
Cash and liquid assets	**30,934**	41,034
Due from other banks	**50,595**	39,088
Trading derivatives	**78,384**	57,389
Trading securities	**42,937**	44,212
Debt instruments at fair value through other comprehensive income	**45,189**	-
Investments – available for sale	**-**	43,386
Investments – held to maturity	**-**	2,919
Investments relating to life insurance business	**89,350**	85,032
Other financial assets at fair value	**29,696**	84,488
Loans and advances	**532,784**	434,725
Due from customers on acceptances	**19,437**	23,437
All other assets [(2)]	**35,746**	27,591
Total assets	**955,052**	883,301
Liabilities		
Due to other banks	**54,405**	45,204
Trading derivatives	**74,442**	55,858
Other financial liabilities at fair value	**30,046**	28,973
Deposits and other borrowings	**489,010**	476,208
Life policy liabilities	**76,311**	71,701
Bonds, notes and subordinated debt	**130,518**	118,165
Other debt issues	**6,292**	4,686
All other liabilities [(3)]	**38,515**	34,598
Total liabilities	**899,539**	835,393
Total equity	**55,513**	47,908
Total liabilities and equity	**955,052**	883,301

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal Accounting Policies on page 76 for further information.*

(2) *Includes current tax assets, hedging derivatives, goodwill and other intangible assets, property, plant and equipment, deferred tax assets and other new asset categories under AASB 9 (other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and equity instruments at fair value through profit or loss).*

(3) *Includes liability on acceptances, hedging derivatives, current tax liabilities, deferred tax liabilities, provisions, defined benefit superannuation plan liabilities and external unitholders' liability.*

Total assets increased by $71,751 million or 8.1% in 2015 when compared to 2014. Excluding foreign exchange rate movements, total assets increased by $43,426 million or 4.9% compared to 2014 was mainly due to an increase in loans and advances, other financial assets at fair value and due from customers on acceptances totalling $25,927 million or 4.8% in aggregate and trading derivatives of $18,191 million or 31.7%. This was partially offset by a decrease in marketable securities (comprising cash and liquid assets, due from other banks, trading securities, debt instruments at fair value through other comprehensive income, investments – available for sale and investments – held to maturity) of $12,120 million or (7.1%).

Loans and advances, other financial assets at fair value and due from customers on acceptances grew due to continued momentum in housing lending in Australia, UK and NZ. There was also growth in non-housing lending primarily in Australian Banking, partially offset by the decline in NAB UK CRE and Specialised Group Assets as these assets were sold down. Growth in trading derivatives was predominantly driven by foreign exchange and interest rate movements reflecting market conditions. The decrease in marketable securities reflected the Group's continuing desire to maintain balance sheet flexibility. In addition, excluding foreign exchange rate movements, there was an increase in other assets of $7,111 million or 25.8% mainly due to an increase in hedging derivatives and an increase in investments relating to life insurance business of $4,316 million or 5.1% driven by positive investment market returns.

Total liabilities increased by $64,146 million or 7.7% in 2015 when compared to 2014. Excluding foreign exchange rate movements, total liabilities increased by $37,118 million or 4.4% compared to 2014 mainly due to an increase in trading derivatives of $15,860 million or 28.4% in line with the increase in trading derivative assets. Bonds, notes and subordinated debt and other debt issues in aggregate increased by $10,471 million or 8.5% as the Group continues to explore opportunities to enhance and diversify its funding sources. In addition, excluding foreign exchange rate movements, there was an increase in life insurance policy liabilities of $4,610 million or 6.4% in line with the increase in investments relating to life insurance business, coupled with an increase in due to other banks and deposits and other borrowings totalling $3,565 million or 0.7% reflecting changes in funding mix.

Total equity increased by $7,605 million or 15.9% in 2015 when compared to 2014 mainly due to the $5.5 billion capital raising in May 2015, current year earnings and shares issued through the dividend reinvestment plan, partially offset by the dividend payment and NAB exercising its right to call the Trust Preferred Securities II shares.

Capital Management and Funding Review

Balance Sheet Management Overview

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

The Group maintains a well-diversified wholesale funding portfolio by accessing a range of funding across senior, subordinated and secured debt markets, as well as the domestic retail hybrid market.

The Group remains vigilant in its evaluation of the economic and regulatory environment, and continues to ensure that the balance sheet remains strong to enable it to respond to changing market and regulatory conditions.

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Regulatory Reform

The quantitative requirements of APRA's liquidity standard, APRA Prudential Standard (APS) 210, came into force on 1 January 2015 requiring compliance with the Liquidity Coverage Ratio (LCR). Net Stable Funding Ratio (NSFR) rules are expected to be released by APRA during 2015/2016, with implementation expected in 2018. The Group's liquidity strategy remains focused on the quality of liquid assets and the stability of the funding that underpins the LCR.

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

Basel III:

- APRA's disclosure requirements in relation to Leverage Ratio, Global Systemically Important Bank (G-SIB) indicators and LCR became effective 1 July 2015. The September 2015 Leverage Ratio and LCR will be disclosed in detail within NAB's full year Pillar 3 Report. The minimum leverage ratio is yet to be determined by APRA, with Pillar 1 compliance not expected until 1 January 2018.
- The Basel Committee on Banking Supervision's (BCBS) Fundamental Review of the Trading Book (FRTB) and review of the Credit Valuation Adjustment (CVA) framework is currently in consultation.

Federal Government's Financial System Inquiry (Inquiry):

- Released in December 2014, the Inquiry's final report included recommendations focused on financial system resilience, including ensuring unquestionably strong bank capital ratios, mortgage risk weights calibration and the implementation of a loss absorbing capacity framework.
- APRA's announcement in July 2015 of an increase in mortgage risk weights for internal ratings-based approach accredited Authorised Deposit taking Institutions (ADI) to an average 25% in response to a recommendation of the Inquiry. This change takes effect from 1 July 2016.
- In July 2015, APRA released the findings from a study comparing the capital position of the Australian major banks against international peers. APRA has indicated a final response will require further consideration.
- The Federal Government's response, released October 2015, was supportive of the resilience recommendations and APRA's approach to implementation.

Basel IV agenda:

- Themes driving the informally named 'Basel IV' BCBS proposals include transparency, consistency and credibility of IRB models. Draft proposals include revisions to the standardised approaches for calculating regulatory capital and the introduction of a capital floor framework and revisions to the interest rate risk in the banking book (IRRBB) framework.

Other regulatory changes

- APRA's notification regarding the definition of entities to be included within the Level 2 ADI Group, as previously announced on 5 May 2014. The change will remove over time the capital benefit that NAB gains from the debt on the National Wealth Management Holdings (NWMH) balance sheet, in accordance with the APRA approved transition period to December 2017. As of 30 September 2015, NWMH has $1.0 billion of debt remaining subject to transition, which is equivalent to 25 basis points of Common Equity Tier 1 (CET1) capital.
- APRA has confirmed a minimum 12 month transition period will be provided for Level 3 Conglomerate Supervision requirements. APRA's quantitative impact analysis suggests no potential Level 3 Group would be required to raise additional capital as a result of the implementation. Implementation has been deferred by APRA with a date to be advised.
- The PRA confirmed the UK Pillar 2 Framework in July 2015 with the publication of Policy Statement 17/15: "Assessing capital adequacy under Pillar 2 (PS17/15)". The statement confirms revised methodologies for assessing Credit, Concentration, Operational and Conduct risks and also covers capital buffers and confirms that the Capital Planning Buffer will be replaced by the CRD IV buffers (Capital Conservation Buffer, Counter-Cyclical Buffer, and Systemic Risk Buffer) that transition from 1 January 2016. These will provide a "floor" for Pillar 2B requirements, however the PRA will also make its own buffer assessment and if this is higher than the combined CRD IV buffers then an additional PRA buffer would be applied.
- The UK Government has enacted legislation to restrict to 50% the utilisation of tax losses realised by UK banks prior to 1 April 2015. This will prolong the expected period of time required to utilise deferred tax assets recognised on these tax losses. The UK Government has also announced a tax law change that will restrict tax relief for banks' conduct compensation payments to customers. The measure applies to compensation expenditure arising on or after 8 July 2015. Furthermore the existing Bank Levy will be reduced from 0.21% to 0.1% by 2021. However, from 1 January 2016 a new profit related surcharge of 8% will apply. It was also announced that the mainstream UK rate of corporation tax would fall from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020.

Capital Management

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

The Group's CET1 operating target remains between 8.75% and 9.25%, based on current regulatory requirements. The Group will continue to regularly review operating target levels and aims to retain flexibility in executing capital initiatives to support balance sheet strength.

The Group's CET1 ratio for September 2015 exceeds the operating target in anticipation of the planned demerger of Clydesdale Bank and in response to APRA's recent announcements for ADI's to increase risk-weighted assets (RWA) for residential mortgage loans from 1 July 2016.

Funding

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

Funding Indices

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

Funding indices have increased over the 2015 financial year with the Group CFI improving from 70.4% to 71.5%, while the Group

Operating and financial review

SFI increased from 90.4% to 92.3%. The SFI was in part affected by a weaker Australian Dollar which has raised the value of term wholesale funding in Australian Dollar terms.

Customer Funding

The Group has continued to grow deposits over the 2015 financial year. Deposit raising is informed by current market conditions, funding requirements and the characteristics of funds raised.

The Monthly Banking Statistics published by APRA show that for the 12 months ended September 2015:

- Australian domestic household deposits have grown by 9.9% (0.9x system growth).
- Business deposits (excluding deposits from financial corporations and households) have grown by 6.6% (0.9x system growth).
- Financial corporation deposits have grown by 10.9% (8.9x system growth), noting financial corporation deposits include custodial, self-managed super funds and operational accounts.

Term Wholesale Funding

Global funding conditions have been relatively supportive of term issuance during the September 2015 year. Whilst conditions are reasonably stable, markets remain sensitive to ongoing macroeconomic, geopolitical and financial risks.

The Group maintains a well-diversified funding profile and has raised $26.5 billion during the September 2015 financial year (excluding NAB's Additional Tier 1 hybrid security).

During the 2015 financial year, NAB raised $20.9 billion, including $15.6 billion senior unsecured, $3.1 billion of secured funding (comprising both covered bonds and residential mortgage backed securities) and $2.2 billion of Tier 2 subordinated debt. In terms of subsidiaries, BNZ raised $3.2 billion and Clydesdale Bank raised $2.4 billion during the September 2015 financial year.

The weighted average maturity of term wholesale funding raised by the Group over the 2015 financial year was approximately 4.7 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3 years (4.0 years for TFI qualifying debt, which only includes debt with more than 12 months remaining term to maturity). The weighted average maturity of term wholesale funding raised by NAB over the financial year was approximately 5 years to the first call date, similar to the 2014 financial year. Term wholesale funding raised in foreign currency is swapped to Australian dollar terms at the time of issuance. The average cost of term wholesale funding raised by NAB (including the cost of swapping back to Australian dollars and fees) during the 2015 financial year was approximately 107 basis points (94 basis points excluding subordinated debt) over Bank Bill Swap Rate (BBSW), compared to an average cost of 83 basis points over BBSW in the 2014 financial year. The average cost of NAB's outstanding term funding portfolio for the 2015 financial year was 129 basis points over BBSW, compared to 138 basis points over BBSW for the previous financial year.

Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets over 2015.

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

Liquid Asset Portfolio

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. Total liquid assets held as at 30 September 2015 were $124 billion (market value) excluding contingent liquidity, an increase of $7 billion from 30 September 2014.

Holdings of liquid assets include $104 billion of regulatory liquid assets (consisting both High Quality Liquid Assets and Committed Liquidity Facility eligible assets) as at the end of September 2015.

In addition to these liquid assets, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity. These assets may also support the Committed Liquidity Facility. Internal RMBS held at 30 September 2015 was $44 billion (post applicable central bank haircut). This was an increase of $10 billion from 30 September 2014.

Liquid assets that qualify for inclusion in the Group's LCR (net of applicable regulatory haircuts) were on average $150 billion for the quarter ended 30 September 2015 resulting in an average Group LCR of 115%.

Credit Ratings

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

The Group's current long-term debt ratings are: National Australia Bank Limited AA-/Aa2/AA- (S&P/Moody's/ Fitch); BNZ AA-/Aa3/AA-; Clydesdale Bank BBB+/Baa1/A; CYB Investments Limited (CYBI) [(1)] BBB/A (S&P/Fitch); and National Wealth Management Holdings Limited A+ (S&P).

On 14 May 2015, S&P changed the outlook of Clydesdale Bank from stable to negative following the proposed separation from the Group and on 5 June 2015 it assigned a 'BBB/A-3' long- and short-term credit ratings to the UK-based holding company CYBI[(1)] and placed the outlook on negative.

On 22 May 2015, Fitch newly assigned CYBI[(1)], a long-term debt rating of 'A', short-term debt rating of 'F1' and a outlook to negative.

On 5 June 2015, Moody's upgraded the long-term debt rating of Clydesdale Bank from Baa2 to Baa1 and changed the outlook from negative to stable. Clydesdale Bank's subordinated debt ratings was downgraded to Ba1 (previously Baa3) and short-term debt ratings are unchanged.

Dividends

The directors have declared a final dividend of 99 cents per fully paid ordinary share, 100% franked, payable on 15 December 2015. The proposed payment amounts to approximately $2,600 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. There is no discount on the DRP and no participation limit.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended 30 September 2014 of 99 cents per fully paid ordinary share, 100% franked, paid on 16 December 2014. The payment amount was $2,343 million.
- The interim dividend for the year ended 30 September 2015 of 99 cents per fully paid ordinary share, 100% franked, paid on 3 July 2015. The payment amount was $2,397 million.

Information on the dividends paid and declared to date is contained in *Note 7 - Dividends and distributions* in the *Financial report*. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. Please note New Zealand imputation credits have also been attached to the dividend at a rate of NZ $0.07 per share.

[(1)] On 29 October 2015, National Australia Group Europe Ltd (NAGE) changed its name to CYB Investments Limited.

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The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors, including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Review of, and Outlook for, Group Operating Environment

Global Business Environment

Global economic growth remains lacklustre:
- Solid growth has continued in the United States and United Kingdom but is weak in Japan.
- The Euro-zone is slowly recovering despite on-going tensions around Greece.
- China's economy continues to slow. While growth is still high by world standards this hides the weakness in its commodity intensive sectors.
- Growth is modest across large parts of East Asia and weak in Latin America, while indicators for India are mixed.

This lacklustre global environment, as well as new supply coming on stream or favourable crop outcomes, has led to some large falls in commodity prices. The Thomson Reuters commodity price index has fallen by over 40% from its post-Global Financial Crisis (GFC) peak, including 21% over the year to September 2015.

A number of factors have weighed on global financial markets in 2015, creating volatility at times. These include:
- Uncertainty over the pace of the Chinese economic slowdown, the plunge in Chinese stock prices from mid-June to August, and the August devaluation of the Yuan.
- Speculation over the timing of US Federal Reserve monetary policy tightening.
- The risk of a Greek exit from the Euro-zone.

The outlook is for global growth to continue tracking sideways. Recent activity and leading indicators provide no evidence that global growth is strengthening.

Australian Economy

The Australian economy is struggling to increase momentum, with income growth weak and structural changes underway at the industry and geographic level:
- In the June 2015 quarter GDP expanded by just 0.2% on the previous quarter, and by 2.0% over the same quarter a year ago.
- Real gross domestic income fell 0.2% over the year to the June quarter 2015.

Weakness in national income reflects lower commodity prices which have caused a decline in the terms of trade. Commodity prices have been declining since mid-2011, and declined a further 21% over the year to September 2015 in world price terms.

Moderate GDP growth of 2.3% for 2015 is expected, with some improvement to 2.9% in 2016. This largely reflects strengthening exports, supported by sharp increases in mining capacity in recent years and depreciation of the Australian dollar which is benefiting sectors such as tourism. Expansionary financial conditions are also supporting service sectors, with business conditions particularly strong for recreation and personal services, finance, and business and property services.

The outlook for domestic spending growth is subdued and is unlikely to significantly improve. It grew by just 1.2% over the year to the June quarter, well below its annual average over the last 20 years. This reflects:
- Declining business investment. There has been a large fall in mining investment, with survey data suggesting this will be repeated over the next year. While there was some improvement over the last year in non-mining investment, it remains below its pre-financial crisis level.
- Modest consumption growth, due to consumer caution and weak growth in household income.
- Strong dwelling investment which grew by 7% over the last year. Building approvals remain strong and the residential construction pipeline is elevated.

Dwelling prices in Australia rose 11% in the year to September:
- Sydney and Melbourne have seen the strongest gains. This reflects undersupply of housing (particularly in Sydney), and support from foreign and investor demand.
- However, prices have fallen in Perth, Adelaide, Hobart and Darwin.

Agricultural conditions are mixed. While overall rural commodity prices are lower than a year ago in world price terms, they are higher in Australian dollar terms. However, rainfall has been patchy and parts of the country are very dry. The current El Niño event represents a risk for the production outlook.

Conditions in the Australian labour market have stabilised:
- Employment growth strengthened to 2.0% over the year to September 2015, compared to less than 1% a year ago.
- The unemployment rate has been broadly unchanged over the last year at a little over 6%.

Total credit growth has been accelerating, although it remains modest by historical standards. Credit grew by slightly more than 6% over the year to August, up from 5% a year ago. By category, dwelling credit (particularly for investors) is the strongest, business credit growth is moderate, while other personal credit is almost flat.

Against the subdued economic outlook, the RBA has reduced its cash rate twice this year so far. The cash rate now stands at a historically low 2.0%.

New Zealand Economy

After several years of solid growth, which peaked in the December quarter 2014 at 3.5% year-on-year, the rate of expansion has slowed.

Some of the factors that were supporting New Zealand growth have gone, or are starting to go, into reverse:
- Dairy prices have fallen significantly.
- The boost to construction from the post-earthquake re-building of Canterbury may have peaked.

Moreover, a stronger El Niño weather pattern heightens drought risk in the first half of 2016.

Nevertheless, growth of 2.2% this year and 1.8% next year is expected due to support from:
- Still strong net immigration.
- The depreciation of the New Zealand dollar, which fell by over 15% between April 2014 and September 2015.
- Low interest rates.

Prices received by NZ commodity producers have recorded large falls and in September 2015 were down 29% from their February 2014 peak in world price terms. This is due to:
- Prices for dairy products falling by 52.5% over this period, although prices have recovered considerably from their August 2015 trough.
- Falls in forestry and aluminium prices, with prices of most other commodities, including meat, holding up.

The RBNZ has estimated that dairy farmer incomes for the 2014/15 season would be NZ$7 billion lower than the prior period, a reduction of over 40% from an estimated NZ$15.5 billion in dairy farmer income in 2013/14.

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The concern is that this loss of income will affect other sectors of the economy, and this is already being reflected in lower business and consumer confidence.

The latest indicators of activity are mixed:
- Business investment growth has slowed but remains relatively high.
- Consumption growth has been solid.
- The growth rate in residential investment has been slowing, although new residential building consents spiked in July 2015, and remained high in August 2015.
- Canterbury region building consents have fallen this year as the reconstruction impulse peaks.

In contrast, secondary housing market activity has strengthened:
- Annual house price growth is now above 10%.
- Listings are rising, as are sales keeping the inventory of homes for sale low.

Employment growth in New Zealand has been strong, but the annual growth rate has slowed this year. The unemployment rate has risen over the last year due to strong labour force growth from:
- Rapid working age population growth – fuelled by strong net migration.
- A high workforce participation rate.

The RBNZ has lowered the official cash rate by 0.75 percentage points so far in 2015 citing a softening economy and low inflation. It is projecting that some further easing is likely.

Credit growth continues to trend up and, at 6.7% on a year earlier in August, it is at its highest rate since early 2009. Business investment (both agricultural and other business) and housing credit have all strengthened over 2015 to date.

United Kingdom Economy

United Kingdom economic growth has slowed modestly, but remains at solid levels, and is principally being driven by the services sector. Growth over the year to the June quarter slowed to 2.4%, its lowest level since mid 2013, but is still above its average over the last 30 years.

Consumption and business investment have been important drivers of domestic demand growth in 2015, but dwelling construction has been weak:
- Annual consumption growth in the June quarter was 3.1%, its highest level since the GFC. This may reflect high levels of consumer confidence, stronger wages growth, and the large fall in oil prices.
- After declining slightly over the second half of 2014, business investment in the first half of 2015 has been growing at a strong 8% annualised rate.
- Private dwelling investment started falling in mid 2014, following a period of strong growth.

Annual export volume growth has slowed since late 2014. This possibly reflects the appreciation of the sterling exchange rate by more than 15% since its 2013 trough, although the modest improvement in the Euro-zone economy, the United Kingdom's largest trading partner, over this period would have assisted exporters.

Property market conditions are generally improving:
- House prices are continuing to grow although at a more moderate pace than in 2014. However, the number of property transactions have started to rise again.
- Survey data suggests commercial property sales and rental demand are picking up and rents are rising as available space declines. Commercial property prices grew by more than 9% over the year to September, but remain well below their pre-financial crisis peaks.

The labour market has improved rapidly in recent years. However, the pace of improvement has moderated:
- The unemployment rate has fallen modestly over 2015 and was 5.4% in the three months to August.
- Employment growth has also moderated although it remains solid by historical standards.

In the Group's key markets in Northern England and Scotland, activity measures are mixed:
- Scottish GDP growth over the year to the June quarter 2015 was 1.9%, below the national rate and employment is flat. However, retail sales volume growth was solid in the June quarter, and house prices are rising.
- In Yorkshire and Humberside, house price growth is matching the national trend but employment has fallen over the past year.

Lending growth continues to recover slowly, but remains well below pre-financial crisis levels. This reflects weak growth in housing credit, stronger consumer credit and continuing (but gradually smaller) falls in business credit.

The Bank of England expects that GDP growth will settle at around 2.5% per year. Growth is expected to be driven by private spending, particularly investment, despite on-going fiscal consolidation. With the Bank of England also considering that slack in the economy has diminished substantially and that demand growth will be sufficient to return (currently near zero) inflation to its target of 2%, there is debate about when it will start raising rates. Most expect this to occur in 2016.

Outlook

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

Disclosure on Risk Factors

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

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

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

Risks specific to the Demerger and Initial Public Offering proposal

As announced on 28 October 2015, substantial progress has been made with NAB's intended demerger and initial public offering of Clydesdale Bank (the Demerger and IPO). The Demerger and IPO proposal remains subject to a significant number of uncertainties, including but not limited to a final decision from NAB to proceed with the proposal, obtaining approval from shareholders, approvals from the court, regulators and listing authorities, and general market conditions, particularly equity market conditions in the United Kingdom. As such the Demerger and IPO may not proceed at all, or proceed on a basis, cost or timeframe that is materially different to that outlined, including potentially as a demerger only with no coincident IPO.

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In the event that the Demerger proceeds, shareholders will receive securities in CYBG, the value of which is unknown and may be subject to material volatility. An interest in CYBG will involve the risks that are applicable to CYBG business and may include additional risks not included in the description of NAB's risks. Details of these risks will be included in materials provided to shareholders in connection with the Demerger proposal. Further, as CYBG is a considerably smaller entity than NAB, individual risks may have a more material effect on the value of any investment in CYBG. Other risks associated with the execution of a transaction such as the Demerger and IPO are described below under the heading "Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's financial performance and position", such as the reputational and economic risks to NAB associated with the provision of continued services and infrastructure to CYBG.

To achieve the Demerger and IPO, NAB will provide a capped indemnity to CYBG in relation to potential future legacy conduct costs not covered by existing provisions. NAB intends to demerge CYBG in early calendar year 2016. The indemnity is capped at £1.115 billion.

The capped amount of the indemnity is expected to be deducted from NAB's Common Equity Tier 1 (CET1) levels at the time of separation, but may result in a capital release for NAB over time to the extent that conduct losses are less than the capped amount, or if the PRA determines the conduct risk has abated. To the extent that conduct losses are greater than the capped amount, that additional amount will be borne by CYBG.

In the event that the Demerger and IPO proposal does not proceed, NAB will continue to wholly own the Clydesdale Bank business and the Group will continue to be exposed to the risks of that business, including to all losses related to conduct matters. This may result in uncertainty in the level of regulatory capital that the Group is required to hold in respect of that business, and this level may materially increase from current levels.

In the event that the Demerger and IPO proposal proceeds on a basis that is materially different to that outlined, it could give rise to significant changes in the impact of the proposal on the Group's regulatory capital, including causing a reduction in its regulatory capital levels.

Risks specific to MLC life insurance transaction

As announced on 28 October 2015, NAB has agreed to sell 80% of MLC Limited to Nippon Life Limited. The transaction is subject to certain conditions, including regulatory approvals, extraction of the investments and superannuation business and establishing MLC Limited as a standalone life insurance company. Some of these conditions are subject to approvals from third parties and government agencies. The transaction may not proceed if any contractual conditions cannot be satisfied.

NAB has agreed to take certain actions to establish MLC Limited as a standalone entity and is expected to incur $440 million in post-tax one off transaction costs as a result. While NAB has undertaken detailed work to quantify these costs, there is a risk that the costs could be higher than what has been allowed for by NAB.

NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction which if breached may result in NAB being liable to Nippon Life.

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

Risks specific to the banking and financial services industry

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

The Group may be adversely impacted by macroeconomic risks and financial market conditions.

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

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

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

- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- Increased likelihood of counterparty default and credit losses (including the purchase and sale of protection as part of hedging strategies).
- Higher provisions for bad and doubtful debts.
- Mark-to-market losses in equity and trading positions.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth, business revenues and earnings. In particular, the Group's NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

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

- There is widespread market expectation that certain central banks may tighten their monetary policy to lift interest rates back to levels that appear more 'neutral' and nearer to historical norms and reduce quantitative easing. Other central banks are expected to keep interest rates low and undertake quantitative easing for a considerable time. The recent prolonged period of low interest rates carries the risk that market participants have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier and more rapid than expected tightening in monetary policy. In the past, periods of tightening monetary policy in the United States have been associated with greater volatility in the volume and pricing of capital flows into emerging market economies. Several capital importing economies, such

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as Australia and New Zealand, remain vulnerable to a sudden or marked change in United States interest rates and expectations on the interest rate outlook.

- Economic growth in Australia has remained moderate with falling commodity prices and a decline in mining investment weighing on demand. At the same time, subdued confidence across large parts of the economy has delayed the anticipated upturn in non-mining investment and labour demand, and there remains uncertainty over the timing and extent of such an upturn. In New Zealand, the sharp fall in global prices for major dairy products, the country's biggest merchandise export sector, is having an adverse effect on export earnings and national income. The loss of income may also have a flow on effect to other sectors of the economy, and is already being reflected in lower business and customer confidence. Regions that are heavily reliant on the dairy industry are further exposed to potentially significant impacts on growth, investment and unemployment.
- Both Australia and New Zealand are increasingly integrated with Asian economies, resulting in a sizeable exposure in both of these economies to changes in the pace of economic growth in the Asian region, in particular China. Uncertainty over the extent to which Chinese growth has already slowed, combined with the recent devaluation of the Chinese currency and falls in Chinese stock prices, continues to cause volatility in global markets. China is the dominant global market for key Australian export products as well as an increasingly important source of services exports and foreign investment. A sharper than forecast downturn in those parts of the Chinese economy that import minerals and energy commodities from Australia, may put further downward pressure on global commodity prices and volumes shipped from Australia to China.
- As the United Kingdom economy has close trade links with other Western European nations, developments in the Eurozone influence the level of demand for United Kingdom goods and services. In its 2015 general election manifesto, the winning Conservative Party committed to holding a referendum on whether or not the United Kingdom should remain in the European Union by the end of 2017, and that it would "negotiate a new settlement" for United Kingdom membership of the European Union after the 2015 General Election. As the European Union contains major United Kingdom economic partners and many aspects of United Kingdom law emanate from the European Union (including aspects of banking regulation), any renegotiation of the terms of United Kingdom membership or United Kingdom exit from the European Union could have significant economic effects.
- Some governments in the Eurozone are heavily indebted and politically unstable, and uncertainty remains over the financial strength of the banking sector. Unemployment also remains exceptionally high in several Eurozone nations. Concerns regarding the continuing financial crisis in Greece and its possible exit from the Eurozone may disrupt financial markets and weaken consumer demand in the European Union, the United States, and other parts of the world.
- Outside the Eurozone, increases in the level of sovereign debt in a number of countries have generally been reflected in a downgrading in the rating of their external liabilities by the various rating agencies. Both the gross level of Japanese sovereign debt and its ratio to gross domestic product have received particular attention, and the importance of low interest rates for the sustainable funding of that debt has been widely recognised. Chinese growth has been reliant on rapid credit growth and the resulting build-up of corporate and local government debt owed to the shadow banking sector has raised particular concern.

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

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

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

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

The Basel Committee on Banking Supervision's (BCBS) Basel III reforms are expected to be fully implemented by 2019 and are intended to strengthen the resilience of the banking sector. Implementation of these reforms will increase the quality and ratio of capital to risk weighted assets that the Group is required to maintain, will increase the quality and proportion of assets that the Group is required to hold as high-quality liquid assets (HQLA), as defined in the Australian Prudential Regulation Authority (APRA) liquidity standard and is expected to increase compliance costs. In Australia, APRA has introduced Prudential Standards implementing the Basel III requirements progressively from 1 January 2013. In New Zealand, the Reserve Bank of New Zealand (RBNZ) has implemented the Basel III capital adequacy framework, as modified to reflect New Zealand conditions. These reforms will require the Group to hold more HQLA and reshape the balance sheet, both in terms of how the Group is funded and how it utilises those funds. Other regulators, including the United Kingdom's Prudential Regulation Authority (PRA), have also implemented or are in the process of implementing Basel III and equivalent reforms.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. In December 2014, final revisions to the securitisation framework to take effect in January 2018 were released, as was a further consultation of the review of the trading book capital requirements. This may impact the amount of regulatory capital held industry wide for securitisation exposures and the trading book capital requirements for complex products. Revised Pillar 3 disclosure requirements were released in January 2015, and in response, APRA has introduced new disclosure requirements in relation to the leverage ratio, Global Systemically Important Bank indicators and the Liquidity Coverage Ratio which took effect from 1 July 2015. The standardised approaches to credit, market and operational risks are under review by the BCBS, along with the capital floor framework. The BCBS has also signalled potential changes to other aspects of the Operational Risk capital requirements. Further details are expected to emerge in the last quarter of 2015, with industry consultation through to 2016. Approaches to Interest Rate Risk in the Banking Book and sovereign risk are also under review. The full impact of the changes will not be known until the BCBS requirements are finalised and implemented by APRA or by other regulators across the Group. This may intersect with the Australian Financial System Inquiry (FSI), discussed below.

The Group has been identified as a Domestic Systemically Important Bank (D-SIB) under APRA's framework for D-SIBs and is therefore subject to a 1% higher loss absorbency CET1 capital requirement,

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effective from 1 January 2016. In addition, in May 2014, APRA clarified the definition of entities to be included in the composition of a Level 2 Authorised Deposit-taking Institution (ADI), which will remove over time the capital benefit the Group gains from debt on the National Wealth Management Holdings Limited balance sheet. APRA has released final prudential standards associated with its framework for the supervision of conglomerate groups, including the Group. However, the implementation of these standards has been deferred until a date to be announced by APRA. With the recent release of the Australian Government's response to the FSI, APRA may now consider further the implementation of these standards.

The United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) instituted major changes to United States banking and financial institution regulatory regimes. These changes include additional supervisory requirements and prudential standards for certain foreign banking organisations, such as NAB, and their affiliates. The Dodd Frank Act also contains the Volcker Rule, which prohibits proprietary trading and the sponsorship of, and investment in hedge, private equity or other similar funds by certain foreign banking organisations, including NAB. Certain requirements under the Dodd-Frank Act have yet to become effective, and their specific impact on the Group's businesses and in the markets in which it operates continues to be assessed.

Over The Counter (OTC) derivative market reforms are being implemented globally. In the United States, implementation is through the Dodd-Frank Act. In Australia, the Australian Securities and Investments Commission has implemented phased derivative transaction reporting requirements for the Group, which commenced in October 2013. The Australian Government has also indicated commitment to other related reforms, including mandating central clearing in Australia. Regulations for central clearing were introduced in September 2015. In Europe, the European Market Infrastructure Regulation has introduced new requirements to improve transparency and reduce the risks associated with the derivatives market, which are being progressively implemented. Where there is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, there may be added costs and complexity in achieving regulatory compliance for the Group.

The Foreign Account Tax Compliance Act (FATCA) requires certain foreign financial institutions to provide information regarding United States account holders to the United States tax authorities. The Australian and New Zealand Governments, as well as some governments of other countries in which the Group operates, have entered into or have agreed to enter into intergovernmental agreements with the United States Government, and have enacted or are considering enacting law in respect of FATCA. Under such agreements, foreign financial institutions in such jurisdictions will generally be exempt from withholding under FATCA. Non-compliance with FATCA may subject the Group to a 30% withholding tax applied on certain amounts derived from United States sources, and certain payments attributable to such amounts.

The United Kingdom Financial Services Banking Reform Act 2013 (the Banking Reform Act) has wide ranging implications, substantially enacting the recommendations of the Independent Commission on Banking. A key inclusion in the Banking Reform Act gives effect to structural reforms aimed at 'ring-fencing' retail banks of a certain size from investment and wholesale banking operations, and capitalising each separately. Retail ring-fencing must be implemented by 1 January 2019. Other key requirements include imposing higher standards of conduct on the banking industry, depositor preference in the event a bank enters insolvency, and introducing more onerous primary loss absorbing capacity requirements. Regulatory Technical Standards are also due to be implemented in relation to resolution planning, which will require institutions to meet a robust minimum requirement for own funds and eligible liabilities. This may impact the structure and operation of the Group's United Kingdom business.

The United Kingdom Parliament has enacted legislation to restrict the utilisation of tax losses realised by United Kingdom banks prior to 1 April 2015. This will prolong the expected period of time to utilise the deferred tax assets recognised on these tax losses. The United Kingdom Government has also announced proposed tax law changes to disallow tax relief for conduct compensation payments to impacted bank customers, and that from 1 January 2016, banking profits will be subject to a tax surcharge of 8%. When enacted, these measures may adversely impact the profitability of the Group's United Kingdom operations.

The Australian Government's FSI released its final report in December 2014, and submissions for subsequent consultation closed on 31 March 2015. The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The Australian Government released its response to the FSI on 20 October 2015, and confirmed its support for all but one of the 44 recommendations for the Australian financial system. These include ensuring "unquestionably strong" bank capital ratios, mortgage risk weights calibration, and the implementation of a loss absorbing capacity framework. The FSI has also proposed other measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. APRA has indicated that a final response to the determination of "unquestionably strong" capital standards is subject to further consideration, but it may require the major banks to increase their CET1 capital ratios in light of the emerging international reform agenda. On 20 July 2015, APRA announced its response to a recommendation of the FSI to raise mortgage risk weights with the changes coming into effect from 1 July 2016.

Future of Financial Advice (FOFA) reforms set certain standards and obligations in relation to the provision of financial advice to retail investors. The FOFA reforms became mandatory on 1 July 2013. On 19 March 2014, the Australian Government introduced the Corporations Amendment (Streamlining Future of Financial Advice) Bill 2014 (the Bill), which proposed a package of changes to FOFA to reduce the compliance costs and regulatory burden on the financial services sector. The Bill became effective on 1 July 2014 before being disallowed by the Senate in November 2014, although some regulations have subsequently been reinstated. Further legislative refinements are being considered for progression in the second half of 2015, although uncertainty remains as to the timing of refinements and the impact to the Group.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices including restrictions on the growth in investor lending, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, anti-money laundering / counter-terrorism financing regulations, payments, privacy laws and increased supervisory expectations around data quality and controls.

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

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

There is substantial competition across the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating models. It is difficult to predict the types of new entrants into the financial services industry, the rapid changes in technology and the impact these will have, including impacts on customer needs and preferences. The Group may not have the resources and flexibility to predict these changes and to adapt in sufficient time to keep pace with industry developments and to meet customer expectations. The Group's financial performance and position may be adversely affected by competitive market conditions and industry trends.

Risks specific to the Group

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

The risks specific to the Group are set out below.

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

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

Major sub-segments within the Group's lending portfolio include:

- Residential housing loans, which at 30 September 2015 represented approximately 58.5% of gross loans and acceptances.
- Commercial real estate loans, which at 30 September 2015 represented approximately 10.3% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's United Kingdom commercial real estate loan run-off portfolio continues to be managed separately from the rest of the Group's banking activities in the United Kingdom.
- The Group's United Kingdom banking business (excluding the United Kingdom's commercial real estate loan run-off portfolio), represented approximately 10.7% of gross loans and acceptances at 30 September 2015.

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

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

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

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

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

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

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

Examples of operational risk events include:

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

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

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

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

The Group is exposed to compliance risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, standards and codes. If the Group's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, or enforced suspension of operations or loss of licence to operate all or part of the Group's businesses. This may adversely impact the Group's financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks. In Australia, such investigations include examining potential wrongdoing by the Group and other market participants in the bank bill swap reference rate and foreign exchange markets.

When carrying out its day-to-day business activities, the Group advocates customer fairness and seeks to act in the best interests of its customers and their desired outcomes. Despite the Group's focus on customer fairness and appropriate management of conduct risk, risk may still arise through inappropriate conduct by employees in breach of Group policy, regulatory standards, and industry codes of conduct. This may include detrimental practices, such as selling or coercing customers into inappropriate products and services, conducting inappropriate market practices, non-adherence to fiduciary requirements or provision of inappropriate financial advice. Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. The Group is aware that two plaintiff law firms have advertised that they are investigating claims on behalf of the Group's customers who have suffered losses as a result of financial advice received from the Group's advisers. No formal action has yet been taken against the Group in this regard.

In common with the wider United Kingdom retail banking sector, Clydesdale Bank PLC (Clydesdale) continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance, the sale of certain historic interest rate hedging products to small and medium-sized businesses, and other conduct-related matters. Since 1 April 2013, Clydesdale has been regulated by the Financial Conduct Authority (FCA) and the PRA. Proactive regulation of conduct related matters by the FCA may impact the manner in which the Group's United Kingdom operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. For further details in relation to ongoing United Kingdom conduct matters that are material to the Group, refer to 'Notes to the Consolidated Financial Statements', *Note 41- Contingent liabilities and credit commitments*.

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

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

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

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

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

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

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

The Group has invested significantly in its enterprise-wide technology and infrastructure transformation, including the upgrade of its Australian core banking platform. As many of these newly delivered capabilities are deployed across the Group, there is a risk that their implementation may not realise some, or all of the anticipated benefits. The Group also continues to pursue business process improvement initiatives and invest in technology in order to achieve its strategic objectives, meet ongoing customer expectations and respond to competitive pressures. As these changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are increased, which may adversely impact the Group's financial performance and position.

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

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

Effective 1 October 2014, the Group adopted the requirements of Australian Accounting Standards Board (AASB) 9 'Financial Instruments'. Refer to 'Notes to the Consolidated Financial Statements', *Note 1 – Principal accounting policies* for transitional impacts of the application of AASB 9.

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

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

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

Refer to 'Notes to the Consolidated Financial Statements', *Note 41-Contingent liabilities and credit commitments* for details in relation to the Group's material legal proceedings and contingent liabilities.

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

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

Any changes to capital adequacy requirements, including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit the Group's ability to manage capital across the entities within the Group or may require it to raise or use more higher quality capital. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact the Group's operations, financial performance and position.

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

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

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. Any significant deterioration in the Group's liquidity position may lead to an increase in the cost of the Group's borrowings, constrain the volume of new lending, or result in the Group drawing upon its Committed Liquidity Facility with the Reserve Bank of Australia. This may adversely impact the Group's profitability, financial performance and position.

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

Credit ratings are an important reference for market participants in evaluating the Group and its products, services and securities.

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

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

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

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

The Group's exposure to defined benefit pension fund risk may adversely impact its financial performance and position.

Defined benefit pension fund risk is the risk that, at any point in time, a defined benefit pension scheme is in deficit, meaning that the assets available to the scheme are at a value below its current and future pension obligations. Changes in the level of pension deficit also result in volatility for the Group's regulatory capital position, as a deficit amount results in a direct reduction in the Group's CET1 capital.

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members from 1 January 2004. Refer to 'Notes to

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the Consolidated Financial Statements', *Note 33 – Defined benefit superannuation plan assets and liabilities* for the latest published position in relation to this scheme at 30 September 2015.

Asset and liability values are affected by a number of factors, including the discount rate used to calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality and morbidity rates) and the value of the investment portfolio.

A deficit may increase the amount that members of the Group are obliged to contribute to the scheme and adversely impact the Group's financial performance and position.

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

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

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

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

A material reduction in the fair value of an equity investment held by the Group may adversely impact its financial position.

The Group carries equity investments in its banking book at fair value. Fair value represents mark-to-market valuations derived from market prices, independent valuations and methodologies or other valuation techniques. The fair value of an equity investment may be impacted by factors such as economic, operational, currency and market risk. A material reduction in the fair value of an equity investment in the Group's banking book may adversely impact the financial position of the Group.

The Group may suffer significant losses from its trading activities.

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

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

Life insurance risk is the potential for losses when life insurance claims and other outgoings exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, inadequate reserving, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the Group. It also includes lapse risk, where a policy lapses before the upfront costs have been recouped from profit margins.

Provisions for mortality and morbidity claims are an estimate of the expected ultimate cost of such claims based on actuarial and statistical projections, rather than an exact calculation of liability. Provisions are affected by a range of factors, including unforeseen diseases or epidemics. Changes in any of these factors would necessitate a change in estimates of projected ultimate cost. Losses may occur when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies.

The Australian life insurance industry, in which the Group is a participant, has recently experienced poor lapse and claims experience and lower underlying investment income. This may continue to adversely impact the Group's financial performance and position.

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

The Group's reputation may be damaged by the actions, behaviour or performance of the Group, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Should the Demerger and IPO of CYBG proceed, any subsequent adverse performance of CYBG Group over the near term may adversely impact the Group's reputation. A risk event, such as a compliance breach or an operational or technology failure, may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk event itself may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to NAB's share price. Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the Group, and impact the cost of funding, its operations, or its financial condition. It may also result in regulators requiring the Group to hold additional capital or incur additional costs and fines. Damage to the Group's reputation may also adversely impact the Group's financial performance and position.

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

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

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

There is a risk that the assumptions on which the Group's strategic decisions are based are, or may prove to be, incorrect or that the conditions underpinning those strategic decisions may change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively.

The Group regularly examines a range of corporate opportunities (including acquisitions, divestments and joint ventures) and evaluates these opportunities against strategic priorities and risk appetite and considers their ability to enhance the Group's financial performance, position or prospects.

Operating and financial review

Any corporate opportunity that is pursued may change the Group's risk profile and capital structure which, in turn, may contribute to negative sentiment or a negative impact on the Group's credit ratings.

Risks associated with the execution of a transaction may result from an over-valuation of an acquisition or joint venture, or an under-valuation of a divestment or joint venture. There may be reputational and financial risks associated with ongoing exposure to a divested business, for example through the provision of continued services and infrastructure, or the retention of liabilities.

Other risks may also arise through the Group's integration or separation of a business including failure to realise expected synergies, loss of customers, disruption to operations, application of additional regulation, diversion of management resources or higher than expected costs. Once commenced or executed, corporate actions or other strategic initiatives may be unable to be reversed. These factors may adversely impact the Group's financial performance and position.

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

The Group operates within a risk management framework comprising systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and mitigate risks.

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

Report of the Directors

Directors' information

Directors

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

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

Age: 65

Term of office: Chairman since September 2005 and Director since December 2004 (retiring December 2015)

Independent: Yes

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

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

- Chairman, Woodside Petroleum Ltd (since August 2007, Director since November 2005)
- Director, Centre for Independent Studies (since October 2000)
- Director, Wesfarmers Limited (since June 2015)
- Chancellor, University of Western Australia (since December 2005)
- Member, Prime Minister's Business Advisory Council (since December 2013)
- Member, Commonwealth Science Council (since October 2014)
- Member, Australia-Germany Advisory Group (since February 2015)
- Former Chairman, Gresham Partners Holdings Limited (from July 2005 to May 2015)
- Former Member, JP Morgan International Council (from October 2003 to October 2014)

Board Committee membership:

- Chairman of the Nomination Committee

Mr Andrew G Thorburn BCom, MBA

Age: 50

Term of office: Director since August 2014

Independent: No

Skills & Experience: More than 30 years' experience working in banking and finance. A career banker, Andrew joined the Retail Leadership team at NAB in January 2005 and from 2008 to 2014 was Managing Director and CEO of Bank of New Zealand. In this role Andrew led BNZ's strategic positioning and performance. Prior to joining NAB, he held senior leadership roles at ASB Bank, Commonwealth Bank of Australia and St. George Bank.

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

- Director, Australian Bankers' Association Inc (since September 2014)
- Director, The Financial Markets Foundation for Children (since August 2014)

Board Committee membership:

- Member of the Information Technology Committee

Mr David H Armstrong BBus, FCA, MAICD

Age: 57

Term of office: Director since August 2014

Independent: Yes

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

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

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

Board Committee membership:

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

Mr Daniel T Gilbert AM, LLB

Age: 64

Term of office: Director since September 2004

Independent: Yes

Skills & Experience: Over 35 years of experience in commercial law. He is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988. He is Co-Chair of NAB's Indigenous Advisory Group.

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

- Chairman, University of Western Sydney Foundation (since January 2012)
- Co-Chairman, Cape York Partnership Group Limited (since January 2015)
- Chairman, Eucharistic Community Limited (since June 2013)
- Former Chairman, National Museum of Australia (March 2009 to March 2015)

Board Committee membership:

- Chairman of the Remuneration Committee
- Chairman of the Information Technology Committee
- Member of the Nomination Committee

Mr Peeyush K Gupta BA, MBA, FAICD

Age: 56

Term of office: Director since November 2014

Independent: Yes

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

Directors' information

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director, Insurance & Care NSW (iCare) (since October 2015)
- Chairman, Charter Hall Direct Property Management Limited (since November 2011)
- Chairman, State Super Financial Services Australia Limited (since June 2010)
- Director, Securities Industry Research Centre of Asia Pacific (SIRCA) (since October 2009)
- Director, Quintessence Labs Pty Ltd (since June 2008)
- Member, University of Western Sydney Foundation (since June 2013)
- Director, SBS Special Broadcasting Service (since October 2014)
- Former Director, Safety, Return to Work and Support Board (NSW Workcover and Motor Transport Accidents Authority) (from August 2012 to August 2015)

Board Committee membership:
- Member of the Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

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

Age: 57

Term of office: Director since November 2011 (Chairman-elect)

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman, Sir Roland Wilson Foundation, ANU (since February 2013, Director since May 2001)
- Director, ASX Limited and some of its subsidiaries (since February 2013)
- Member, Board of Reconciliation Australia (since July 2012)
- Former Chairman, Advisory Council of the SMART Infrastructure Facility, University of Wollongong (from 2011 to August 2015)
- Former Chairman, The Institute of Public Policy at the Australian National University (ANU) (from July 2012 to November 2014)

Board Committee membership:
- Chairman of the Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Ms Geraldine C McBride BSc

Age: 54

Term of office: Director since March 2014

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director, Sky Network Television Limited (since August 2013)
- Director, Fisher and Paykel Healthcare (since July 2013)
- Director, My Wave Limited (since August 2013)

Board Committee membership:
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Paul J Rizzo BCom, MBA

Age: 71

Term of office: Director since September 2004 (retiring December 2015)

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman, Defence Audit and Risk Committee for the Australian Government Department of Defence (since February 2008)
- Director, Australian Submarine Corporation Pty Ltd (since December 2013)
- Former Chairman, The Rizzo Report Implementation Committee for Defence (from September 2011 to November 2014)
- Former Chairman, Foundation for Very Special Kids (July 2004 to 9 June 2015)

Board Committee membership:
- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

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

Age: 60

Term of office: Director since September 2004

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman, General Sir John Monash Foundation (since May 2010 and Director since February 2008)
- Director, Garvan Institute of Medical Research (since June 2009)
- Chairman, Australia-Israel Chamber of Commerce (NSW) (Director since February 2013, Chairman since March 2015)
- Director, The Observership Program (since October 2014)
- Deputy Chancellor, University of New South Wales Australia Council (since January 2010)

Directors' information

- Member, Sydney Opera House Trust (since January 2014)
- Member Australian War Memorial Council (since June 2014)
- Former Director, ASX Limited (from July 2003 to September 2015)
- Former Director, ASX Compliance Pty Limited (from July 2006 to September 2015)

Board Committee membership:
- Member of the Risk Committee
- Member of the Remuneration Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Anthony K T Yuen B.Soc.Scs & Law

Age: 65

Term of office: Director since March 2010

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Member, Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006)
- Member, Hong Kong Red Cross International and Relief Service Management Committee (since April 2015)

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

Board changes

Mr Thorn retired from the Board on 18 December 2014

Mr John G Thorn FCA, FAICD

Age: 67

Term of office: Director from October 2003 to December 2014

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director, Amcor Limited (since December 2004)
- Director, Salmat Limited (since September 2003)
- Former Director of Caltex Australia Limited (from June 2004 to May 2013)

Board Committee membership:
- Chairman of the Audit Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Tomlinson retired from the Board on 18 December 2014

Mr Geoffrey A Tomlinson BEc

Age: 68

Term of office: Director from March 2000 to December 2014

Independent: Yes

Skills & Experience: 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He was Chairman of certain NAB Wealth subsidiaries (all subsidiaries of NAB).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman, Growthpoint Properties Australia Ltd (Director since September 2013)
- Director, Calibre Global Limited (since May 2012)
- Director, IRESS Limited (since March 2015)

Board Committee membership:
- Member of the Remuneration Committee
- Member of the Nomination Committee

Mr Waller retired from the Board on 31 July 2015

Mr John A Waller BCom, FCA

Age: 63

Term of office: Director from February 2009 to July 2015

Independent: Yes

Skills & Experience: Over 20 years in professional services with PwC, New Zealand. His roles at PwC included being a member of the firm's New Zealand Board and leader of its Advisory division. He was also a member of the New Zealand Takeovers Panel until February 2011. In addition to a wealth of valuable corporate and financial experience, he brings to the Board a deep understanding of the New Zealand market. He was Chairman of BNZ (a subsidiary of NAB).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director, Fonterra Co-operative Group Limited (since Feb 2009)
- Director, Sky Network Television Limited (since April 2009)
- Director, Haydn & Rollett Limited (since February 2009)
- Director, Donaghys Limited (since March 2009)
- Director, Property for Industry Limited & subsidiary (formerly Direct Property Fund Limited) (since July 2013)
- Former Chairman, Eden Park Trust (from September 2009 to January 2015)
- Former Director, Yealands Wine Group (from November 2011 to August 2013)

Board Committee membership:
- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Company Secretaries

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

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

Mr Ashley Warmbrand BCom, LLB (Hons), joined the Group in 2008 and was appointed as an assistant company secretary in September 2015. Mr Warmbrand is the secretary to the Principal Board Risk

Directors' information

Committee and Principal Board Audit Committee. He has experience in advising on a wide range of legal, governance and regulatory matters.

Ms Elizabeth Melville-Jones BA, LLB, MBA (Melb), joined the Group in 2015 and was appointed as an assistant company secretary in September 2015. Ms Melville-Jones supports the Group Company Secretary in the operation of NAB's corporate governance framework and compliance obligations.

Ms Fiona Last BCom, LLB (Hons), joined the Group in 2005 and was appointed as a company secretary in May 2012. Ms Last resigned from the Group on 12 February 2015.

Directors' and officers' indemnity

NAB's constitution

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

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

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

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

NAB may enter into an agreement with a person referred to in Articles 20.1 and 20.2 with respect to the subject matter of those Articles. Such an agreement may include provisions relating to rights of access to the books of NAB.

In the context of Article 20, 'officer' means a director, secretary or senior manager of NAB or of a related body corporate of NAB.

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

Directors' and officers' insurance

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

Directors' attendances at meetings

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

	Board [(1)]		Audit Committee		Risk Committee		Nomination Committee		Remuneration Committee		IT Committee		Directors' meetings of controlled Entities [(2)]		Additional meetings [(3)]
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**Attended**
MA Chaney	24	24	2	2	12	12	3*	3	10	10	1	1	4	5	7
DH Armstrong	24	24	10*	10	12	12	3*	3	2	2	4*	4	5	5	33
KR Henry	23	24	4*	4	12*	12	3*	3	8*	8	2	2	5	5	23
DT Gilbert	24	24	2	2	12	12	3*	3	13*	13	4*	4	5	5	22
PK Gupta	19	21	1	1	9*	10	3*	3	9	9	3	4	29	29	-
GC McBride	20	24	5	5	6	6	3*	3	1	1	4*	4	4	5	-
PJ Rizzo	24	24	9*	10	11*	12	3*	3	2	2	3*	4	4	5	20
JS Segal	22	24	3*	3	12*	12	3*	3	10*	10	3	3	5	5	3
AG Thorburn	24	24	2	2	8	8	-	-	11	11	3*	4	4	5	14
AKT Yuen	24	24	7*	7	12*	12	3*	3	7*	7	-	-	5	5	6
GA Tomlinson	8	8	-	-	2	2	-	-	5*	5	-	-	20	20	-
JG Thorn	8	8	9*	9	3	3	-	-	1	1	1*	1	2	2	4
JA Waller [(4)]	17	22	4*	8	5*	10	1*	2	1	1	1	1	14	27	3

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

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

B *Number of meetings (including meetings of Board committees) held during the year or, where a director served for only part of the year, the number held during that period. Where a director is not a member of the relevant Board committee, this column reflects the number of meetings attended.*

(1) *In addition to 11 scheduled Meetings, there were a number of additional special purpose meetings held during the year. Any directors unable to attend meetings are provided with the relevant papers and/or a separate briefing and their comments received prior to the meeting.*

(2) *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.*

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

(4) *A leave of absence was granted for health reasons. Mr Waller resigned from the Board and its Committees on 31 July 2015.*

Refer to Page 59 of the Corporate Governance Statement for Board Committee memberships.

Directors' information

Directors' and executives' interests

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

	National Income Securities No.	Performance rights over NAB fully paid ordinary shares [(1)] No.	NAB fully paid ordinary shares [(2)] No.
Directors			
MA Chaney (Chairman)	-	-	30,643
DH Armstrong	-	-	6,480
DT Gilbert	1,253	-	17,486
PK Gupta	-	-	6,480
KR Henry	-	-	6,860
GC McBride	-	-	2,160
PJ Rizzo	-	-	6,290
JS Segal	180	-	16,023
AG Thorburn	-	337,906	102,389
AKT Yuen	-	-	10,464
Senior executives			
AJ Cahill	-	42,159	34,583
CM Drummond	500	94,630	134,787
AD Gall	-	49,761	91,269
AP Hagger	-	209,489	108,605
MJ Healey	700	164,970	133,293
AJ Healy	-	88,076	25,330
A Mentis	-	48,955	13,853
RM Roberts	-	33,042	23,114
GR Slater	-	217,660	53,987

(1) *Further details of performance rights are set out in Note 38 - Shares, performance options & performance rights in the Financial report and Section 5.4 of the Remuneration report.*

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

The directors from time-to-time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly by a director as at 30 September 2015 were:

Directors	Nature of product	Relevant interest (Units)
DT Gilbert	NAB Subordinated Notes	2,000
DH Armstrong	Convertible Preference Shares II	900

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

Executive performance rights

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

Directors' information

All performance rights that have not expired are detailed below.

The number and terms of performance rights granted by NAB during 2015 under the performance rights plan, including the number of performance rights exercised during 2015, are shown in the following table:

Exercise period [(1)]	Number held at 30 September 2015	Number exercised from 1 October 2014 to 30 September 2015	Number granted since 1 October 2014
Performance rights [(2)]			
1 January 2012 - 1 January 2016	-	-	-
23 May 2013 - 23 November 2015	-	-	-
7 November 2013 - 7 May 2015	-	1,260	-
23 November 2013 - 23 May 2014	-	-	-
15 December 2013 - 15 June 2014	-	-	-
15 May 2014 - 15 November 2015	-	-	-
23 May 2014 - 23 November 2015	-	-	-
7 November 2014 - 7 May 2015	-	509,675	-
4 December 2014 - 4 June 2015	-	429	-
4 December 2014 - 4 June 2016	4,879	203,564	-
14 December 2014 - 14 June 2015	-	-	-
15 May 2015 - 15 November 2015	-	-	-
23 May 2015 - 23 November 2015	3,053	17,962	-
4 June 2015 - 4 December 2016	20,344	10,874	-
14 June 2015 - 14 December 2015	-	-	-
1 November 2015 - 1 May 2016	9,498	-	-
4 December 2015 - 4 June 2016	184,928	-	-
17 December 2015 - 15 March 2016	112,473	-	118,662
22 May 2016 - 22 November 2016	17,298	-	-
4 June 2016 - 4 December 2016	21,086	-	-
17 June 2016 - 15 September 2016	16,872	-	19,583
4 November 2016 - 4 May 2017	3,374	-	-
17 December 2016 - 15 March 2017	117,739	-	124,303
19 December 2016 - 19 June 2018	1,583,846	-	-
22 May 2017 - 22 November 2017	8,171	-	-
17 June 2017 - 15 September 2017	17,893	-	20,768
19 June 2017 - 19 December 2017	61,258	-	-
19 June 2017 - 19 December 2018	-	-	-
20 December 2017 - 20 June 2019	782,025	-	-
20 June 2018 - 20 December 2019	95,849	-	-
21 December 2018 - 15 March 2020	1,192,434	-	1,300,407
21 June 2019 - 15 September 2020	125,940	-	156,816

(1) *Performance rights expire on the last day of their exercise period.*

(2) *Further details of performance rights are set out in Note 38 - Shares, performance options & performance rights in the Financial report. All shares issued or transferred on exercise of performance rights are NAB fully paid ordinary shares. No exercise price is payable for performance rights.*

Performance rights on issue and number exercised

There are currently 4,315,986 performance rights which are exercisable, or may become exercisable in the future under the performance rights plan. There are currently 202 holders of performance rights.

NAB has issued 36,842 fully paid ordinary shares since 30 September 2015 as a result of performance rights granted being exercised, for no consideration.

For the period 1 October 2014 to the date of this report, 5,276 performance rights expired as they were not exercised before their expiry date and 1,057,131 performance rights lapsed.

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

Other Matters

Litigation and disputes

(i) Legal proceedings

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

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

(ii) Class actions

On 16 December 2011, Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar actions against other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed until 1 December 2015 pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action commenced in September 2010 and is effectively a 'test case' for exception fee claims against Australian banks. On 8 April 2015, the Full Court of the Federal Court delivered judgement on an appeal in the ANZ action. The Court found in favour of ANZ. On 11 September 2015 the applicants were granted special leave to appeal to the High Court of Australia.

In March 2013, a potential representative action against New Zealand banks (including NAB's subsidiary BNZ) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the actions. On 20 August 2014, representative proceedings were filed against BNZ. On 24 September 2014 and again on 30 April 2015, these proceedings were stayed pending the outcome of proceedings in Australia. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

(iii) United Kingdom Financial Services Compensation Scheme

The United Kingdom (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 in the UK, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits.

During 2015, the FSCS levy was also invoiced to institutions for the third of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2016 and an accrual of $19 million (£9 million) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

(iv) Claims for potential mis-selling of payment protection insurance

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance (PPI).

As at 30 September 2015, a provision of $1,674 million (£774 million) is held with respect to complaints and redress issues arising out of historic sales of PPI. This includes a charge of £390 million during the September 2015 half, which incorporates the requirement for further proactive customer contact determined by the Group undertaking a past business review, as well as changes in complaint levels, changes in the cost of redress and increasing costs of the programme. This provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies), the number of those claims that ultimately will be upheld, the amount that will be paid in respect of those claims, the impact of the Supreme Court decision in Plevin v Paragon Personal Finance Ltd (Plevin) referenced below (including the impact of any new Financial Conduct Authority (FCA) rules or guidance issued further to that decision) and any additional amounts that may need to be paid in respect of previously handled claims.

The November 2014 case of Plevin held that, judged on its own facts, non-disclosure of the amount of commission payable in that case in connection with the sale of single premium PPI to a customer, created an unfair relationship under Section 140A (s.140A) of the *Consumer Credit Act* 974 (CCA).

On 2 October 2015 the FCA announced its intention to issue consultations, before the end of the calendar year, in relation to the introduction of a deadline by which consumers would need to make their PPI complaints and also in relation to how FCA regulated firms should handle PPI complaints fairly in the light of Plevin. The principal elements of the consultations include (i) a deadline for PPI complaints falling two years from the date the proposed rule comes into force (not anticipated to be before April or May 2016) and (ii) a proposal that a UK regulated firm should presume, when assessing a complaint, that a failure to disclose a commission of 50% or more gave rise to an unfair relationship under s.140A. The proposed rules and guidance in (ii) would only apply to PPI complaints where a claim could be made against a lender under s.140A (i.e. where sums were payable (or capable of being payable) under the underlying credit agreement on or after 6 April 2008). The proposed PPI complaint deadline would also apply to the handling of these complaints. Noting that the consultation documents have not been published and that the final rules and guidance may therefore change from that proposed, it is too early to estimate the impact of these matters. Accordingly, no adjustment to the PPI provision has been recorded in relation to these matters.

The eventual costs of PPI redress and complaint handling may differ materially from the amount estimated and a further provision may be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

The Group will continue to reassess the adequacy of the provision for these matters and the assumptions underlying the provision calculation based on experience and other relevant factors as matters develop.

(v) Review of sales of certain interest rate hedging products

On 29 June 2012 the UK Financial Services Authority (FSA, now the Financial Conduct Authority) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium businesses. Clydesdale Bank agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has implemented a program to identify small and medium sized customers that may have been affected and where due, pay financial redress.

Other Matters (continued)

The exercise incorporates certain of the Group's tailored business loan (TBLs) products as well as the standalone hedging products identified in the FSA's notice. The exercise was formally closed to new claims on 31 March 2015.

In addition, Clydesdale Bank is responding to complaints relating to fixed-rate TBLs not currently in scope of the review noted above.

Based on a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs for interest rate hedging products and in-scope TBLs, and the complaints-led review of certain fixed-rate TBLs, a provision of $415 million (£192 million) is held as at 30 September 2015, including a charge in the September 2015 half of $163 million (£75 million). The extent of future complaints relating to fixed-rate TBLs, and the total costs relating to current complaints, are uncertain and further provisions may be required.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

(vi) Other UK conduct related matters

Since 1 April 2013, Clydesdale Bank has been regulated by the FCA and the Prudential Regulation Authority (PRA). The FCA is a proactive regulator focused on conduct issues, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products (including out-of-scope TBLs), is $43 million (£20 million). The total cost associated with these and other conduct related matters is uncertain.

(vii) Industry reviews by Australian regulators

Regulators globally are continuing their investigation into manipulation of financial benchmarks and markets. In Australia this includes examining potential wrongdoing in the bank bill swap reference rate and foreign exchange markets. NAB is responding to inquiries by Australian regulators as part of these investigations. Responding to these inquiries involves significant time and cost, although the final outcomes (including potential regulatory fines, undertakings or sanctions) and total cost associated with these reviews is uncertain.

(viii) Wealth advice review

Since September 2014, the Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. NAB appeared before the Committee on 6 March 2015 and committed to write to customers where misconduct has occurred in the last five years.

On 21 October 2015, NAB announced it has started contacting customers who may have received non-compliant advice since 2009 and that customers who have suffered loss due to inappropriate advice will be compensated.

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

Future Developments

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

Proceedings on behalf of NAB

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

Events subsequent to reporting date

Sale of 80% of Life Insurance Business

On 28 October 2015 NAB announced it has entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company for $2.4 billion, while the Group will retain the remaining 20%. The purchase price is an estimate and may be adjusted for certain capital inflows and outflows between signing and completion, including dividends paid by the life insurance business. As part of the agreement, NAB will enter a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. The Group will retain ownership of its investments business which includes superannuation, platforms, advice and asset management. The transaction will occur through the sale of 80% of MLC Limited after the extraction of the Group's superannuation and investments business and certain other restructuring steps. The Group will retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years.

The transaction is expected to be completed in late 2016 subject to certain conditions including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the superannuation business from MLC Limited and the finalisation of certain agreements. The Group will retain responsibility for managing the life insurance business until completion, subject to certain restrictions on carrying out material transactions and transactions outside the ordinary course of business.

An indicative loss on sale of $1.1 billion is anticipated as a result of the transaction. The final loss on sale will vary depending on the level of earnings between signing and completion, the final allocation of goodwill at the time of deconsolidation, final transaction costs and a number of other items.

Other than the matter referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between end of the reporting period (30 September 2015) and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the 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 at www.nabgroup.com.

Other Matters (continued)

Environmental and social 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.

The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act* 2007 (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the basis of the year from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2015 environmental reporting year was 652,454 gigajoules (GJ) (2014: 668,816 GJ), which is approximately 60% of the Group's measured total energy use. The associated total greenhouse gas (GHG) emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 141,405 tCO_2-e (2014: 145,022 tCO_2-e).

During the reporting year, the Group's net GHG emissions (Scope 1, 2 and 3), after accounting for use of certified renewable energy in the UK, were 255,940 tCO_2-e (2014: 274,487 tCO_2-e). The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of our climate change strategy. From 1 July 2006 to 30 June 2015, the Group identified 1,154 energy efficiency opportunities in Australia alone, estimated to provide more than 292,203 GJ (2014: 286,500 GJ) of on-going annual energy savings. This equated to avoided costs of $14 million in 2015 (2014: $15 million in avoided costs). A further 25 energy efficiency opportunities are in progress or approved to proceed.

A key Australian energy efficiency project implemented during 2015 (completed September 2015) has been the transition of a data centre from a 20 plus year old building to a LEED Platinum certified purpose built data centre with free air cooling. This is forecast to deliver annual savings in energy use of approximately 35,600 GJ and to decrease carbon emissions by approximately 13,000 tCO_2-e per year.

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

In the United Kingdom, the Group is a participant in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EE Scheme). The Group's UK-based GHG emissions reportable under the Scheme for the 2014/2015 compliance year (year ending 31 March 2015) totalled 21,403 tCO_2-e (2014: 23,036 tCO_2-e). The Group's regulatory return was made in July 2015 as required by the CRC EE Scheme Order 2010. CYBI [(1)], on behalf of the Group's UK-based entities, purchased and surrendered 21,403 (2014: 23,036) CRC Allowances by 31 October 2015, in accordance with CRC EE Scheme requirements.

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

As a lender, the Group may incur environmental liabilities in circumstances where it takes possession of a borrower's assets and those assets have associated environmental risks. The Group has developed and implemented credit policies to ensure that this risk is minimised and managed appropriately. In addition to responding to regulatory requirements, the Group can as a global provider of financial products and services play a key role in financing green growth and contribute to the environmental sustainability of the communities in which it operates. This is recognised in the Group's Environmental Agenda and response to climate change, which in addition to our operational GHG reduction targets and programs, includes financing of renewable energy generation projects, the provision of products such as Environmental Upgrade Agreements to assist clients with improving the energy efficiency of commercial buildings, and the provision of certified climate bonds.

Further information about the Group's Environmental Agenda, resource efficiency targets and management approach is outlined in the Group's 2015 *Annual Review* and 2015 *Dig Deeper* report available at www.nab.com.au/about-us

In March 2015, the UK Government's new *Modern Slavery Act* 2015 was passed and came into effect in October 2015. Commencing in 2016, this will require NAB Group to publish an annual 'slavery and human trafficking statement' setting out any actions taken by the Group during the previous financial year to ensure that its business operations, and its supply chain, are free from slavery and human trafficking.

[(1)] On 29 October 2015, NAGE changed its name to CYBI.

Other Matters (continued)

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2015. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2015 are as follows:

	Group 2015 $'000
Regulatory audit, reviews, attestations and assurances for Group entities	
- Australia	6,659
- Overseas	717
Total audit-related regulatory	7,376
Other non-regulatory reviews, attestations and assurances for Group entities	
- Australia	675
- Overseas	190
Total audit-related non-regulatory	865
All other non-audit services	
- Australia	1,573
- Overseas	1,037
Total all other non-audit services	2,610
Total non-audit services	10,851

Ernst & Young also provides audit and non-audit services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation funds. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2015 total $4.7 million.

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 2015 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 in the Corporate governance section. Details of the services provided by Ernst & Young to the Group during 2015 and the fees paid or due and payable for those services are set out in *Note 48 - Remuneration of external auditor* of the *Financial report*. A copy of Ernst & Young's independence declaration is set out on the following page.

Building a better working world

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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 and the entities it controlled during the year for the financial year ended 30 September 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

16 November 2015

Report of the Directors

Remuneration Report

Introduction from the Remuneration Committee

Dear Shareholder,

This year's Remuneration report reflects the progress made during 2015 towards achievement of the Group's key strategic priorities. It recognises the Group's focus and efforts in building a stronger Australian and New Zealand franchise while effectively dealing with low returning and legacy assets. Progress has been made on both fronts over the year with all major businesses contributing to the Group's results.

Short-term incentive payments for senior executives are higher this year and are reflective of the improved performance of the Group from 2014. When determining the 2015 short-term incentive pool, the Board excluded the UK conduct costs as these were addressed in previous years' outcomes.

Modest remuneration increases for a small number of senior executives, including the Group CEO and Managing Director, were approved by the Board. The Board's decision to increase remuneration took account of independent market data and the performance of the senior executives. The increases average 4% and will be effective during 2016.

The Remuneration Committee membership underwent a number of changes this year providing renewed energy and fresh perspectives.

We took the opportunity to fully review our remuneration frameworks to ensure that they remain 'fit for purpose' and support the Group's business strategies during workshops held in February and September 2015. The Remuneration Committee has monitored the implementation of changes to the short-term incentive plan during 2015 and will continue to review the impacts for the Group during 2016.

Board fees have not increased since 2008. Based on the Remuneration Committee's annual review of non-executive director fees, in 2016 the Board Chairman fee will increase by 2.6% and the non-executive director fee will increase by 4.5%. Additionally, the Remuneration Committee member fee will increase by 10%. The increases are within the existing maximum fee pool approved by shareholders. The Board's decision to increase fees took account of independent market data, the need to remain competitive with comparable companies and its ability to attract and retain the best talent.

Minimum shareholding requirements for non-executive directors were increased during 2015 to provide greater alignment with the interests of shareholders.

The Remuneration Committee also considered a number of other matters during 2015 including:

- Issues arising from the intended UK demerger and potential initial public offering, including establishment of a Compensation Committee for the UK Banking business.
- A review of financial adviser incentive arrangements across the Group. The review addressed the adequacy of the Group's implementation of Future of Financial Advice reforms, conduct and consequence management issues.
- The Group's gender pay equity position and initiatives underway to address gaps.

On behalf of the Board, I invite you to view the full report in the following pages. I trust the detail will demonstrate how we continue to link our business strategies to our remuneration plans and reinforce the direct link between management remuneration and shareholder value.

We continue to encourage shareholders and other interested parties to provide feedback on the development of our remuneration practices and thank you for your interest and continued support.

Yours sincerely,

Danny Gilbert

Remuneration Committee Chairman

Remuneration Report

This report details remuneration arrangements for Key Management Personnel (KMP) of both NAB and the Group during 2015. The report is prepared in accordance with section 300A of the *Corporations Act* 2001 (Cth).

Remuneration report

Section 1 – Remuneration overview

1.1. Key remuneration outcomes during 2015

- The Group has delivered a good result for 2015 with continuing momentum in the Australian and New Zealand business, improvement in asset quality and further progress towards addressing legacy issues. Overall short-term incentive (STI) awards for senior executives were reflective of the Board's assessment of the Group's performance in 2015 (see **Section 2.1.** for more details).
- The performance hurdles for the 2011 LTI grant were not met and as a result the grant was forfeited in full (see NAB's 2014 *Remuneration report* for more details).

1.2. Changes made during 2015

- The minimum shareholding requirement for non-executive directors was increased. Non-executive directors are now required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors (see **Section 4.1**).
- Cash earnings, ROE and Net Promoter Score (NPS)[1] are now the key measures used to assess individual senior executive STI performance outcomes. NPS is an important new measure for 2015 introduced to support the Group's strategic priority of significant improvement in overall NAB customer experience (see **Section 2.1**. for more details).
- A simpler performance rating scale was introduced to assess senior executives' annual performance. There are now three ratings (Exceeded Expectations, Met Expectations, Not Met Expectations) as opposed to five.
- The Group's behavioural framework was refreshed to provide a stronger focus on the desired performance culture. The Enterprise Behaviours were replaced with Living our Values. Our Values are *Passion for Customers*, *Will to Win*, *Be Bold*, *Respect for People* and *Do the Right Thing*. (Throughout the remainder of the *Remuneration report*, Our Values refers to the combined Enterprise Behaviours and Living our Values that applied during 2015. See **Table of key terms**).

1.3. Changes to the reward framework for 2016

- Removal of re-testing of LTI performance hurdles from December 2015 to align with evolving market practice and taking into account shareholder and proxy adviser feedback.

1.4. Key Management Personnel

KMP are those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. The following table lists the KMP and the period they were KMP during 2015:

Table 1: Key management personnel

Name	Position	Term as KMP
Executive director		
Andrew G Thorburn	Group Chief Executive Officer & Managing Director	Full year
Other senior executives		
Antony J Cahill	Group Executive, Product & Markets	Full year
Craig M Drummond	Group Executive, Finance and Strategy	Full year
A David Gall	Group Chief Risk Officer	Full year
Andrew P Hagger	Group Executive, NAB Wealth	Full year
Michaela J Healey [1]	Group Executive, Governance and Reputation	Full year
Anthony J Healy	Managing Director and Chief Executive Officer, BNZ	Full year
Angela Mentis	Group Executive, Business Banking	Full year
Renée M Roberts	Group Executive, Enterprise Services and Transformation	Full year
Gavin R Slater	Group Executive, Personal Banking	Full year
Non-executive directors		
Michael A Chaney	Non-Executive Director, Chairman	Full year
David H Armstrong	Non-Executive Director	Full year
Daniel T Gilbert	Non-Executive Director	Full year
Peeyush K Gupta	Non-Executive Director (from 5 November 2014)	Part year
Kenneth R Henry	Non-Executive Director	Full year
Geraldine C McBride	Non-Executive Director	Full year
Paul J Rizzo	Non-Executive Director	Full year
Jillian S Segal	Non-Executive Director	Full year
Anthony KT Yuen	Non-Executive Director	Full year
Former non-executive directors		
John G Thorn	Non-executive director (to 18 December 2014)	Part year
Geoffrey A Tomlinson	Non-executive director (to 18 December 2014)	Part year
John A Waller	Non-executive director (to 31 July 2015)	Part year

(1) *Ms Healey held the position of Group Executive, People, Communications and Governance until 2 August 2015 and then Group Executive, Governance and Reputation from 3 August 2015.*

(1) *Net Promoter Score is a registered trademark of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.*

Remuneration report

KMP changes after 30 September 2015

A number of KMP changes have been announced or will occur after 30 September 2015:
- Mr Chaney will retire as a director and Chairman of NAB in December 2015.
- Dr Henry will be appointed as Chairman of NAB on Mr Chaney's retirement in December 2015.
- Mr Rizzo will retire as a director of NAB in December 2015.
- Ms Anne Loveridge will be appointed as a non-executive director to the Board from 15 December 2015.
- Mr Doug McKay will be appointed as a non-executive director in February 2016.

1.5. Senior executive remuneration framework overview

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

Table 2: Reward components - senior executives

<table>
<tr><th>Fixed</th><th colspan="3">At Risk</th></tr>
<tr><th colspan="2">CASH</th><th colspan="2">DEFERRED EQUITY</th></tr>
<tr><th>Fixed Remuneration</th><th colspan="2">Short-Term Incentive</th><th>Long-Term Incentive</th></tr>
<tr><td rowspan="2">• Provided as cash and benefits (including employer superannuation).
• The Group targets median fixed remuneration for each position within the financial services industry in the relevant global markets in which it operates.
• Generally reviewed annually, based on individual performance, skills, expertise and experience.</td><td colspan="2">• STI targets and performance measures for senior executives are determined by the Board, following external advice.
• An STI target is set for each individual with reference to external and internal relativities.
• Reflects both individual and business performance for the current year that supports the longer term strategy of the Group and takes into account compliance and leadership expectations.</td><td rowspan="2">• Supports the longer term strategy of the Group.
• Provided in performance rights subject to performance conditions measured over four years.
• Performance rights are restricted and cannot be exercised during the performance period.
• Any vested portion of the LTI is automatically exercised.
• Remains at risk until the performance rights vest.</td></tr>
<tr><td>• 50% is paid as cash after the performance year end.</td><td>• 50% is awarded as performance rights.
• Half of the performance rights are deferred, subject to a 1 year vesting period and the other half a 2 year vesting period.
• Remains at risk until the performance rights vest.</td></tr>
<tr><td>Competitive with the market</td><td colspan="3">Encourages sustainable performance in the longer term</td></tr>
</table>

Further detail on the 2015 STI and LTI arrangements is provided in **Section 3.4**.

Remuneration report

Section 2 – Linking performance and remuneration

2.1. 2015 short-term incentive outcomes

The STI pool measures of cash earnings (40%), cash ROE (30%) and Return on Total Allocated Equity (ROTAE) (30%) were determined by the Board to have been achieved and the STI pool fully funded.

Individual senior executive performance is assessed against three key measures supporting the Group's strategy and business objectives. The table below details the key measures used in 2015 to assess individual senior executive performance outcomes.

Table 3: STI key measures

Measure [(1)]	Weighting	Outcomes
Group cash earnings [(3)]	1/3	**The Board determined that results Met Expectations** • Group cash earnings were $5,839 [(2)] million for the September 2015 year, an increase of 15.5% compared to the September 2014 year. Excluding specified items (as detailed on page 6), group cash earnings were $6,718 million for the September 2015 year, an increase of 2.4% compared to the September 2014 year. The result was largely driven by higher revenue combined with lower charges for bad and doubtful debts. • Revenue increased 4.2% for the September 2015 year when compared to the September 2014 year, benefitting from higher lending volumes, the impact of changes in foreign exchange rates, lower funding and deposit costs and strong insurance results for NAB Wealth. These were partially offset by lower margins mainly in business lending combined with lower income from Group funding and hedging activities. • Expenses decreased by 0.9% for the September 2015 year when compared to the September 2014 year. The decrease was driven by a reduction in specified items from the prior year (see page 6 for details), largely offset by the impact of foreign exchange, investment in the Group's priority segments, including additional service roles and capabilities to support customer needs and the hiring of additional front line bankers, combined with higher technology costs and increased regulatory spend.
Cash ROE	1/3	**The Board determined that results Met Expectations** • Cash ROE of 12.0% increased from 2014 [(3)] by 40 basis points. Excluding specified items (as detailed on page 6), cash ROE of 13.8% decreased from 2014 [(3)] by 120 basis points. • The Group's Basel III Common Equity Tier 1 (CET1) ratio was 10.24% as at 30 September 2015, an increase of 161 basis points from September 2014. The Group's CET1 target ratio remains between 8.75% - 9.25% based on current regulatory requirements.
Net Promoter Score (NPS)	1/3	**The Board determined that results Met Expectations** • Maintained overall position in Priority Segment NPS [(4)] (Mortgage Customers, Micro Business, Small Business and Medium Business) during 2015. • Demonstrated progress on activities to build and implement the net promoter system.

(1) *Refer to the Table of key terms for definitions of cash ROE and to the Glossary for definition of cash earnings.*

(2) *Reflects the adoption of AASB 9. Refer to the Financial report for statutory net profit attributable to owners of NAB, and to Note 2 - Segment information in the Financial report for a reconciliation between cash earnings and statutory net profit attributable to owners of NAB. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(3) *Information is presented on a continuing operations basis including prior period restatement for 2014.*

(4) *Roy Morgan Research 6 month moving AFI advocacy, DBM (BFSM) 6 month moving AFI advocacy.*

Each senior executive is also assessed based on their demonstration of Our Values and risk management. The following table details the 2015 STI amounts provided in relation to 2015 performance.

Table 4: 2015 senior executive STI outcomes

Name	STI target $	Actual STI as % of STI Target %	STI actual $	Cash STI [(1)] $	Deferred STI (approx. 1 year) [(2)] $	Deferred STI (approx. 2 year) [(3)] $
Executive director						
AG Thorburn	2,200,000	120	2,640,000	1,320,000	660,000	660,000
Other senior executives						
AJ Cahill	1,000,000	120	1,200,000	600,000	300,000	300,000
CM Drummond	1,300,000	120	1,560,000	780,000	390,000	390,000
AD Gall	600,000	100	600,000	300,000	150,000	150,000
AP Hagger	1,100,000	120	1,320,000	660,000	330,000	330,000
MJ Healey	850,000	100	850,000	425,000	212,500	212,500
AJ Healy	904,360	100	904,360	452,180	226,090	226,090
A Mentis	1,000,000	100	1,000,000	500,000	250,000	250,000
RM Roberts	1,000,000	100	1,000,000	500,000	250,000	250,000
GR Slater	1,100,000	100	1,100,000	550,000	275,000	275,000

(1) *The amount reflects 50% of the STI to be provided to eligible current senior executives and the executive director. The cash component of the STI received in respect of 2015 is scheduled to be paid on 26 November 2015 in NZ and 18 November 2015 in Australia.*

(2) *The amount reflects 25% of the STI to be provided to eligible current senior executives and the executive director. The amount is provided in performance rights allocated in February 2016 and restricted for approximately 14 months. See Section 3.4. for more details.*

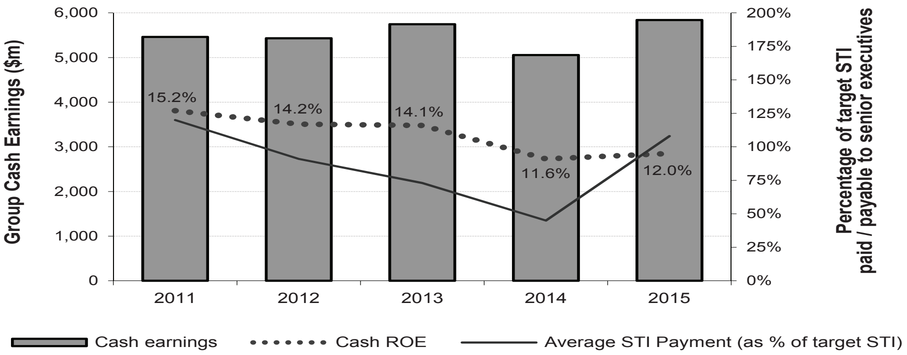
(3) *The amount reflects 25% of the STI to be provided to eligible current senior executives and the executive director. The amount is provided in performance rights allocated in February 2016 and restricted for approximately 26 months. See Section 3.4. for more details.*

Remuneration report

The following graph shows the average of the senior executives STI payment (including cash and deferred amounts) as a percentage of their STI target, and its relationship to the Group's cash earnings and cash ROE over the last five years. These are two key internal measures of performance and are instrumental in determining the size of the STI pool. The average individual STI payment reflects both business and individual performance. The average STI payments in the graph include the senior executives in each of those years. The 2015 average in the graph is based on the total STI payable (including deferred amounts) for each of the 2015 senior executives.

The 2015 and 2014 cash earnings and cash ROE amounts are on a continuing operations basis, including a restatement for 2014 only. See Note 1 - *Principal accounting policies* on page 76 for further information.

Figure 1: Average senior executive STI payments



2.2. 2015 long-term incentive outcomes

The performance hurdles for the 2011 LTI grant (scheduled to vest in 2015) were not met and as a result, the grant was forfeited in full and senior executives have received no value from this award. Details of this LTI grant can be found in NAB's 2014 *Remuneration report* available online at www.nabgroup.com. No other LTI grants were scheduled to be tested during 2015. The next LTI test will be the 2012 LTI award in December 2016. **Table 9** shows the impact of the forfeiture of this award on overall remuneration for the senior executives in 2015.

2.3. Five year Group performance

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

Table 5: Five year Group performance

	2015 (1)	2014	2013	2012	2011
Basic earnings per share (cents) (2)	253.5	214.1 (3)	225.9	175.3	233.6
Cash earnings ($m) (2)	5,839	5,055	5,747	5,433	5,460
Dividends paid per share	$1.98	$1.96	$1.83	$1.78	$1.62
NAB share price at start of year	$32.54	$34.32	$25.49	$22.37	$25.34
NAB share price at end of year	$29.98	$32.54	$34.32	$25.49	$22.37
Absolute TSR for the year	**(2.0%)**	**0.4%**	**42.9%**	**22.4%**	**(5.7%)**

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for cash earnings purposes.*

(2) *Information is presented on a continuing operations basis including prior period restatement for 2014 only.*

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

The *Glossary* of the *Financial report* contains a definition of cash earnings and *Note 8 - Earnings per share* in the *Financial report* details the calculation of basic earnings per share. Refer to the *Financial report* for details of statutory net profit attributable to owners of NAB, and to *Note 2 - Segment information* in the *Financial report* for a reconciliation between cash earnings and statutory net profit attributable to owners of NAB.

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Section 3 – Remuneration arrangements

3.1. Remuneration governance

The Remuneration Committee (Committee) has been established by the Board. Its Charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee. The full Charter is available online at www.nabgroup.com. Information on the governance, membership, operations and activities of the Committee are detailed in the *Corporate governance* section.

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

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

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

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

Determining remuneration outcomes – At the end of each year a formal report is provided by the Group CEO and Managing Director, Group Chief Risk Officer (CRO) and Group Executive Finance and Strategy to the Committee capturing the Group's risk and financial outcomes and assessing the overall health of the financial result. This information is provided by the Risk and Finance functions. A joint meeting of the Committee and the Board Risk Committee is held to review the report's findings. The Committee has discretion to recommend to the Board the adjustment of incentive outcomes for the current year and vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the vesting period. In addition, a qualitative overlay may be applied by the Committee that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

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

3.2. Use of external advisers

Where appropriate, the Committee seeks and considers advice directly from external advisers, who are independent of management.

The Committee retained 3 degrees consulting to review and provide recommendations and advice on remuneration and governance matters.

Under the terms of the retainer arrangement, the Committee's external remuneration consultant provided remuneration advice to the Committee (inclusive of 'remuneration recommendations' as defined in section 9B of the *Corporations Act* 2001 (Cth)). As at 30 September 2015, $75,000 (excluding GST) of fees had been paid to 3 degrees consulting during 2015 in relation to 'remuneration recommendations' for KMP. The Committee has established protocols for engaging with its external remuneration consultant to support compliance with the *Corporations Act* 2001 (Cth). These protocols are reflected in the terms of engagement with 3 degrees consulting and have been adhered to. The Committee's external remuneration consultant provided a formal declaration confirming that the recommendations provided were free from 'undue influence' by KMP to whom the recommendations related. On this basis, the Board is satisfied that the recommendations were made free from undue influence by KMP to whom the recommendations related.

Additionally, as at 30 September 2015, $84,000 (excluding GST) of fees had been paid to 3 degrees consulting during 2015 for providing advice on remuneration and governance matters more generally.

3.3. Insider trading and derivatives policy

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

3.4. Remuneration policy for senior executives

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

The remuneration policy is designed to:

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

In setting an individual's reward the Board considers:

- Market data from comparable roles with companies listed on the Australian Securities Exchange (ASX) - the peer group of 17 companies chosen contains the NAB's major competitors and is large enough to provide meaningful market data information.
- Individual and Group performance over the last year.
- Input from the Group CEO and Managing Director on the reward arrangements for senior executives who report directly to the Group CEO and Managing Director.
- Internal relativities.
- Advice from the Committee's external remuneration consultant.
- General remuneration market environment and trends.

Report of the Directors

Remuneration report

Reward mix

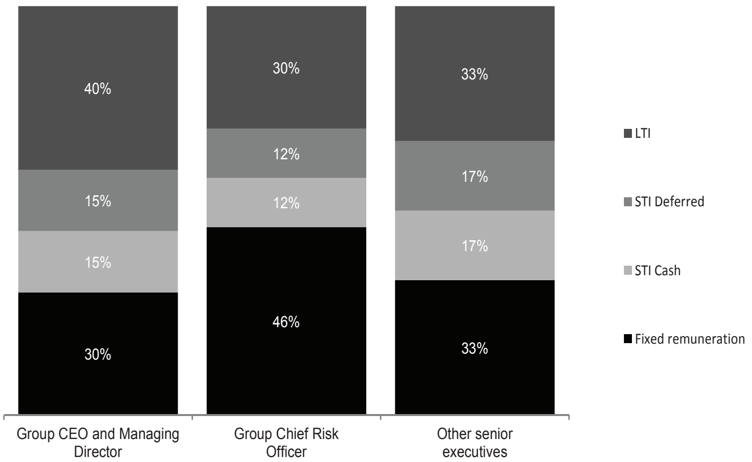
The Board has set the reward mix so that:

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

The reward mix set for the Group Chief Risk Officer is structured to provide less emphasis on 'at-risk' components and to support the independence required of this role.

The current reward mix is:

Figure 2: Reward mix

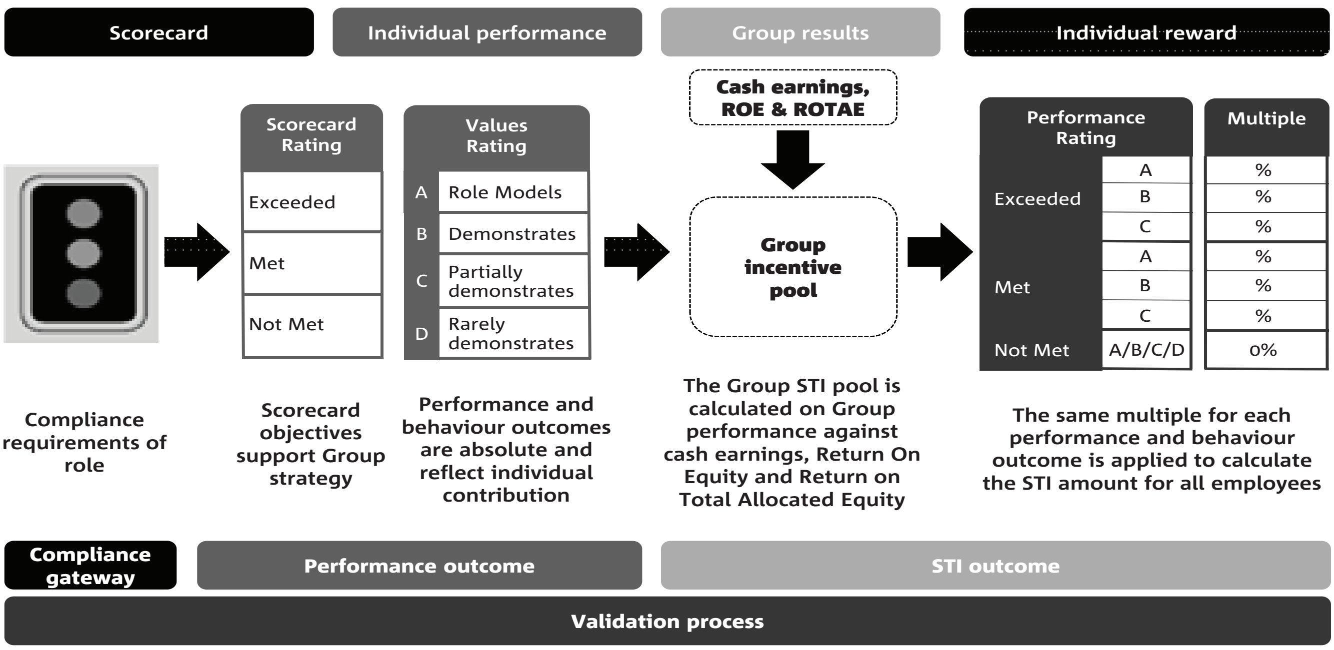


The 2015 actual reward mix for each senior executive will vary depending on performance outcomes and is shown in **Table 9**.

2015 short-term incentive

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

Figure 3: STI overview



Remuneration report

2015 short-term incentive arrangements for senior executives	
Purpose	• STI is a variable (at-risk) component of reward designed to: - Align annual employee rewards to business performance and sustainable returns for shareholders - Instil an appropriate focus on business performance beyond the current year and allow for alignment with risk outcomes, through deferring a component of the STI reward - Appropriately capture the business risks related to achievement of business outcomes and reflect these in variable rewards.
STI pool Impact of Group performance on STI rewards	• The financial performance of the Group for the purposes of calculating the STI pool was determined by a mix of cash earnings (40%), cash ROE (30%) and ROTAE (30%). These measures reasonably capture the effects of a number of material risks and minimise actions that promote short-term results at the expense of longer term business growth and success. • At the end of the performance period, the Committee, in consultation with the Board Risk Committee, recommended the size of the STI pool to the Board, taking into account a qualitative overlay that reflected the Group's management of business risks, shareholder expectations and the quality of the financial results. • STI multiples are determined based on the STI pool and the overall performance distribution of all employees participating in the STI plan.
Performance measures Impact of individual performance on STI rewards	• Performance measures are approved by the Board. • Individual senior executive performance is determined based on achievement against target of three equally weighted measures: - Group cash earnings - Group cash ROE - NPS (Priority Segments NPS[1] and progress on building the net promoter system). • Senior executives are also assessed on their demonstration of Our Values and risk management. • Senior executives who fail the compliance expectations of their role will have their STI reduced in part, or in full, depending on the severity of the breach. No reductions were made to senior executives 2015 STIs due to not meeting compliance expectations. • The Board assigned an overall performance outcome taking into account the individual performance of each senior executive and input from the Group CEO and Managing Director.
STI reward	• An individual's actual STI for 2015 reflects their STI target multiplied by the STI multiple, capped at 1.75 times STI target. • The total STI paid to all employees of the Group, including senior executives, is limited to the size of the funded STI pool linking overall STIs paid under the STI plan to Group performance. • Half of the STI will be provided as cash. This portion of the award can be fully or partially forfeited for any reason, by the Board, subject to law, until paid in November 2015. The minimum amount is $0 and the maximum is the amount of the cash component shown in the column: 'Cash STI' in **Table 4**. • The remainder of the award is deferred in the form of performance rights (subject to any required shareholder approval for the Group CEO and Managing Director) scheduled for allocation in February 2016. • The minimum amount of the deferred component of the award is $0 if the award does not vest. The maximum amount for senior executives is the total of the amounts shown in the two columns: 'Deferred STI' in **Table 4**, if the deferred STI performance rights are vested in full, subject to the value of NAB shares at the time of vesting.
Deferral and vesting	• Deferral applies to any STI to retain senior executives, allow for performance assurance, and align with shareholder outcomes. • Half of the deferred STI performance rights will be restricted from being exercised and subject to lapsing and service and performance conditions for approximately 14 months following the end of 2015 (Tranche 1), and the remaining half for approximately 26 months (Tranche 2). If the applicable conditions are met, the performance rights will vest and each performance right will be automatically exercised in return for a NAB ordinary share. • No dividends are received on deferred STI performance rights during the deferral periods.
Retention of STI	• If any deferred STI performance rights are retained on cessation of employment (see Lapsing of performance rights on page 41), they remain subject to the performance hurdles and timetable of the award as described above.

[1] *Priority Segments Net Promoter Score (NPS) is a simple average of the NPS scores of four priority segments: Mortgage Customers, Micro Business (<$1m), Small Business ($1m<$5m) and Medium Business ($5m<$50m).*

Remuneration report

2015 long-term incentive

2015 long-term incentive arrangements for senior executives	
Purpose	• LTI rewards help to align management decisions with the long-term prosperity of the Group through the use of challenging performance hurdles supporting the Group's strategy and shareholder returns.
LTI value	• The LTI value which will be granted in respect of 2015 is: - 130% of fixed remuneration for the Group CEO and Managing Director - 67% of fixed remuneration for the Group CRO - 100% of fixed remuneration for other senior executives.
LTI award	• The LTI grant will be provided in two equal tranches of performance rights. The number of performance rights in each tranche will be based on the following formula: $\frac{\text{tranche value (which is half of LTI value)}}{\text{estimated fair value of each performance right}}$ • The estimated fair value determined by an independent external consultant will be based on the weighted average share price (WASP) at which NAB shares are traded on the ASX in the five trading days from 30 November 2015 to 4 December 2015 inclusive. The estimated fair value also takes into account the fact that dividends are not payable in relation to performance rights until the performance rights vest and are exercised. The probability of the performance hurdle being reached is also taken into consideration. As a result, given the performance hurdles for each tranche differ, the fair value of a performance right in Tranche 1 and therefore the number of performance rights in Tranche 1 may be different from the fair value and number of performance rights in Tranche 2. • A reasonable estimate of the face value of the LTI award on grant date can be determined based on the number of performance rights in each tranche multiplied by the WASP. • **Table 11** shows the fair and face values of the LTI award granted during 2015 as at grant date. The fair and face values of the LTI award granted in respect of 2015 will be known in December 2015.
Life of LTI award	• Scheduled to be granted in December 2015 (and for the Group CEO and Managing Director, after the Annual General Meeting, subject to shareholder approval, in February 2016) in two equal tranches. The LTI performance rights have a minimum life of approximately four years from December 2015. (Re-testing will not apply to LTI grants awarded from December 2015.) • Any unexercised LTI performance rights lapse after the end of the performance period.
Performance hurdles	• The performance hurdles measure NAB's relative TSR performance against two different peer groups over the performance period:

Tranche 1 (50% of grant value)	Tranche 2 (50% of grant value)
The S&P/ASX Top 50 Index as at 1 October 2015.	The Top Financial Services companies (listed at www.nabgroup.com).

- There is no substitution for de-listed companies during the performance period.
- TSR is calculated as the value of the relevant shares on the start date and the end date of the relevant performance period, based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date. Refer to the **Table of key terms** for more information on TSR.

Performance hurdle testing and vesting	• The performance hurdles for Tranche 1 and Tranche 2 will be assessed separately and therefore both hurdles do not need to be satisfied for some of the performance rights to vest. • The performance hurdles are initially assessed over a four year performance period from 9 November 2015 to 10 November 2019. • The percentage of vesting is determined based on:

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

- Any LTI performance right that vests will be automatically exercised in return for one NAB ordinary share. During the restriction period the rights will lapse if the senior executive fails to meet the Compliance Gateway.
- Any LTI performance rights that do not vest will lapse.
- The Board will assess TSR performance and the proportion of vesting in its absolute discretion, subject to compliance with law.
- The minimum amount of the award is $0 if the award does not vest and the maximum fair value amount for each senior executive is the LTI value shown above, subject to the value of NAB shares at the time of vesting.

Retention of LTI	• If a senior executive ceases employment before 21 December 2019 and the Board has not exercised its discretion to lapse the LTI performance rights on cessation of employment (see Lapsing of performance rights on page 41), some or all of the performance rights are retained based on the elapsed period of service during the four year performance period. • Any performance rights that do not lapse remain subject to the performance hurdles and timetable of the award as described above.

Remuneration report

Lapsing of performance rights

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

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

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

Malus

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

Conditions for retaining securities

In the majority of cases, securities only vest as a result of achieving the relevant performance hurdle.

In relation to certain events, including a takeover or scheme of arrangement, the Board has discretion to allow holders to exercise securities regardless of the normal criteria and the restriction period on the securities would end.

Minimum shareholding policy

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

Commencement, retention and guaranteed incentives

Commencement awards for senior executives are only entered into with the recommendation of the Committee and approval of the Board. These enable buy-out of unvested equity from previous employment. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The awards are primarily provided in the form of performance shares or performance rights, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation, unique to each offer. Guaranteed incentives or bonuses do not support the Group's performance-based culture and are not provided as part of the Group's remuneration policy.

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

Mr Hagger was provided a retention award to the value of $550,000 during 2015. The wealth industry is undergoing significant adjustment and change driven by regulation, technology and consumer sentiment. NAB has made significant changes to the wealth business and the award acknowledges Mr Hagger is important to the business and its transformation in the medium term. The award is subject to achievement of key project deliverables and service conditions (Refer **Table 8** footnote 6). No commencement or retention awards were made to any other senior executives during 2015.

Remuneration report

Section 4 – Non-executive director remuneration

4.1. Remuneration policy for non-executive directors

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

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

Fees were reviewed during 2015. As a result of the review, the Board decided, having considered the advice of the Committee's external remuneration consultant, to increase the fees paid to the Chairman by $20,000 and to non-executive directors by $10,000 from 1 January 2016. Board fees were last increased in 2008. The Board also decided to increase the fees paid to non-executive directors on the Remuneration Committee by $2,500 from 1 January 2016. All other Committee fees remain unchanged. The increases maintain fees in line with fees paid by other comparable companies and are within the maximum fee pool approved by shareholders. The next review is scheduled for August 2016.

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

In March 2015, the Board approved an increase in the minimum shareholding requirement for non-executive directors. Non-executive directors are now required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors. To meet the minimum requirement, non-executive directors must:

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

Non-executive directors as at March 2015 must reach the minimum holding requirement by March 2018. (Details of non-executive director NAB shareholdings are set out in **Table 15**.)

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, NAB's Constitution and the charters and policies approved by the Board from time-to-time, as set out in the *Corporate governance* section. Non-executive directors are not eligible for any payments on cessation of appointment.

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

Table 6: Board and committee fee schedule

	Chairman ($pa)	Non-executive director ($pa)
Board [(1)]	770,000	220,000
Audit Committee	65,000	32,500
Risk Committee	60,000	30,000
Remuneration Committee [(2)]	55,000	25,000
Information Technology Committee	30,000	15,000

(1) *The chairman fee will increase to $790,000 pa and the non-executive director fee to $230,000 pa from 1 January 2016.*

(2) *The non-executive director fee will increase to $27,500 pa from 1 January 2016.*

Remuneration report

4.2. Non-executive director remuneration outcomes

The total fees paid by NAB to non-executive members of the Board, including fees paid for their involvement on (a) the Board; (b) Board committees; and (c) Boards of controlled entities, are kept within the total pool approved by shareholders from time-to-time.

The following table sets out the nature and amount of each element of remuneration of non-executive directors of NAB in relation to services they provided for 2015. No performance options or performance rights are granted to non-executive directors.

Table 7: Non-executive director statutory remuneration

		Short-term benefits	Post-employment benefits	
		Cash salary and fees [1] fixed	Superannuation [2] fixed	Total
Name		**$**	**$**	**$**
Non-executive directors				
MA Chaney (Chairman)	**2015**	**751,086**	**18,914**	**770,000**
	2014	751,973	18,027	770,000
DH Armstrong [3]	**2015**	**271,239**	**36,696**	**307,935**
	2014	39,082	3,131	42,213
DT Gilbert [3]	**2015**	**301,086**	**18,914**	**320,000**
	2014	281,973	18,027	300,000
PK Gupta (for part year) [4]	**2015**	**540,532**	**17,432**	**557,964**
KR Henry [3]	**2015**	**283,961**	**18,914**	**302,875**
	2014	231,973	18,027	250,000
GC McBride	**2015**	**216,086**	**18,914**	**235,000**
	2014	125,601	10,621	136,222
PJ Rizzo [3]	**2015**	**286,485**	**36,140**	**322,625**
	2014	289,748	35,252	325,000
JS Segal	**2015**	**257,336**	**18,914**	**276,250**
	2014	261,973	18,027	280,000
AKT Yuen	**2015**	**277,170**	**6,164**	**283,334**
	2014	293,656	3,844	297,500
Former non-executive directors				
JG Thorn (for part year) [5]	**2015**	**61,134**	**4,696**	**65,830**
	2014	276,973	18,027	295,000
GA Tomlinson (for part year) [6]	**2015**	**109,504**	**4,696**	**114,200**
	2014	501,973	18,027	520,000
JA Waller (for part year) [7]	**2015**	**354,767**	**16,130**	**370,897**
	2014	421,998	18,027	440,025
Total	**2015**	**3,710,386**	**216,524**	**3,926,910**
Total	2014	3,476,923	179,037	3,655,960

(1) *The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash. No non-monetary benefits were provided to the non-executive directors during 2015.*

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

(3) *Mr Armstrong, Mr Gilbert, Dr Henry and Mr Rizzo received additional fees for services related to the intended UK demerger and potential IPO.*

(4) *Mr Gupta commenced as a director of NAB on 5 November 2014. Mr Gupta receives fees in respect of services performed for a number of NAB Group subsidiaries.*

(5) *Mr Thorn retired as a director of NAB on 18 December 2014.*

(6) *Mr Tomlinson retired as a director of NAB on 18 December 2014. Mr Tomlinson received fees in respect of services performed as Chairman of a number of NAB Group subsidiaries.*

(7) *Mr Waller retired as a director of NAB on 31 July 2015. Mr Waller received fees in respect of services performed as Chairman of Bank of New Zealand, which were paid in NZD.*

Remuneration report

Section 5 – Data disclosures

5.1. Remuneration data for senior executives

The following table has 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 remuneration paid or awarded for services provided for the year (including STI amounts in respect of performance during the year which are paid following the end of the year).

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

Table 8: Statutory remuneration

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary [1] $	Cash STI [2] $	Non-monetary [3] $	Superannuation [4] $	Other long-term benefits [5] $	Shares [6] $	Options and rights [7] $	Termination benefits $	Total [8] $
Executive director										
AG Thorburn	**2015**	**2,281,753**	**1,320,000**	**7,496**	**36,254**	**32,528**	**467**	**1,805,516**	**-**	**5,484,014**
	2014	1,332,633	130,000	264,896	29,642	33,793	648	437,674	-	2,229,286
Other senior executives										
AJ Cahill	**2015**	**1,007,501**	**600,000**	**18,938**	**20,096**	**8,029**	**-**	**483,032**	**-**	**2,137,596**
	2014	163,414	19,276	9,913	1,393	1,220	-	46,093	-	241,309
CM Drummond	**2015**	**1,260,036**	**780,000**	**4,681**	**20,340**	**6,577**	**1,284,422**	**750,054**	**-**	**4,106,110**
	2014	1,169,552	2,270,345	3,906	20,904	4,980	3,143,850	169,746	-	6,783,283
AD Gall	**2015**	**1,179,902**	**300,000**	**352**	**28,941**	**14,024**	**-**	**393,867**	**-**	**1,917,086**
	2014	198,508	28,420	58	5,195	2,175	-	57,336	-	291,692
AP Hagger	**2015**	**1,084,959**	**660,000**	**5,882**	**20,270**	**12,855**	**63,640**	**1,083,296**	**-**	**2,930,902**
	2014	982,744	240,000	63,330	19,581	10,846	(246,170)	583,144	-	1,653,475
MJ Healey	**2015**	**797,890**	**425,000**	**6,013**	**20,044**	**11,029**	**-**	**818,865**	**-**	**2,078,841**
	2014	822,022	170,000	1,936	19,529	10,434	(188,138)	470,458	-	1,306,241
AJ Healy	**2015**	**823,717**	**452,180**	**11,125**	**62,656**	**6,079**	**954**	**575,205**	**-**	**1,931,916**
	2014	298,945	65,918	4,293	22,940	1,514	337	135,803	-	529,750
A Mentis	**2015**	**976,073**	**500,000**	**-**	**20,096**	**12,975**	**-**	**496,790**	**-**	**2,005,934**
	2014	162,726	29,655	-	1,393	2,051	-	58,920	-	254,745
RM Roberts	**2015**	**987,567**	**500,000**	**-**	**20,096**	**33,180**	**419**	**387,403**	**-**	**1,928,665**
	2014	167,631	12,009	2,585	4,228	5,548	70	30,124	-	222,195
GR Slater	**2015**	**1,076,426**	**550,000**	**5,986**	**20,270**	**18,075**	**-**	**1,092,732**	**-**	**2,763,489**
	2014	963,482	240,000	5,443	19,581	16,513	(283,431)	650,084	-	1,611,672
Former executive directors										
CA Clyne (for part year)	2014	2,382,502	473,793	1,044	47,984	36,246	(1,027,764)	2,358,025	1,706,897	5,978,727
MA Joiner (for part year)	2014	324,025	720,600	257	7,370	-	(421,115)	212,044	-	843,181
Former senior executives										
LJ Gray (for part year)	2014	805,333	212,989	3,434	18,188	13,902	(297,921)	329,181	-	1,085,106
JC Healy (for part year)	2014	932,297	179,161	76	18,083	-	(349,888)	371,721	-	1,151,450
BF Munro (for part year)	2014	1,068,050	105,868	10,252	17,979	16,631	(262,772)	217,823	-	1,173,831
RJ Sawers (for part year)	2014	1,009,494	300,690	6,828	17,979	13,655	(252,865)	433,962	-	1,529,743
Total senior executives	**2015**	**11,475,824**	**6,087,180**	**60,473**	**269,063**	**155,351**	**1,349,902**	**7,886,760**	**-**	**27,284,553**
Total senior executives [9]	2014	12,783,358	5,198,724	378,251	271,969	169,508	(185,159)	6,562,138	1,706,897	26,885,686

Remuneration report

Table 8: Statutory remuneration (continued)

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

(2) *The cash component of the STI received in respect of 2015 is scheduled to be paid on 26 November 2015 in NZ and 18 November 2015 in Australia. The amount reflects 50% of the STI to be provided to eligible current senior executives and the executive director. The cash component of the STI received in respect of 2014 was paid in full during 2015 for all senior executives as previously disclosed, with no adjustment.*

(3) *Includes any motor vehicle benefits, parking and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included.*

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

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

(6) *The amount included in remuneration each year for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Table of key terms for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2015 include portions of shares allocated under employee programs as follows:*

- *General Employee Offer shares granted in December 2011, 2012, 2013, 2014 and to be granted before March 2016, to senior executives located in NZ at the relevant offer time. The shares vest after a three-year restriction period (with forfeiture conditions, including on resignation).*
- *Commencement shares allocated to Mr Drummond in November 2013 with 50% vesting in October 2014 and 50% vesting in October 2015, subject to performance and service hurdles.*
- *Retention shares granted to Mr Hagger in September 2015. The shares are restricted for 8 months and subject to achievement of key project deliverables and service conditions.*

(7) *The amount included in remuneration each year for performance rights is the grant date fair value, amortised on a straight line basis over the expected vesting period. Refer to the Table of key terms for an explanation of fair value basis used to determine equity-based remuneration. Amounts shown for 2015 include portions of performance rights allocated under employee programs, as shown below:*

- *Deferred STI performance rights granted in February 2014, February 2015 and to be granted in February 2016. The 2013, 2014 and 2015 performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.*
- *LTI performance rights granted in December 2011, December 2012, December 2013, December 2014 (and for the executive director, after the AGM in February 2015) and to be granted in December 2015 (and for the executive director, after the AGM subject to shareholder approval, in February 2016) under the Group's LTI program. The 2011 LTI grant did not meet the performance hurdles and was fully lapsed on 30 September 2014. The amount includes a portion of the allocation in line with AASB 2.*
- *Retention performance rights granted to Mr Slater in May 2013 on his appointment to the Group Executive, Personal Banking role. The performance rights are restricted for 4 years after the date of grant.*

(8) *The percentage of 2015 total remuneration related to performance-based remuneration was: Mr Thorburn 57%, Mr Cahill 51%, Mr Drummond 69%, Mr Gall 36%, Mr Hagger 62%, Ms Healey 60%, Mr Healy 53%, Ms Mentis 50%, Mrs Roberts 46% and Mr Slater 59%.*

(9) *A number of senior executives were KMP for part of the 2014 year.*

The following table is a voluntary disclosure summarising the actual remuneration senior executives received (or were entitled to receive), including fixed remuneration and the value of equity that vested during 2015. Additionally, equity that has lapsed during the year without providing any value to the senior executive is shown. The equity information is different to that provided in **Table 8** which shows accounting expensed amounts that reflect a portion of expected earnings from prior, current and future years, notwithstanding that senior executives may never receive any actual value. The data in **Table 8** is presented in accordance with statutory requirements. The below information is provided to show a clearer representation of actual remuneration received by senior executives for the current year. All values are shown in Australian dollars.

Table 9: Remuneration outcomes

Name	Fixed remuneration (1) $	Cash STI (2) $	Deferred STI vested during year (3) $	Equity related amounts during year (4) $	Remuneration actually earned during year (5) $	Equity lapsed during year (6) $
Executive director						
AG Thorburn	2,358,031	1,320,000	553,589	1,241	4,232,861	-
Other senior executives						
AJ Cahill	1,054,564	600,000	257,423	-	1,911,987	-
CM Drummond	1,291,634	780,000	-	2,201,703	4,273,337	-
AD Gall	1,223,219	300,000	385,929	-	1,909,148	-
AP Hagger	1,123,966	660,000	466,828	-	2,250,794	-
MJ Healey	834,976	425,000	367,862	-	1,627,838	-
AJ Healy	903,577	452,180	229,074	1,241	1,586,072	-
A Mentis	1,009,144	500,000	330,836	-	1,839,980	-
RM Roberts	1,040,843	500,000	123,345	-	1,664,188	-
GR Slater	1,120,757	550,000	530,072	-	2,200,829	-

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

(2) *The cash component of the STI received for the eligible current senior executives in respect of 2015. The remaining portion of the STI for 2015 is deferred as disclosed in Table 4.*

(3) *Deferred STI amounts from the 2012 Tranche 2 and 2013 Tranche 1 STI program fully vested in November 2014. The value is calculated using the closing share price of NAB shares on the vesting date.*

(4) *Equity related amounts provided to senior executives during 2015. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3)) that have vested and/or been exercised during 2015. The value was calculated using the closing share price of NAB shares on the vesting date for shares and performance rights. Dividends received by Mr Drummond during 2015 for his commencement award are also included. The amount is calculated for the 2014 final dividend of 99 cents (record date of 11 November 2014) and the 2015 interim dividend of 99 cents (record date of 19 May 2015). Both dividends were fully franked.*

(5) *Total value of remuneration received during 2015. This is the total of the previous columns.*

(6) *The 2011 LTI performance rights granted in December 2011 to Mr Thorburn which were fully lapsed in October 2014 were considered lapsed for the purposes of this table in 2014. No other securities have been forfeited or lapsed during 2015.*

Remuneration report

5.2. Value of shares and performance rights

Table 10 shows the value of shares and performance rights issued to each senior executive as part of their remuneration that were granted, lapsed or vested during the year to 30 September 2015. No shares or performance rights were granted to non-executive directors.

The value of shares and performance rights is the fair value at grant date multiplied by the total number of shares or performance rights, and therefore represents the full value to be amortised over the vesting period, which is generally greater than one year. No amounts were paid per ordinary share by senior executives for any performance rights that were vested and exercised during 2015. The number of shares provided on the exercise of performance rights is on a one to one basis. No amounts are unpaid on any shares provided on the exercise of performance rights. There have been no changes to the terms and conditions of these awards, or any other awards, since the grant dates.

For awards allocated for the year to 30 September 2015, the maximum number of shares or performance rights that may vest (if no portion is forfeited) is shown for each senior executive. The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares or performance rights and the value of these equity awards is zero if the equity is fully lapsed.

Table 10: Value of shares and performance rights

Name		Granted (1) No.	Grant date	Lapsed (2) No.	Vested (3) No.	Granted $	Lapsed $	Vested and Exercised $
Executive director								
AG Thorburn	LTI rights	47,929	14/12/2011	(47,929)	-	-	(722,505)	-
	General employee shares	40	14/12/2011	-	40	-	-	977
	Deferred STI rights	11,348	7/11/2012	-	11,348	-	-	248,635
	Deferred STI rights	5,624	19/02/2014	-	5,624	-	-	184,242
	Deferred STI rights	4,319	18/02/2015	-	-	129,954	-	-
	LTI rights	204,113	18/02/2015	-	-	2,859,981	-	-
Other senior executives								
AJ Cahill	Deferred STI rights	4,807	7/11/2012	-	4,807	-	-	105,321
	Deferred STI rights	3,091	19/02/2014	-	3,091	-	-	101,261
	LTI rights	11,134	10/12/2014	-	-	156,007	-	-
	Deferred STI rights	3,890	18/02/2015	-	-	117,046	-	-
CM Drummond	Commencement shares	61,950	1/11/2013	-	61,950	-	-	2,250,024
	LTI rights	85,644	10/12/2014	-	-	1,200,023	-	-
	Deferred STI rights	8,986	18/02/2015	-	-	270,380	-	-
AD Gall	Deferred STI rights	8,858	7/11/2012	-	8,858	-	-	194,079
	Deferred STI rights	2,962	19/02/2014	-	2,962	-	-	97,035
	LTI rights	12,312	10/12/2014	-	-	172,512	-	-
	Deferred STI rights	5,734	18/02/2015	-	-	172,531	-	-
AP Hagger	Deferred STI rights	8,216	7/11/2012	-	8,216	-	-	180,013
	Deferred STI rights	6,113	19/02/2014	-	6,113	-	-	200,262
	LTI rights	71,370	10/12/2014	-	-	1,000,019	-	-
	Deferred STI rights	7,977	18/02/2015	-	-	240,019	-	-
	Retention shares	17,806	2/09/2015	-	-	550,027	-	-
MJ Healey	Deferred STI rights	6,100	7/11/2012	-	6,100	-	-	133,651
	Deferred STI rights	5,196	19/02/2014	-	5,196	-	-	170,221
	LTI rights	60,665	10/12/2014	-	-	850,023	-	-
	Deferred STI rights	5,650	18/02/2015	-	-	170,003	-	-
AJ Healy	General employee shares	40	14/12/2011	-	40	-	-	977
	Deferred STI rights	4,374	7/11/2012	-	4,374	-	-	95,834
	Deferred STI rights	2,653	19/02/2014	-	2,653	-	-	86,912
	General employee shares	30	10/12/2014	-	-	972	-	-
	LTI rights	61,052	10/12/2014	-	-	855,445	-	-
	Deferred STI rights	5,551	18/02/2015	-	-	167,024	-	-
A Mentis	Deferred STI rights	5,649	7/11/2012	-	5,649	-	-	123,770
	Deferred STI rights	4,508	19/02/2014	-	4,508	-	-	147,682
	LTI rights	12,847	10/12/2014	-	-	180,009	-	-
	Deferred STI rights	5,984	18/02/2015	-	-	180,052	-	-
RM Roberts	Deferred STI rights	2,171	7/11/2012	-	2,171	-	-	47,567
	Deferred STI rights	1,615	19/02/2014	-	1,615	-	-	52,907
	LTI rights	9,595	10/12/2014	-	-	134,443	-	-
	Deferred STI rights	2,399	18/02/2015	-	-	72,183	-	-
GR Slater	Deferred STI rights	10,147	7/11/2012	-	10,147	-	-	222,321
	Deferred STI rights	6,113	19/02/2014	-	6,113	-	-	200,262
	LTI rights	71,370	10/12/2014	-	-	1,000,019	-	-
	Deferred STI rights	7,977	18/02/2015	-	-	240,019	-	-

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Table 10: Value of shares and performance rights (continued)

(1) The following securities have been granted during 2015:

- *General Employee Share Offer granted to Mr A Healy in December 2014.*
- *LTI performance rights allocations in December 2014 and February 2015 for Mr Thorburn (in respect of 2014). The total fair value of the award is disclosed in the table above. The fair value and underlying assumptions for each LTI tranche are shown in Table 11 and Table 12. The face value of the LTI award was $32.40 based on the weighted average share price at which NAB shares were traded on the ASX in the five trading days from 1 December 2014 to 5 December 2014 inclusive.*
- *Deferred STI performance rights allocations in February 2015 (in respect of 2014).*
- *Retention shares allocated to Mr Hagger in September 2015.*

(2) The following securities have lapsed during 2015:

- *2011 LTI performance rights granted in December 2011 fully lapsed in October 2014 for Mr Thorburn. 2011 LTI performance rights for other senior executives were fully lapsed in September 2014 and disclosed in NAB's 2014 Remuneration report.*

(3) The following securities have vested during 2015:

- *General Employee Share Offer granted to Mr A Thorburn and Mr A Healy in December 2011, fully vested in December 2014.*
- *2012 Tranche 2 deferred STI performance rights allocated in November 2012, fully vested in November 2014.*
- *2013 Tranche 1 deferred STI performance rights allocated in February 2014, fully vested in December 2014.*
- *Tranche 1 Commencement Award shares granted to Mr Drummond in November 2013, fully vested in October 2014.*

Fair value basis used to determine equity remuneration

The grant date fair value of shares and performance rights in **Table 8** and **Table 10** is calculated in accordance with AASB 2, amortised on a straight line basis over the vesting period and included in each senior executive's remuneration for disclosure purposes. The fair value per share and performance right (at grant) are set out below for grants provided to senior executives during 2015. No performance options have been granted during the year. Shares and performance rights granted during 2015 have a zero exercise price.

Table 11: Fair value of securities granted to senior executives

		Shares		Performance rights			
Type of allocation	**Grant date**	**Fair value $**	**Restriction period end**	**Face value (WASP) $**	**Fair value $**	**Exercise period From**	**Exercise period To** [(1)]
Deferred Short-Term Incentive	18 February 2015			32.88	31.00	17 December 2015	15 March 2017
Deferred Short-Term Incentive	18 February 2015			32.88	29.23	17 December 2016	15 March 2017
Long-Term Incentive	10 December 2014			32.40	15.14	21 December 2018	15 March 2020
Long-Term Incentive	10 December 2014			32.40	13.04	21 December 2018	15 March 2020
NZ General Employee Share Offer	10 December 2014	32.40	10 December 2017				
Long-Term Incentive [(2)]	18 February 2015			32.40	15.14	21 December 2018	15 March 2020
Long-Term Incentive [(2)]	18 February 2015			32.40	13.04	21 December 2018	15 March 2020
Retention [(3)]	2 September 2015	30.89	1 May 2016				

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

(2) LTI allocation (in respect of 2014) for the Group CEO and Managing Director as approved by shareholders at the December 2014 AGM.

(3) A retention award for Mr Hagger was approved by the Board during 2015.

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

Table 12: Fair value assumptions

Award type	**Grant date**	**Face value (WASP) $**	**Fair value $**	**Performance period end**	**Dividend yield %**	**Volatility %**	**Risk free rate %**
Deferred STI - performance rights	18 February 2015	32.88	31.00	17 December 2015	5.8	N/A	2.5
Deferred STI - performance rights	18 February 2015	32.88	29.23	17 December 2016	5.8	N/A	2.5
LTI - performance rights	10 December 2014 and 18 February 2015 [(1)]	32.40	15.14	10 November 2019	5.8	17	2.4
LTI - performance rights	10 December 2014 and 18 February 2015 [(1)]	32.40	13.04	10 November 2019	5.8	17	2.4

(1) LTI allocation (in respect of 2014) for the Group CEO and Managing Director as approved by shareholders at the December 2014 AGM.

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5.3. Senior executive contractual arrangements

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

Table 13: Contractual arrangements

Name	Position	Termination arrangements [(1)] Notice period (weeks) Senior executive	Company	Termination payment [(2)] $
Executive director				
AG Thorburn	Group Chief Executive Officer and Managing Director	26	26	1,000,000
Other senior executives				
AJ Cahill	Group Executive, Product & Markets	12	26	454,545
CM Drummond	Group Executive, Finance and Strategy	2	26	590,909
AD Gall	Group Chief Risk Officer	12	26	545,455
AP Hagger	Group Executive, NAB Wealth	4	26	500,000
MJ Healey	Group Executive, Governance and Reputation	4	26	386,364
AJ Healy	Managing Director and Chief Executive Officer, BNZ	13	13	221,944
A Mentis	Group Executive, Business Banking	12	26	454,545
RM Roberts	Group Executive, Enterprise Services and Transformation	12	26	454,545
GR Slater	Group Executive, Personal Banking	4	52	1,000,000

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

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

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

The following tables detail equity holdings for KMP for the year ended 30 September 2015. No performance options or performance rights are granted to non-executive directors or related parties. No performance rights held by KMP were vested but not exercisable at 30 September 2015. No performance options are currently held by KMP.

Table 14: Performance rights holdings

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
Executive director							
AG Thorburn	194,375	208,432	(16,972)	(47,929)	337,906	16,972	-
Other senior executives							
AJ Cahill	35,033	15,024	(7,898)	-	42,159	7,898	-
CM Drummond	-	94,630	-	-	94,630	-	-
AD Gall	43,535	18,046	(11,820)	-	49,761	11,820	-
AP Hagger	144,471	79,347	(14,329)	-	209,489	14,329	-
MJ Healey	109,951	66,315	(11,296)	-	164,970	11,296	-
AJ Healy	28,500	66,603	(7,027)	-	88,076	7,027	-
A Mentis	40,281	18,831	(10,157)	-	48,955	10,157	-
RM Roberts	24,834	11,994	(3,786)	-	33,042	3,786	-
GR Slater	154,573	79,347	(16,260)	-	217,660	16,260	-

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

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Table 15: Shareholdings

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

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year [(2)] No.
Executive director					
AG Thorburn	50,323	-	16,972	30,094	97,389
Other senior executives					
AJ Cahill	24,123	-	7,898	2,562	34,583
CM Drummond	130,485	-	-	8,118	138,603
AD Gall	93,643	-	11,820	(10,875)	94,588
AP Hagger	119,743	17,806	14,329	(43,273)	108,605
MJ Healey	114,607	-	11,296	7,621	133,524
AJ Healy	18,273	30	7,027	-	25,330
A Mentis	8,318	-	10,157	(4,622)	13,853
RM Roberts	16,955	-	3,786	2,931	23,672
GR Slater	33,737	-	16,260	3,990	53,987
Non-executive directors					
MA Chaney	28,373	-	-	2,270	30,643
DH Armstrong	10,025	-	-	1,061	11,086
DT Gilbert	19,190	-	-	1,536	20,726
PK Gupta [(3)]	2,000	-	-	4,480	6,480
KR Henry	2,000	-	-	160	2,160
GC McBride	2,000	-	-	160	2,160
PJ Rizzo	5,824	-	-	466	6,290
JS Segal	16,986	-	-	1,359	18,345
AKT Yuen	5,059	-	-	5,405	10,464
Former non-executive directors					
JG Thorn [(4)]	17,333	-	-	(633)	16,700
GA Tomlinson [(5)]	44,805	-	-	4,250	49,055
JA Waller [(6)]	4,000	-	-	1,320	5,320

(1) *Balance may include shares held prior to individuals becoming KMP. Some opening balances have been restated to include additional related party shares.*

(2) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in NAB shares. Balance may include shares held after an individual ceases to be KMP.*

(3) *Mr Gupta commenced as a KMP on 5 November 2014.*

(4) *Mr Thorn retired as a director of NAB on 18 December 2014.*

(5) *Mr Tomlinson retired as a director of NAB on 18 December 2014.*

(6) *Mr Waller retired as a director of NAB on 31 July 2015.*

Remuneration report

Table 16: Other equity instrument holdings

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

Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
National Income Securities			
CM Drummond	500	-	500
DT Gilbert	1,253	-	1,253
MJ Healey	700	-	700
JS Segal	180	-	180
GA Tomlinson	350	-	350

KMP holdings and transactions involving equity instruments, other than equity-based compensation, are made on similar terms and conditions generally available to other employees of the Group.

5.5. Loans to KMP and related parties

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

Table 17: Aggregated loans to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year [(1)] $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year [(1)] $	KMP in Group during year [(2)] No.
KMP	Normal	9,956,298	345,574	-	-	9,173,235	12
	Employee	4,940,687	280,743	-	-	6,235,870	6
Other related parties [(3)]	Normal	32,852,447	1,012,391	-	-	31,886,111	7
	Employee	-	-	-	-	-	-

(1) *Balance relates to KMP who held office during the year ending 30 September 2015.*

(2) *This number represents the KMP's included in the balance at the end of the year. Loans to KMP of NAB and the Group at year end may, in some instances, be an estimate of the 30 September statement balances. Where estimates have been used at the end of 2014, the balance at the beginning of 2015 reflects the actual opening balance and, therefore, may differ from the prior year closing balance. Some balances have been restated to include additional related party loans.*

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

Remuneration report

Table 18: Aggregate loans to KMP and their related parties above $100,000 at any time during 2015

NAB and the Group	Terms and conditions	Balance at beginning of year (1) $	Interest charged (2) $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year (3) $
Executive director							
AG Thorburn	Employee	17,508	-	-	-	4,297	-
	Normal	1,784,121	21,143	-	-	-	1,943,370
Other senior executives							
AJ Cahill	Employee	3,053,438	111,483	-	-	2,160,226	-
	Normal	-	47,363	-	-	1,446,061	5,176,118
AD Gall	Employee	815,754	-	-	-	-	-
	Normal	1,765,148	86,347	-	-	2,659,413	2,690,445
AJ Healy	Normal	2,074,649	120,220	-	-	2,239,187	2,303,331
MJ Healey	Employee	1,050,500	48,578	-	-	1,050,500	-
	Normal	11,200	-	-	-	8,307	1,060,500
A Mentis	Employee	3,487	120,448	-	-	3,011,731	-
	Normal	2,320,977	-	-	-	-	3,074,697
RM Roberts	Employee	-	234	-	-	9,117	-
	Normal	2,101,943	33,663	-	-	992,050	2,169,527
GR Slater	Normal	1,363,620	42,018	-	-	1,355,315	1,402,000
Non-executive directors							
DT Gilbert (4)	Normal	30,284,511	985,627	-	-	31,099,701	449,600
GC McBride	Normal	1,092,318	19,625	-	-	1,239,350	1,189,870

(1) *Some balances have been restated to include additional related party loans.*

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

(3) *Represents aggregate highest indebtedness of the KMP during 2015. All other items in this table relate to the KMP and their related parties.*

(4) *Includes business loans to persons and entities other than Mr Gilbert but over which Mr Gilbert has significant influence including the law firm Gilbert + Tobin. The loans provided are on terms equivalent to those that prevail in arm's length transactions.*

Other financial instrument transactions

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

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

Report of the Directors

Remuneration report

Table of key terms

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

Term Used	Description
Cash Return on Equity (ROE)	Cash ROE is calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. It allows for risk to the extent that actual equity aligns with target equity and Risk Weighted Assets (RWA). RWA measures the risk exposure of the Group's assets that are used to determine quantitative minimum capital requirements. Cash ROE also measures inorganic growth. For senior executives, the STI program uses cash ROE performance for the consolidated Group.
Compliance Gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Deferred STI performance rights	Deferred STI performance rights are restricted for at least one year and may be fully or partially lapsed if individual or business performance warrants. They are provided in respect of prior year(s) performance and are subject to service and performance conditions. The terms and conditions, including lapsing, will vary for each particular grant. Shares are issued or transferred under the National Australia Bank Staff Share Ownership Share Plan. The design of the share plan (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12.
Enterprise behaviours	The Enterprise Behaviours are the foundation of the Group's culture and brand and define how employees relate to one another, work together and interact with customers and communities. They are to: • Be authentic and respectful • Work together • Create value through excellence The Enterprise Behaviours were replaced by Living our Values from 1 April 2015.
Executive Leadership Team (ELT)	Most senior leaders of the Group, including the Group Chief Executive Officer and Managing Director. They are responsible for planning, directing and controlling the activities of the Group. Current members of the ELT are listed in Table 1.
Face value	The face value of each performance right is determined by the market value of a NAB share as at the grant date, and is generally a five day weighted average share price.
Fair value basis	The fair value of each share is determined by the market value of the share as at the grant date, and is generally a five 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 taken into consideration in valuing the securities. For further details, refer to *Note 1(ag)* – Equity-based compensation in the Financial report.
Key management personnel (KMP)	Key executives of the Group and NAB who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise). This is the definition used in AASB 124 "Related Party Disclosures" and the Corporations Act 2001 (Cth).
Living our Values	Our Values are key in driving the culture to deliver the Group's strategy. They are guiding principles that can inspire employees to meet the needs of customers and achieve the Group's strategy. They are: • Passion for Customers • Will to Win • Be Bold • Respect for people • Do the Right thing Our Values replaced the Enterprise Behaviours from 1 April 2015.
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long-term performance of the Group. LTI is allocated under the Group's LTI program in the form of performance rights. The 2015 LTI program is described in Section 3.4.
LTI performance rights	An LTI performance right is a performance right granted under an LTI plan which is subject to long-term performance hurdles.
Net promoter score (NPS)	NPS is a customer advocacy measure used in many industries, including financial services. NPS measures how likely a customer would be to recommend NAB to a friend or colleague. It is based on one key question: 'On a scale of 0 - 10, how likely would you be to recommend NAB to your friend or colleague?'. The overall score is calculated by subtracting the percentage of customers that answer 6 or below ('detractors') from the percentage of customers that answer 9 or 10 ('promoters'). NPS allows for continuous customer feedback providing a greater understanding of customers to improve the customer experience. The score is derived using industry provided survey data from Roy Morgan for Consumer Customers and the Business Financial Services Monitor provided by DBM Consulting for Business Customers.

Remuneration report

Performance options	A performance option is a right to acquire one NAB ordinary share, once the performance option has vested based on achievement of the related performance hurdle or at the Board's discretion. Each performance option entitles the holder to be provided with one NAB ordinary share subject to adjustment for capital actions. 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 NAB ordinary shares traded on the Australian Securities Exchange over the one week up to and including the grant date of the performance options. The terms and conditions, including lapsing, will vary for each particular grant. Performance options are issued by NAB under the National Australia Bank Executive Share Option Plan No. 2. The design of the performance options plans (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12. Shares will be issued on exercise of performance options. All shares issued or transferred upon the exercise of performance options are paid for in full by the senior executive based on the relevant exercise price. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance options are exercised. Performance options have not been provided to senior executives since 2010.
Performance rights	A performance right, such as an LTI performance right (as described above), is a right to acquire one NAB ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. Each performance right entitles the holder to be provided with one NAB ordinary share subject to adjustment for capital actions. A performance right is similar to a performance option as described above, except that there is no exercise price to be paid to exercise the performance right. Performance rights may be used instead of shares due to jurisdictional reasons including awards such as deferred STI and commencement and other retention programs. The terms and conditions, including lapsing, will vary for each particular grant. Performance rights are issued by NAB under the National Australia Bank Performance Rights Plan. The design of the performance rights plan (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12. The main departure from the IFSA guidelines is that performance rights issued by NAB have no exercise price. Shares will be issued on exercise of performance rights. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, combined divisional Risk Weighted Assets (and by capital adequacy for Wealth Management) and target regulatory capital ratios.
Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Senior executives	Persons who are (or were) members of the Executive Leadership Team, including executive directors.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. Each employee has a short-term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 100% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in **Section 3.4**.
S&P/ASX Top 50 Index	A Standard & Poors (S&P)/ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia. Used as a measure for the LTI performance hurdle.
Top Financial Services	The top financial services companies in the ASX200 (approximately 10 companies) by market capitalisation, excluding NAB, determined on or around the effective date of the LTI award. Used as a measure for the LTI performance hurdle.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions (where applicable), but does not include STI or LTI. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Group, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions (where applicable).
Total Shareholder Return (TSR)	A measure of 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 NAB shares. TSR is an external measure which aligns shareholder wealth creation and market expectations for employee equity plans. TSR is a common measure for the LTI performance hurdle.

Report of the Directors

Directors' signatures

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

Michael A Chaney
Chairman
16 November 2015

Andrew G Thorburn
Group Chief Executive Officer

Corporate governance

The Board of directors of NAB is responsible for the governance of NAB and its controlled entities (the Group). Good corporate governance is fundamental to the culture and business practices of the Group. Key aspects of the Group's corporate governance framework and its primary corporate governance practices for 2015 are outlined below.

This Corporate Governance Statement (Statement) has been approved by the Board and is current as at 30 September 2015.

ASX Corporate Governance Principles and Recommendations

NAB has complied with the third edition of the ASX Corporate Governance Principles and Recommendations (ASX Corporate Governance Principles and Recommendations) in 2015. Further information regarding NAB's compliance with the ASX Corporate Governance Principles and Recommendations is set out in NAB's Appendix 4G, which is a checklist cross-referencing the ASX Corporate Governance Principles and Recommendations to the relevant disclosures in this Statement. The Appendix 4G is available at www.nabgroup.com.

The *Diversity and inclusion* section, which follows this Statement, contains the diversity disclosures required under the ASX Corporate Governance Principles and Recommendations.

Further information on the Group's material exposure to economic, environmental and social sustainability risks and how it manages or intends to manage these risks is set out in the *Operating and Financial Review* within the *Report of the Directors*.

Assurance provided to the Board

The Board has jointly received from the Group Chief Executive Officer and the Group Executive, Finance & Strategy:
- The relevant declarations required under section 295A of the *Corporations Act* 2001 (Cth).
- The relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations.

The Board of directors

The role and responsibilities of the Board

The Board has adopted a formal charter that details its functions and responsibilities. A copy of the charter is available in the Corporate governance section of the Group's website at www.nabgroup.com.

The Board's most significant responsibilities are:

Stakeholder interests
- Guiding the Group with a view to enhancing long-term returns for shareholders having regard to the interests of other stakeholders, including customers, regulators, staff and the communities in which the Group operates.
- Providing strategic direction to the Group with a focus on consistent business performance, behaviour, transparency and accountability.
- Reviewing and monitoring corporate governance and corporate responsibility throughout the Group.

Strategy
- Reviewing, approving and monitoring corporate strategy and plans.
- Making decisions concerning the Group's capital structure and dividend policy.
- Reviewing, approving and monitoring major investment and strategic commitments.

Performance
- Reviewing business results.
- Monitoring budgets.

Integrity of external reporting
- Reviewing and monitoring with the guidance of the Audit Committee the processes, controls and procedures which are in place to maintain the integrity of the Group's accounting and financial records and statements.
- Reviewing and monitoring reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the markets in which NAB's securities are listed.
- Maintaining appropriate ongoing dialogue with principal regulators.

Risk management and compliance

Reviewing and monitoring with the guidance of the Risk Committee:
- The Group's risk management, risk profile, and processes for compliance with prudential regulations and standards and other regulatory requirements.
- 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 and diversity.
- Reviewing and monitoring the performance of the Group Chief Executive Officer and senior management.
- Monitoring and influencing the Group's culture, reputation and ethical standards.

Board performance
- Monitoring Board composition, director selection, Board processes and performance with the guidance of the Nomination Committee.

The Board has reserved certain powers for itself and delegated authority and responsibility for day-to-day management of NAB to the Group Chief Executive Officer. 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 a comprehensive risk management framework.
- Sound relationship management with the Group's stakeholders.

All delegated authorities provided by the Board to the Group Chief Executive Officer are reviewed and reconfirmed annually or as required.

Composition of the Board

NAB's Constitution provides that NAB is to have not less than five, nor more than fourteen directors.

The current members of the Board and the period each member has been in office are set out in the *Report of the Directors*.

Board composition is driven by the following principles:
- The Board will be of an appropriate size to allow efficient decision making.
- The Chairman of the Board must be an independent non-executive director.
- The Chairman must not have been an executive officer of NAB or the Group Chief Executive Officer in the last three years.
- The Board must comprise a majority of independent non-executive directors.
- The Board should consist of 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 Chairman is an independent non-executive director and is not a former executive officer of the Group. The roles of the Chairman and Group Chief Executive Officer are not exercised by the same individual.

Corporate governance

At the date of this Statement, the Board consisted of ten directors, comprising:

- Nine independent non-executive directors.
- One executive director, being the Managing Director and Group Chief Executive Officer.

A number of changes to the composition of the Board have occurred or been announced during 2015 as follows:

- The appointment in November 2014 of Mr Peeyush Gupta.
- The retirement at the 2014 Annual General Meeting of Mr John Thorn and Mr Geoff Tomlinson.
- The retirement in July 2015 of Mr John Waller.
- Two independent non-executive director appointments: Ms Anne Loveridge, to take effect from 15 December 2015, and Mr Doug McKay, to take effect from 1 February 2016, both subject to regulatory approval.
- The Board has announced the retirement of Mr Michael Chaney and transition of the Chairmanship to Dr Ken Henry, which will occur at the conclusion of the 2015 Annual General Meeting.
- Mr Paul Rizzo is also expected to retire at the conclusion of the 2015 Annual General Meeting.

After these changes take effect, the Board will consist of nine independent non-executive directors, including the Chairman, and one executive director.

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

NAB has established a Board approved 'Fit and Proper' Policy (Policy) that meets the requirements of Prudential Standard CPS 520 "Fit and Proper" (the Standard) issued by the Australian Prudential Regulation Authority (APRA). The Policy requires all 'responsible persons', as defined by the Standard, to be assessed as meeting the criteria to ensure that they are 'Fit and Proper'. The Standard requires directors, certain 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.

Chairman

The Chairman of NAB is responsible for leading the Board and ensuring that it is operating to the appropriate governance standards.

NAB's Chairman is Mr Chaney. Mr Chaney has been Chairman of NAB since 2005 and a non-executive director since 2004. He has skills and experience across a broad portfolio of industries and companies, including corporate, mining, investment and general banking.

A detailed list of his experience and positions outside NAB can be found in the *Report of the Directors*. The Board considers that none of Mr Chaney's positions held outside NAB interfere with his ability to execute and fulfil all of his obligations and responsibilities to the Board and NAB.

The Board has announced that following the conclusion of the 2015 Annual General Meeting, Mr Chaney will retire as a director of NAB and Dr Ken Henry will succeed him as Chairman. Dr Henry has been a non-executive director of NAB since 2011. He has significant public policy, Treasury and economic advisory experience, including as a former member of the Board of the Reserve Bank of Australia and the Board of Taxation, and is a current director of ASX Limited.

Independence of directors

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

A register of directors' material interests is maintained and is regularly sent to each director for their review. If a director is involved with another company or professional firm that may have dealings with NAB, such dealings are at arm's length and on normal commercial terms.

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 ASX Corporate Governance Principles and Recommendations. To assist the Board in determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board.

The Board has undertaken an assessment in 2015 and determined that all non-executive directors of NAB are independent.

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

More information on NAB's independent directors (including the period they have been in office) is provided in the *Report of the Directors*.

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 NAB'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 at the meeting while the matter is being considered or vote on the matter, except in one or more of 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 NAB, 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.
- 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 its consideration, notwithstanding the director's material personal interest.

Even though the *Corporations Act* 2001 (Cth) and NAB's Constitution allow these exceptions, the Group's corporate governance standards dictate that when a potential conflict of interest arises, the director concerned will not receive copies of the relevant Board papers and will not be present at 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 exists and cannot be resolved, the director is expected to tender his or her resignation.

The provision of financial services to directors by NAB 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 - Related party disclosures* in the *Financial report* for further information, including details of related party dealings and transactions.

Tenure and succession planning

Managed succession planning continues to be a focus for the Board. Given the complexity of the Group's portfolio and the regulatory environment, it is important to retain a core of directors with long-standing knowledge of the Group while implementing appropriate succession plans. The changes to the composition of the Board during the year form part of an orderly multi-year transition plan designed to maintain an appropriate mix of skills, experience and diversity on the Board at all times, and ensure the Board's continual effectiveness.

The Board renewal that has occurred or is planned to occur by February 2016, as outlined in the Composition of the Board section above, will bring fresh perspectives to the Board while retaining directors with a deep understanding of the business.

The tenure of a director is a factor taken into account by the Board in assessing the independence of a director but is not determinative. As a guide, most directors would not stand for re-election after serving 10 years on the Board. The Board nevertheless considers that a director may continue to bring valuable expertise, independent judgement and the ability to act in the best interests of NAB beyond the term of 10 years.

The Board is satisfied that, irrespective of their period of service, each non-executive director who has served on the Board during 2015 has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to fulfil their role as an independent director.

Appointment and re-election of Board members

The Nomination Committee undertakes an annual review of Board composition using a skills matrix to assess the skills and the experience of each director and the combined capabilities of the Board. The results of the annual review are considered in the context of the Group's operations and strategy, and the need for diversity on the Board, and are incorporated into Board succession planning and the selection of new directors.

Board renewal has continued with:

- The appointment in November 2014 of Mr Gupta, who has significant wealth management, entrepreneurial and corporate governance experience.
- The proposed appointment in December 2015 of Ms Loveridge, who brings banking audit, leadership and advisory experience. This appointment would increase the number of women on the Board to three. Ms Loveridge will stand for election at the 2015 Annual General Meeting.
- The proposed appointment in February 2016 of Mr McKay, a former senior executive with considerable commercial experience in the corporate and consumer sectors. Mr McKay was appointed as Chairman of BNZ in August 2015. Mr McKay will stand for election at the 2016 Annual General Meeting.

The announced transition of the Chairmanship from Mr Chaney to Dr Henry following the conclusion of the 2015 Annual General Meeting is also part of the Board's ongoing process of renewal.

Board renewal is supported by the matrix below, which the Board believes results in an appropriate mix of skills, experience and expertise and a diverse range of views and perspectives that are most relevant for governance and oversight of NAB.

Board responsibilities	Current competencies contributing to Board capability
Stakeholder interests - long term value creation for shareholders Set values and culture Guide strategic direction of the business, including approval of major investments and commitments, capital structure and dividends Review business performance Monitor execution against strategy Integrity of external reporting Risk management and compliance (policies, processes, risk profile and credit quality) Executive review, succession planning and remuneration Board performance Communication with shareholders and other stakeholders, including corporate governance	• Strategy and business leadership • Commercial acumen, competitive analysis • Understanding of global trends in financial institutions • Local banking industry knowledge • CEO level experience • Financial literacy • Risk management • Awareness of legal and regulatory environment • Awareness of environmental, social and governance risk • ASX listed company experience • Human resources and remuneration • Information technology • Corporate governance

When a Board vacancy is anticipated, the Nomination Committee assesses the skills and experience required and then identifies suitable candidates, using external consultants as appropriate. The most suitable candidate is appointed by the Board after appropriate checks are undertaken, including an assessment in accordance with the Board approved 'Fit and Proper' Policy.

The appointed director must stand for election by shareholders at the next Annual General Meeting of NAB. NAB provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

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

The process of election and re-election of a director is in accordance with Article 10.3 of NAB's Constitution which requires that at each Annual General Meeting directors who have held office without re-election for at least three years, or beyond the third Annual General Meeting following their appointment (whichever is the longer period), and any new directors appointed during the year, are required to retire from office at the Annual General Meeting and are eligible to stand for re-election and election respectively. Article 10.3 does not apply to the Group Chief Executive Officer.

Before each Annual General Meeting, the Board assesses the performance of each director due to stand for re-election and election, and decides whether to recommend to shareholders that they vote in favour of the re-election or election of each relevant director.

The commencement dates of the directors are set out in the *Report of the Directors*.

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors. The program includes discussions with executives and management, briefings and workshops which cover the Group's strategic plans, significant financial, accounting and risk management issues, compliance programs, performance management structure, internal and external audit programs, Codes of Conduct, Values (which provide the foundation of the culture of the Group) 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, its businesses. NAB provides continuing education to the Board through a combination of internal and external presentations, workshops with management and excursions. These education activities 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 Board Committees. Directors are also expected to attend site visits.

The number of Board meetings and each director's attendance at those meetings are set out in the *Report of the Directors*. Members of the Board also meet with key regulators in various jurisdictions throughout the year.

Performance of the 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.

Each director participates in individual interviews with the Chairman. 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. When external experts are engaged, the results of the evaluations are compiled to produce 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.

This process is designed to assist the Board in fulfilling its functions and ensuring that it remains an effective decision-making body. The 2015 annual performance evaluation for the Board, its Committees and the individual directors has taken place in accordance with the process disclosed above.

Remuneration arrangements

The remuneration policy for the Board and the remuneration of each director are set out in both the *Remuneration report*, which forms part of the *Report of the Directors*, and in *Note 47 - Related party disclosures* in the *Financial report.*

Access to management

Board members have complete and open access to management through the Chairman, Group Chief Executive Officer or Group 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 provides advice and support to the Board, is responsible for managing the Group's day-to-day governance framework, and is accountable to the Board, through the Chairman, on all matters relating to the proper functioning of the Board.

Access to independent professional advice

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

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

Shareholding requirements

NAB's Constitution requires that within six months of appointment, a director must hold at least 2,000 fully paid ordinary shares in NAB. 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. During 2015 the Board adopted an additional policy that non-executive directors' shareholdings should equal shares to the value of the non-executive directors' annual base fee within five years of appointment.

Details of directors' shareholdings in NAB are set out in the *Report of the Directors*.

NAB has minimum shareholding requirements in place for the Group Chief Executive Officer and the Executive Leadership Team. The minimum shareholding requirement for the Group Chief Executive Officer is two times his or her fixed remuneration, and the minimum shareholding requirement for each other member of the Executive Leadership Team is one times their respective fixed remuneration. The Group Chief Executive Officer and members of the Executive Leadership Team are required to maintain these minimum shareholding requirements during the period that they remain a member of the Executive Leadership Team. New appointments to the Executive Leadership Team are required to accumulate the minimum shareholding requirement over a five year period from commencement.

Company secretaries

All company secretaries are appointed and removed by the Board. Further detail on each company secretary is provided in the *Report of the Directors*.

Senior executives

Information on the performance evaluation and structure of remuneration for NAB's senior executives can be found in the *Remuneration report*, which forms part of the *Report of the Directors.*

Board and Committee operations

To help it carry out its responsibilities, the Board has established the following Committees:

- Audit Committee.
- Risk Committee.
- Remuneration Committee.
- Nomination Committee.
- Information Technology Committee.

The Board has adopted charters for each Committee setting out the matters relevant to the composition, responsibilities and administration of each Committee. The Board has also created a standing sub-committee to assist the Board in the oversight of the Group's capital and funding activities (refer to the Other Committees section).

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 2015 are set out in the *Report of the Directors*.

The Office of the Company Secretary provides secretariat support for the Board and each of the Committees. The Group Company Secretary is responsible for advising the Board on governance matters and ensuring compliance with Board and Board Committee procedures.

Corporate governance

Board Committee membership at 30 September 2015

	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Information Technology Committee
Members	Mr David Armstrong (Chairman since December 2014) Mr Paul Rizzo Mr Anthony Yuen	Dr Ken Henry (Chairman since February 2015) Mr Paul Rizzo Mr Peeyush Gupta Ms Jillian Segal Mr Anthony Yuen	Mr Danny Gilbert (Chairman) Mr Peeyush Gupta Dr Ken Henry Ms Jillian Segal	Mr Michael Chaney (Chairman) Mr David Armstrong Mr Danny Gilbert Mr Peeyush Gupta Dr Ken Henry Ms Geraldine McBride Mr Paul Rizzo Ms Jillian Segal Mr Anthony Yuen	Mr Danny Gilbert (Chairman) Mr David Armstrong Ms Geraldine McBride Mr Paul Rizzo Ms Jillian Segal Mr Andrew Thorburn
Composition	Minimum three All members are independent non-executive directors One member must also be a member of the Risk Committee	Minimum three All members are independent non-executive directors One member must also be a member of the Audit Committee	Minimum three All members are independent non-executive directors	Minimum three All members are independent non-executive directors	As determined from time to time by the Board

Key Responsibilities:

Audit Committee
- Integrity of the accounting and financial statements, and the financial and statutory reporting processes of the Group.
- Group's external audit.
- Group's Internal Audit.
- Compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group.
- Oversight of management in the preparation of the Group's financial statements and financial disclosures.
- Oversight of the work of the external auditor.
- Setting, approval and regulation of the annual fee limit for each type of audit or non-audit service to be provided by the external auditor.

Risk Committee
- Oversight of the risk profile of the Group within the context of the Board approved risk appetite.
- Making recommendations to the Board concerning the Group's current and future risk appetite and particular risks or risk management practices.
- Review of management's plans for mitigation of material risks faced by the Group.
- Oversight of the implementation and operation of the risk management framework and internal compliance and control systems throughout the Group.
- Oversight of stress testing of the Group risk portfolio including both scenario analysis and sensitivity analysis.
- Promoting awareness of a risk-based culture throughout the Group and the establishment by management of a balance between risk and reward for risks accepted.

Remuneration Committee
- Oversight of the Group's general performance and reward strategy.
- Review and make recommendations to the Board concerning.
  - Remuneration policy and Total Reward packages for the Group Chief Executive Officer, direct reports and other persons whose activities may affect the financial soundness of NAB or its subsidiaries.
  - Remuneration arrangements for non-executive directors (as detailed in the *Remuneration report*.)
  - Arrangements for recruiting, retaining and terminating senior executives.
- Support the Board with monitoring the application of the principles and framework required for measuring the compliance, culture and behavioural requirements of the Group.

Nomination Committee
- Board performance and the methodology for Board performance reviews.
- Board and Committee membership and composition.
- Succession planning for the Board and senior management.

Information Technology Committee
- Monitoring significant technology projects.

Corporate governance

Audit Committee

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

The Audit Committee assists the Board in carrying out its responsibility to exercise due care, diligence and skill by maintaining oversight of the Group's:

- Internal control systems.
- Compliance with applicable laws and regulations.
- Accounting policies and procedures designed to safeguard company assets and maintain financial disclosure integrity in relation to external financial reporting.

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 ASX Corporate Governance Principles and Recommendations.

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 experience and qualifications of members of the Audit Committee are detailed in the *Report of the Directors*. 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, the ASX Corporate Governance Principles and Recommendations and listing standards.

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

The Audit Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at NAB'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 relies on the information provided by management and the external auditor. The Audit Committee does not plan or conduct audits, or make determinations that the Group's financial statements and disclosures are complete and accurate.

Access to the Audit Committee

To draw appropriate matters to the attention of the Audit Committee, the following individuals have direct access to the Audit Committee: Group Chief Executive Officer; Group Executive Finance & Strategy; Executive General Manager Finance; Group Chief Risk Officer; General Counsel Governance, Corporate & Enterprise Services; Executive General Manager, Internal Audit; and the external auditor and appointed Chief Actuary. '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 the *Codes of conduct* section for further information on the Whistleblower Protection Program.

Audit Committee finance professional

Although the Board has determined that Mr Armstrong (as the current Chairman of the Audit Committee) has the requisite attributes defined under applicable governance principles and recommendations, his responsibilities as Chairman of the Audit Committee are the same as those of the other Audit Committee members. The Chairman of the Audit Committee is not an auditor or accountant for NAB, does not perform 'field work' and is not an employee of NAB.

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 2015 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 management, and 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 of and recommendations to the Board on significant accounting policies and areas of accounting judgement.
- Review of and recommendations to the Board for the adoption of the Group's half-year and annual financial statements.
- Regular review of minutes and updates from subsidiary board audit committee meetings.

The Audit Committee met ten times during 2015. The number of meetings attended by each Committee member is set out in the *Report of the Directors*. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period.

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 external audit engagement partner and lead review partner rotate off that role every five years or, if they have acted in that capacity for five out of the last seven successive financial years, will be subject to a two year 'cooling off' period following rotation. The Audit Committee and the Board may resolve to extend the five year period by not more than two successive years, subject to compliance with the *Corporations Act* 2001 (Cth).

The Audit Committee meets with the external auditor, Ernst & Young, throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the effectiveness, performance and independence of the audit.

The Audit Committee receives assurances from the external auditor that they meet all applicable independence requirements in accordance with the *Corporations Act* 2001 (Cth) and the rules of relevant professional accounting bodies. This independence declaration forms part of the *Report of the Directors*.

The external auditor attends the Group's Annual General Meeting and is available to answer shareholder questions regarding aspects of the external audit and their report.

Details of all 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 48 - Remuneration of external auditor* in the *Financial report*.

Internal Audit

The Internal Audit function carries out the analysis and independent appraisal of the adequacy and effectiveness of NAB's risk management framework and internal control environment.

Corporate governance

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately resourced and funded. The Audit Committee also assesses the performance of the Executive General Manager, Internal Audit and may recommend to the Board the appointment and dismissal of this officer. Internal Audit and External Audit operate, perform and report as separate, independent functions.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the appointment, compensation and 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 as they apply to 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.
- The service is specifically pre-approved by the Audit Committee or its delegate.

In accordance with the Group External Auditor Independence Policy, the Group will not employ, or permit to serve as a member of a board of directors or similar management or governing body, any current or former partner, principal, shareholder or professional employee of the external auditor or their family members if, in doing so, the external auditor's independence would be impaired or perceived to be impaired.

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. Details of the non-audit services provided by Ernst & Young to the Group and the fees paid or due and payable for non-audit services are set out in the *Report of the Directors* and *Note 48 - Remuneration of external auditor* in the *Financial report*.

The Audit Committee may delegate to one or more of its members or to management as it sees fit, the authority to approve 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 on a quarterly basis. The Audit Committee has delegated the authority to pre-approve 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.

Risk Committee

The Risk Committee's role, responsibilities, composition and membership requirements are documented in the Risk Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Activities during the year

At each scheduled meeting, the Risk Committee received a report from the Group Chief Risk Officer which includes updates on material risk categories identified by the Group. The Group's capital and liquidity position was also reviewed on a regular basis with the Group Treasurer. These are in addition to presentations provided on topical issues by senior management as required.

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

- Review of the Group's key risks and risk management framework and strategy as developed by management.
- Review of the Group's internal capital adequacy assessment process.
- Ongoing critical review of the credit portfolio, asset quality and provisioning.
- Approval of the budget and headcount of the Group's risk management function.
- Review of the Group's 2015 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.
- Regular review of minutes and updates from subsidiary board risk committee meetings.

The Risk Committee met 12 times during 2015. The number of meetings attended by each Committee member is set out in the *Report of the Directors*. Senior representatives from NAB's external auditor, as well as Internal Audit, were invited to attend every scheduled meeting of the Risk Committee throughout the period.

The Group Chief Risk Officer attends every Risk Committee meeting, and meets regularly with the Chairman of the Risk Committee outside of the scheduled Board program.

The Chairs of each main subsidiary board risk committee met in 2015, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. This meeting is chaired by the Chairman of the Board Risk Committee. During the year, members of the Committee have met with regulators in certain jurisdictions.

More comprehensive details in relation to the Group's risk oversight and management of its material business risks are available in the 2015 Annual Review and the Corporate governance section of the Group's website at www.nabgroup.com.

Remuneration Committee

The Remuneration Committee's role, responsibilities, composition and membership requirements are documented in the Remuneration Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

The skills, experience and qualifications of members of the Remuneration Committee are detailed in the *Report of the Directors.*

During 2015, two members of the Remuneration Committee were also members of the Risk Committee, recognising the importance of aligning remuneration and risk.

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 NAB during 2015.

Recognising the increased focus on and responsibilities associated with remuneration related risks, the Group's Chief Risk Officer has a standing invitation to attend Remuneration Committee meetings and the Committee Chairman will specifically invite the Group's Chief Risk Officer to attend meetings where matters specific to risk-adjusted reward measures are discussed.

Activities during the year

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

- Approval of the 2015 *Remuneration report*.
- Review of and recommendation to the Board on the remuneration package for the Group Chief Executive officer and other senior excecutives.
- Review of and recommendation to the Board on the incentives payable to senior executives based on performance and risk criteria structured to increase shareholder value.
- Review of and recommendation to the Board on remuneration structures for categories of persons across the Group, as required by applicable regulators.
- Review of and recommendation to the Board on non-executive director fees.
- Monitoring global regulatory and legislative reform in relation to remuneration, market trends and stakeholder views on remuneration and reward in the financial services industry.
- Meeting with regulators to discuss the Group's remuneration frameworks.
- Monitoring executive director terminations across the Group.
- Review of and recommendation to the Board on award values for the long-term incentive plan for 2015.
- Oversight of superannuation guarantee obligations of NAB.
- Review, approval and determination of vesting outcomes of employee equity plans and allocations, including the long-term incentive program.
- Oversight of NAB's compliance framework and management of underperformance and impact on remuneration outcomes.
- Review of remuneration of non-executive directors of subsidiary companies.

The Remuneration Committee met 13 times during 2015. The number of meetings attended by each Committee member is set out in the *Report of the Directors*.

As part of the review process for approval of incentive payments, the Remuneration Committee held a joint meeting with the Risk Committee to ensure that risk impacts had been taken into account in the determination of the allocation and calculation of short and long-term incentive payments.

Nomination Committee

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in the Nomination Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

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 and its Committees.
- Succession planning for non-executive directors, together with making recommendations to the Board on the appointment of directors.
- Consideration of the skills of directors and senior management to determine whether collectively they have the full range of skills needed for the effective and prudent management of the Group.
- Consideration of diversity, including gender diversity, in director succession planning.
- Review of the methodology for the annual Board performance review.
- Succession planning for the Group Chief Executive Officer and executives reporting to the Group Chief Executive Officer, and review of approach to senior management succession planning.

The Nomination Committee met three times during 2015. The number of meetings attended by each Committee member is set out in the *Report of the Directors*.

Information Technology Committee

The role of the Information Technology Committee is to assist the Board in monitoring the Group's significant technology projects, including the Group's technology transformation programs.

The Information Technology Committee met four times during 2015. The number of meetings attended by each Committee member is set out in the *Report of the Directors*.

Other Committees

The Board establishes sub-committees from time to time to support the Board in carrying out its responsibilities. This includes a standing Capital and Funding Sub-Committee to exercise delegated authority on behalf of the Board in relation to particular Group capital and funding activities. This sub-committee consists of two members, being any one of the Group Executive, Finance & Strategy, the Chair of the Audit Committee or the Chair of the Risk Committee, together with one other non-executive director (who may be the Chair of the Audit Committee or the Chair of the Risk Committee), depending on availability at the relevant time.

Controlled entities

The activities of each company in the Group are overseen by its own respective board of directors. The Board's confidence in the activities of its controlled entities stems from the quality of the chairs and directors on each of its major subsidiary boards and their commitment to the Group's objectives. There is a standing invitation to NAB's directors to attend any board meeting of a major subsidiary board through consultation with the relevant Chairman. Such visits are undertaken to develop a broader understanding of the Group's total operations.

Communicating with shareholders

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

- NAB's Annual General Meeting.
- Notices and explanatory memoranda of Annual General Meetings.
- The Annual Financial Report.
- The Summary Review and online Annual Review.
- Financial Results Announcements.
- Regular Trading Updates and other market/investor briefings.
- Letters from the Chairman to inform shareholders of key matters of interest.
- The Shareholder Centre and Media sections of the Group's website at www.nabgroup.com, which provide access to company announcements, media releases, financial reports, previous years' financial results and investor presentations.

The Group employs a range of communication approaches, including direct written communication with shareholders and webcasting of significant market briefings and meetings (including the Annual General Meeting for shareholders).

The Group is committed to maintaining a level of disclosure that provides all investors with timely and equal access to information. To allow as many shareholders as possible to participate in the Annual General Meeting, the location of the meeting rotates around

Australian capital cities and a webcast is available to view online in the Shareholder Centre located on the Group's website at www.nabgroup.com.

At any time, including ahead of NAB's Annual General Meeting, shareholders are able to contact NAB or its share registrar, Computershare Investor Services Limited, by mail, telephone, email or online via the Computershare Investor Centre portal. Shareholders may choose to receive communications from, and send communications to, NAB and Computershare electronically.

Continuous disclosure

The *Corporations Act* 2001 (Cth) and the ASX Listing Rules require that the Group promptly discloses to the market matters which could be expected to have a material effect on the price or value of NAB's securities. In compliance with these continuous disclosure requirements, NAB's policy is that shareholders are informed in a timely manner of all major developments that impact the Group. A detailed disclosure policy 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 NAB's securities.

NAB has established written guidelines and procedures to supplement the disclosure policy. These guidelines and procedures are designed to manage NAB's compliance with the continuous disclosure obligations of the various stock exchanges on which NAB'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 a Disclosure Committee of executives. The Disclosure Committee may refer matters to other senior executives or the Board, to make an assessment and determination as to disclosure.

Where appropriate the Board will be consulted on the most significant or material disclosures. All members of the Executive Leadership Team are responsible for reporting matters qualifying for disclosure to the General Counsel Governance, Corporate & Enterprise Services and/or the Group Company Secretary. Routine administrative announcements will be made by the Group Company Secretary without requiring approval from the Disclosure Committee. The Disclosure Committee reports annually to the Board on activities and decisions taken throughout the year.

The Group Company Secretary is responsible for all communications with all relevant stock exchanges.

The Group Disclosure and External Communications Policy is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Corporate responsibility

The Group's approach to corporate responsibility

The Group's approach to corporate responsibility (CR) seeks to ensure that appropriate beliefs and behaviours are embedded in everyday decision-making and long-term planning in order to deliver sustainable, satisfactory returns to shareholders. This approach is based on the principles of creating shared value – that is, creating economic value through the Group as a financial institution whilst also creating value for society by understanding and addressing key social needs and challenges. This approach is centred around:

- Customers - getting the fundamentals right.
- Employees - being a good employer, by investing in the skills and capabilities of employees.
- Addressing a broader responsibility to society - by investing in communities, managing the Group's environmental impact and dependencies, and having a positive impact through the Group's supply chain.

CR is embedded across the Group by:

- Engaging with stakeholders to inform the Group of current and emerging material issues, challenging the Group to develop mutually beneficial solutions and helping to define strategic direction.
- Developing a CR strategy that sets clear objectives, establishes appropriate policies, procedures and activities and includes measuring and reporting on progress.
- Integrating CR management and reporting into governance structures and internal communications to ensure that CR is understood by the Board, Executive Leadership Team and employees.
- Focussing on three key areas in which the Group is well placed to create a positive impact, being (i) helping people develop a healthy relationship with money (ii) building prosperous communities and (iii) supporting a future-focused nation.

Engagement with stakeholders is key to the Group's success. The Executive Leadership Team remains committed to maintaining dialogue with stakeholders to help understand their expectations, identify emerging issues and opportunities, assist with risk management, and improve Group performance.

The NAB Advisory Council on Corporate Responsibility, co-chaired by Dr Chris Sarra and the Group Chief Executive Officer, comprises a range of experienced internal and external advisors and plays an important role in supporting NAB with strategic advice and feedback on Group CR strategy, activities and stakeholder engagement.

In 2011, a CR Council was established, consisting of the Executive Leadership Team and chaired by the Group Chief Executive Officer. This Council meets twice a year. The Group's CR performance is reported to this Council and to the NAB Advisory Council on Corporate Responsibility on a half yearly basis, and an update on CR strategy is provided to the Board on an annual basis.

Corporate responsibility performance

Further information on the Group's CR approach and performance is provided in the 2015 Annual Review, the 2015 Dig Deeper and on the Group's website at www.nabgroup.com. External assurance is provided over the CR data contained in the 2015 Annual Review and 2015 Dig Deeper.

Codes of conduct

The Group maintains Codes of Conduct in all regions in which the Group operates, which require the observance of strict ethical guidelines. The Codes of Conduct apply to all employees and directors of the Group, together with everyone working on NAB's behalf, including contractors and consultants. The conduct of the Board and each director is also governed by the Board Charter.

The Codes of Conduct cover, amongst other things:

- Personal conduct.
- Honesty, integrity and fairness.
- Prevention of fraud and corruption.
- Conflicts of interest and relations with customers and/or third party providers.
- Confidentiality, access and disclosure.

The Group's Codes of Conduct, together with its Values, take into account NAB's legal obligations and the reasonable expectations of the Group's stakeholders, and emphasise the practices necessary to maintain confidence in the Group's integrity. Copies of the Group's Values and Codes of Conduct are available in the Corporate governance section of the Group's website at www.nabgroup.com.

Corporate governance

The Group also supports the Australian Bankers' Association Code of Banking Practice 2004, which includes:

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

Escalation

The Group has clear and established procedures and a culture that encourages the escalation of complaints and notification of incidents to management and the Board. This ranges from escalation of daily business or management concerns, up to serious financial, cultural or reputational matters. Employees are provided with various avenues for escalation of complaints or concerns, including general and confidential email alert addresses and telephone lines, as well as a comprehensive Whistleblower program.

Whistleblower protection

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, bribery, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

The Whistleblower Protection Program complements normal communication channels between management and employees to address questions, concerns, or complaints. Where an employee feels these channels are not appropriate for raising significant concerns the Whistleblower Protection Program provides established procedures for the receipt, retention and independent treatment of all disclosures.

Employees are encouraged to raise any issue involving illegal, unacceptable or inappropriate behaviour or any issue they believe could have a material impact on the Group's profitability, reputation, governance or regulatory compliance.

NAB will take all reasonable steps to protect a person who discloses unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) for any person taking reprisals against them.

Restrictions on dealing 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, NAB (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.

NAB has an established policy relating to trading in NAB's securities by directors, officers and certain other employees of the Group. In addition, key management personnel and their closely related parties are prohibited from using derivatives or otherwise entering into hedging arrangements in relation to elements of their remuneration that have not vested or which have vested but remain subject to forfeiture conditions. For more detail, refer to the *Remuneration report*. The Group Securities Trading Policy is available in the Corporate governance section of the Group's website at www.nabgroup.com.au.

Diversity and inclusion

The Group remains committed to creating and maintaining an inclusive culture and diverse workforce that is representative of its customers and the communities in which it operates, where individual differences are highly valued and respected.

The Group's Diversity and Inclusion Strategy for 2015 - 2017 is aligned with business strategy so that the changing needs and expectations of customers and shareholders are acknowledged. The three imperatives of the strategy are inclusion, life stage and gender equity which are underpinned by two key enablers: leadership and flexibility. The Executive Leadership Team continues to focus on delivering this strategy by promoting the right values to support a workforce in which employees feel empowered and encouraged to perform at their very best.

Gender diversity continues to be a key priority for the Group and NAB remains committed to building strong female representation at all levels, including executive management. The Executive Leadership Team has direct accountability for execution of this strategy and the Board receives regular updates on diversity and inclusion from senior executives of the Group.

NAB has complied with its reporting requirements under the *Workplace Gender Equality Act* 2012 (Cth) for the period from 1 April 2014 to 31 March 2015 and has achieved the 2015 Workplace Gender Equality Agency Employer of Choice for Gender Equality citation. NAB has also met minimum standards in relation to specified gender equality indicators (GEI), as set by the Minister in the *Workplace Gender Equality (Minimum Standards) Instrument* 2014.

NAB continues to take a proactive approach to meeting its regulatory requirements with respect to diversity and inclusion, and makes the following disclosures in relation to the ASX Corporate Governance Principles and Recommendations:

Diversity and Inclusion Policy (Recommendation 1.5(a) and 1.5(b))

The revised Group Diversity and Inclusion Policy is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Measurable objectives and progress (Recommendation 1.5(c))

The measurable objectives for achieving gender diversity which have been set by the Board in accordance with the Group Diversity and Inclusion Policy and NAB's progress towards achieving them are set out below.

	FY14 actual female representation (as at 30 Sep 2014)	FY15 target female representation	**FY15 actual female representation (as at 30 Sep 2015)**	FY16 target female representation	FY17 target female representation
NAB Board - including executive directors [(1)]	16%	-	20%	-	-
NAB Board - non-executive directors [(2)]	18%	-	22%	-	30%
Group subsidiary boards	32%	30%	36%	-	35%
Executive management [(3)]	30%	33%	32%	34%	35%
Australian talent development programs [(4)]	47%	50%	50%	-	-
Australian graduate program intake [(5)]	46%	50%	55%	-	-
Total organisation	57%		57%	-	-

(1) Ms Anne Loveridge will also be joining the Board as a non-executive director in December 2015.

(2) The NAB Board's target is to increase the number of female non-executive directors on the Board as vacancies and circumstances allow, with the aim of achieving representation of at least 30% by 2017.

(3) Executive Management positions (also known as senior executive positions) are those held by Executive Leadership Team members, Executive Leadership Team members' direct reports and their direct reports. Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data. As at 30 September 2015, the proportion of females reporting directly to the Group CEO on the Group Executive Leadership Team was 33%.

(4) Calculated on an aggregated basis across the Group's core Australian talent development programs.

(5) As at 30 September 2015, 55% of the graduates who have accepted positions in NAB's 2016 Australian graduate program are women.

Diversity and inclusion

The Group's gender diversity initiatives and awards during the 2015 year include:

- **Realise program:** the Group offers a range of learning and development programs in Australia and New Zealand including the 'Realise' and 'Senior Realise' programs, which look to further equip female employees with the skills, knowledge and tools to transition into senior and executive management roles. A virtual Realise program is also offered to support regional Australian employees and offshore employees in Hong Kong, India, Japan and Singapore. For the third consecutive year, a tailored program has also been extended to not-for-profit and business customers with limited access to development programs.
- **NAB Board Ready program:** this is a program designed to educate and prepare women in senior positions to become directors of Group companies. The program continues to focus on building competence and confidence by providing the training and development needed for women to successfully pursue positions on Group subsidiary boards as well as not-for-profit boards.
- **Australian Workplace Equality Index Awards (AWEI):** the AWEI provides a national benchmark on LGBTI workplace inclusion which is designed to gauge the overall impact of inclusion initiatives on organisational culture. In 2015 NAB placed 9th Australia wide.
- **Male Champions of Change:** the Group Chief Executive Officer, Mr Andrew Thorburn, was appointed as a Male Champion of Change for Victoria. This group is made up of esteemed and influential men from a variety of organisations taking action to drive change and advance gender equality within Victoria.
- **Deloitte Top 200 Awards:** in achieving the annual Diversity Leader Award, BNZ was recognised for its policies, programmes, and values, which encourage greater diversity across the business.

In addition, the Group's broader diversity and inclusion initiatives during the 2015 year include:

- **Parental Leave Policy:** NAB has made its 12-week paid parental leave entitlement more accessible to new fathers and other non-birth parents. Eligible employees can now take paid primary carers' leave anytime within the first twelve months of a child's life – previously only available to the primary carer for 12 weeks upon the birth or adoption of a child (or 24 weeks at half pay).
- **Accessibility Action Plan 2015 - 2016:** this plan reaffirms the Group's goal to continually improve accessibility for employees, customers and the community, and focuses on providing long-term, sustainable results.
- **Ethnic Business Awards 2015:** these awards have been celebrating diversity and success in the Australian business community for over 26 years. NAB is proud to be the founding partner of the Awards and a major sponsor again in 2015.
- **Corporate Champions Program 2015:** NAB reinforced its focus on employing talented mature age staff by participating in the Australian Government's Corporate Champions Program, which supports large scale employers that are striving to achieve best practice in the recruitment and retention of mature-age staff.
- **Opportunity Now:** Clydesdale Bank achieved Gold status as part of the Opportunity Now initiative which supports women's progression in the workplace to more senior roles. Opportunity Now, which is part of Business in the Community, aims to create a better gender balance for leadership progression; unbiased recognition, reward for all and agile work cultures that are fit for the future.
- **Reconciliation Action Plan (RAP):** The Group has significantly improved Indigenous engagement since its first RAP was launched in 2008. NAB has employed more than 200 Indigenous Australians, supported a further 15,000 Indigenous Australians with access to microfinance products and services, and supported 26 land councils, native title bodies and Indigenous organisations. The Group has been awarded elite Elevate status for its RAPs, recognising its commitment to Aboriginal and Torres Strait Islander partners and stakeholders and the increased transparency of its annual reporting.

Please refer to the Corporate governance section of the Group's website at www.nabgroup.com for additional information about the Group's diversity and inclusion initiatives.

Financial Report

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Financial Report

Income statements

For the year ended 30 September	Note	Group 2015 (1) (2) $m	Group 2014 (1) $m	Company 2015 (1) (2) $m	Company 2014 (1) $m
Interest income	3	**30,419**	30,419	**26,840**	26,570
Interest expense	3	**(16,437)**	(17,004)	**(17,321)**	(17,126)
Net interest income		**13,982**	13,415	**9,519**	9,444
Premium and related revenue		**1,725**	1,632	**-**	-
Investment revenue		**5,280**	7,387	**-**	-
Fee income		**600**	576	**-**	-
Claims expense		**(843)**	(961)	**-**	-
Change in policy liabilities		**(4,501)**	(5,918)	**-**	-
Policy acquisition and maintenance expense		**(972)**	(945)	**-**	-
Investment management expense		**(6)**	(13)	**-**	-
Movement in external unitholders' liability		**(715)**	(1,216)	**-**	-
Net life insurance income		**568**	542	**-**	-
Gains less losses on financial instruments at fair value	4	**1,578**	999	**1,953**	1,599
Other operating income	4	**4,048**	3,900	**3,754**	3,657
Total other income		**5,626**	4,899	**5,707**	5,256
Personnel expenses	5	**(4,635)**	(4,429)	**(3,214)**	(3,111)
Occupancy-related expenses	5	**(633)**	(628)	**(516)**	(502)
General expenses	5	**(4,984)**	(5,170)	**(2,524)**	(2,842)
Total operating expenses		**(10,252)**	(10,227)	**(6,254)**	(6,455)
Charge to provide for doubtful debts	5	**(844)**	(847)	**(604)**	(604)
Profit before income tax expense		**9,080**	7,782	**8,368**	7,641
Income tax expense	6	**(2,717)**	(2,598)	**(2,428)**	(2,039)
Net profit for the year from continuing operations		**6,363**	5,184	**5,940**	5,602
Profit or loss after tax for the period from discontinued operations (3)	51	**29**	114	**-**	-
Net profit for the year		**6,392**	5,298	**5,940**	5,602
Attributable to owners of NAB		**6,338**	5,295	**5,940**	5,602
Attributable to non-controlling interests		**54**	3	**-**	**-**
Basic earnings per share (cents)	8	**252.7**	219.0		
Diluted earnings per share (cents)	8	**245.4**	215.4		
Basic earnings per share (cents) from continuing operations	8	**253.5**	214.1		
Diluted earnings per share (cents) from continuing operations	8	**246.1**	210.7		

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

(2) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(3) *Included within discontinued operations are the post-tax profit / loss of discontinued operations of GWB and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Refer to Note 51 - Discontinued operations for further details.*

Statements of comprehensive income

For the year ended 30 September	Note	Group 2015 [1] [2] $m	Group 2014 [1] $m	Company 2015 [1] [2] $m	Company 2014 [1] $m
Net profit for the year from continuing operations		**6,363**	5,184	**5,940**	5,602
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial (losses)/gains on defined benefit superannuation plans	37	**(79)**	49	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	37	**165**	(44)	**52**	(43)
Revaluation of land and buildings	36	**1**	3	**-**	-
Exchange differences on translation of other contributed equity		**229**	81	**108**	54
Equity instruments at fair value through other comprehensive income reserve					
Revaluation gains	36	**218**	-	**207**	-
Tax on items transferred directly from equity		**(35)**	(6)	**(20)**	-
Total items that will not be reclassified to profit or loss		**499**	83	**347**	11
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges					
Gains/(losses) on cash flow hedging instruments	36	**137**	(119)	**(37)**	(111)
(Gains)/losses transferred to the income statement	36	**(36)**	(84)	**72**	6
Exchange differences on translation of foreign operations		**672**	404	**(83)**	(22)
Investments - available for sale					
Revaluation gains	36	**-**	262	**-**	232
Gains from sale transferred to the income statement	36	**-**	(94)	**-**	(16)
Impairment transferred to the income statement	36	**-**	4	**-**	-
Debt Instruments at fair value through other comprehensive income reserve:					
Revaluation losses	36	**(3)**	-	**(30)**	-
Gains from sale transferred to the income statement		**(71)**	-	**(69)**	-
Loss allowance on debt instruments at fair value through other comprehensive income	36	**1**	-	**-**	-
Tax on items transferred directly from equity		**(30)**	(34)	**(10)**	(43)
Total items that will be reclassified subsequently to profit or loss		**670**	339	**(157)**	46
Other comprehensive income for the year from continuing operations net of income tax		**1,169**	422	**190**	57
Total comprehensive income for the year from continuing operations		**7,532**	5,606	**6,130**	5,659
Net profit for the year from discontinued operations [3]		**29**	114	**-**	-
Other comprehensive income for the year from discontinued operations, net of income tax [3]		**186**	90	**-**	-
Total comprehensive income for the year		**7,747**	5,810	**6,130**	5,659
Attributable to owners of NAB		**7,525**	5,807	**6,130**	5,659
Attributable to non-controlling interests		**222**	3	**-**	-

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

(2) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(3) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

Balance sheets

As at 30 September	Note	Group 2015 (1) $m	Group 2014 $m	Company 2015 (1) $m	Company 2014 $m
Assets					
Cash and liquid assets	9	**30,934**	41,034	**24,308**	34,665
Due from other banks	10	**50,595**	39,088	**37,698**	28,318
Trading derivatives	11	**78,384**	57,389	**79,149**	58,001
Trading securities	12	**42,937**	44,212	**38,512**	40,470
Debt instruments at fair value through other comprehensive income	14	**45,189**	-	**41,944**	-
Investments - available for sale	13	**-**	43,386	**-**	39,273
Investments - held to maturity	15	**-**	2,919	**-**	1,668
Investments relating to life insurance business	16	**89,350**	85,032	**-**	-
Other financial assets at fair value	17	**29,696**	84,488	**19,304**	55,830
Hedging derivatives	11	**11,599**	5,488	**11,219**	5,413
Loans and advances	18	**532,784**	434,725	**413,989**	340,814
Due from customers on acceptances		**19,437**	23,437	**19,428**	23,427
Property, plant and equipment	21	**1,741**	1,952	**533**	506
Due from controlled entities		**-**	-	**110,241**	87,053
Investments in controlled entities	22	**-**	-	**20,434**	19,691
Goodwill and other intangible assets	23	**7,347**	7,720	**1,855**	1,546
Deferred tax assets	24	**2,141**	1,617	**1,257**	1,343
Other assets (2)	25	**12,918**	10,814	**9,832**	8,367
Total assets		**955,052**	883,301	**829,703**	746,385
Liabilities					
Due to other banks		**54,405**	45,204	**51,938**	41,677
Trading derivatives	11	**74,442**	55,858	**73,459**	55,803
Other financial liabilities at fair value	26	**30,046**	28,973	**6,958**	6,594
Hedging derivatives	11	**4,539**	3,445	**8,564**	4,374
Deposits and other borrowings	27	**489,010**	476,208	**391,785**	374,538
Life policy liabilities	28	**76,311**	71,701	**-**	-
Current tax liabilities	29	**1,114**	729	**996**	718
Provisions	30	**3,575**	2,914	**917**	809
Due to controlled entities		**-**	-	**106,703**	93,860
Bonds, notes and subordinated debt	31	**130,518**	118,165	**119,136**	109,010
Other debt issues	32	**6,292**	4,686	**5,652**	4,106
External unitholders' liability		**14,520**	14,123	**-**	-
Other liabilities (3)	34	**14,767**	13,387	**8,378**	6,699
Total liabilities		**899,539**	835,393	**774,486**	698,188
Net assets		**55,513**	47,908	**55,217**	48,197
Equity					
Contributed equity	35	**34,651**	28,380	**34,407**	27,856
Reserves	36	**(362)**	(866)	**340**	811
Retained profits	37	**21,205**	20,377	**20,470**	19,530
Total equity (parent entity interest)		**55,494**	47,891	**55,217**	48,197
Non-controlling interest in controlled entities		**19**	17	**-**	**-**
Total equity		**55,513**	47,908	**55,217**	48,197

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Includes current tax assets and other new asset categories under AASB 9 (other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and equity instruments at fair value through profit or loss).*

(3) *Includes liability on acceptances, deferred tax liabilities and defined benefit superannuation plan liabilities.*

Cash flow statements

For the year ended 30 September [1]	Note	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
Cash flows from operating activities					
Interest received		**30,703**	30,369	**26,736**	26,117
Interest paid		**(17,008)**	(17,146)	**(17,709)**	(17,225)
Dividends received		**35**	16	**1,725**	1,855
Life insurance:					
Premiums and other revenue received		**11,154**	13,261	**-**	-
Investment revenue received		**2,635**	2,159	**-**	-
Policy and other payments		**(9,545)**	(10,769)	**-**	-
Fees and commissions paid		**(532)**	(508)	**-**	-
Net trading revenue received/(paid)		**2,384**	(2,430)	**919**	(2,521)
Other operating income received		**4,843**	4,251	**2,453**	2,089
Payments to employees and suppliers:					
Personnel expenses paid		**(4,623)**	(4,304)	**(2,998)**	(2,945)
Other operating expenses paid		**(5,487)**	(5,763)	**(2,617)**	(4,586)
Goods and services tax received		**53**	30	**34**	17
Income taxes paid		**(2,428)**	(2,709)	**(1,840)**	(2,192)
Cash flows from operating activities before changes in operating assets and liabilities		**12,184**	6,457	**6,703**	609
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with supervisory central banks that are not part of cash equivalents		**(252)**	(4,733)	**(249)**	(4,733)
Net funds received from other banks with maturity greater than three months		**1,792**	2,965	**2,451**	2,511
Net receipts from acceptance transactions		**3,963**	2,732	**3,963**	2,732
Net funds advanced to customers for loans and advances		**(37,164)**	(18,868)	**(32,971)**	(16,138)
Net (repayment of)/acceptance from deposits and other borrowings		**(2,329)**	23,028	**5,091**	22,959
Net movement in life insurance business investments		**(2,173)**	(3,212)	**-**	-
Net movement in other life insurance assets and liabilities		**(111)**	221	**-**	-
Net (payment for)/receipts from treasury bills and other eligible bills held for trading and not part of cash equivalents		**(15)**	132	**-**	-
Net receipts from/(payments for) trading securities		**2,513**	(9,992)	**2,631**	(10,808)
Net receipts from/(payments for) trading derivatives		**2,559**	(448)	**3,348**	1,229
Net funds received/(advanced) for hedging derivative assets and other financial assets at fair value		**2,654**	(9,728)	**1,750**	(7,933)
Net receipts from hedging derivative liabilities and other financial liabilities at fair value		**1,887**	3,745	**4,205**	4,587
Net increase in other assets		**(1,096)**	(795)	**(1,044)**	(935)
Net increase in other liabilities		**2,498**	1,261	**1,283**	1,638
Changes in operating assets and liabilities arising from cash flow movements		**(25,274)**	(13,692)	**(9,542)**	(4,891)
Net cash (used in)/provided by operating activities	**39(a)**	**(13,090)**	(7,235)	**(2,839)**	(4,282)
Cash flows from investing activities					
Movement in investments - debt instruments at fair value through other comprehensive income					
Purchases		**(25,138)**	-	**(23,879)**	-
Proceeds from disposal		**7,862**	-	**7,236**	-
Proceeds on maturity		**15,262**	-	**15,154**	-
Movement in investments - other debt instruments at amortised cost					
Proceeds on disposal and maturity		**779**	-	**140**	-
Movement in investments - equity investments at fair value through other comprehensive income					
Purchases		**(36)**	-	**-**	-
Proceeds from disposal		**68**	-	**68**	-
Movement in investments - available for sale					
Purchases		**-**	(29,871)	**-**	(28,869)
Proceeds from disposal		**-**	7,164	**-**	6,499
Proceeds on maturity		**-**	15,148	**-**	15,074
Movement in investments - held to maturity					
Proceeds on disposal and maturity		**-**	1,504	**-**	1,183
Purchase of controlled entities and business combinations, net of cash acquired		**(33)**	-	**-**	-
Proceeds from sale of controlled entities, net of cash disposed		**158**	-	**-**	-
Net movement in amounts due from controlled entities		**-**	-	**(8,583)**	322
Net movement in shares in controlled entities		**-**	-	**(991)**	(943)
Purchase of property, plant, equipment and software		**(976)**	(1,243)	**(689)**	(902)
Proceeds from sale of property, plant, equipment and software, net of costs		**224**	256	**43**	474
Net cash (used in)/provided by investing activities		**(1,830)**	(7,042)	**(11,501)**	(7,162)

Note: cash flow statements continue on the following page.

Cash flow statements (continued)

For the year ended 30 September [1]	Note	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(29,941)**	(24,884)	**(27,213)**	(23,265)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**27,381**	28,211	**23,415**	24,900
Proceeds from issue of ordinary shares, net of costs		**6,246**	9	**6,246**	9
Repayments of BNZ income securities		**-**	(203)	**-**	-
Repayments of other contributed equity, net of costs		**(1,014)**	-	**(1,014)**	-
Proceeds from sale of interest in a subsidiary, net of costs		**942**	-	**-**	-
Proceeds from other debt issues, net of costs		**1,336**	1,699	**1,336**	1,699
Purchase of shares for dividend reinvestment plan neutralisation		**-**	(309)	**-**	(309)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(3,624)**	(3,973)	**(3,607)**	(3,954)
Net cash provided by/(used in) financing activities		**1,326**	550	**(837)**	(920)
Net decrease in cash and cash equivalents		**(13,594)**	(13,727)	**(15,177)**	(12,364)
Cash and cash equivalents at beginning of period		**26,517**	37,341	**11,214**	21,482
Effects of exchange rate changes on balance of cash held in foreign currencies		**7,605**	2,903	**5,933**	2,096
Cash and cash equivalents at end of year	**39(b)**	**20,528**	26,517	**1,970**	11,214

[1] *The cash flow statements include the net cash inflow/(outflow) from operating, investing and financing activities of discontinued operations. Loss of control of GWB occurred on 3 August 2015. Refer to Note 51 - Discontinued operations on page 180 for further information.*

Statements of changes in equity

Group	Contributed equity [1] $m	Reserves [2] [3] $m	Retained profits [3][4] $m	Total [3] $m	Non-controlling interest in controlled entities $m	Total equity [3] $m
Year to 30 September 2014						
Balance at 1 October 2013	27,944	(1,420)	19,793	46,317	59	**46,376**
Net profit for the year from continuing operations [5]	-	-	5,181	5,181	3	**5,184**
Net profit for the year from discontinued operations [6]	-	-	114	114	-	**114**
Other comprehensive income for the year from continuing operations [5]	-	423	(1)	422	-	**422**
Other comprehensive income for the year from discontinued operations [6]	-	90	-	90	-	**90**
Total comprehensive income for the year	-	513	5,294	5,807	3	**5,810**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	677	-	-	677	-	**677**
Exercise of executive share options	9	-	-	9	-	**9**
Buyback of BNZ Income Securities	(203)	-	-	(203)	-	**(203)**
Transfer from equity-based compensation reserve	182	(182)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	80	-	-	80	-	**80**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	-	**(309)**
Transfer from/(to) retained profits	-	60	(60)	-	-	**-**
Equity-based compensation	-	163	-	163	-	**163**
Dividends paid	-	-	(4,470)	(4,470)	-	**(4,470)**
Distributions on other equity instruments	-	-	(180)	(180)	-	**(180)**
Changes in ownership interests [7]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(45)	**(45)**
Balance at 30 September 2014	**28,380**	**(866)**	**20,377**	**47,891**	**17**	**47,908**
Year to 30 September 2015						
Restated for adoption of new accounting standards [3]	-	(587)	(465)	(1,052)	-	**(1,052)**
Net profit for the year from continuing operations [5]	-	-	6,357	6,357	6	**6,363**
Net profit for the year from discontinued operations [6]	-	-	(19)	(19)	48	**29**
Other comprehensive income for the year from continuing operations [5]	-	1,098	71	1,169	-	**1,169**
Other comprehensive income for the year from discontinued operations [6]	-	18	-	18	168	**186**
Total comprehensive income for the year	-	1,116	6,409	7,525	222	**7,747**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,937	-	-	1,937	-	**1,937**
Redemption of Trust Preferred Securities II	(1,014)	-	(8)	(1,022)	-	**(1,022)**
Rights issue	5,446	-	-	5,446	-	**5,446**
Transfer from equity-based compensation reserve	182	(182)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	(280)	-	-	(280)	-	**(280)**
Transfer from/(to) retained profits	-	37	(37)	-	-	**-**
Equity-based compensation	-	120	-	120	-	**120**
Dividends paid	-	-	(4,573)	(4,573)	(13)	**(4,586)**
Distributions on other equity instruments	-	-	(175)	(175)	-	**(175)**
Discontinued operations [8]	-	-	(323)	(323)	(207)	**(530)**
Balance at 30 September 2015	**34,651**	**(362)**	**21,205**	**55,494**	**19**	**55,513**

(1) *Refer to Note 35 - Contributed equity for further details.*

(2) *Refer to Note 36 - Reserves for further details.*

(3) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(4) *Refer to Note 37 - Retained profits for further details.*

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

(6) *Included within discontinued operations are the post-tax profit / loss of discontinued operations of GWB and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Refer to Note 51 - Discontinued operations for further details.*

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

(8) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

Statements of changes in equity

Company	Contributed equity [1] $m	Reserves [2] [3] $m	Retained profits [3] [4] $m	Total [3] $m	Total equity [3] $m
Year to 30 September 2014					
Balance at 1 October 2013	27,297	668	18,664	46,629	**46,629**
Net profit for the year	-	-	5,602	5,602	**5,602**
Other comprehensive income for the year	-	100	(43)	57	**57**
Total comprehensive income for the year	-	100	5,559	5,659	**5,659**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	677	-	-	677	**677**
Exercise of executive share options	9	-	-	9	**9**
Transfer from equity-based compensation reserve	182	(182)	-	-	**-**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	**(309)**
Transfer from/(to) retained profits	-	62	(62)	-	**-**
Equity-based compensation	-	163	-	163	**163**
Dividends paid	-	-	(4,553)	(4,553)	**(4,553)**
Distributions on other equity instruments	-	-	(78)	(78)	**(78)**
Balance at 30 September 2014	**27,856**	**811**	**19,530**	**48,197**	**48,197**
Year to 30 September 2015					
Restated for adoption of new accounting standards [3]	-	(585)	(262)	(847)	**(847)**
Net profit for the year	-	-	5,940	5,940	**5,940**
Other comprehensive income for the year	-	138	52	190	**190**
Total comprehensive income for the year	-	138	5,992	6,130	**6,130**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	1,937	-	-	1,937	**1,937**
Redemption of Trust Preferred Securities II	(1,014)	-	(8)	(1,022)	**(1,022)**
Rights issue	5,446	-	-	5,446	**5,446**
Transfer from equity-based compensation reserve	182	(182)	-	-	**-**
Transfer from/(to) retained profits	-	38	(38)	-	**-**
Equity-based compensation	-	120	-	120	**120**
Dividends paid	-	-	(4,670)	(4,670)	**(4,670)**
Distributions on other equity instruments	-	-	(74)	(74)	**(74)**
Balance at 30 September 2015	**34,407**	**340**	**20,470**	**55,217**	**55,217**

[1] *Refer to Note 35 - Contributed equity for further details.*

[2] *Refer to Note 36 - Reserves for further details.*

[3] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

[4] *Refer to Note 37 - Retained profits for further details.*

Notes to the financial statements

1 Principal accounting policies

The financial report of National Australia Bank Limited (Company) and its controlled entities (Group) for the year ended 30 September 2015 was authorised for issue on 16 November 2015 in accordance with a resolution of the directors.

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

(a) Basis of preparation

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

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

Comparative information has been restated to accord with changes in presentations made in the current year, except where otherwise stated. Certain key terms used in this report are defined in the glossary.

(b) Statement of compliance

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

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

(c) New and amended accounting standards and interpretation

(i) Early adoption

AASB 9 'Financial Instruments' (2014)

The Group has elected to early adopt AASB 9 which is applied retrospectively from 1 October 2014. In accordance with the transition requirements, comparatives are not restated. The Group elected an accounting policy choice under AASB 9 to continue to apply the hedge accounting requirements under AASB 139 'Financial Instruments: Recognition and measurement'.

The adoption of AASB 9 resulted in the following changes to the Group's accounting policies:

Financial assets

The Group classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

The following summarises the key changes:

- The held to maturity (HTM) and available for sale (AFS) financial asset categories were removed
- A new asset category measured at fair value through other comprehensive income (FVOCI) was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A significant portion of the Group's AFS debt instruments were classified in this category
- A new asset category for non-traded equity investments measured at FVOCI was introduced. A significant portion of the Group's AFS equity instruments were classified in this category
- At transition, the Group elected to revoke previous fair value option designations that previously measured specific lending portfolios at fair value through profit or loss (FVTPL). These portfolios are subsequently accounted for at amortised cost.

Financial liabilities

Classification of financial liabilities remained largely unchanged for the Group. Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option also remains unchanged. The Group elected to revoke the previous fair value option designation for certain financial liabilities and subsequently classified these as deposits and other borrowings accounted for at amortised cost.

Changes to impairment of financial assets

The AASB 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under AASB 139. Key changes in the Group's accounting policy for impairment of financial assets are listed below.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised

ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised

iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under AASB 139, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

1 Principal accounting policies (continued)

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Group and all the cash flows that the Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Group considers its historical loss experience and adjusts this for current observable data. In addition, the Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. AASB 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

In the case of the new asset category for debt instruments measured at FVOCI, the measurement of ECL is based on the three-stage approach as applied to financial assets at amortised cost. The Group recognises the provision charge in profit and loss, with the corresponding amount recognised in other comprehensive income, with no reduction in the carrying amount of the asset in the balance sheet.

Overall, impairment under AASB 9 results in earlier recognition of credit losses than under AASB 139.

Notes to the financial statements

1 Principal accounting policies (continued)

The following table summarises the impact on classification and measurement to the Group's financial assets and financial liabilities on 1 October 2014:

Group				As at 1 October 2014	
Financial assets	**Note**	**Original measurement category under AASB 139**	**New measurement category under AASB 9**	**Original carrying amount under AASB 139**	**New carrying amount under AASB 9**
				$m	**$m**
Cash and liquid assets		Loans and receivables	Amortised cost	41,034	**41,034**
Due from other banks		Loans and receivables	Amortised cost	39,088	**39,088**
Trading derivatives		Fair value through profit or loss	Fair value through profit or loss	57,389	**57,389**
Trading securities		Fair value through profit or loss	Fair value through profit or loss	44,212	**44,212**
Investments - available for sale (debt instruments)	**(a)**	Available for sale	Fair value through other comprehensive income	42,996	**42,996**
Investments - available for sale (equity instruments)	**(b)**	Available for sale	Fair value through other comprehensive income option	370	**370**
Investments - available for sale (equity instruments)	**(c)**	Available for sale	Fair value through profit or loss	20	**20**
Investments - held to maturity	**(d)**	Held to maturity	Amortised cost	1,401	**1,397**
Investments - held to maturity	**(e)**	Held to maturity	Fair value through profit or loss	1,518	**1,423**
Investments relating to life insurance business		Fair value through profit or loss	Fair value through profit or loss	85,032	**85,032**
Other financial assets at fair value		Fair value through profit or loss (under fair value option)	Fair value through profit or loss (under fair value option)	29,569	**29,569**
Other financial assets at fair value (Loans at fair value)	**(f)**	Fair value through profit or loss (under fair value option)	Amortised cost	54,919	**54,959**
Hedging derivatives		Hedging derivatives	Hedging derivatives	5,488	**5,488**
Loans and advances		Loans and receivables	Amortised cost	432,953	**431,868**
Loans and advances	**(g)**	Loans and receivables	Fair value through profit or loss	1,772	**1,565**
Due from customers on acceptances		Loans and receivables	Amortised cost	23,437	**23,437**

Financial liabilities	**Note**	**Original measurement category under AASB 139**	**New measurement category under AASB 9**	**Original carrying amount under AASB 139**	**New carrying amount under AASB 9**
				$m	**$m**
Other financial liabilities at fair value	**(h)**	Fair value through profit or loss (under fair value option)	Amortised cost	166	**198**

There are no other changes in the classification and measurement of financial liabilities of the Group.

(a) *Debt Instruments that were previously classified as investments – available for sale and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under AASB 9 and included in 'debt instruments at fair value through other comprehensive income' in the balance sheet as at 1 October 2014.*

(b) *Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 for which the Group has elected to apply the FVOCI Option under AASB 9. Accordingly, the assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted. These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.*

(c) *Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 for which the Group has elected to not apply the FVOCI Option under AASB 9. Accordingly, the assets will be accounted for at fair value through profit or loss (FVTPL). These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.*

(d) *Investments that were previously classified as held to maturity (HTM), accounted for at amortised cost under AASB 139, have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly these instruments will be classified at amortised cost under the effective interest method. These debt instruments are now included in 'other debt instruments at amortised cost' within 'other assets' in the balance sheet as at 1 October 2014.*

(e) *Other HTM investments within the Group's Specialised Group Asset (SGA) portfolio have been assessed to have an "other strategy" business model as at transition date as the Group was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these debt instruments are now required to be classified and measured at fair value through profit or loss (FVTPL) under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.*

(f) *The Group has elected to apply the one off option available at AASB 9 transition date to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of $54,919 million worth of loans carried at fair value in Australia and New Zealand. This de-designation has been elected primarily on the basis of a reduced accounting mismatch now arising on this portion of the fair value loan portfolio and therefore it was considered appropriate to reduce the operational complexity associated with measuring these loans at fair value. Accordingly these fair value loans will be classified under AASB 9 at amortised cost under the effective interest method and included in 'loans and advances' in the balance sheet at 1 October 2014. The effective interest rate of this portfolio determined as at 1 October 2014 was 5.8%. For the year ending 30 September 2015, interest income of $2,369 million was recognised on these loans. The fair value gain that would have been recognised in profit or loss during the reporting period, if these loans had not been reclassified, would be $39 million. The fair value of the loans remaining in this portfolio still held as at reporting date was $36,534 million and the associated gross carrying value was $36,620 million. There were no loans or other financial assets carried under FVO under AASB 139 for which the Group was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these assets at FVTPL would reduce that mismatch).*

(g) *Other loans and advances held within the NAB UK CRE and SGA portfolios were assessed to have an "other strategy" business model as at the transition date as the Group was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these loans are now required to be classified and measured at FVTPL under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.*

(h) *At AASB 9 transition date the Group was required to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of $166 million worth of deposit liabilities carried at fair value on the basis that there is no longer an accounting mismatch arising on this portion of the fair value deposits portfolio (i.e. the fair value option criteria was not met at 1 October 2014). Accordingly these fair value deposit liabilities will be classified under AASB 9 at amortised cost under the effective interest method and included in 'deposits and other borrowings' in the balance sheet at 1 October 2014. There were no other liabilities carried under the FVO under AASB 139 in which the Group was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these liabilities at FVTPL would reduce that mismatch).*

1 Principal accounting policies (continued)

The following table is a reconciliation of the carrying amount in the Group's balance sheet from AASB 139 to AASB 9 as at 1 October 2014:

Group	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Investments - available for sale					
Opening balance	43,386	-	-	-	-
Subtractions:					
To fair value through other comprehensive income - debt instruments (AASB 9) - required classification based on classification criteria	-	(42,996)	-	-	-
To fair value through other comprehensive income - equity instruments (AASB 9) - required classification based on classification criteria	-	(370)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(20)	-	-	-
Total investments - available for sale	**43,386**	**(43,386)**	**-**	**-**	**-**
Investments - held to maturity					
Opening balance	2,919	-	-	-	-
Subtractions:					
To other debt instruments at amortised cost (AASB 9) - required classification based on classification criteria	-	(1,401)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(1,518)	-	-	-
Total investments - held to maturity	**2,919**	**(2,919)**	**-**	**-**	**-**
Other financial assets at fair value through profit or loss (FVTPL)					
Opening balance	84,488	-	-	84,488	-
Additions:					
From investments - held to maturity (AASB 139) - required classification based on classification criteria	-	1,518	(95)	1,423	(95)
From loans and advances at amortised cost (AASB 139) - required classification based on classification criteria	-	1,772	(207)	1,565	(207)
Subtractions:					
To loans and advances at amortised cost (AASB 9) - fair value option revoked at 1 Oct 2014 by election	-	(54,919)	-	(54,919)	-
Total other financial assets at FVTPL	**84,488**	**(51,629)**	**(302)**	**32,557**	**(302)**
Debt instruments at fair value through other comprehensive income (FVOCI)					
Opening balance	-	-	-	-	-
Additions:					
From investments - available for sale (AASB 139) - required classification	-	42,996	-	42,996	-
Total debt instruments at FVOCI	**-**	**42,996**	**-**	**42,996**	**-**
Loans and advances at amortised cost					
Opening balance	434,725	-	-	434,725	-
Additions:					
From fair value through profit or loss (AASB 139) - fair value option revoked at 1 Oct 2014 by election	-	54,919	40	54,959	40
Subtractions:					
To fair value through profit or loss (AASB 9) - required reclassification based on classification criteria	-	(1,772)	-	(1,772)	-
Increase in expected credit losses (AASB 9)	-	-	(1,085)	(1,085)	(1,085)
Total loans and advances at amortised cost	**434,725**	**53,147**	**(1,045)**	**486,827**	**(1,045)**
Deferred tax asset					
Opening balance	1,617	-	-	1,617	-
Increases:					
Remeasurement in expected credit losses	-	-	260	260	260
Remeasurement arising from reclassifications	-	-	86	86	86
Total deferred tax asset	**1,617**	**-**	**346**	**1,963**	**346**

Notes to the financial statements

1 Principal accounting policies (continued)

Group	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Other assets					
Opening balance	10,814	-	-	10,814	-
Additions:					
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVTPL)	-	20	-	20	-
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVOCI)	-	370	-	370	-
From investments - held to maturity (AASB 139) - required classification based on classification criteria (Other debt instruments at amortised cost)	-	1,401	(4)	1,397	(4)
Total other assets	**10,814**	**1,791**	**(4)**	**12,601**	**(4)**
Total change to financial asset balances, reclassification and remeasurement at 1 Oct 2014	**577,949**	**-**	**(1,005)**	**576,944**	**(1,005)**
Other financial liabilities at fair value					
Opening balance	28,973	-	-	28,973	-
Subtractions:					
To deposits and other borrowings at amortised cost - fair value option criteria not met at 1 Oct 2014	-	(166)	-	(166)	-
Total other financial liabilities at fair value	**28,973**	**(166)**	**-**	**28,807**	**-**
Deposits and other borrowings					
Opening balance	476,208	-	-	476,208	-
Additions:					
From other financial liabilities at fair value - fair value option criteria not met at 1 Oct 2014	-	166	32	198	32
Total deposits and other borrowings	**476,208**	**166**	**32**	**476,406**	**32**
Current tax liabilities					
Opening balance	729	-	-	729	-
Decreases:					
Remeasurement arising from reclassifications	-	-	(4)	(4)	(4)
Total current tax asset	**729**	**-**	**(4)**	**725**	**(4)**
Other liabilities					
Opening balance	13,387	-	-	13,387	-
Additions:					
Increase in deferred income from reclassification of loans to amortised cost - fair value option revoked at 1 Oct 2014 by election	-	-	19	19	19
Total other liabilities	**13,387**	**-**	**19**	**13,406**	**19**
Total change to financial liabilities balances, reclassification and remeasurement at 1 Oct 2014	**519,297**	**-**	**47**	**519,344**	**47**
Debt instrument at fair value through other comprehensive income (FVOCI) reserve					
Opening balance	-	-	-	-	-
Additions:					
From available for sale reserve (AASB 139) - required classification based on classification criteria	-	137	-	137	-
Subtractions:					
Increase in expected credit losses (AASB 9)	-	-	6	6	6
Total debt instrument at FVOCI reserve	**-**	**137**	**6**	**143**	**6**

1 Principal accounting policies (continued)

Group	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi- fication $m	Remeas- urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Equity instrument at fair value through other comprehensive income (FVOCI) reserve					
Opening balance	-	-	-	-	-
Additions:					
From available for sale reserve (AASB 139) - required classification based on classification criteria	-	29	(7)	22	(7)
Total equity instrument at FVOCI reserve	**-**	**29**	**(7)**	**22**	**(7)**
Investments - available for sale reserve					
Opening balance	166	-	-	-	-
Subtractions:					
To FVOCI reserve (AASB 9) - required classification based on classification criteria	-	(166)	-	-	-
Total investments - available for sale reserve	**166**	**(166)**	**-**	**-**	**-**
General reserve for credit losses					
Opening balance	601	-	-	601	-
Decreases:					
Remeasurement of expected credit losses	-	-	(586)	(586)	(586)
Total general reserve for credit losses	**601**	**-**	**(586)**	**15**	**(586)**
Retained profits					
Opening balance	20,377	-	-	20,377	-
Increases / (decreases):					
Remeasurements due to reclassifications (after-tax)	-	-	(220)	(220)	(220)
Remeasurements due to impairment (after-tax)	-	-	(831)	(831)	(831)
Remeasurement of the general reserve for credit losses	-	-	586	586	586
Total retained earnings	**20,377**	**-**	**(465)**	**19,912**	**(465)**
Total change to reserves balances, reclassification and remeasurement at 1 Oct 2014	**21,144**	**-**	**(1,052)**	**20,092**	**(1,052)**

The following table is a reconciliation of the closing impairment allowance in accordance with AASB 139 to the opening impairment allowance determined in accordance with AASB 9 as at 1 October 2014. Changes to the impairment allowance under AASB 9 are due to reclassification of financial assets between amortised cost and fair value, and remeasurement of impairment using the expected credit loss requirements.

Group	AASB 139 opening balance as at 30 Sep 2014 $m	Reclassi- fication $m	Remeas- urement $m	AASB 9 closing balance as at 1 Oct 2014 $m
Provision on loans and advances at amortised cost	3,118	(402)	1,085	3,801
Provision on loans at fair value through profit or loss [(1)]	806	9	85	900
Provision on debt instruments at fair value through other comprehensive income [(2)]	-	-	6	6
Total provision for doubtful debts and provisions held on assets at fair value	**3,924**	**(393)**	**1,176**	**4,707**

(1) *Included within the carrying value of other financial assets at fair value.*
(2) *Included within the fair value through other comprehensive income reserve.*

Notes to the financial statements

1 Principal accounting policies (continued)

The following table summarises the impact on classification and measurement to the Company's financial assets and financial liabilities on 1 October 2014:

Company				**As at 1 October 2014**	
Financial assets	**Note**	**Original measurement category under AASB 139**	**New measurement category under AASB 9**	**Original carrying amount under AASB 139**	**New carrying amount under AASB 9**
				$m	**$m**
Cash and liquid assets		Loans and receivables	Amortised cost	34,665	**34,665**
Due from other banks		Loans and receivables	Amortised cost	28,318	**28,318**
Trading derivatives		Fair value through profit or loss	Fair value through profit or loss	58,001	**58,001**
Trading securities		Fair value through profit or loss	Fair value through profit or loss	40,470	**40,470**
Investments - available for sale (debt instruments)	(a)	Available for sale	Fair value through other comprehensive income	38,883	**38,883**
Investments - available for sale (equity instruments)	(b)	Available for sale	Fair value through other comprehensive income option	370	**370**
Investments - available for sale (equity instruments)	(c)	Available for sale	Fair value through profit or loss	20	**20**
Investments - held to maturity	(d)	Held to maturity	Amortised cost	150	**139**
Investments - held to maturity	(e)	Held to maturity	Fair value through profit or loss	1,518	**1,423**
Other financial assets at fair value		Fair value through profit or loss (under fair value option)	Fair value through profit or loss (under fair value option)	18,360	**18,360**
Other financial assets at fair value (Loans at fair value)	(f)	Fair value through profit or loss (under fair value option)	Amortised cost	37,470	**37,423**
Hedging derivatives		Hedging derivatives	Hedging derivatives	5,413	**5,413**
Loans and advances		Loans and receivables	Amortised cost	339,049	**338,295**
Loans and advances	(g)	Loans and receivables	Fair value through profit or loss	1,765	**1,565**
Due from customers on acceptances		Loans and receivables	Amortised cost	23,427	**23,427**

Financial liabilities	**Note**	**Original measurement category under AASB 139**	**New measurement category under AASB 9**	**Original carrying amount under AASB 139**	**New carrying amount under AASB 9**
				$m	**$m**
Other financial liabilities at fair value	(h)	Fair value through profit or loss (under fair value option)	Amortised cost	166	**198**

There are no other changes in the classification and measurement of financial liabilities of the Company.

[a] *Debt Instruments that were previously classified as investments – available for sale and carried at fair value through other comprehensive income (FVOCI) were assessed to have a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and accordingly, are classified at FVOCI under AASB 9 and included in 'debt instruments at fair value through other comprehensive income' in the balance sheet as at 1 October 2014.*

[b] *Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 for which the Company has elected to apply the FVOCI Option under AASB 9. Accordingly, the assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted. These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.*

[c] *Comprises of non-traded equity instruments previously classified as AFS equity investments under AASB 139 for which the Company has elected to not apply the FVOCI Option under AASB 9. Accordingly, the assets will be accounted for at fair value through profit or loss (FVTPL). These equity investments are now included in 'other assets' in the balance sheet as at 1 October 2014.*

[d] *Investments that were previously classified as held to maturity (HTM), accounted for at amortised cost under AASB 139, have been assessed as having a business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly these instruments will be classified at amortised cost under the effective interest method. These debt instruments are now included in 'other debt instruments at amortised cost' within 'other assets' in the balance sheet as at 1 October 2014.*

[e] *Other HTM investments within the Company's Specialised Group Asset (SGA) portfolio have been assessed to have an "other strategy" business model as at transition date as the Company was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these debt instruments are now required to be classified and measured at fair value through profit or loss (FVTPL) under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.*

[f] *The Company has elected to apply the one off option available at AASB 9 transition date to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of $37,470 million worth of loans carried at fair value in Australia. This de-designation has been elected primarily on the basis of a reduced accounting mismatch now arising on this portion of the fair value loan portfolio and therefore it was considered appropriate to reduce the operational complexity associated with measuring these loans at fair value. Accordingly these fair value loans will be classified under AASB 9 at amortised cost under the effective interest method and included in 'loans and advances' in the balance sheet at 1 October 2014. The effective interest rate of this portfolio determined as at 1 October 2014 was 5.8%. For the year ending 30 September 2015, interest income of $1,828 million was recognised on these loans. The fair value loss that would have been recognised in profit or loss during the reporting period, if these loans had not been reclassified, would be $19 million. The fair value of the loans remaining in this portfolio still held as at reporting date was $30,344 million and the associated gross carrying value was $30,396 million. There were no loans or other financial assets carried under FVO under AASB 139 for which the Company was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these assets at FVTPL would reduce that mismatch).*

[g] *Other loans and advances held within the NAB UK CRE and SGA portfolios were assessed to have an "other strategy" business model as at the transition date as the Company was looking at options to realise these assets through sale in the short term, rather than holding to collect contractual cash flows. Accordingly these loans are now required to be classified and measured at FVTPL under AASB 9 and are now included in 'other financial assets at fair value' in the balance sheet at 1 October 2014.*

[h] *At AASB 9 transition date the Company was required to revoke the previous fair value option (FVO) designation made under AASB 139 in respect of $166 million worth of deposit liabilities carried at fair value on the basis that there is no longer an accounting mismatch arising on this portion of the fair value deposits portfolio (i.e. the fair value option criteria was not met at 1 October 2014). Accordingly these fair value deposit liabilities will be classified under AASB 9 at amortised cost under the effective interest method and included in 'deposits and other borrowings' in the balance sheet at 1 October 2014. There were no other liabilities carried under the FVO under AASB 139 in which the Company was required to revoke the FVO designation under AASB 9 (i.e. no longer an accounting mismatch arising where carrying these liabilities at FVTPL would reduce that mismatch).*

Notes to the financial statements

1 Principal accounting policies (continued)

The following table is a reconciliation of the carrying amount in Company's balance sheet from AASB 139 to AASB 9 as at 1 October 2014:

Company	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Investments - available for sale					
Opening balance	39,273	-	-	-	-
Subtractions:					
To fair value through other comprehensive income - debt instruments (AASB 9) - required classification based on classification criteria	-	(38,883)	-	-	-
To fair value through other comprehensive income - equity instruments (AASB 9) - required classification based on classification criteria	-	(370)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(20)	-	-	-
Total investments - available for sale	**39,273**	**(39,273)**	**-**	**-**	**-**
Investments - held to maturity					
Opening balance	1,668	-	-	-	-
Subtractions:					
To other debt instruments at amortised cost (AASB 9) - required classification based on classification criteria	-	(150)	-	-	-
To fair value through profit or loss (AASB 139) - required classification based on classification criteria	-	(1,518)	-	-	-
Total investments - held to maturity	**1,668**	**(1,668)**	**-**	**-**	**-**
Other financial assets at fair value through profit or loss (FVTPL)					
Opening balance	55,830	-	-	55,830	-
Additions:					
From investments - held to maturity (AASB 139) - required classification based on classification criteria	-	1,518	(95)	1,423	(95)
From loans and advances at amortised cost (AASB 139) - required classification based on classification criteria	-	1,765	(200)	1,565	(200)
Subtractions:					
To loans and advances at amortised cost (AASB 9) - fair value option revoked at 1 Oct 2014 by election	-	(37,470)	-	(37,470)	-
Total other financial assets at FVTPL	**55,830**	**(34,187)**	**(295)**	**21,348**	**(295)**
Debt instruments at fair value through other comprehensive income (FVOCI)					
Opening balance	-	-	-	-	-
Additions:					
From investments - available for sale (AASB 139) - required classification	-	38,883	-	38,883	-
Total debt instruments at FVOCI	**-**	**38,883**	**-**	**38,883**	**-**
Loans and advances at amortised cost					
Opening balance	340,814	-	-	340,814	-
Additions:					
From fair value through profit or loss (AASB 139) - fair value option revoked at 1 Oct 2014 by election	-	37,470	(47)	37,423	(47)
Subtractions:					
To fair value through profit or loss (AASB 9) - required reclassification based on classification criteria	-	(1,765)	-	(1,765)	-
Increase in expected credit losses (AASB 9)	-	-	(754)	(754)	(754)
Total loans and advances at amortised cost	**340,814**	**35,705**	**(801)**	**375,718**	**(801)**
Deferred tax asset					
Opening balance	1,343	-	-	1,343	-
Increases:					
Remeasurement in expected credit losses	-	-	206	206	206
Remeasurement arising from reclassifications	-	-	86	86	86
Total deferred tax asset	**1,343**	**-**	**292**	**1,635**	**292**

1 Principal accounting policies (continued)

Company	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Other assets					
Opening balance	8,367	-	-	8,367	-
Additions:					
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVTPL)	-	20	-	20	-
From investments - available for sale (AASB 139) - required classification based on classification criteria (Other equity instruments at FVOCI)	-	370	-	370	-
From investments - held to maturity (AASB 139) - required classification based on classification criteria (Other debt instruments at amortised cost)	-	150	(11)	139	(11)
Total other assets	**8,367**	**540**	**(11)**	**8,896**	**(11)**
Total change to financial asset balances, reclassification and remeasurement at 1 Oct 2014	**447,295**	**-**	**(815)**	**446,480**	**(815)**
Other financial liabilities at fair value					
Opening balance	6,594	-	-	6,594	-
Subtractions:					
To deposits and other borrowings at amortised cost - required classification based on classification criteria	-	(166)	-	(166)	-
Total other financial liabilities at fair value	**6,594**	**(166)**	**-**	**6,428**	**-**
Deposits and other borrowings					
Opening balance	374,538	-	-	374,538	-
Additions:					
From other financial liabilities at fair value - required classification based on classification criteria	-	166	32	198	32
Total deposits and other borrowings	**374,538**	**166**	**32**	**374,736**	**32**
Total change to financial liabilities balances, reclassification and remeasurement at 1 Oct 2014	**381,132**	**-**	**32**	**381,164**	**32**
Debt instrument at fair value through other comprehensive income (FVOCI) reserve					
Opening balance	-	-	-	-	-
Additions:					
From available for sale reserve (AASB 139) - required classification based on classification criteria	-	132	-	132	-
Subtractions:					
Increase in expected credit losses (AASB 9)	-	-	1	1	1
Total debt instrument at FVOCI reserve	**-**	**132**	**1**	**133**	**1**
Equity instrument at fair value through other comprehensive income (FVOCI) reserve					
Opening balance	-	-	-	-	-
Additions:					
From available for sale reserve (AASB 139) - required classification based on classification criteria	-	21	-	21	-
Total equity instrument at FVOCI reserve	**-**	**21**	**-**	**21**	**-**

1 Principal accounting policies (continued)

Company	AASB 139 carrying amount as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 carrying amount as at 1 Oct 2014 $m	Retained profits impact as at 1 Oct 2014 $m
Investments - available for sale reserve					
Opening balance	153	-	-	-	-
Subtractions:					
To FVOCI reserve (AASB 9) - required classification based on classification criteria	-	(153)	-	-	-
Total investments - available for sale reserve	**153**	**(153)**	**-**	**-**	**-**
General reserve for credit losses					
Opening balance	601	-	-	601	-
Decreases:					
Remeasurement of expected credit losses	-	-	(586)	(586)	(586)
Total general reserve for credit losses	**601**	**-**	**(586)**	**15**	**(586)**
Retained profits					
Opening balance	19,530	-	-	19,530	-
Increases / (decreases):					
Remeasurements due to reclassifications (after-tax)	-	-	(299)	(299)	(299)
Remeasurements due to impairment (after-tax)	-	-	(549)	(549)	(549)
Remeasurement of the general reserve for credit losses	-	-	586	586	586
Total retained earnings	**19,530**	**-**	**(262)**	**19,268**	**(262)**
Total change to reserves balances, reclassification and remeasurement at 1 Oct 2014	**20,284**	**-**	**(847)**	**19,437**	**(847)**

The following table is a reconciliation of the closing impairment allowance in accordance with AASB 139 to the opening impairment allowance determined in accordance with AASB 9 as at 1 October 2014. Changes to the impairment allowance under AASB 9 are due to reclassification of financial assets between amortised cost and fair value, and remeasurement of impairment using the expected credit loss requirements.

Company	AASB 139 opening balance as at 30 Sep 2014 $m	Reclassi-fication $m	Remeas-urement $m	AASB 9 closing balance as at 1 Oct 2014 $m
Provision on loans and advances at amortised cost	2,425	(405)	754	2,774
Provision on loans at fair value through profit or loss [(1)]	460	112	85	657
Provision on debt instruments at fair value through other comprehensive income [(2)]	-	-	1	1
Total provision for doubtful debts and provisions held on assets at fair value	**2,885**	**(293)**	**840**	**3,432**

(1) *Included within the carrying value of other financial assets at fair value.*
(2) *Included within the fair value through other comprehensive income reserve.*

1 Principal accounting policies (continued)

(ii) Changes in accounting policy and disclosure

The Group has adopted the following new and amended standards and interpretations as of 1 October 2014 with no material impact:

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' which clarifies the conditions for offsetting financial assets and liabilities in the balance sheet.
- AASB 2013-3 'Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets' amends the disclosure requirements of AASB 136 to include additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting' amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.
- AASB 2014-1 'Part A Annual Improvements to IFRSs 2010- 2012 Cycle and 2011-2013 Cycle'. Includes amendments to standards and the related basis for conclusions and guidance made during the IASB's Annual Improvement process.
- AASB 2014-1 'Part B Amendments to AASB 119'. Part B makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service.

(iii) New and amended accounting standards and interpretations issued but not yet effective

The following issued, but not yet effective, new and amended Australia Accounting Standards and AASB Interpretations have not been applied in preparing this financial report:

Applicable for the year commencing 1 October 2015, with no material impact:

- AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'.
- AASB 2014-4 'Clarification of Acceptable Methods of Depreciation and Amortisation'.
- AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'.
- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle'.
- AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'.

Applicable to the Group for the year commencing after 1 October 2015:

AASB 15 'Revenue from Contracts with Customers' establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single principles-based five step model to be applied to all contracts with customers. The IASB deferred the application date of the international equivalent (IFRS 15) to 1 October 2018. We expect the revised effective date will be applied for AASB 15. The potential financial impact of this standard is still being assessed.

(d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(e) 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.

(f) Principles of consolidation

(i) Controlled entities

The consolidated financial report comprises the financial report of the Company and its controlled entities. Controlled entities are all those entities (including structured entities) over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis.

Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation.

External interest in the equity and results of the entities that are controlled by the Group is shown as non-controlling interest in controlled entities in the equity section of the consolidated balance sheet.

Statutory funds of the Group's life insurance business are consolidated in 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 consolidates all of the assets, liabilities, revenues and expenses of these managed investment schemes. External interest in the units and results of the managed investment schemes that are controlled by the statutory funds is shown as external unitholders' liability in the liability section of the consolidated balance sheet.

Investments in controlled entities are recorded at cost less any provision for impairment in the financial statements of the Company.

(ii) Joint operations

A joint operation is a joint arrangement by venturers with joint control who use their own assets in pursuit of the joint operation. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(g) Business combinations

The acquisition method of accounting is used for all business combinations. Consideration is measured at fair value and is calculated as the sum of the acquisition date fair value of assets transferred, liabilities incurred to former owners of the acquiree and equity instruments issued. Acquisition related costs are expensed as incurred.

When a non-controlling interest is present in an entity over which the Group gains control, the non-controlling interest is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. This choice of accounting treatment is applied on a transaction by transaction basis. Any put and call instruments transacted concurrently with a business combination to acquire the remaining non-controlling interest are assessed to determine whether

1 Principal accounting policies (continued)

there is creation of a forward purchase agreement to acquire the remaining outstanding equity at a future date.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration, other than contingent consideration classified as equity, are recognised in the income statement. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

(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. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Group Companies

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, unless average is not a reasonable approximation.
- All resulting exchange differences are recognised 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 to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the income statement.

When a foreign operation is disposed, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that 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 financial 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.

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.

(ii) 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.

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

Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time. Account keeping charges, credit card fees, money transfer fees and loan servicing fees are recognised in the period the service is provided. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

(iii) Gains less losses on financial instruments at fair value

Gains less losses on financial instruments at fair value comprise fair value gains and losses from:

- Trading derivatives.
- Trading securities.
- Instruments designated in hedge relationships.
- Other financial assets and liabilities designated at fair value through profit or loss.

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

Interest income and expense on trading securities are recognised within net 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 from both fair value and cash flow hedge relationships. Interest income and expense on both hedging instruments and instruments designated at fair value through profit or loss are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss recognises fair value movements

1 Principal accounting policies (continued)

(excluding interest) on those items designated as fair value through profit or loss. Interest income and expense on financial assets and liabilities designated at fair value through profit or loss are recognised within net interest income. Changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the Group's own credit quality are presented separately in other comprehensive income.

(iv) 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.

(j) Life insurance

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

(i) Allocation of profit

Life insurance contracts
Profits are brought to account in the statutory funds on a Margin on Services (MoS) basis in accordance with Actuarial Standards. Under MoS, profit is recognised as services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When premiums are received but the service has not been provided, 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, commissions and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated 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.

(ii) Premium and related revenue

Life insurance contracts
Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue.

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 reporting date but not received at reporting date are included as outstanding premiums receivable. Premiums due after but received before the reporting date are accounted for as premiums in advance.

Life investment contracts
Premium amounts received, net of initial fee income, which are akin to contributions, are recognised as an increased in policy liabilities.

The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as fee income. Premiums are recognised as an increase in policy liabilities.

(iii) 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.

(iv) Claims expense

Claims are separated into their expense and liability components.

Life insurance contracts
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 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.

(v) Basis of expense apportionment

All life company 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 are directly charged to that fund.
- Expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) are apportioned between each statutory fund and shareholders' fund.

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, policy counts, premiums and funds under management.

(vi) 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 from premiums or policy charges (as appropriate for each policy class). Deferred acquisition costs are amortised over the period that they will be recovered from premiums or policy charges.

Notes to the financial statements

1 Principal accounting policies (continued)

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

(k) Income tax

Income tax expense (or benefit) 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 other comprehensive income, in which case it is recognised in the statement of comprehensive income. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

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

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

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

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

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

For life insurance business, taxation is not based on the concept of profit. 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%.
- Other policies – 30%.

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

(i) Tax consolidation

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

Current tax expense (or benefit) and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the Group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group under the tax funding arrangement. Any difference between the amounts assumed and amounts receivable/payable under the tax funding agreement are recognised by the Company as an equity contribution to or distribution from its subsidiaries.

The members of the tax-consolidated group have entered into a tax funding 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 taxation authority.

(ii) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included in other assets or other liabilities. Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

(l) Cash and liquid assets

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

(m) Due from other banks

Due from other banks includes loans, deposits with central banks and other regulatory authorities and settlement account balances due from other banks. Amounts due from other banks are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

(n) 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 and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction. Securities lent to counterparties are also retained in their respective balance sheet categories.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as due from other banks or cash and liquid assets.

1 Principal accounting policies (continued)

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.

(o) Financial instruments

The Group applied the classification and measurement requirements for financial instruments under AASB 9 ‘ Financial Instruments’ for the year ended 30 September 2015. The 2014 comparative period was not restated, and the requirements under AASB 139 ‘Financial Instruments: Recognition and Measurement’ were applied. The key changes are in the classification and impairment requirements. Refer to *Note 1(c)(i) - Early adoption* for further details of AASB 9.

(i) Classification of financial instruments

Classification for the year ended 30 September 2015

The Group classified its financial assets under AASB 9, into the following measurement categories:
- those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
- those to be measured at amortised cost.

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

The Group classifies its financial liabilities as liabilities at fair value through profit or loss, liabilities at amortised cost or derivative liabilities. This remained largely unchanged from AASB 139.

Classification for the year ended 30 September 2014

The Group classified its financial assets under AASB 139 as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale securities.

(ii) Recognition and derecognition of financial instruments

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

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

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

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

(iii) Offsetting

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

(iv) Items at fair value through profit or loss

Items at fair value through profit or loss comprise both items held for trading and items specifically designated as fair value through profit or loss on initial recognition. From 1 October 2014, under AASB 9, debt instruments with contractual terms that do not represent solely payments of principal and interest are measured at fair value through profit and loss.

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

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

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

Upon initial recognition, financial instruments may be designated as fair value through profit or loss. Restrictions are placed on the use of the designated fair value option and the classification can only be used:
- In respect of an entire contract if a host contract contains one or more embedded derivatives.
- If designating the financial instruments eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

With the adoption of AASB 9, for a financial asset the fair value option is only applied if it eliminates an accounting mismatch that would otherwise arise from measuring items on a different basis. The above fair value option criteria remains unchanged for a financial liability.

Financial instruments held for trading

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

Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

(v) Investments - available for sale

The investments - available for sale asset category was removed under AASB 9. This policy is only applicable for the year ended 30 September 2014 which was not restated.

The 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 or 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 plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until disposal, when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated

1 Principal accounting policies (continued)

change in fair value in the available for sale investments reserve is recognised in the income statement.

(vi) Investments - held to maturity

The investments - held to maturity category was removed under AASB 9. This policy is only applicable for the year ended 30 September 2014 which was not restated.

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 investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, net of any provision for impairment.

Any sale or reclassification of a more than insignificant amount of held to maturity investments would result in a reclassification of all held to maturity investments as available for sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held to maturity investments to available for sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held to maturity in the financial year of the sale or reclassification and the following two financial years.

(vii) Investments - at fair value through other comprehensive income

AASB 9 introduced a new asset category measured at fair value through other comprehensive income. The following accounting policy applies to the year ended 30 September 2015.

Debt instruments

Investments in debt instruments are measured at fair value through other comprehensive income where they have:
- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost. The expected credit loss model is described further in *Note 1(c) (i) - Early adoption*.

Equity instruments

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

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

(p) Assets relating to life insurance business

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

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 that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met.

(q) Derivative financial instruments and hedge accounting

The Group early adopted AASB 9 'Financial Instruments' which was applied retrospectively from 1 October 2014. The Group elected an accounting policy choice under the transitional requirements of AASB 9 to continue to apply the hedge accounting requirements under AASB 139 'Financial Instruments: Recognition and Measurement'.

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

Embedded derivatives are separated from the host contract and accounted for separately; if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. For the year ended 30 September 2015, these criteria continue to apply for hybrid contracts that contain a host that is a financial asset outside the scope of AASB 9.

Where a hybrid contains a host that is a financial asset in the scope of AASB 9, the entire hybrid contract, including all embedded features, is assessed for classification under AASB 9.

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

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

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

1 Principal accounting policies (continued)

highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis.

(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 affects the income statement (e.g. when the forecast hedged variable cash flows are recognised in the income statement).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the income statement.

(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 the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are transferred to the income statement when the foreign operation is disposed.

(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.
- The derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both of these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(r) 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 plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

In certain circumstances the Group applies the fair value measurement option to loans and advances. This option is applied to loan and advances where there is an embedded derivative within the loan contract or the assets are managed on a fair value basis. The loan is designated at fair value through profit or loss to offset the movements in the fair value of the hedging derivatives in the income statement. When this option is applied, the asset is included in other financial assets at fair value.

When a loan is measured at fair value, a credit valuation adjustment to reflect the credit worthiness of the counterparty is included.

(s) Impairment of financial assets

The Group's accounting policy for impairment of financial assets changed significantly under AASB 9, and the expected credit loss model was applied for the financial year ended 30 September 2015. Refer to *Note 1(c)(i) - Early adoption* for details of the impairment accounting policy.

The comparative period was not restated upon adoption of AASB 9. The following accounting policy only applies to the impairment of financial assets for the year ended 30 September 2014.

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are not carried at fair value through profit or loss, 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 reporting date 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.

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

1 Principal accounting policies (continued)

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. This did not change under AASB 9.

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. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured. Such amounts accrue interest as long as the loan performs in accordance with the restructured 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 instrument 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 not carried at fair value through profit or loss. 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 instruments 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.

(t) 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 as interest income over the life of the instrument.

(u) Leases

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. At inception or upon reassessment of an arrangement, the Group separates payment and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leases where the Group assumes substantially all risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) As lessee

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

(ii) As lessor

For finance leases, the net investment in the lease, which comprises of the present value of 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.

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

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 using the straight-line method at rates appropriate to their estimated useful life to the Group. For

1 Principal accounting policies (continued)

major classes of property, plant and equipment, the annual rates of depreciation are:

- Buildings - 3.3%.
- Furniture, fixtures and fittings and other equipment - from 10% to 20%.
- Motor vehicles - 20%.
- Personal computers - 33.3%.
- Other data processing equipment - from 20% to 33.3%.
- Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives and the remaining expected term of the lease.

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

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of disposal are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained profits.

(w) Goodwill and other intangible assets

(i) Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the Group's share of the identifiable net assets at the date of the acquisition. If the Group's interest in the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition. Each cash generating unit or group of cash generating units to which goodwill is allocated is the lowest level within the Group at which goodwill is monitored by management. Impairment is assessed by comparing the carrying amount of the cash generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash generating unit or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

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

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

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method over their expected useful lives which are between three and ten years.

(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, and are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequent to acquisition, finite life intangible assets are stated at cost less amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives which vary from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

Subsequent to acquisition, indefinite life intangible assets are stated at cost less impairment losses, if any. Indefinite life intangible assets are assessed for impairment annually or more frequently if there is indication that the intangible asset may be impaired.

(x) Impairment of 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 that create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

(y) Due to other banks

Due to other banks includes deposits, repurchase agreements and settlement account balances due to other banks. Amounts due to other banks are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other borrowings. Deposits and other borrowings are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost.

(aa) Life policy liabilities

Life insurance liabilities consist of life insurance contract liabilities and life investment contract liabilities.

(i) Life insurance contracts

Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future and discounted back to their net present

1 Principal accounting policies (continued)

value using best estimate assumptions. When the benefits under a contract are linked to the supporting assets, the discount rate applied is based on the expected future earning rate of those assets. In other cases a discount rate based on an appropriate risk-free rate is used.

The assumptions used in the calculation of policy liabilities are reviewed at the end of each reporting period.

Life policy liabilities in the Group's balance sheet and the change in policy liabilities in the Group's income statement have been calculated in accordance with Prudential Standard LPS 340 'Valuation of Policy Liabilities' issued by the Australian Prudential Regulation Authority (APRA).

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

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

(ii) Life investment contracts

Policy liabilities relating to life investment contracts are measured at fair value. As the value of these liabilities is closely linked to the performance and value of the assets that support the liabilities, the fair value of such liabilities is the same as the fair value of those assets.

(ab) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

(i) Operational risk events

Provisions for operational risk event losses are raised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues.

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

(ii) Restructuring costs

Provisions for restructuring costs include provisions for costs incurred but not yet paid and future costs that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that the Group has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

(ac) Employee benefits

(i) Annual leave, long service leave and other employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation, including assumptions regarding staff departures, leave utilisation and future salary increases.

A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

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

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(ii) Superannuation plans

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

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

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 plan's assets at the reporting date.

The present value of the defined benefit obligation 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 the terms of the obligation. 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.

The Group does not offset plan assets and liabilities arising from different defined benefit plans. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses, settlements and net interest income/(expense). All other changes in the net

1 Principal accounting policies (continued)

defined benefit asset/(liability), including actuarial gains and losses, are recognised in other comprehensive income with no subsequent recycling to profit or loss. 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 asset or liability.

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

Bonds, notes, subordinated debt and other debt issues are short and long-term debt issues including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues.

Bonds, notes, subordinated debt and other debt issues are generally initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument.

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

(ae) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. A financial guarantee contract is initially recorded at fair value which is equal to the premium received or receivable, unless there is evidence to the contrary. Subsequently, financial guarantee contracts are measured at the higher of:

- The liability for the estimated amount of the loss payable where it is likely that a loss will be incurred as a result of issuing the contract.
- The amount initially recognised less, when appropriate, amortisation of the fee over the life of the guarantee.

(af) Equity

(i) Contributed equity

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

(ii) Treasury shares

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

Shares in the Company held by certain statutory funds of the Group's life insurance business (which are consolidated in the financial report) are accounted for as treasury shares. Additionally, shares purchased on market to meet the requirements of employee incentive schemes and held in trust are accounted for as treasury shares.

(iii) Reserves

Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

Foreign currency translation reserve

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

Cash flow hedge reserve

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

Equity-based compensation reserve

The equity-based compensation reserve records the value of equity benefits provided to employees as part of their remuneration.

Share capital tainting rules contained in Australian tax legislation apply prospectively from 26 May 2006 to discourage companies from distributing profits to shareholders as preferentially taxed capital rather than dividends. The focus of the tax legislation is on the transfer of amounts to a share capital account from another account.

The tainting rules are inconsistent with AASB 2 'Share-based Payment' which allows transfers between equity accounts upon the vesting of employee equity-based payments (i.e. when all conditions have been met by the employee).

During 2009, the Group received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of the Company's share capital account for tax purposes. The share capital tainting rules and private binding ruling have no impact on the regulatory capital of the Group.

General reserve for credit losses

APRA Prudential Standard APS 220 'Credit Quality' requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves.

Debt instruments at fair value through other comprehensive income reserve

Debt instruments at fair value through other comprehensive income reserve was introduced under AASB 9.

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

1 Principal accounting policies (continued)

(ag) Equity-based compensation

The Group provides equity-based compensation to 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 and performance rights provided to employees.

The expense for 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 (the vesting period), with a corresponding increase in the equity-based compensation reserve.

The grant date fair value of each share is determined by the market value of the Company's shares, and is generally a five day weighted average share price. Employee share plans, performance options and performance rights are linked to internal performance, market performance and/or service conditions.

The fair value of the shares, performance options and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance options or performance rights, 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. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance options or performance rights.

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

(ah) 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, 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.

(ai) 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 of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction.

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

(aj) Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations and, is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statement. Refer to *Note 51 - Discontinued operations* for further information.

(ak) Critical accounting assumptions and estimates

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

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

The accounting policies which are most sensitive to the use of judgment, estimates and assumptions are included in the policies below.

(i) Fair value measurement

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

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

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

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

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

1 Principal accounting policies (continued)

inputs and places minimal reliance upon entity-specific inputs.

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

(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in *Note 19 - Provision for doubtful debts* and *Note 20 - Asset quality disclosures.*

These critical assumptions have been applied consistently to all periods presented, except as follows:

- The Group applied the impairment requirements under AASB 9 from 1 October 2014 resulting in changes to the assumptions used for the calculation for provision for doubtful debts using the expected credit loss model. The comparative period has not been restated for AASB 9. The key change under the AASB 9 impairment model is the use of forecast of future economic conditions including macroeconomic factors. These have been discussed in *Note 1(c)(ii) - Early adoption on page 76.*

(iii) Goodwill

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. The assumptions applied to determine if any impairment exists are outlined in *Note 23 - Goodwill and other intangible assets*.

(iv) Provisions other than loan impairment

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

(v) Life insurance policyholder liabilities

The measurement of life insurance and life investment contract liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each reporting 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 reporting date. Deferred acquisition costs are presented as an offset in policy liabilities.

(vi) UK conduct provisions

Provisions are held for UK conduct related matters including the potential mis-selling of Payment Protection Insurance, certain interest rate hedging products and other UK conduct related matters and include both the estimated cost of redress and programme costs. The provisions are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs. Refer to *Note 41 - Contingent liabilities and credit commitments* for further information.

2 Segment information

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

As at 30 September 2015, the Group's business consists of the following reportable segments: Australian Banking; NAB Wealth and NZ Banking.

In addition, information on the following segments that do not meet the threshold to be reportable segments are also included in this note to reconcile to Group information: UK Banking and Corporate Functions and Other.

Following the sale of GWB, the results of GWB are now within discontinued operations and are no longer included in the results of Corporate Functions.

The accounting policies of the reportable segments are consistent with those described in *Note 1 - Principal accounting policies*.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings represents the net profit attributable to owners of NAB, adjusted for discontinued operations, certain non-cash items and distributions.

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

Major customers

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

Reportable segments

For the year ended 30 September 2015 (1)	Australian Banking (2) $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	Corporate Functions & Other (3) $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,727	-	1,504	1,501	285	-	14,017
Other operating income	2,681	1,567	434	374	271	(65)	5,262
IoRE	-	19	-	-	-	-	19
Net operating income	13,408	1,586	1,938	1,875	556	(65)	19,298
Operating expenses	(5,558)	(941)	(766)	(1,437)	(1,262)	65	(9,899)
Underlying profit/(loss)	7,850	645	1,172	438	(706)	-	9,399
Charge to provide for doubtful debts	(665)	-	(124)	(75)	41	-	(823)
Cash earnings before tax and distributions	7,185	645	1,048	363	(665)	-	8,576
Income tax expense	(2,074)	(181)	(286)	(56)	35	-	(2,562)
Cash earnings from before distributions	5,111	464	762	307	(630)	-	6,014
Distributions	-	-	-	-	-	(175)	(175)
Cash earnings	**5,111**	**464**	**762**	**307**	**(630)**	**(175)**	**5,839**

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

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

(3) *Corporate Functions & Other includes Group Funding, NAB UK CRE, specified items and other supporting units. It includes the impacts of provisions taken for payment protection insurance and interest rate hedging products.*

Notes to the financial statements

2 Segment information (continued)

For the year ended 30 September 2014 (1)	Australian Banking (2) $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	Corporate Functions & Other (3) $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,277	-	1,382	1,367	425	-	13,451
Other operating income	2,640	1,406	449	376	224	(59)	5,036
IoRE	-	34	-	-	-	-	34
Net operating income	12,917	1,440	1,831	1,743	649	(59)	18,521
Operating expenses	(5,267)	(950)	(737)	(1,233)	(1,859)	59	(9,987)
Underlying profit/(loss)	7,650	490	1,094	510	(1,210)	-	8,534
Charge to provide for doubtful debts	(741)	-	(80)	(145)	97	-	(869)
Cash earnings before tax and distributions	6,909	490	1,014	365	(1,113)	-	7,665
Income tax expense	(1,962)	(125)	(276)	(81)	14	-	(2,430)
Cash earnings from before distributions	4,947	365	738	284	(1,099)	-	5,235
Distributions	-	-	-	-	-	(180)	(180)
Cash earnings	**4,947**	**365**	**738**	**284**	**(1,099)**	**(180)**	**5,055**

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

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

(3) *Corporate Functions & Other includes Group Funding, NAB UK CRE, specified items and other supporting units. It includes the impacts of provisions taken for payment protection insurance and interest rate hedging products.*

Reportable segment assets	Australian Banking (1) $m	NAB Wealth $m	NZ Banking $m	Corporate Functions & Other (2) $m	UK Banking $m	Distributions & Eliminations $m	Group Total Assets $m
30 September 2015	**738,847**	**101,246**	**64,481**	**30,594**	**83,824**	**(63,940)**	**955,052**
30 September 2014	702,266	96,886	59,872	25,734	69,972	(71,429)	883,301

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

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

Reconciliations between reportable segment information and statutory results

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

	Group	
	2015 (1) $m	2014 (1) $m
Net interest income		
Net interest income on a cash earnings basis	**14,017**	13,451
NAB Wealth net adjustment	**(35)**	(36)
Net interest income from continuing operations on a statutory basis	**13,982**	13,415
Total other income and IoRE		
Other operating income on a cash earnings basis (2)	**5,262**	5,036
IoRE	**19**	34
Total other operating income and IoRE	**5,281**	5,070
NAB Wealth net adjustment	141	342
Treasury shares	**28**	(22)
Fair value and hedge ineffectiveness	**727**	96
Life insurance economic assumption variation	**19**	(29)
Amortisation of acquired intangible assets	**(2)**	(16)
Total other income and Net life insurance income from continuing operations on a statutory basis	**6,194**	5,441

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

(2) *Includes eliminations and distributions.*

Notes to the financial statements

2 Segment information (continued)

	Group	
	2015 [1] $m	2014 [1] $m
Operating expenses		
Operating expenses on a cash earnings basis [2]	**9,899**	9,987
NAB Wealth net adjustment	**156**	159
Amortisation of acquired intangible assets	**120**	81
Sale and demerger transaction costs	**77**	-
Operating expenses from continuing operations on a statutory basis	**10,252**	10,227
Charge to provide for doubtful debts		
Charge to provide for doubtful debts on a cash earnings basis	**823**	869
Fair value adjustment on loans and advances at fair value	**21**	(22)
Charge to provide for doubtful debts from continuing operations on a statutory basis	**844**	847
Income tax expense		
Income tax expense on a cash earnings basis	**2,562**	2,430
Income tax benefit/(expense) on non-cash earnings items:		
NAB Wealth net adjustment	**(56)**	144
Treasury shares	**24**	21
Fair value and hedge ineffectiveness	**209**	35
Life insurance economic assumption variation	**6**	(9)
Amortisation of acquired intangible assets	**(28)**	(23)
Income tax expense on a statutory basis	**2,717**	2,598

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

(2) *Includes eliminations and distributions.*

	Group	
	2015 [1] $m	2014 [1] $m
Cash earnings		
Group cash earnings [2]	**5,839**	5,055
Non-cash earnings items (after tax):		
Distributions	**175**	180
Treasury shares	**4**	(43)
Fair value and hedge ineffectiveness	**497**	83
Life insurance economic assumption variation	**13**	(20)
Amortisation of acquired intangible assets	**(94)**	(74)
Sale and demerger transaction costs	**(77)**	-
Net profit / loss attributable to discontinued operations [3]	**(19)**	114
Net profit attributable to owners of NAB	**6,338**	5,295

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

(2) *Includes eliminations and distributions.*

(3) *Included within discontinued operations are the post-tax profit / loss of of GWB and the post-tax gain / loss recognised on the disposal of the assets relating to GWB. Refer to Note 51 - Discontinued operations for further details.*

Geographical information

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

	Income		Non-current assets [1]	
	2015 [2] $m	2014 [2] $m	**2015 $m**	2014 $m
Australia	**14,887**	14,120	**9,454**	8,687
Europe	**2,471**	2,357	**880**	878
New Zealand	**2,235**	1,932	**557**	567
United States	**366**	243	**1**	918
Asia	**284**	256	**19**	17
Total from continuing operations before inter-geographic eliminations	**20,243**	18,908	**10,911**	11,067
Elimination of inter-geographic items	**(67)**	(52)	**-**	-
Total	**20,176**	18,856	**10,911**	11,067

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

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

2 Segment information (continued)

Information about Cash Earnings

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

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the year ended 30 September 2015 has been adjusted for the following:

- Distributions.
- Treasury shares.
- Fair value and hedge ineffectiveness.
- Life insurance economic assumption variation.
- Amortisation of acquired intangible assets.
- Sale and demerger transaction costs.

In prior comparative periods, cash earnings has not been adjusted for sale and demerger transaction costs.

Non-cash Earnings Items

Distributions
Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in *Note 7 - Dividends and Distributions.* The effect of this in the September 2015 full year is to reduce cash earnings by $175 million.

Treasury Shares
For statutory reporting purposes, the Group eliminates the effect on statutory profit of the Group's life insurance business investment in NAB shares. The elimination includes unrealised mark-to-market movements arising from changes in NAB's share price, dividend income and realised profits and losses on the disposal of shares. This results in an accounting mismatch because the impact of the life policy liabilities supported by these shares is reflected in statutory profit. As such the statutory treasury shares elimination is reversed for cash earnings purposes. In the September 2015 year, there was an increase in statutory profit of $28 million ($4 million after tax) from these shares.

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

In the September 2015 year there was an increase in statutory profit of $706 million ($497 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in the fair value of derivatives used to manage the Group's long-term funding from movements in spreads between Australian and overseas interest rates, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions. In particular, the impact of interest rate and foreign exchange movements has resulted in mark-to-market gains on these derivatives and term funding issuances.

Life Insurance Economic Assumption Variation
The life insurance economic assumption variation represents the net impact to statutory profit of the change in value of life insurance policy liabilities (net of reinsurance) and investments relating to life insurance business due to changes in economic assumptions (inflation and the risk free discount rate). In the September 2015 full year there was an increase in the statutory profit of $19 million ($13 million after tax) due to the life insurance economic assumption variation.

Amortisation of Acquired Intangible Assets
The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as core deposit intangibles, brand names, value of business and contracts in force. In the September 2015 full year there was a decrease in statutory profit of $122 million ($94 million after tax) due to the amortisation of acquired intangible assets.

Sale and Demerger Transaction Costs
Sale and demerger transaction costs represent costs incurred in demerging the UK operations, Clydesdale Bank and Yorkshire Bank. In the September 2015 year there was a decrease in statutory profit of $77 million ($77 million after tax) due to sale and demerger transaction costs.

3 Net interest income

	Group		Company	
	2015 (1) **$m**	2014 (1) $m	**2015** (1) **$m**	2014 (1) $m
Interest income				
Due from other banks	**599**	492	**467**	389
Marketable debt securities	**2,419**	2,356	**2,197**	2,180
Loans and advances (2)	**25,673**	25,486	**19,093**	19,303
Due from customers on acceptances	**1,145**	1,540	**1,144**	1,540
Due from controlled entities	**-**	-	**3,429**	2,702
Other interest income	**583**	545	**510**	456
Total interest income from continuing operations	**30,419**	30,419	**26,840**	26,570
Interest expense				
Due to other banks and official institutions	**686**	708	**648**	652
Deposits and other borrowings (3)	**10,378**	10,696	**8,117**	8,637
Bonds, notes and subordinated debt (4)	**4,823**	5,074	**4,105**	4,382
Due to controlled entities	**-**	-	**3,843**	2,916
Other debt issues	**69**	61	**63**	54
Other interest expense (5)	**481**	465	**545**	485
Total interest expense from continuing operations	**16,437**	17,004	**17,321**	17,126
Net interest income from continuing operations	**13,982**	13,415	**9,519**	9,444

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

(2) *Includes $1,636 million (2014: $4,605 million) of interest income on loans and advances accounted for at fair value for the Group, and $1,166 million (2014: $3,182 million) for the Company.*

(3) *Includes $228 million (2014: $201 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and nil (2014: $6 million) for the Company.*

(4) *Includes $595 million (2014: $531 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $172 million (2014: $131 million) for the Company.*

(5) *Includes liability on acceptances.*

4 Other income

	Group		Company	
	2015 (1) **$m**	2014 (1) $m	**2015** (1) **$m**	2014 (1) $m
Gains less losses on financial instruments at fair value				
Trading securities	**1,219**	812	**1,165**	794
Trading derivatives	**(421)**	243	**468**	630
Assets, liabilities and derivatives designated in hedge relationships (2)	**614**	251	**239**	287
Assets and liabilities designated at fair value	**302**	(270)	**219**	(85)
Other	**(136)**	(37)	**(138)**	(27)
Total gains less losses on financial instruments at fair value from continuing operations	**1,578**	999	**1,953**	1,599
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,692**	1,835
Other entities	**26**	16	**33**	20
Gains from sale of investments, loans, property, plant and equipment and other assets	**168**	134	**126**	45
Banking fees	**887**	902	**731**	728
Money transfer fees	**660**	673	**462**	472
Fees and commissions (3)	**1,856**	1,776	**444**	430
Investment management fees	**264**	238	**-**	-
Fleet management fees	**32**	30	**32**	30
Other income	**155**	131	**234**	97
Total other operating income from continuing operations	**4,048**	3,900	**3,754**	3,657

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

(2) *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges that do not meet the requirements for hedge accounting.*

(3) *Included in fees and commissions is $118 million (2014: $117 million) of fee income from trust and other fiduciary activities for the Group, and $109 million (2014: $109 million) for the Company.*

5 Operating expenses

	Group		Company	
	2015 (1) (2) $m	2014 (1) $m	**2015 (1) (2) $m**	2014 (1) $m
Personnel expenses				
Salaries and related on-costs	**3,518**	3,315	**2,479**	2,341
Superannuation costs - defined contribution plans	**295**	273	**226**	211
Superannuation costs - defined benefit plans	**20**	51	**-**	-
Performance-based compensation (3)				
Cash	**416**	377	**262**	250
Equity-based compensation	**126**	151	**90**	124
Other expenses	**260**	262	**157**	185
Total personnel expenses from continuing operations	**4,635**	4,429	**3,214**	3,111
Occupancy-related expenses				
Operating lease rental expense	**461**	496	**451**	440
Other expenses	**172**	132	**65**	62
Total occupancy-related expenses from continuing operations	**633**	628	**516**	502
General expenses				
Fees and commission expense	**272**	319	**58**	67
Depreciation and amortisation of property, plant and equipment	**322**	295	**117**	97
Amortisation of intangible assets	**420**	378	**170**	153
Depreciation on leased vehicle assets	**5**	7	**1**	3
Operating lease rental expense	**31**	28	**15**	13
Advertising and marketing	**248**	242	**140**	162
Charge to provide for operational risk event losses (4)	**1,146**	1,536	**41**	703
Communications, postage and stationery	**313**	299	**196**	181
Computer equipment and software	**680**	605	**592**	520
Data communication and processing charges	**116**	94	**49**	37
Transport expenses	**99**	92	**62**	59
Professional fees	**641**	411	**471**	269
Travel	**89**	83	**56**	55
Loss on disposal of property, plant and equipment and other assets	**8**	6	**277**	4
Impairment losses/(reversals) recognised	**79**	294	**54**	238
Other expenses	**515**	481	**225**	281
Total general expenses from continuing operations	**4,984**	5,170	**2,524**	2,842
Charge to provide for doubtful debts				
Investments - held to maturity	**-**	(8)	**-**	(8)
Loans and advances	**844**	855	**604**	612
Total charge to provide for doubtful debts continuing operations	**844**	847	**604**	604

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

(2) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

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

(4) *The Group charge to provide for operational risk event losses includes an additional provision in relation to UK payment protection insurances of $849 million (2014: $756 million) and for interest rate hedging products of $163 million (2014: $654 million) and for the company nil (2014: $654 million) for the September 2015 full year.*

6 Income tax expense

	Group		Company	
	2015 (1) $m	2014 (1) $m	**2015 (1) $m**	2014 (1) $m
Income tax expense				
Current tax	**2,884**	2,672	**2,260**	2,012
Deferred tax	**(167)**	(74)	**168**	27
Total income tax expense from continuing operations	**2,717**	2,598	**2,428**	2,039

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

	Group		Company	
	2015 (1) $m	2014 (1) $m	**2015 (1) $m**	2014 (1) $m
Profit before income tax expense	**9,080**	7,782	**8,368**	7,641
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**(512)**	(464)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	**8,568**	7,318	**8,368**	7,641
Prima facie income tax at 30%	**2,570**	2,195	**2,510**	2,292
Add/(deduct) tax effect of amounts not deductible/(assessable):				
Assessable foreign income	**7**	8	**4**	5
Foreign tax rate differences	**23**	49	**3**	32
Deferred tax asset no longer recognised	**81**	142	**49**	142
Foreign branch income not assessable	**(107)**	(98)	**(107)**	(98)
(Over)/under provision in prior years	**(59)**	(37)	**(15)**	(4)
Offshore banking unit income	**(32)**	(35)	**(25)**	(29)
Restatement of deferred tax balances for UK and US tax rate changes	**2**	42	**1**	36
Treasury shares adjustment	**15**	27	**-**	-
Non-deductible hybrid distributions	**47**	35	**47**	35
Dividend income adjustments	**-**	-	**(315)**	(409)
Other	**72**	47	**276**	37
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	**2,619**	2,375	**2,428**	2,039
Income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**98**	223	**-**	-
Total income tax expense from continuing operations	**2,717**	2,598	**2,428**	2,039

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

7 Dividends and distributions

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

	Amount per share cents	Total amount $m
2015		
Final dividend declared in respect of the year ended 30 September 2014	99	2,343
Interim dividend declared in respect of the year ended 30 September 2015	99	2,397
Deduct: Bonus shares in lieu of dividend	n/a	(70)
Dividends paid by the Company during the year ended 30 September 2015		4,670
Deduct: Dividends on treasury shares		(97)
Add: Dividends paid by non controlling interests in controlled entities [(1)]		13
Total dividends paid by the Group during the year ended 30 September 2015		4,586

(1) *Includes dividends paid by non-controlling interest in GWB of $9 million up to the date of disposal. Refer to Note 51 - Discontinued operations for further details.*

2014		
Final dividend declared in respect of the year ended 30 September 2013	97	2,279
Interim dividend declared in respect of the year ended 30 September 2014	99	2,330
Deduct: Bonus shares in lieu of dividend	n/a	(56)
Dividends paid by the Company during the year ended 30 September 2014		4,553
Deduct: Dividends on treasury shares		(95)
Total dividends paid by the Group during the year ended 30 September 2014		4,458

Franked dividends declared or paid during the year were fully franked at a tax rate of 30% (2014: 30%).

Final dividend

On 28 October 2015, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend declared in respect of the year ended 30 September 2015	99	2,600	100

The final 2015 ordinary dividend is payable on 15 December 2015. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2015 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2015, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date, are estimated to be $1,563 million (2014: $1,182 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $1,114 million (2014: $1,004 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.07 per share will be attached to the final 2015 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	
	2015 $m	2014 $m	**2015 $m**	2014 $m
National Income Securities	**74**	78	**74**	78
Trust Preferred Securities [(1)]	**44**	40	**-**	-
Trust Preferred Securities II [(1)]	**43**	48	**-**	-
National Capital Instruments	**14**	14	**-**	-
Total distributions on other equity instruments	**175**	180	**74**	78

(1) *$A Equivalent.*

Dividends on preference shares

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
BNZ Income Securities 2 [(1) (2)]	**-**	12	**-**	-
Total dividends on preference shares	**-**	12	**-**	-

(1) *On 30 June 2014, the Company exercised its right to call on the BNZ Income Securities 2.*

(2) *$A Equivalent.*

8 Earnings per share

	Group			
	2015		2014 [3]	
	Basic	**Diluted**	Basic	Diluted
Earnings ($m)				
Net profit attributable to owners of NAB	**6,338**	**6,338**	5,295	5,295
Distributions on other equity instruments	**(175)**	**(175)**	(192)	(192)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	**30**	-	-
Interest expense on convertible preference shares	**-**	**135**	-	124
Adjusted earnings	**6,163**	**6,328**	5,103	5,227
Net profit attributable to owners of NAB from discontinued operations [1]	**(19)**	**(19)**	114	114
Adjusted earnings from continuing operations [2]	**6,182**	**6,347**	4,989	5,113
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,438,782**	**2,438,782**	2,329,985	2,329,985
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**3,705**	-	6,799
Partly paid ordinary shares	**-**	**45**	-	49
Employee share plans	**-**	**4,458**	-	4,480
Convertible notes	**-**	**23,617**	-	-
Convertible preference shares	**-**	**108,041**	-	85,803
Total weighted average ordinary shares	**2,438,782**	**2,578,648**	2,329,985	2,427,116
Earnings per share (cents) attributable to owners of NAB	**252.7**	**245.4**	219.0	215.4
Earnings per share from continuing operations (cents)	**253.5**	**246.1**	214.1	210.7
Earnings per share from discontinued operations (cents)	**(0.8)**	**(0.7)**	4.9	4.7

(1) *Included within discontinued operations are the post-tax profit / loss of discontinued operations of GWB and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Refer to Note 51 - Discontinued operations for further details.*

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

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

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issue of potential ordinary shares since 30 September 2015, and before the completion of this financial report.

9 Cash and liquid assets

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Coins, notes and cash at bank	**6,141**	5,560	**900**	859
Securities purchased under agreements to resell [1]	**23,292**	34,185	**23,111**	33,603
Other (including bills receivable and remittances in transit)	**1,501**	1,289	**297**	203
Total cash and liquid assets	**30,934**	41,034	**24,308**	34,665

(1) *The fair values of the securities accepted under agreements to resell are based on quoted market prices at reporting date (Level 1 of the fair value hierarchy as defined in Note 43 - Fair value of financial instruments).*

Reverse repurchase and securities borrowing agreements

As part of the reverse repurchase and securities borrowing agreements included within 'Cash and liquid assets' and 'Due from other banks' (*Note 10 - Due from other banks*), the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2015 amounts to $38,350 million (2014: $44,804 million) for the Group and $37,555 million (2014: $43,787 million) for the Company, of which $21,201 million (2014: $19,164 million) for the Group and $21,098 million (2014: $19,055 million) for the Company have been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short-sale transactions.

The Group is obliged to return equivalent securities. The obligation to return securities for short-sale transactions is included in 'Other financial liabilities at fair value' *(Note 26 - Other financial liabilities at fair value)*. 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	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Central banks and other regulatory authorities	**28,443**	19,973	**16,568**	9,691
Other banks	**22,152**	19,115	**21,130**	18,627
Total due from other banks	**50,595**	39,088	**37,698**	28,318

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 and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting.

Derivative financial instruments held for hedging purposes

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

The Group also holds derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than the Australian dollar.

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The tables below set out the fair value of both trading and hedging derivatives including notional principal values:

Trading derivative financial instruments

	Group					
	Notional principal 2015 $m	**Fair value assets 2015 $m**	**Fair value liabilities 2015 $m**	Notional principal 2014 $m	Fair value assets 2014 $m	Fair value liabilities 2014 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**641,422**	**9,946**	**8,168**	495,839	8,912	7,750
Cross currency swaps	**763,964**	**24,404**	**22,706**	684,321	20,789	20,758
Options/swaptions purchased	**13,555**	**276**	**69**	11,404	157	55
Options/swaptions written	**12,418**	**65**	**184**	10,368	40	135
Total foreign exchange rate-related contracts	**1,431,359**	**34,691**	**31,127**	1,201,932	29,898	28,698
Interest rate-related contracts						
Forward rate agreements	**106,392**	**22**	**26**	77,494	6	5
Swaps	**3,761,055**	**41,265**	**40,837**	3,117,168	26,152	25,704
Futures	**2,140,181**	**969**	**1,165**	1,791,317	484	669
Options/swaptions purchased	**69,871**	**329**	**106**	61,780	310	41
Options/swaptions written	**72,649**	**416**	**587**	63,655	151	265
Total interest rate-related contracts	**6,150,148**	**43,001**	**42,721**	5,111,414	27,103	26,684
Credit derivatives	**35,344**	**139**	**130**	33,069	85	235
Commodity derivatives	**2,794**	**335**	**277**	2,418	169	156
Other derivatives	**3,028**	**218**	**187**	2,600	134	85
Total trading derivative financial instruments	**7,622,673**	**78,384**	**74,442**	6,351,433	57,389	55,858

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Company					
	Notional principal 2015 $m	**Fair value assets 2015 $m**	**Fair value liabilities 2015 $m**	Notional principal 2014 $m	Fair value assets 2014 $m	Fair value liabilities 2014 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**592,538**	**9,522**	**7,801**	467,474	8,528	7,490
Cross currency swaps	**771,213**	**25,369**	**23,965**	685,646	20,430	21,046
Options/swaptions purchased	**13,844**	**273**	**97**	12,143	161	74
Options/swaptions written	**10,706**	**64**	**156**	9,080	39	120
Total foreign exchange rate-related contracts	**1,388,301**	**35,228**	**32,019**	1,174,343	29,158	28,730
Interest rate-related contracts						
Forward rate agreements	**103,801**	**23**	**26**	75,471	9	5
Swaps	**3,670,838**	**41,482**	**38,965**	3,057,581	27,473	25,448
Futures	**1,920,181**	**969**	**1,165**	1,673,036	484	669
Options/swaptions purchased	**70,228**	**332**	**107**	62,234	334	204
Options/swaptions written	**72,541**	**420**	**588**	63,879	149	265
Total interest rate-related contracts	**5,837,589**	**43,226**	**40,851**	4,932,201	28,449	26,591
Credit derivatives	**36,524**	**139**	**130**	33,866	85	235
Commodity derivatives	**2,552**	**334**	**277**	2,255	169	156
Other derivatives	**3,028**	**222**	**182**	2,600	140	91
Total trading derivative financial instruments	**7,267,994**	**79,149**	**73,459**	6,145,265	58,001	55,803

Hedging derivative financial instruments

	Group					
	Notional principal 2015 $m	**Fair value assets 2015 $m**	**Fair value liabilities 2015 $m**	Notional principal 2014 $m	Fair value assets 2014 $m	Fair value liabilities 2014 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**46,762**	**9,819**	**1,101**	44,843	4,308	385
Total foreign exchange rate-related contracts	**46,762**	**9,819**	**1,101**	44,843	4,308	385
Interest rate-related contracts						
Swaps	**55,925**	**837**	**2,576**	67,752	564	2,342
Total interest rate-related contracts	**55,925**	**837**	**2,576**	67,752	564	2,342
Total derivatives held for hedging - fair value hedges	**102,687**	**10,656**	**3,677**	112,595	4,872	2,727
Derivatives held for hedging - cash flow hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**1,824**	**17**	**116**	466	-	33
Total foreign exchange rate-related contracts	**1,824**	**17**	**116**	466	-	33
Interest rate-related contracts						
Swaps	**146,155**	**899**	**746**	147,993	616	633
Total interest rate-related contracts	**146,155**	**899**	**746**	147,993	616	633
Total derivatives held for hedging - cash flow hedges	**147,979**	**916**	**862**	148,459	616	666
Derivatives held for hedging - net investment hedges						
Foreign exchange rate-related contracts						
Forward rate agreements [1]	**2,926**	**27**	**-**	1,471	-	52
Total foreign exchange rate-related contracts	**2,926**	**27**	**-**	1,471	-	52
Total derivatives held for hedging - net investment hedges	**2,926**	**27**	**-**	1,471	-	52
Total hedging derivative financial instruments	**253,592**	**11,599**	**4,539**	262,525	5,488	3,445

[1] *Refer to Note 42 - Financial risk management for further details on the net investment hedge.*

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Company					
	Notional principal 2015 $m	**Fair value assets 2015 $m**	**Fair value liabilities 2015 $m**	Notional principal 2014 $m	Fair value assets 2014 $m	Fair value liabilities 2014 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Spot and forward contracts	**977**	**2**	**-**	551	-	9
Cross currency swaps	**45,683**	**9,649**	**5,510**	55,286	4,308	1,715
Total foreign exchange rate-related contracts	**46,660**	**9,651**	**5,510**	55,837	4,308	1,724
Interest rate-related contracts						
Swaps	**52,783**	**856**	**2,421**	54,900	552	2,163
Total interest rate-related contracts	**52,783**	**856**	**2,421**	54,900	552	2,163
Total derivatives held for hedging - fair value hedges	**99,443**	**10,507**	**7,931**	110,737	4,860	3,887
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**104,837**	**712**	**633**	87,190	553	487
Total interest rate-related contracts	**104,837**	**712**	**633**	87,190	553	487
Total derivatives held for hedging - cash flow hedges	**104,837**	**712**	**633**	87,190	553	487
Total hedging derivative financial instruments	**204,280**	**11,219**	**8,564**	197,927	5,413	4,374

In certain instances, the Group has applied cash flow hedge accounting to hedge highly probable cash flows, which primarily vary with interest rates. These cash flows are expected to occur and impact the income statement in the following periods:

	Group						
As at 30 September 2015	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	1,432	602	339	183	49	31	2,636
Forecast payable cash flows	783	782	820	166	173	266	2,990

As at 30 September 2014	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,555	887	558	329	132	25	3,486
Forecast payable cash flows	969	700	686	131	69	57	2,612

	Company						
As at 30 September 2015	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	1,200	426	225	112	23	31	2,017
Forecast payable cash flows	550	277	131	42	27	57	1,084

As at 30 September 2014	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,272	625	347	257	118	25	2,644
Forecast payable cash flows	810	506	234	87	50	57	1,744

	Group		Company	
	2015 (1) $m	2014 (1) $m	**2015 $m**	2014 $m
Gains/(losses) arising from fair value hedges				
Gains/(losses) on hedging instruments	**6,116**	841	**2,892**	107
Gains/(losses) on the hedged items attributable to the hedged risk	**(5,508)**	(584)	**(2,345)**	186
Gains/(losses) arising from cash flow hedges				
Gains/(losses) on hedge ineffectiveness	**5**	(6)	**1**	(6)

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

12 Trading securities

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Government bonds, notes and securities	**17,602**	17,244	**15,234**	14,906
Semi-government bonds, notes and securities	**4,737**	5,525	**4,057**	5,126
Corporate/financial institution bonds, notes and securities	**19,605**	20,779	**18,230**	19,774
Other bonds, notes and securities	**993**	664	**991**	664
Total trading securities	**42,937**	44,212	**38,512**	40,470

13 Investments - available for sale

	Group		Company	
	2015 (1) $m	2014 $m	**2015 (1) $m**	2014 $m
Government bonds, notes and securities	**-**	5,344	**-**	1,677
Semi-government bonds, notes and securities	**-**	22,309	**-**	22,309
Corporate/financial institution bonds, notes and securities	**-**	8,125	**-**	8,061
Other bonds, notes and securities	**-**	7,608	**-**	7,226
Total investments - available for sale	**-**	43,386	**-**	39,273

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

14 Debt instruments at fair value through other comprehensive income

	Group		Company	
	2015 (1) $m	2014 $m	**2015 (1) $m**	2014 $m
Government bonds, notes and securities	**5,172**	-	**2,048**	-
Semi-government bonds, notes and securities	**22,194**	-	**22,194**	-
Corporate/financial institution bonds, notes and securities	**9,526**	-	**9,409**	-
Other bonds, notes and securities	**8,297**	-	**8,293**	-
Total debt instruments at fair value through other comprehensive income	**45,189**	-	**41,944**	-

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

15 Investments - held to maturity

	Group		Company	
	2015 (1) $m	2014 $m	**2015 (1) $m**	2014 $m
Corporate/financial institution bonds, notes and securities	**-**	780	**-**	780
Other bonds, notes and securities	**-**	2,165	**-**	914
Deduct: Provision for impairment	**-**	(26)	**-**	(26)
Total investments - held to maturity	**-**	2,919	**-**	1,668
Provision for impairment				
Balance at beginning of year	**26**	77	**26**	77
Charge/(write-back) to the income statement	**-**	(8)	**-**	(8)
Restatement for adoption of new accounting standards	**(26)**	-	**(26)**	-
Amounts written off	**-**	(49)	**-**	(49)
Foreign currency translation adjustments	**-**	6	**-**	6
Balance at end of year	**-**	26	**-**	26

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

16 Investments relating to life insurance business

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Equity securities	**54,443**	53,802	**-**	-
Debt securities	**30,339**	26,999	**-**	-
Property investments	**4,568**	4,231	**-**	-
Total investments relating to life insurance business	**89,350**	85,032	**-**	-

Investments are held either directly with the issuer of the investment, or via unit trusts or similar investment vehicles. Investments are grouped into the categories above as these categories are considered to appropriately reflect the characteristics of each investment type.

17 Other financial assets at fair value

	Group		Company	
	2015 [(1)] $m	2014 $m	**2015 [(1)] $m**	2014 $m
Loans at fair value	**27,545**	82,968	**18,699**	55,830
Other financial assets at fair value	**2,151**	1,520	**605**	-
Total other financial assets at fair value	**29,696**	84,488	**19,304**	55,830

[(1)] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets at fair value through profit or loss (designated on initial recognition) is $27,545 million (2014: $82,968 million) for the Group and $18,699 million (2014: $55,830 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a $322 million loss (2014: $806 million loss) for the Group and a $199 million loss (2014: $460 million loss) for the Company and the change for the current year is a $484 million gain (2014: $11 million loss) for the Group and a $261 million gain (2014: $5 million loss) for the Company.

18 Loans and advances

	Group		Company	
	2015 [(1)] $m	2014 $m	**2015 [(1)]** $m	2014 $m
Housing loans	**341,965**	312,039	**265,149**	245,306
Other term lending	**157,631**	88,233	**124,106**	69,142
Asset and lease financing	**11,764**	11,729	**10,254**	10,467
Overdrafts	**8,912**	10,521	**4,212**	6,022
Credit card outstandings	**8,078**	7,998	**6,218**	6,129
Other lending	**8,815**	8,436	**7,447**	7,277
Total gross loans and advances	**537,165**	438,956	**417,386**	344,343
Deduct:				
Unearned income and deferred net fee income	**(861)**	(1,113)	**(870)**	(1,104)
Provision for doubtful debts	**(3,520)**	(3,118)	**(2,527)**	(2,425)
Total net loans and advances	**532,784**	434,725	**413,989**	340,814

[(1)] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- A floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital.
- Specific or inter-locking guarantees.
- Specific charges over defined assets of the counterparty.
- Loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

18 Loans and advances (continued)

Loans and advances by credit quality

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Gross loans and advances				
Neither past due nor impaired	**525,144**	424,483	**408,118**	332,922
Past due but not impaired	**10,051**	10,568	**8,043**	8,399
Impaired	**1,970**	3,905	**1,225**	3,022
Total gross loans and advances	**537,165**	438,956	**417,386**	344,343

Loans and advances past due but not impaired

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
1 to 7 day(s) past due	**4,100**	4,491	**3,431**	3,819
8 to 29 days past due	**1,871**	1,936	**1,482**	1,419
30 to 59 days past due	**1,261**	1,171	**986**	883
60 to 89 days past due	**697**	630	**536**	503
Past due over 90 days	**2,122**	2,340	**1,608**	1,775
Total loans and advances past due but not impaired	**10,051**	10,568	**8,043**	8,399

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.

Investment in finance lease receivables

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Due within one year	**1,408**	1,552	**966**	1,178
Due after one but no later than five years	**2,014**	2,183	**1,349**	1,654
Due after five years	**488**	458	**50**	53
Total investment in finance lease receivables	**3,910**	4,193	**2,365**	2,885

Investment in finance lease receivables, net of unearned income

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Due within one year	**1,298**	1,408	**875**	1,034
Due after one but no later than five years	**1,888**	2,005	**1,256**	1,511
Due after five years	**484**	442	**47**	48
Total investment in finance lease receivables, net of unearned income	**3,670**	3,855	**2,178**	2,593

19 Provision for doubtful debts

	Group 2015 [(1)] $m	Group 2014 $m	Company 2015 [(1)] $m	Company 2014 $m
Specific provision for doubtful debts - Lifetime Expected Credit Losses (ECL)	**637**	**1,358**	**332**	**1,022**
Collective provision for doubtful debts - Lifetime ECL	**2,428**	-	**1,883**	-
Collective provision for doubtful debts - 12-months ECL	**455**	-	**312**	-
Total collective provision for doubtful debts	**2,883**	1,760	**2,195**	1,403
Total provision for doubtful debts	**3,520**	3,118	**2,527**	2,425

(1) *The opening balance for the collective provision of doubtful debts measured under AASB 139 is now presented as 12-months and Lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 1(c)(i) for information on the adoption of AASB 9.*

Group	2015 Collective provision 12-months ECL $m	Collective provision Lifetime ECL not credit impaired $m	Collective provision Lifetime ECL credit impaired $m	Collective provision [(1)] $m	Specific provision Lifetime ECL $m	Total $m
Balance at beginning of year	-	-	-	1,760	1,358	3,118
Restated for adoption of new accounting standards [(1)]	559	1,639	567	(1,760)	(322)	683
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-months ECL	480	(450)	(30)	-	-	-
Transferred to Lifetime ECL not credit impaired	(56)	119	(63)	-	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(4)	(57)	61	-	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(3)	(67)	(132)	-	202	-
Bad debts recovered	-	-	-	-	129	129
Bad debts written off	-	-	-	-	(1,300)	(1,300)
Charge to income statement from continuing operations	(517)	808	23	-	530	844
Charge to income statement from discontinued operations [(2)]	(3)	6	-	-	15	18
Derecognised in respect of the disposal group [(2)]	(27)	(52)	(1)	-	(13)	(93)
Foreign currency translation and other adjustments	26	42	15	-	38	121
Balance at end of year	**455**	**1,988**	**440**	**-**	**637**	**3,520**

(1) *The opening balance for the collective provision of doubtful debts measured under AASB 139 is now presented as 12-months and Lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 1(c)(i) for information on the adoption of AASB 9.*

(2) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

Group	2014 Collective $m	Specific $m	Total $m
Balance at beginning of year	2,178	1,840	4,018
Transfer to/(from) specific/collective provision	(1,299)	1,299	-
Bad debts recovered	-	185	185
Bad debts written off	-	(1,760)	(1,760)
Charge to income statement from continuing operations [(1)]	855	-	855
Charge to income statement from discontinued operations	8	-	8
Disposals	(18)	(221)	(239)
Foreign currency translation and other adjustments	36	15	51
Balance at end of year	1,760	1,358	3,118

(1) *Excludes $8 million of impairment write-backs on investments - held to maturity. Refer to Note 15 - Investments - held to maturity.*

Impact of movements in gross carrying amount on provision for doubtful debts

Provisions for doubtful debts reflects expected credit losses (ECL) measured using the three-stage approach under AASB 9, as described in Note 1 Principal accounting policies on page 76. The following explains how significant changes in the gross carrying amount of loans and advances during the year have contributed to the changes in the provision for doubtful debts for the Group under the expected credit loss model.

Overall, the total provision for doubtful debts decreased by $281 million compared to the balance at the beginning of the year which was restated under AASB 9. This net reduction was driven by reduced specific provisioning for credit-impaired assets, partially offset by an increase in collective provisioning.

Specific provisions decreased by $399 million primarily due to loans and advances that were derecognised through settlement, re-negotiation and write-offs, the sale of UK CRE loans and some re-measurement of individually assessed credit impaired assets during the year.

19 Provision for doubtful debts (continued)

This was offset by a net increase in collective provisioning of $118 million which comprised of:

- 12-months ECL (Stage 1) – ECL decreased by $104 million during the year due to loans and advances that were repaid or had migrated to lifetime ECL – not credit impaired, which were partially offset by an increase in collective provisions associated to newly originated loans and advances.
- Lifetime ECL – not credit-impaired (Stage 2) – ECL increased by $349 million, primarily due to the re-assessment of portfolio ratings primarily in the Australian region and loans migrating from Stage 1 as result of changes in credit quality. This was partially offset by loans that were repaid. The Stage 2 ECL has also been impacted by factors other than movements in gross carrying amounts, including an increase in collective provision overlays for specific industry sectors.
- Lifetime ECL – credit-impaired (Stage 3) – ECL decreased by $127 million primarily due to loans that were repaid, and loans and advances that had changed to being individually assessed (specific provision) during the year.

	2015					
Company	**Collective provision 12-months ECL $m**	**Collective provision Lifetime ECL not credit impaired $m**	**Collective provision Lifetime ECL credit impaired $m**	**Collective provision [(1)] $m**	**Specific provision Lifetime ECL $m**	**Total $m**
Balance at beginning of year	**-**	**-**	**-**	**1,403**	**1,022**	**2,425**
Restated for adoption of new accounting standards [(1)]	**372**	**1,315**	**390**	**(1,403)**	**(325)**	**349**
Changes due to financial assets recognised in the opening balance that have:						
Transferred to 12-mth ECL	**397**	**(379)**	**(18)**	**-**	**-**	**-**
Transferred to Lifetime ECL not credit impaired	**(41)**	**95**	**(54)**	**-**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(2)**	**(46)**	**48**	**-**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(2)**	**(40)**	**(102)**	**-**	**144**	**-**
Bad debts recovered	**-**	**-**	**-**	**-**	**88**	**88**
Bad debts written off	**-**	**-**	**-**	**-**	**(956)**	**(956)**
Charge to income statement	**(416)**	**621**	**49**	**-**	**350**	**604**
Foreign currency translation and other adjustments	**4**	**3**	**1**	**-**	**9**	**17**
Balance at end of year	**312**	**1,569**	**314**	**-**	**332**	**2,527**

(1) The opening balance for the collective provision of doubtful debts measured under AASB 139 is now presented as 12-months and Lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to Note 1(c)(i) for information on the adoption of AASB 9.

	2014		
Company	Collective $m	Specific $m	Total $m
Balance at beginning of year	1,766	1,437	3,203
Transfer to/(from) specific/collective provision	(974)	974	-
Bad debts recovered	-	142	142
Bad debts written off	-	(1,316)	(1,316)
Charge to income statement [(1)]	612	-	612
Disposals	(18)	(221)	(239)
Foreign currency translation and other adjustments	17	6	23
Balance at end of year	1,403	1,022	2,425

(1) Excludes $8 million of impairment write-backs on investments - held to maturity. Refer to Note 15 - Investments - held to maturity.

Impact of movements in gross carrying amount on provision for doubtful debts

Provisions for doubtful debts reflects expected credit losses (ECL) measured using the three-stage approach under AASB 9, described in Note 1 Principal accounting policies on page 76. The following explains how significant changes in the gross carrying amount of loans and advances during the period have contributed to the changes in the provision for doubtful debts for the Company under the expected credit loss model.

Overall, the total provision for doubtful debts decreased by $247 million, with reduced specific provisioning for credit-impaired assets being offset by an increase in collective provisioning.

Specific provisions decreased by $365 million primarily due to loans and advances that were derecognised through settlement, re-negotiation and write-offs, the sale of UK CRE loans, and some re-measurement of individually assessed credit impaired assets during the year.

This was offset by a net increase in collective provisioning of $118 million which comprised of:

- 12-months ECL (Stage 1) – ECL decreased by $60 million during the year due to loans and advances that were repaid or had migrated to lifetime ECL – not credit impaired, which were partially offset by an increase in collective provisions associated to newly originated loans and advances.
- Lifetime ECL – not credit-impaired (Stage 2) – ECL increased by $254 million, primarily due to the re-assessment of portfolio ratings in the Australia region and loans migrating from Stage 1 as result of changes in credit quality. This was partially offset by loans that were repaid. The Stage 2 ECL has also been impacted by factors other than movements in gross carrying amounts including an increase in collective provision overlays for specific industry sectors.
- Lifetime ECL – credit-impaired (Stage 3) – ECL decreased by $76 million primarily due to loans and advances that were repaid, and loans and advances that had changed to being individually assessed (specific provision) during the year.

19 Provision for doubtful debts (continued)

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the reporting period, and are still subject to enforcement activity was $388 million for the Group and $316 million for the Company.

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

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different instrument. Where such loans are derecognised, the renegotiated contract is a new loan and impairment is assessed in accordance with the Group's accounting policy.

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

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

	2015 [1]	
	Group	Company
	$m	$m
Amortised cost before the modification	215	147
Gross carrying amount at end of reporting period	313	237

(1) *The September 2015 information has been provided following the adoption of AASB 9. Comparative information is not required. Refer to Note 1(c)(i) for information on the adoption of AASB 9.*

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

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.

20 Asset quality disclosures

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Gross impaired assets [1]	**2,050**	4,122	**1,266**	3,120
Specific provision for doubtful debts [2]	**(671)**	(1,454)	**(341)**	(1,058)
Net impaired assets [3]	**1,379**	2,668	**925**	2,062

(1) *Gross impaired assets include $58 million (2014: $187 million) for the Group and $21 million (2014: $77 million) for the Company of gross impaired other financial assets at fair value, $22 million (2014: $23 million) of impaired off-balance sheet credit exposures for the Group and $20 million (2014: $21 million) for the Company, and nil (2014: $7 million) for the Group and nil for the Company (2014: nil) of restructured loans at fair value.*

(2) *Specific provision for doubtful debts includes $34 million (2014: $96 million) for the Group and $9 million (2014: $36 million) for the Company of fair value credit adjustments on other financial assets at fair value.*

(3) *The fair value of security in respect of impaired assets is $1,358 million (2014: $2,517 million) for the Group and $923 million (2014: $1,972 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.*

21 Property, plant and equipment

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Land and buildings				
Freehold				
At cost (acquired subsequent to previous valuation date)	**-**	43	**-**	-
At directors' valuation	**147**	210	**-**	-
Leasehold				
At cost (acquired subsequent to previous valuation date)	**-**	6	**-**	-
At directors' valuation	**6**	12	**-**	-
Deduct: Accumulated depreciation on buildings	**(1)**	(17)	**-**	-
Total land and buildings	**152**	254	**-**	-
Leasehold improvements				
At cost	**1,235**	1,131	**99**	110
Deduct: Accumulated amortisation	**(576)**	(446)	**(93)**	(89)
Total leasehold improvements	**659**	685	**6**	21
Furniture, fixtures and fittings and other equipment				
At cost	**748**	730	**62**	49
Deduct: Accumulated depreciation and amortisation	**(398)**	(345)	**(44)**	(41)
Total furniture, fixtures and fittings and other equipment	**350**	385	**18**	8
Data processing equipment				
At cost	**1,612**	1,499	**1,351**	1,227
Under finance lease	**174**	149	**158**	135
Deduct: Accumulated depreciation and amortisation	**(1,215)**	(1,105)	**(1,009)**	(898)
Total data processing equipment	**571**	543	**500**	464
Leased assets held as lessor				
At cost	**20**	130	**20**	34
Deduct: Accumulated amortisation	**(11)**	(45)	**(11)**	(21)
Total leased assets held as lessor	**9**	85	**9**	13
Total property, plant and equipment	**1,741**	1,952	**533**	506

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, as at 30 September 2015, the carrying amount for the Group and the Company would have been $51 million and $nil respectively (2014: $127 million and $nil respectively).

As at 30 September 2015 the Group and the Company had data processing equipment held under finance lease with a net carrying value of $32 million and $31 million respectively (2014: $34 million and $31 million respectively).

As at 30 September 2015 the Group and the Company had contractual commitments to acquire property, plant and equipment of $33 million and $32 million respectively (2014: $65 million and $59 million respectively).

The fair value of the land and buildings of $152 million (2014: $254 million) as at the reporting date was determined using the valuation approach outlined in *Note 1(v) - Property, plant and equipment*, including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings (Level 3 of the fair value hierarchy as defined in *Note 43 - Fair value of financial instruments*).

There has been no change to the valuation technique during the year. There were no transfers between Level 1, 2 and 3 during the year.

21 Property, plant and equipment (continued)

Reconciliations of movements in property, plant and equipment

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Land and buildings				
Balance at beginning of year	**254**	265	**-**	-
Additions	**7**	4	**-**	1
Disposals [(1)]	**(9)**	(18)	**-**	(2)
Derecognised in respect of the disposal group [(2)]	**(114)**	-	**-**	-
Net amount of revaluation increments/(decrements) to asset revaluation reserve	**1**	3	**-**	-
Net amount of revaluation (decrements) to income statement	**-**	(1)	**-**	-
Depreciation	**(6)**	(7)	**-**	-
Foreign currency translation adjustments	**19**	8	**-**	1
Balance at end of year	**152**	254	**-**	-
Leasehold improvements				
Balance at beginning of year	**685**	783	**21**	274
Additions	**95**	204	**10**	151
Disposals [(1)]	**(35)**	(202)	**(27)**	(401)
Amortisation	**(110)**	(107)	**(3)**	(3)
Impairment reversals/(losses) recognised	**4**	(1)	**3**	(1)
Foreign currency translation adjustments	**20**	8	**2**	1
Balance at end of year	**659**	685	**6**	21
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**385**	366	**8**	18
Additions from the acquisition of controlled entities and business combinations	**1**	-	**-**	-
Additions	**59**	96	**18**	57
Disposals [(1)]	**(31)**	(16)	**(3)**	(64)
Derecognised in respect of the disposal group [(2)]	**(5)**	-	**-**	-
Depreciation and amortisation	**(70)**	(66)	**(5)**	(3)
Impairment reversals/(losses) recognised	**-**	2	**-**	(1)
Foreign currency translation adjustments	**11**	3	**-**	1
Balance at end of year	**350**	385	**18**	8
Data processing equipment				
Balance at beginning of year	**543**	486	**464**	395
Additions	**182**	187	**151**	163
Disposals	**(10)**	(8)	**(8)**	(2)
Derecognised in respect of the disposal group [(2)]	**(8)**	-	**-**	-
Depreciation and amortisation	**(144)**	(126)	**(109)**	(91)
Impairment losses recognised	**-**	(2)	**-**	-
Foreign currency translation adjustments	**8**	6	**2**	(1)
Balance at end of year	**571**	543	**500**	464
Leased assets held as lessor				
Balance at beginning of year	**85**	93	**13**	22
Disposals	**(81)**	(8)	**(1)**	(8)
Depreciation	**(5)**	(7)	**(1)**	(3)
Impairment (losses)/reversals recognised	**(2)**	1	**(2)**	1
Foreign currency translation adjustments	**12**	6	**-**	1
Balance at end of year	**9**	85	**9**	13

(1) *During 2015 the Company transferred property assets with a carrying value of $14 million (2014: $264 million) to a controlled entity. Subsequently, under a cancellable lease agreement the Company leased back the property assets. The transfer had no material impact on the Company and no impact on the Group.*

(2) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

22 Investments in controlled entities

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Gross carrying amount	**-**	-	**20,605**	19,858
Deduct: Provision for diminution in value	**-**	-	**(171)**	(167)
Total investments in controlled entities	**-**	-	**20,434**	19,691

Refer to *Note 40 - Interests in subsidiaries and other entities for further details in relation to controlled entities.*

23 Goodwill and other intangible assets

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Goodwill				
Total goodwill (at cost less impairment losses)	**4,631**	5,394	**-**	-
Internally generated software				
At cost	**4,180**	3,750	**2,860**	2,628
Deduct: Accumulated amortisation	**(1,723)**	(1,805)	**(1,158)**	(1,239)
Total internally generated software	**2,457**	1,945	**1,702**	1,389
Acquired software				
At cost	**577**	546	**457**	423
Deduct: Accumulated amortisation	**(429)**	(365)	**(304)**	(266)
Total acquired software	**148**	181	**153**	157
Other acquired intangible assets (1)				
At cost	**582**	696	-	-
Deduct: Accumulated amortisation	**(471)**	(496)	**-**	-
Total other acquired intangible assets	**111**	200	**-**	-
Total goodwill and other intangible assets	**7,347**	7,720	**1,855**	1,546

(1) *Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and the value of business and contracts in force.*

As at September 2015, the Group and the Company had contractual commitment to acquire software of $55 million and $47 million respectively (2014: $57 million and $54 million respectively).

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Goodwill				
Balance at beginning of year	**5,394**	5,347	**-**	-
Derecognised in respect of the disposal group (1)	**(945)**	-	**-**	-
Additions from the acquisition of controlled entities and business combinations	**20**	-	**-**	-
Disposals from sale of controlled entities	**(4)**	-	**-**	-
Foreign currency translation adjustments	**166**	47	**-**	-
Balance at end of year	**4,631**	5,394	-	-
Internally generated software				
Balance at beginning of year	**1,945**	1,828	**1,389**	1,280
Additions from internal development	**767**	689	**480**	502
Disposals, impairments and write-offs	**(36)**	(338)	**(33)**	(268)
Amortisation	**(277)**	(260)	**(134)**	(125)
Foreign currency translation adjustments	**58**	26	**-**	-
Balance at end of year	**2,457**	1,945	**1,702**	1,389
Acquired software				
Balance at beginning of year	**181**	170	**157**	151
Additions	**37**	49	**32**	35
Disposals, impairments and write-offs	**(27)**	(2)	**-**	(1)
Amortisation	**(43)**	(37)	**(36)**	(28)
Foreign currency translation adjustments	**-**	1	**-**	-
Balance at end of year	**148**	181	**153**	157

(1) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

23 Goodwill and other intangible assets (continued)

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Other acquired intangible assets				
Balance at beginning of year	**200**	296	**-**	-
Additions	**-**	2	**-**	-
Additions from the acquisition of controlled entities and business combinations	**38**	-	**-**	-
Amortisation	**(121)**	(99)	**-**	-
Derecognised in respect of the disposal group	**(9)**	-	**-**	-
Foreign currency translation adjustments	**3**	1	**-**	-
Balance at end of year	**111**	200	-	-

(1) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

Impairment and cash generating units

For the purpose of undertaking impairment testing, cash generating units (CGUs) are identified and determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of a 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 five year management approved forecasts which are then extrapolated using a constant growth rate for up to a further seven years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill has been allocated, are as follows:

	Goodwill		Discount rate per annum		Terminal value growth rate per annum	
Reportable segment	**2015 $m**	2014 $m	**2015 %**	2014 %	**2015 %**	2014 %
Australian Banking	**279**	279	**10.7**	11.3	**6.0**	6.0
NZ Banking	**258**	258	**11.1**	11.6	**4.4**	4.4
NAB Wealth	**4,094**	4,068	**11.3**	11.5	**5.0**	5.0
Great Western Bank (discontinued) (1)	**-**	789	**-**	9.4	**-**	4.6
Total Goodwill	**4,631**	5,394	**n/a**	n/a	**n/a**	n/a

(1) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

24 Deferred tax assets

	Group		Company	
	2015 [(1)] **$m**	2014 $m	**2015** [(1)] **$m**	2014 $m
Deferred tax assets				
Life company statutory funds	**473**	592	**-**	-
Specific provision for doubtful debts	**173**	237	**97**	159
Collective provision for doubtful debts	**760**	441	**648**	378
Employee entitlements	**317**	270	**285**	239
Tax losses	**750**	638	**118**	177
Defined benefit superannuation plan liabilities	**(23)**	(6)	**-**	12
Depreciation	**233**	162	**-**	-
Unrealised revaluations on Funding vehicles	**556**	332	**-**	-
Other	**221**	295	**356**	501
Total deferred tax assets	**3,460**	2,961	**1,504**	1,466
Set-off of deferred tax liabilities pursuant to set-off provisions	**(1,319)**	(1,344)	**(247)**	(123)
Net deferred tax assets	**2,141**	1,617	**1,257**	1,343
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**(45)**	(80)	**(49)**	(113)
Employee entitlements	**54**	46	**49**	47
Tax losses	**24**	142	**(104)**	(92)
Defined benefit superannuation plan liabilities	**(26)**	(91)	**(13)**	(11)
Other	**78**	(14)	**51**	(43)
Total deferred tax asset amounts recognised in the income statement	**85**	3	**(66)**	(212)
Deferred tax asset amounts recognised in equity				
Equity instruments at fair value through other comprehensive income reserve	**(5)**	-	**-**	-
Debt instruments at fair value through other comprehensive income reserve	**2**	-	**2**	-
Cash flow hedge reserve	**(10)**	27	**(8)**	25
Asset revaluation reserve	**-**	(1)	**-**	-
Equity-based compensation reserve	**(3)**	-	**(1)**	-
Retained profits	**16**	(20)	**(3)**	(5)
Other	**(9)**	1	**1**	-
Total deferred tax asset amounts recognised in equity	**(9)**	7	**(9)**	20
Total deferred tax asset amounts recognised during the year	**76**	10	**(75)**	(192)

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

Deferred tax assets not brought to account

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

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Capital gains tax losses	**942**	734	**768**	734
Income tax losses	**526**	326	**489**	322

25 Other assets

	Group		Company	
	2015 [(1)] **$m**	2014 $m	**2015** [(1)] **$m**	2014 $m
Cash collateral placed with third parties	**4,703**	3,144	**4,703**	3,144
Accrued interest receivable	**2,899**	2,972	**2,272**	2,358
Prepayments	**258**	267	**147**	178
Receivables	**546**	881	**322**	538
Other life insurance assets	**603**	625	**-**	-
Other debt instruments at amortised cost	**618**	-	**10**	-
Equity instruments at fair value through other comprehensive income [(2)]	**556**	-	**510**	-
Other [(3)]	**2,735**	2,925	**1,868**	2,149
Total other assets	**12,918**	10,814	**9,832**	8,367

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Equity instruments at fair value through other comprehensive income largely comprises unlisted equity investments. Accordingly, the fair value amounts as at the reporting date have been determined based upon mostly unobservable inputs and are categorised as Level 3 in the fair value hierarchy (as defined in Note 43 - Fair value of financial instruments).*

(3) *Other includes receivables relating to settlements clearing, current tax assets and Investment properties carried at fair value. The fair value of investment properties was determined by an independent valuer and was categorised as level 3 in the fair value hierarchy (as defined in Note 43 - Fair value of financial instruments).*

26 Other financial liabilities at fair value

	Group		Company	
	2015 [(1)] **$m**	2014 $m	**2015** [(1)] **$m**	2014 $m
Bonds, notes and subordinated debt	**19,471**	16,626	**4,785**	3,556
Deposits and other borrowings				
On-demand and short-term deposits	**190**	260	**-**	-
Certificates of deposit	**1,553**	1,444	**-**	-
Term deposits	**3,468**	4,545	**-**	433
Borrowings	**3,016**	2,984	**-**	-
Securities sold short	**2,144**	2,453	**2,144**	2,453
Other financial liabilities	**204**	661	**29**	152
Total other financial liabilities at fair value	**30,046**	28,973	**6,958**	6,594

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a gain for the year of $157 million (2014: $43 million loss) for the Group and $48 million (2014: $43 million loss) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of $96 million (2014: $253 million loss) for the Group and $17 million loss (2014: $65 million loss) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $18,612 million (2014: $15,832 million) for the Group and $4,489 million (2014: $3,337 million) for the Company.

27 Deposits and other borrowings

	Group		Company	
	2015 [(1)] **$m**	2014 $m	**2015** [(1)] **$m**	2014 $m
Deposits				
Term deposits	**157,572**	161,116	**126,660**	129,073
On-demand and short-term deposits	**216,530**	191,073	**159,424**	141,976
Certificates of deposit	**38,691**	66,127	**38,488**	65,908
Deposits not bearing interest	**41,138**	34,060	**33,490**	26,713
Other borrowings	**26,162**	14,389	**24,806**	1,425
Securities sold under agreements to repurchase	**8,917**	9,443	**8,917**	9,443
Total deposits and other borrowings	**489,010**	476,208	**391,785**	374,538

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

28 Life policy liabilities

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**7,480**	9,527	**-**	-
Value of future expenses	**746**	1,609	**-**	-
Future charges for acquisition costs	**(26)**	(27)	**-**	-
Value of future revenues	**(8,754)**	(12,173)	**-**	-
Total best estimate liabilities for life insurance contracts	**(554)**	(1,064)	**-**	-
Value of future profits				
Value of policyholder bonuses	**332**	294	**-**	-
Value of future shareholder profit margins	**2,537**	2,784	**-**	-
Total value of future profits	**2,869**	3,078	**-**	-
Unvested policyholder benefits	**106**	105	**-**	-
Net policy liabilities for life insurance contracts	**2,421**	2,119	**-**	-
Policy liabilities ceded under reinsurance	**310**	358	**-**	-
Gross policy liabilities for life insurance contracts	**2,731**	2,477	**-**	-
Life investment contracts				
Life investment contract liabilities	**73,580**	69,224	**-**	-
Total life policy liabilities	**76,311**	71,701	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *Note 49 - Life insurance business disclosures*. 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(aa) - Life policy liabilities*).

In respect of life insurance contracts with a discretionary participating feature, there are $1,250 million (2014: $1,281 million) of liabilities that relate to the guarantees and $38 million (2014: $39 million) in total value of declared bonuses. In respect of life investment contracts with a non-participating feature, there are $181 million (2014: $247 million) of liabilities that relate to the guarantees. In respect of life investment contracts, there are $3,274 million (2014: $3,481 million) of policy liabilities subject to investment performance guarantees.

28 Life policy liabilities (continued)

Reconciliation of movements in policy liabilities

	Group	
	2015 $m	2014 $m
Life insurance contract policy liabilities		
Balance at beginning of year	**2,477**	2,410
Increase reflected in the income statement	**254**	327
Reclassification to life investment contract liabilities	**-**	(260)
Balance at end of year	**2,731**	2,477
Life investment contract liabilities		
Balance at beginning of year	**69,224**	62,099
Increase reflected in the income statement	**4,198**	5,615
Premiums recognised in policy liabilities	**8,825**	11,052
Claims recognised in policy liabilities	**(8,667)**	(9,802)
Reclassification from life insurance contract policy liabilities	**-**	260
Balance at end of year	**73,580**	69,224
Total gross policy liabilities at end of year	**76,311**	71,701
Liabilities ceded under reinsurance		
Balance at beginning of year	**(358)**	(334)
Increase reflected in the income statement	**48**	(24)
Balance at end of year [(1)]	**(310)**	(358)
Net policy liabilities at end of year	**76,001**	71,343

[(1)] *The $310 million (2014: $358 million) reinsurance balance is included within 'Other life insurance assets'.*

29 Current and deferred tax liabilities

	Group		Company	
	2015 [(1)] $m	2014 $m	**2015 [(1)] $m**	2014 $m
Current tax liabilities	**1,114**	729	**996**	718
Total income tax liabilities	**1,114**	729	**996**	718
Deferred tax liabilities				
Intangible assets	**16**	42	**-**	-
Depreciation	**76**	(8)	**2**	(83)
Life company statutory funds	**971**	1,112	**-**	-
Defined benefit superannuation plan assets	**11**	9	**6**	6
Other	**245**	189	**239**	200
Total deferred tax liabilities	**1,319**	1,344	**247**	123
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(1,319)**	(1,344)	**(247)**	(123)
Net deferred tax liability	**-**	-	**-**	-
Deferred tax liability amounts recognised in the income statement				
Intangible assets	**(21)**	(22)	**-**	-
Depreciation	**(16)**	(99)	**7**	(20)
Life company statutory funds	**(141)**	203	**-**	-
Defined benefit superannuation plan assets	**(13)**	-	**-**	-
Other	**112**	(154)	**95**	(165)
Total deferred tax liability amounts recognised in the income statement	**(79)**	(72)	**102**	(185)
Deferred tax liability amounts recognised in equity				
Equity instruments at fair value through other comprehensive income reserve	**21**	-	**21**	-
Available for sale investments reserve	**-**	65	**-**	67
Cash flow hedge reserve	**(1)**	(16)	**-**	-
Asset revaluation reserve	**-**	(2)	**-**	-
Retained profits	**-**	1	**-**	-
Total deferred tax liability amounts recognised in equity	**20**	48	**21**	67
Total deferred tax liability amounts recognised during the year	**(59)**	(24)	**123**	(118)

[(1)] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

30 Provisions

	Group		Company	
	2015 **$m**	2014 $m	**2015** **$m**	2014 $m
Employee entitlements	**1,119**	946	**829**	726
Operational risk event losses	**2,177**	1,775	**21**	30
Restructuring	**56**	70	**25**	28
Other	**223**	123	**42**	25
Total provisions	**3,575**	2,914	**917**	809

Reconciliations of movements in provisions

	Group		Company	
	2015 **$m**	2014 $m	**2015** **$m**	2014 $m
Employee entitlements				
Balance at beginning of year	**946**	916	**726**	713
Provisions made	**658**	637	**433**	453
Payments out of provisions	**(487)**	(589)	**(341)**	(445)
Provisions no longer required and net foreign currency movements	**(5)**	(18)	**11**	5
Derecognised in respect of the disposal group [(1)]	**7**	-	**-**	-
Balance at end of year	**1,119**	946	**829**	726
Operational risk event losses [(2)]				
Balance at beginning of year	**1,775**	119	**30**	29
Provisions made	**1,146**	1,536	**41**	46
Payments out of provisions	**(1,027)**	(296)	**(49)**	(45)
Transfer in/(out) of provisions [(3)]	**-**	374	**-**	-
Provisions no longer required and net foreign currency movements	**283**	42	**(1)**	-
Balance at end of year	**2,177**	1,775	**21**	30
Restructuring				
Balance at beginning of year	**70**	113	**28**	54
Provisions made	**57**	24	**23**	16
Payments out of provisions	**(82)**	(61)	**(28)**	(32)
Provisions no longer required and net foreign currency movements	**11**	(6)	**2**	(10)
Balance at end of year	**56**	70	**25**	28
Other [(4)]				
Balance at beginning of year	**123**	488	**25**	16
Provisions made	**397**	454	**143**	151
Payments out of provisions	**(300)**	(480)	**(126)**	(142)
Transfer in/(out) of provisions [(3)]	**-**	(374)	**-**	-
Provisions no longer required and net foreign currency movements	**3**	35	**-**	-
Balance at end of year	**223**	123	**42**	25

(1) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

(2) *Operational risk event losses includes claims relating to UK customer redress. Refer to Note 41 - Contingent liabilities and credit commitments for further details.*

(3) *Transfer in/(out) reflects the classification change to include UK customer redress within 'operational risk event losses'.*

(4) *Other provisions include provisions for contributions tax on superannuation funds and legal and other business claims.*

31 Bonds, notes and subordinated debt

	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
Medium-term notes	**87,553**	84,108	**87,553**	84,108
Other senior notes	**34,816**	28,413	**23,733**	19,620
Subordinated medium-term notes	**8,011**	5,397	**8,011**	5,397
Other subordinated notes	**299**	363	**-**	-
Total bonds, notes and subordinated debt	**130,679**	118,281	**119,297**	109,125
Net discounts	**(161)**	(116)	**(161)**	(115)
Total net bonds, notes and subordinated debt	**130,518**	118,165	**119,136**	109,010

Issued bonds, notes and subordinated debt by currency

	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
AUD	**33,656**	30,958	**30,346**	28,242
USD	**36,719**	33,670	**35,607**	32,527
EUR	**30,280**	26,531	**28,598**	25,443
GBP	**17,776**	15,255	**12,497**	11,046
Other	**12,087**	11,751	**12,088**	11,752
Total bonds, notes and subordinated debt	**130,518**	118,165	**119,136**	109,010

Subordinated medium term notes

Currency	Notional amount	Maturity	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
AUD	2,123m	Floating due 2017	**2,123**	2,119	**2,123**	2,119
GBP	350m	Fixed due 2018	**849**	739	**849**	739
EUR	500m	Fixed due 2018	**910**	856	**910**	856
EUR	750m	Fixed due 2019	**1,201**	-	**1,201**	-
EUR	1,000m	Fixed due 2020	**1,771**	1,630	**1,771**	1,630
AUD	1,100m	Floating due 2020	**1,100**	-	**1,100**	-
AUD	20m	Fixed due 2027	**28**	26	**28**	26
AUD	20m	Fixed due 2028	**29**	27	**29**	27
TOTAL			**8,011**	5,397	**8,011**	5,397

AUD denominated Tier 2 Loan Capital issuances - $1,100 million subordinated notes issued March 2015

As at 30 September 2015, the $1,100 million subordinated notes remain outstanding and the Group's liability remains at $1,100 million. Subject to certain conditions, the subordinated notes may be redeemed on 26 March 2020, and if not redeemed are due on 26 March 2025. The subordinated notes convert into NAB ordinary shares (subject to a maximum number of 130.6848 NAB ordinary shares per subordinated note with a denomination of $1,000) if APRA determines this to be necessary on the grounds that NAB would otherwise become non-viable.

EUR denominated Tier 2 Loan Capital issuances - €750 million subordinated notes issued November 2014

As at 30 September 2015, the €750 million subordinated notes remain outstanding and the Group's liability remains at €750 million. Subject to certain conditions, the subordinated notes may be redeemed on 12 November 2019, and if not redeemed are due on 12 November 2024. The subordinated notes convert into NAB ordinary shares (subject to a maximum number of 22,198.5438 NAB ordinary shares per subordinated note with a denomination of €100,000) if APRA determines this to be necessary on the grounds that NAB would otherwise become non-viable.

Other subordinated notes

Currency	Notional amount	Maturity	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
AUD	100m	Floating due 2016	**100**	100	**-**	-
AUD	200m	Fixed due 2016	**199**	200	**-**	-
USD	54m	Floating due 2033	**-**	61	**-**	-
USD	2m	Floating due 2035	**-**	2	**-**	-
TOTAL			**299**	363	-	-

The Group operates a number of funding programs which feature either senior or subordinated debt status.

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 26 - Other financial liabilities at fair value* for further information.

31 Bonds, notes and subordinated debt (continued)

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 11 - Trading and hedging derivative assets and liabilities* for further information on the Group's trading and hedging derivative assets and liabilities.

Refer to *Note 42 - Financial risk management* for a description of the Group's risk management practices in relation to market risks such as interest rate, foreign currency and liquidity risk.

32 Other debt issues

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Perpetual floating rate notes	**239**	191	**239**	191
National capital instruments	**640**	580	**-**	-
Capital notes	**878**	716	**878**	716
Convertible preference shares and convertible notes	**4,535**	3,199	**4,535**	3,199
Total other debt issues	**6,292**	4,686	**5,652**	4,106

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued US$250 million undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The floating rate notes are unsecured and have no final maturity. All or some of the floating rate notes may be redeemed at the option of the Group with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million floating rate notes, which were subsequently cancelled by the Group.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million 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 Euro NCIs are unsecured and all or some of them may be redeemed at the option of the Group with the prior consent of APRA.

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% per annum (the base rate) plus an initial margin of 4.94% per annum. 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 capital notes are redeemable at the Group's option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

Convertible Preference Shares

On 20 March 2013, the Group issued $1.51 billion of convertible preference shares (NAB CPS) and on 17 December 2013, the Group issued $1.72 billion of convertible preference shares (NAB CPS II). The convertible preference shares will mandatorily convert into ordinary shares on the mandatory conversion dates, 22 March 2021 (NAB CPS) and 19 December 2022 (NAB CPS II). With prior written approval from APRA, the Company has the option to convert, redeem or resell NAB CPS on 20 March 2019 and NAB CPS II on 17 December 2020 or on the occurrence of particular events, provided certain conditions are met. NAB CPS and NAB CPS II may also convert in certain circumstances if required by prudential regulatory requirements. Interest on both issuances is payable quarterly in arrears at a rate of 3.20% per annum above the 90 day BBSW for NAB CPS and 3.25% per annum above the 90 day BBSW for NAB CPS II. Both issuances have supported the Group's Tier 1 capital position.

Convertible Notes

On 23 March 2015, the Group issued $1.34 billion of convertible notes (NAB Capital Notes). The convertible notes will mandatorily convert into ordinary shares on the mandatory conversion date, 23 March 2022. With prior written approval from APRA, the Company has the option to convert, redeem or resell the convertible notes on 23 March 2020, or earlier following the occurrence of certain events. NAB Capital Notes may also convert in certain circumstances if required by prudential regulatory requirements. Distributions are payable quarterly in arrears at a rate of 3.50% per annum above the 90 day BBSW. The issuance has supported the Group's Tier 1 capital position.

33 Defined benefit superannuation plan assets and liabilities

(a) Superannuation plans

The Group maintains several defined benefit superannuation plans in different geographies including some superannuation plans which have defined benefit and defined contribution components. Defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit plans are closed to new members. An asset (surplus) or liability (deficit) in respect of defined benefit plans is recognised on the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the plan's assets. Surpluses and deficits depend on various factors and can vary significantly over time having regard, for example, to movements in investment markets, future salaries and changes in employment patterns.

All defined benefit plans are registered and regulated by their respective regions and governed under their trust deed and rules. The trustee is responsible for the operation and governance of the defined benefit plan, including making decisions regarding the plan's funding and investment strategy. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

This note sets out details of defined benefit plans only, and is based on the most recent information available prior to the reporting date.

(b) Balance sheet amounts

The defined benefit net asset and net liability recognised on the balance sheet are comprised of the following:

	Group	
	2015 $m	2014 $m
Net asset on the balance sheet (plans in surplus)		
Fair value of plan assets	**7,810**	6,165
Present value of funded obligations	**(7,679)**	(6,051)
Net asset before adjustment for contribution tax	**131**	114
Adjustment for contribution tax	**2**	1
Net asset included in other assets on the balance sheet	**133**	115
Net liability on the balance sheet (plans in deficit)		
Fair value of plan assets	**-**	1
Present value of partly funded obligations	**(8)**	(13)
Net liability on the balance sheet	**(8)**	(12)

(c) Plan assets by asset category

The fair value of plan assets (for both the plans in surplus and deficit), by assets categories, including the percentage of the total plan assets as at 30 September is as follows:

	Group							
	2015				2014			
	Quoted market price in an active market $m	**No quoted market price in active market $m**	**Total $m**	**%**	Quoted market price in an active market $m	No quoted market price in active market $m	Total $m	%
Cash	**70**	**-**	**70**	**0.9**	26	-	26	0.4
Equity instruments	**1,909**	**-**	**1,909**	**24.4**	1,626	-	1,626	26.4
Debt instruments								
Senior investment grade	**3,536**	**-**	**3,536**	**45.3**	2,550	-	2,550	41.4
Investment grade	**1,764**	**-**	**1,764**	**22.6**	1,489	-	1,489	24.1
Property								
Australia	**-**	**3**	**3**	**-**	-	2	2	-
Europe	**-**	**286**	**286**	**3.7**	-	204	204	3.3
Other assets	**242**	**-**	**242**	**3.1**	245	24	269	4.4
Fair value of plan assets	**7,521**	**289**	**7,810**	**100.0**	5,936	230	6,166	100.0

The fair value of plan assets includes land and buildings occupied by the Group with a fair value of $35 million (2014: $29 million).

33 Defined benefit superannuation plan assets and liabilities (continued)

(d) Principal actuarial assumptions

The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the Group for the year ended 30 September 2016 is $72 million (2015: $74 million).

The assets of all the plans are held independently of the Group's assets in separate administered plans. Defined benefit plans 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 actuarial assumptions at 30 September (weighted averages):

	Group	
	2015 %	2014 %
Discount rate (per annum)	**3.8**	4.1
Rate of compensation increase (per annum)	**3.2**	3.1
Future superannuation increases (per annum)	**3.1**	3.0

	Group	
Expected future lifetime at the age of 60	**2015 Years**	2014 Years
Male retired	**27.6**	27.4
Female retired	**29.5**	29.3
Male non-retired	**28.8**	28.7
Female non-retired	**30.8**	30.7

Sensitivity analysis

The table below sets out the impacts of the defined benefit obligations to the following sensitivities in principal actuarial assumptions.

		Group	
	Change in variables	**2015 %**	2014 %
Discount rate	0.25% increase in discount rate	**(4.59)**	(4.66)
Compensation rate	1% increase in compensation rate	**0.03**	0.04
Mortality	10% increase in mortality rates	**(1.68)**	(2.40)

34 Other liabilities

	Group		Company	
	2015 (1) $m	2014 $m	**2015 (1) $m**	2014 $m
Accrued interest payable	**4,147**	4,525	**3,231**	3,568
Payables and accrued expenses	**1,902**	1,998	**933**	1,125
Notes in circulation	**3,874**	3,400	**-**	-
Other life insurance liabilities (2)				
Outstanding policy claims	**122**	123	**-**	-
Other	**50**	159	**-**	-
Cash collateral received from third parties	**1,950**	706	**1,947**	706
Other (3)	**2,722**	2,476	**2,267**	1,300
Total other liabilities	**14,767**	13,387	**8,378**	6,699

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to Note 1(p)).*

(3) *Other includes payables relating to settlements clearing, liability on acceptances and defined benefit superannuation plan liabilities.*

35 Contributed equity

	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**31,334**	24,049	**32,065**	24,500
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II [(1)]	**-**	1,014	**-**	1,014
National Capital Instruments	**397**	397	**397**	397
Total contributed equity	**34,651**	28,380	**34,407**	27,856

(1) *Trust Preferred Securities II were redeemed on 23 March 2015.*

Ordinary Shares

Reconciliation of movement in contributed equity

	Group 2015 $m	Group 2014 $m	Company 2015 $m	Company 2014 $m
Ordinary share capital				
Balance at beginning of year	**24,049**	23,410	**24,500**	23,941
Shares issued				
Dividend reinvestment plan (DRP)	**1,137**	677	**1,137**	677
DRP underwritten allotments	**800**	-	**800**	-
Rights Issue	**5,446**	-	**5,446**	-
Exercise of executive share options	**-**	9	**-**	9
Transfer from equity-based compensation reserve	**182**	182	**182**	182
Treasury shares adjustment relating to life insurance business	**(280)**	80	**-**	-
On market purchase of shares for dividend reinvestment plan neutralisation	**-**	(309)	**-**	(309)
Balance at end of year	**31,334**	24,049	**32,065**	24,500
Preference share capital				
Balance at beginning of year	**-**	203	**-**	-
Buyback of BNZ Income Securities	**-**	(203)	**-**	-
Balance at end of year	**-**	-	**-**	-

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

	Company 2015 No. '000	Company 2014 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,365,791**	2,348,903
Shares issued		
Rights issue	**193,912**	-
Dividend reinvestment plan (DRP)	**35,057**	19,971
DRP underwritten allotments	**24,603**	-
Bonus share plan	**2,095**	1,674
Employee share plans	**3,540**	3,175
Performance options and performance rights	**761**	1,065
Paying up of partly paid shares	**5**	20
On market purchase of shares for dividend reinvestment plan neutralisation	**-**	(9,017)
Total ordinary shares, fully paid	**2,625,764**	2,365,791
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**69**	89
Paying up of partly paid shares	**(5)**	(20)
Total ordinary shares, partly paid to 25 cents	**64**	69
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,625,828**	2,365,860
Deduct: Treasury shares	**(62,955)**	(55,689)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,562,873**	2,310,171

35 Contributed equity (continued)

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Treasury shares				
Balance at beginning of year	**1,481**	1,562	**6**	7
Treasury shares adjustment relating to life insurance business	**280**	(80)	**-**	-
Transfer from equity-based compensation reserve - purchased shares	**-**	(1)	**-**	(1)
Balance at end of year	**1,761**	1,481	**6**	6

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

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

Trust Preferred Securities

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

Trust Preferred Securities II

In accordance with the terms of the Trust Preferred Securities, the Company exercised its right to sell the securities for the issue price (plus the unpaid distributions for the last distribution period) of US$800 million on 23 March 2015.

National Capital Instruments

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI 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 written consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or earlier in certain circumstances.

36 Reserves

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Asset revaluation reserve	**75**	81	**-**	-
Foreign currency translation reserve	**(1,091)**	(1,936)	**(160)**	(185)
Cash flow hedge reserve	**110**	(55)	**(8)**	(35)
Equity-based compensation reserve	**204**	277	**204**	277
General reserve for credit losses	**64**	601	**64**	601
Available for sale investments reserve	**-**	166	**-**	153
Debt instruments at fair value through other comprehensive income reserve	**56**	-	**32**	-
Equity instruments at fair value through other comprehensive income reserve	**220**	-	**208**	-
Total reserves	**(362)**	(866)	**340**	811

36 Reserves (continued)

Reconciliations of movements in reserves

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Asset revaluation reserve				
Balance at beginning of year	**81**	79	**-**	-
Revaluation of land and buildings	**1**	3	**-**	-
Transfer to retained profits	**(1)**	(2)	**-**	-
Tax on revaluation adjustments	**-**	1	**-**	-
Released on divestment of discontinued operation [(1)]	**(6)**	-	**-**	-
Balance at end of year	**75**	81	**-**	-
Foreign currency translation reserve				
Balance at beginning of year	**(1,936)**	(2,501)	**(185)**	(217)
Currency translation adjustments	**1,067**	574	**25**	32
Attributable to non-controlling interest	**(166)**	-	**-**	-
Released on divestment of discontinued operation [(1)]	**(46)**	-	**-**	-
Tax on foreign currency translation reserve	**(10)**	(9)	**-**	-
Balance at end of year	**(1,091)**	(1,936)	**(160)**	(185)
Cash flow hedge reserve				
Balance at beginning of year	**(55)**	105	**(35)**	45
Gains/(losses) on cash flow hedging instruments	**137**	(119)	**(37)**	(111)
(Gains)/losses transferred to the income statement	**(36)**	(84)	**72**	6
Tax on cash flow hedging instruments	**(9)**	43	**(8)**	25
Released on divestment of discontinued operation [(1)]	**73**	-	**-**	-
Balance at end of year	**110**	(55)	**(8)**	(35)
Equity-based compensation reserve				
Balance at beginning of year	**277**	296	**277**	296
Equity-based compensation	**120**	163	**120**	163
Transfer to contributed equity	**(182)**	(182)	**(182)**	(182)
Transfer of shares, options and rights lapsed to retained profits	**(11)**	-	**(11)**	-
Balance at end of year	**204**	277	**204**	277
General reserve for credit losses				
Balance at beginning of year	**601**	539	**601**	539
Restated for adoption of new accounting standards [(2)]	**(586)**	-	**(586)**	-
Transfer from retained profits	**49**	62	**49**	62
Balance at end of year	**64**	601	**64**	601
Available for sale investments reserve				
Balance at beginning of year	**166**	62	**153**	5
Restated for adoption of new accounting standards [(2)]	**(166)**	-	**(153)**	-
Revaluation gains	**-**	263	**-**	232
Gains from sale transferred to the income statement	**-**	(94)	**-**	(16)
Impairment transferred to the income statement	**-**	4	**-**	-
Tax on available for sale investments	**-**	(69)	**-**	(68)
Balance at end of year	**-**	166	**-**	153
Debt instruments at fair value through other comprehensive income reserve				
Balance at beginning of year	**-**	-	**-**	-
Restated for adoption of new accounting standards [(2)]	**143**	-	**133**	-
Revaluation losses	**(3)**	-	**(30)**	-
Gains from sale transferred to the income statement	**(69)**	-	**(69)**	-
Loss allowance on debt instruments at fair value through other comprehensive income	**1**	-	**-**	-
Tax on debt instruments at fair value through other comprehensive income	**(11)**	-	**(2)**	-
Attributable to non-controlling interest	**(2)**	-	**-**	-
Released on divestment of discontinued operation [(1)]	**(3)**	-	**-**	-
Balance at end of year	**56**	-	**32**	-

(1) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

(2) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

36 Reserves (continued)

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Equity instruments at fair value through other comprehensive income reserve				
Balance at beginning of year	**-**	-	**-**	-
Restated for adoption of new accounting standards [(1)]	**22**	-	**21**	-
Revaluation gains	**218**	-	**207**	-
Tax on equity instruments at fair value through other comprehensive income	**(20)**	-	**(20)**	-
Balance at end of year	**220**	-	**208**	-

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

37 Retained profits

	Group		Company	
	2015 [(1)] $m	2014 $m	**2015 [(1)] $m**	2014 $m
Balance at beginning of year	**20,377**	19,793	**19,530**	18,664
Restated for adoption of new accounting standards	**(465)**	-	**(262)**	-
Actuarial (losses)/gains on defined benefit superannuation plans	**(79)**	49	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	**165**	(44)	**52**	(43)
Tax on items taken directly from equity	**(15)**	(6)	**-**	-
Net profit attributable to owners of NAB from continuing operations	**6,357**	5,181	**5,940**	5,602
Net profit attributable to owners of NAB from discontinued operations [(2)]	**(19)**	114	**-**	-
Transfer to general reserve for credit losses	**(49)**	(62)	**(49)**	(62)
Transfer from asset revaluation reserve	**1**	2	**-**	-
Transfer of options and rights lapsed from equity-based compensation reserve	**11**	-	**11**	-
Dividends paid	**(4,573)**	(4,470)	**(4,670)**	(4,553)
Distributions on other equity instruments	**(175)**	(180)	**(74)**	(78)
Loss on disposal of interest in subsidiary [(3)]	**(323)**	-	**-**	-
Reclassification of Trust Preferred Securities II transaction costs [(4)]	**(8)**	-	**(8)**	-
Balance at end of year	**21,205**	20,377	**20,470**	19,530

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Included within discontinued operations are the post-tax profit / loss of discontinued operations of GWB and the post-tax gain / loss recognised on the disposal of the assets relating to the discontinued operations. Refer to Note 51 - Discontinued operations for further details.*

(3) *Includes discontinued operations of GWB. Refer to Note 51 - Discontinued operations for further details.*

(4) *Relates to the reclassification of issuance related transaction costs previously deducted from the Trust Preferred Securities II equity instrument which was redeemed during the period.*

38 Shares, performance options and performance rights

The Group's employee equity plans provide NAB shares, performance options and performance rights to employees of the Group. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand (NZ) staff share allocation plan, United Kingdom (UK) share incentive plan). Performance options have not been provided under any equity plans since 2012.

The Board determines the maximum number of shares, performance options or performance rights offered under each plan having regard to the rules of the relevant plan and, where required, the formula used in calculating the fair value per instrument. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration policy which is designed to:

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

Under the terms of most offers, there is a period during which shares are held on trust and cannot be dealt with, or performance options or performance rights cannot be exercised, by the employee to whom they are allocated. There may be forfeiture or lapse conditions particular to shares, performance options or performance rights allocated to an employee (as described below) if the employee leaves during those periods. Shares allocated to employees are eligible for any cash dividends paid from the time they are allocated to the trustee on an employee's behalf.

38 Shares, performance options and performance rights (continued)

Short-term incentives (STI) for certain employees may be deferred into shares or performance rights. Employees become eligible to receive those shares or performance rights based on their individual performance, business performance or both.

The STI deferral model for employees based in Australia, Asia, NZ, the UK and the United States (US) allows for a proportion of an employee's STI reward to be deferred. The deferred amount is commensurate with the level of risk and responsibility within a role and the length of deferral, ranging from 6 to 42 months, aligns with both the level of risk and impact of the role on business performance and results. A threshold is in place whereby deferral only applies to STI deferred amounts of $1,000 or more.

Generally, STI shares (or performance rights which are granted to senior executives or for jurisdictional reasons) are forfeited (or lapsed) during the deferral period if the employee resigns or fails to pass the Compliance Gateway during the following financial year(s) or, subject to certain exclusions, if the employee is terminated from the Group. In determining the release of an employee's STI shares from restrictions during the deferral period, the Board may in its absolute discretion, subject to compliance with the law, forfeit some or all of the STI deferral shares. For further details on STI awards granted to senior executives of NAB, refer to the *Remuneration report*.

Commencement shares (or performance rights granted for jurisdictional reasons) enable the buy-out of equity from previous employment, but are only provided with the recommendation of the Remuneration Committee and the approval of the Board or delegate. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The shares may also be subject to restrictions and certain forfeiture conditions, including forfeiture (or lapsing) on resignation.

Recognition / Retention shares (or performance rights granted for jurisdictional reasons) may be offered to key individuals in roles where retention is critical over a medium term time frame (generally two to three years). The shares or performance rights may also be subject to restrictions and certain forfeiture conditions, including forfeiture (or lapsing) on resignation.

General employee shares up to a target value of $1,000 are offered to eligible employees. These shares are held on trust, are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In NZ and the US, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of the three year restriction period. In the UK, the shares are forfeited if an employee is summarily dismissed prior to the end of the three year restriction period.

Salary sacrifice shares are allocated on a monthly basis to UK employees when they nominate to contribute a portion of their gross salary to receive NAB shares.

Other employee share offers include various other offers made to employees of the Group from time to time. Previously, these included MLC Ownership shares, which were provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. Those shares are forfeited for termination due to serious misconduct involving dishonesty. The MLC Ownership plan ceased in 2013.

Long-term incentives (LTI) taking the form of performance options or performance rights, help to align management decisions with the long-term prosperity of the Group through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. An LTI target is set with reference to external and internal relativities for each executive who must also meet minimum performance and compliance thresholds. Performance hurdles (both internal and external) are measured at the end of a three to five year performance period. During the performance period an executive's performance rights or performance options will lapse for cessation of employment (if the Board so determines) or, if compliance requirements or performance hurdles are not met.

Total Shareholder Return (TSR) compared against peer companies and / or Group ROE and cash earnings are the performance measures used depending on the year the LTI was awarded.

Vesting of an LTI award generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). For historical awards, the performance rights or performance options generally have an expiry date between five and six years from the effective date, if they remain unexercised. For LTI awards from 2015, if the applicable conditions are met, the performance rights will vest and each performance right will be automatically exercised in return for one NAB ordinary share.

Each performance option or performance right is exchanged for one NAB fully paid ordinary share upon exercise, subject to standard adjustments for capital actions. No exercise price is payable by the holder on exercise of performance rights.

Restricted Shares with a target value of $3,000 based on Group performance was previously granted to certain Group senior employees under the Restricted Share Plan. Eligibility was based on service and threshold performance and compliance outcomes. An employee forfeits shares received under the Restricted Share Plan for voluntary cessation of employment or failure to meet compliance requirements within the three year restriction period. The Restricted Share Plan ceased in 2013.

38 Shares, performance options and performance rights (continued)

Details of shares, performance options and performance rights are set out in the following tables:

Employee share plans

	2015		2014	
Employee share plans	**Fully paid ordinary shares granted during the year No.**	**Weighted average grant date fair value $**	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $
Salary sacrifice shares	**81,618**	**34.48**	66,413	34.54
Short-term incentive shares	**2,306,937**	**32.92**	2,939,097	34.41
Commencement and recognition shares	**433,190**	**33.25**	475,895	35.24
General employee shares	**1,164,870**	**32.40**	1,009,476	33.99
Long-term incentive shares	-	-	9,100	20.02

The closing market price of NAB's shares at 30 September 2015 was $29.98 (2014: $32.54). The volume weighted average share price during the year ended 30 September 2015 was $33.87 (2014: $33.74).

Performance options and performance rights movements

	Performance options		Performance rights	
		Weighted average exercise price		Weighted average exercise price
	No.	$	No.	$
Equity instruments outstanding as at 30 September 2013	473,889	19.89	5,486,169	-
Granted	-	-	1,888,902	-
Forfeited	(27,354)	19.89	(2,343,331)	-
Exercised	(446,535)	19.89	(612,620)	-
Expired	-	-	(660)	-
Equity instruments outstanding as at 30 September 2014	-	-	4,418,460	-
Granted	-	-	1,740,539	-
Forfeited	-	-	(1,030,999)	-
Exercised	-	-	(743,764)	-
Expired	-	-	(5,276)	-
Equity instruments outstanding as at 30 September 2015	**-**	**-**	**4,378,960**	**-**
Equity instruments exercisable as at 30 September 2015	**-**	**-**	**28,276**	**-**
Equity instruments exercisable as at 30 September 2014	-	-	2,157	-

Executive performance rights [(1)] outstanding

	2015		2014	
	Outstanding at 30 Sep	**Weighted average remaining life**	Outstanding at 30 Sep	Weighted average remaining life
Terms and conditions	**No.**	**Months**	No.	Months
External hurdle [(2)]	**3,780,094**	**44**	3,262,184	49
Internal hurdle [(3)]	**61,258**	**27**	79,503	32
Individual hurdle [(4)]	**537,608**	**12**	1,076,773	15

(1) *No exercise price is payable for performance rights.*

(2) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(3) *Performance hurdles based on achievement of internal financial measures such as cash earnings and ROE compared to business plan.*

(4) *Vesting is determined by individual performance or time-based hurdles.*

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights granted during the last two years. No performance options were granted during this time. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance rights which have non-market based performance hurdles attached.

For further details on the fair value methodology, refer to *Note 1(ag) - Equity-based compensation*.

	2015	2014
Weighted average values		
Contractual life (years)	**4.7**	4.7
Risk-free interest rate (per annum)	**2.42%**	3.30%
Expected volatility of share price	**17%**	21%
Closing share price on grant date	**$33.46**	$33.88
Dividend yield (per annum)	**5.80%**	6.30%
Fair value of performance rights	**$13.97**	$15.33
'No hurdle' value of performance rights	**$29.97**	$31.59
Expected time to vesting (years)	**3.62**	3.32

39 Notes to the cash flow statements

(a) Reconciliation of net profit attributable to owners of NAB to net cash provided by operating activities

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Net profit attributable to owners of NAB	**6,338**	5,295	**5,940**	5,602
Add/(deduct) non-cash items in the income statement:				
Decrease/(increase) in interest receivable	**185**	5	**113**	(118)
Decrease in interest payable	**(539)**	(90)	**(388)**	(47)
Decrease in unearned income and deferred net fee income	**(294)**	(345)	**(265)**	(266)
Fair value movements on assets, liabilities and derivatives held at fair value	**699**	(3,433)	**(1,142)**	(4,120)
Increase in personnel provisions	**19**	21	**92**	8
Increase/(decrease) in other operating provisions	**232**	1,149	**4**	(37)
Equity-based compensation recognised in equity or reserves	**120**	163	**120**	163
Superannuation costs - defined benefit plans	**20**	51	**-**	-
Impairment losses on non-financial assets	**79**	294	**53**	238
Impairment losses on financial assets	**-**	4	**-**	-
Charge to provide for bad and doubtful debts	**862**	855	**604**	604
Loss/(gain) on disposal of loans and advances	**40**	(51)	**40**	(51)
Depreciation and amortisation expense	**764**	709	**288**	253
Movement in life insurance policyholder liabilities	**4,626**	7,163	**-**	-
Unrealised gain on investments relating to life insurance business	**(1,902)**	(4,034)	**-**	-
Decrease in other assets	**924**	321	**644**	145
Decrease in other liabilities	**(310)**	(1,473)	**(194)**	(1,600)
Increase/(decrease) in income tax payable	**511**	23	**420**	(180)
(Increase)/decrease in deferred tax assets	**(85)**	(3)	**66**	212
(Decrease)/increase in deferred tax liabilities	**(79)**	(72)	**102**	(185)
Operating cash flow items not included in profit	**(25,315)**	(13,692)	**(9,539)**	(4,891)
Investing or financing cash flows included in profit				
Loss on sale of controlled entities, before income tax	**83**	-	**279**	-
Gain on investments classified as available for sale	**-**	(94)	**-**	(16)
Gain on investments classified as debt instruments at fair value through other comprehensive income	**(74)**	-	**(74)**	-
Loss/(gain) on sale of property, plant, equipment and other assets	**6**	(1)	**(2)**	4
Net cash (used in)/provided by operating activities	**(13,090)**	(7,235)	**(2,839)**	(4,282)

(b) Reconciliation of cash and cash equivalents

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

	Group		Company	
Cash and cash equivalents	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Assets				
Cash and liquid assets	**30,934**	41,034	**24,308**	34,665
Treasury and other eligible bills	**1,371**	885	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**40,775**	27,479	**27,973**	16,788
Total cash and cash equivalent assets	**73,080**	69,398	**52,281**	51,453
Liabilities				
Due to other banks	**(52,552)**	(42,881)	**(50,311)**	(40,239)
Total cash and cash equivalents	**20,528**	26,517	**1,970**	11,214

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $2,453 million (2014: $2,099 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.

(c) Non-cash financing and investing activities

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
New share issues				
Dividend reinvestment plan	**1,137**	677	**1,137**	677

40 Interests in subsidiaries and other entities

The following table presents the material controlled entities of the Group as at 30 September 2015 and 30 September 2014 [4][5]. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated/formed in
National Australia Bank Limited		Australia
National Equities Limited [1]	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
CYB Investments Limited [2]	100	England
Clydesdale Bank PLC	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
NBA Properties Limited [1] [3]	100	Australia
ARDB Limited [1] [3]	100	Australia
National HK Investments Limited	100	Hong Kong

(1) *These controlled entities and NAB Properties Australia Limited have entered into a deed of cross guarantee with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from then Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report. Refer to Note 41(d) - Contingent liabilities and credit commitment for details.*

(2) *On 29 October 2015, NAGE changed its name to CYBI.*

(3) *Effective 1 December 2014, C.B.C. Holdings Limited and C.B.C. Properties Limited are no longer party to the deed of cross guarantee with these controlled entities.*

(4) *On 3 August 2015 the Group lost control of Great Western Bancorp Inc. Refer to Note 51 - Discontinued operations for further details.*

(5) *National Americas Holdings LLC has been removed as it has not been assessed as material controlled entity as at 30 September 2015.*

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 Australian Securities and Investments Commission (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.

Pursuant to ASIC instrument 15-0330 dated 29th May 2015, the Company is relieved from this requirement in respect of certain securitisation structured entities to which the Group provides funding to and which are consolidated by the Company. With respect to each securitisation structured entity, relief is granted until 30 September 2018. Each securitisation structured entity prepares an audited financial report following its year end and in accordance with its transaction documents.

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in *Note 42 - Financial risk management* and capital adequacy requirements in *Note 50 - Capital adequacy*.

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds which are subject to restrictions imposed under the *Life Insurance Act 1995* (Cth). Refer to *Note 39 - Notes to the cash flow statements* for further details.

Structured entities

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

Depending on the Group's power over the relevant activities of the structured entity and its exposure to and ability to influence its own returns, it may or may not consolidate the entity.

(a) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Securitisation

The Group engages in securitisation activities for funding and liquidity purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets.

The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2015 is $1,351 million.

Covered bonds

The Group issues covered bonds for funding purposes. Housing loans are assigned to a bankruptcy remote structured entity to provide security for the obligations payable on the covered bonds issued by the Group. Similar to securitisation programs, the Group is entitled to any residual income

40 Interests in subsidiaries and other entities (continued)

after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the cover pool assets.

Investment funds

The Group undertakes fund management activities through its role as responsible entity, trustee, or manager for investment funds and trusts. The Group's interests include holding units and receiving fees for services which could include elements of performance fees.

(b) Unconsolidated structured entities

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entity. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:

- Creates rather than absorbs variability of the unconsolidated structured entity.
- Provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity's activity. This excludes involvements that exist only because of typical customer-supplier relationships.

Securitisation

The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.

Other financing

The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles.

Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.

Investment funds

The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units, receiving fees for services, and providing investment commitments. The Group's interest in unconsolidated investment funds is immaterial.

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

	2015 [(1)]			2014		
	Securitisations $m	**Other financing $m**	**Total $m**	Securitisations $m	Other financing $m	Total $m
Trading securities	**881**	**-**	**881**	503	-	503
Investments - available for sale	**-**	**-**	**-**	7,027	-	7,027
Investments - held to maturity	**-**	**-**	**-**	1,272	-	1,272
Other financial assets at fair value	**590**	**-**	**590**	-	-	-
Loans and advances	**4,903**	**2,853**	**7,756**	4,134	1,708	5,842
Debt instruments through fair value through other comprehensive income	**8,387**	**-**	**8,387**	-	-	-
Total carrying value of assets in unconsolidated structured entities	**14,761**	**2,853**	**17,614**	12,936	1,708	14,644
Commitment/Contingencies	**3,272**	**871**	**4,143**	3,376	306	3,682
Total maximum exposure to loss in unconsolidated structured entities	**18,033**	**3,724**	**21,757**	16,312	2,014	18,326

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, the Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Exposure to loss is managed as part of the enterprise Group-wide risk management framework. Refer to *Note 42 - Financial risk management* for further details.

Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements, fees and commissions.

40 Interests in subsidiaries and other entities (continued)

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	2015 [(1)]			2014		
	Securitisations $m	**Other financing $m**	**Total $m**	Securitisations $m	Other financing $m	Total $m
Senior investment grade	**14,371**	**686**	**15,057**	12,361	262	12,623
Investment grade	**387**	**1,681**	**2,068**	432	1,242	1,674
Sub-investment grade	**3**	**486**	**489**	48	193	241
Not rated	**-**	**-**	**-**	95	11	106
Total [(2)]	**14,761**	**2,853**	**17,614**	12,936	1,708	14,644

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Of the total, $17,590 million (2014: $14,641 million) represents Group's interest in senior notes and $24 million in subordinated notes (2014: $3 million).*

41 Contingent liabilities and credit commitments

(a) Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 44 - Financial asset transfers and securitisations.*

(b) Contingent liabilities

The Group's exposure to potential loss in the event of non-performance by a counterparty in respect of commitments to extend credit, letters of credit and financial guarantees written is represented by the contractual notional principal amount of those instruments less any amounts that may be recovered under recourse provisions. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off balance sheet risks as it does for on-balance sheet loan assets.

The following table shows details of the Group's contingent liabilities for the last two years as at 30 September:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Contingent liabilities				
Bank guarantees	**5,315**	4,245	**5,480**	4,431
Standby letters of credit	**6,521**	2,960	**6,521**	2,960
Documentary letters of credit	**846**	676	**413**	280
Performance-related contingencies	**6,262**	5,679	**5,698**	5,160
Total contingent liabilities	**18,944**	13,560	**18,112**	12,831

(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 credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- Bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee.
- Standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation.
- Documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions.
- Performance-related contingencies – a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

(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

41 Contingent liabilities and credit commitments (continued)

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 was a party to an inter-bank deposit agreement between the four major Australian banks. Under the agreement, each participant, including the Company, had 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. This agreement was terminated with effect from 5 March 2015.

(iv) Legal proceedings

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

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

(v) Class actions

On 16 December 2011, Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar actions against other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed until 1 December 2015 pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action commenced in September 2010 and is effectively a 'test case' for exception fee claims against Australian banks. On 8 April 2015, the Full Court of the Federal Court delivered judgement on an appeal in the ANZ action. The Court found in favour of ANZ. On 11 September 2015 the applicants were granted special leave to appeal to the High Court of Australia.

In March 2013, a potential representative action against New Zealand banks (including NAB's subsidiary BNZ) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the actions. On 20 August 2014, representative proceedings were filed against BNZ. On 24 September 2014 and again on 30 April 2015, these proceedings were stayed pending the outcome of proceedings in Australia. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

(vi) United Kingdom Financial Services Compensation Scheme

The United Kingdom (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 in the UK, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits.

During 2015, the FSCS levy was also invoiced to institutions for the third of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2016 and an accrual of $19 million (£9 million) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

(vii) Claims for potential mis-selling of payment protection insurance

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance (PPI).

As at 30 September 2015, a provision of $1,674 million (£774 million) is held with respect to complaints and redress issues arising out of historic sales of PPI. This includes a charge of £390 million during the September 2015 half, which incorporates the requirement for further proactive customer contact determined by the Group undertaking a past business review, as well as changes in complaint levels, changes in the cost of redress and increasing costs of the programme. This provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies), the number of those claims that ultimately will be upheld, the amount that will be paid in respect of those claims, the impact of the Supreme Court decision in Plevin v Paragon Personal Finance Ltd (Plevin) referenced below (including the impact of any new Financial Conduct Authority (FCA) rules or guidance issued further to that decision) and any additional amounts that may need to be paid in respect of previously handled claims.

The November 2014 case of Plevin held that, judged on its own facts, non-disclosure of the amount of commission payable in that case in connection with the sale of single premium PPI to a customer, created an unfair relationship under Section 140A (s.140A) of the *Consumer Credit Act* 1974 (CCA).

On 2 October 2015 the FCA announced its intention to issue consultations, before the end of the calendar year, in relation to the introduction of a deadline by which consumers would need to make their PPI complaints and also in relation to how FCA regulated firms should handle PPI complaints fairly in light of Plevin. The principal elements of the consultations include (i) a deadline for PPI complaints falling two years from the date the proposed rule comes into force (not anticipated to be before April or May 2016) and (ii) a proposal that a UK regulated firm should presume, when assessing a complaint, that a failure to disclose a commission of 50% or more gave rise to an unfair relationship under s.140A. The proposed rules and guidance in (ii) would only apply to PPI complaints where a claim could be made against a lender under s.140A (i.e. where sums were payable (or capable of being payable) under the underlying credit agreement on or after 6 April 2008). The proposed PPI complaint deadline would also

41 Contingent liabilities and credit commitments (continued)

apply to the handling of these complaints. Noting that the consultation documents have not been published and that the final rules and guidance may therefore change from that proposed, it is too early to estimate the impact of these matters. Accordingly, no adjustment to the PPI provision has been recorded in relation to these matters.

The eventual costs of PPI redress and complaint handling may differ materially from the amount estimated and a further provision may be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

The Group will continue to reassess the adequacy of the provision for these matters and the assumptions underlying the provision calculation based on experience and other relevant factors as matters develop.

(viii) Review of sales of certain interest rate hedging products

On 29 June 2012 the UK Financial Services Authority (FSA, now the Financial Conduct Authority) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium businesses. Clydesdale Bank agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has implemented a program to identify small and medium sized customers that may have been affected and where due, pay financial redress.

The exercise incorporates certain of the Group's tailored business loan (TBLs) products as well as the standalone hedging products identified in the FSA's notice. The exercise was formally closed to new claims on 31 March 2015.

In addition, Clydesdale Bank is responding to complaints relating to fixed-rate TBLs not currently in scope of the review noted above.

Based on a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs for interest rate hedging products and in-scope TBLs, and the complaints-led review of certain fixed-rate TBLs, a provision of $415 million (£192 million) is held as at 30 September 2015, including a charge in the September 2015 half of $163 million (£75 million). The extent of future complaints relating to fixed-rate TBLs, and the total costs relating to current complaints, are uncertain and further provisions may be required.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

(ix) Other UK conduct related matters

Since 1 April 2013, Clydesdale Bank has been regulated by the FCA and the Prudential Regulation Authority (PRA). The FCA is a proactive regulator focused on conduct issues, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products (including out-of-scope TBLs), is $43 million (£20 million). The total cost associated with these and other conduct related matters is uncertain.

(x) Industry reviews by Australian regulators

Regulators globally are continuing their investigation into manipulation of financial benchmarks and markets. In Australia this includes examining potential wrongdoing in the bank bill swap reference rate and foreign exchange markets. NAB is responding to inquiries by Australian regulators as part of these investigations. Responding to these inquiries involves significant time and cost, although the final outcomes (including potential regulatory fines, undertakings or sanctions) and total cost associated with these reviews is uncertain.

(xi) Wealth advice review

Since September 2014, the Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. The Committee is due to report by 1 February 2016. NAB appeared before the Committee on 6 March 2015 and committed to write to customers where misconduct has occurred in the last five years.

On 21 October 2015, NAB announced that it has started contacting customers who may have received non-compliant advice since 2009 and that customers who have suffered loss due to inappropriate advice will be compensated.

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

(c) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Refer to *Note 18 - Loans and advances* for a description of collateral held as security and other credit enhancements.

41 Contingent liabilities and credit commitments (continued)

The following tables show details of the notional amount of credit-related commitments as at 30 September 2015:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Credit-related commitments				
Underwriting facilities	**2**	2	**2**	2
Binding credit commitments	**134,538**	126,422	**103,189**	96,681
Total credit-related commitments	**134,540**	126,424	**103,191**	96,683

The following table shows the geographical concentrations of credit-related commitments as at 30 September 2015:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Australia	**92,868**	89,327	**92,868**	89,327
Europe	**20,445**	18,810	**3,691**	3,316
New Zealand	**14,595**	13,126	**-**	-
United States	**4,084**	3,778	**4,084**	2,657
Asia	**2,548**	1,383	**2,548**	1,383
Total	**134,540**	126,424	**103,191**	96,683

(d) Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note.

- The Company will guarantee up to $28,533 million of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $1,357 million (2014: $12,824 million) has been issued.
- The Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer.
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that in the event it is proposed that NWMSL no longer continue as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL.
- The Company has issued letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries continue to meet their obligations.
- Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (*Note 40 - Interests in subsidiaries and other entities*, footnote (1)) from the *Corporations Act 2001* (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act 2001* (Cth). If a winding-up occurs under other provisions of the *Corporations Act 2001* (Cth), the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

41 Contingent liabilities and credit commitments (continued)

Closed group

The tables below presents the consolidated proforma income statement and balance sheet for the Company and controlled entities which are party to the deed of cross guarantee (referred to as a closed group).

The effects of transactions between entities to the deed are eliminated in full in the consolidated proforma income statement and balance sheets.

	2015 [(1)] **$m**	2014 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**8,310**	7,814
Income tax expense	**(2,439)**	(2,082)
Net profit for the year	**5,871**	5,732
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**24,329**	34,685
Due from other banks	**37,698**	28,318
Trading derivatives	**78,802**	57,712
Trading securities	**38,512**	40,470
Debt instruments at fair value through other comprehensive income	**41,944**	-
Investments - available for sale	**-**	39,292
Investments - held to maturity	**-**	1,668
Other financial assets at fair value	**19,304**	55,830
Hedging derivatives	**11,219**	5,413
Loans and advances	**413,989**	340,814
Due from customers on acceptances	**19,428**	23,427
Current tax assets	**1**	74
Property, plant and equipment	**1,338**	1,368
Investments in controlled entities	**20,960**	19,181
Other intangible assets	**1,855**	1,546
Deferred tax assets	**1,296**	1,374
Other assets	**118,206**	94,560
Total assets	**828,881**	745,732
Liabilities		
Due to other banks	**51,938**	41,677
Trading derivatives	**73,088**	55,521
Other financial liabilities at fair value	**6,958**	6,594
Hedging derivatives	**8,564**	4,416
Deposits and other borrowings	**391,785**	374,538
Current tax liabilities	**996**	718
Provisions	**917**	809
Bonds, notes and subordinated debt	**119,136**	109,010
Other debt issues	**5,652**	4,106
Other liabilities	**115,048**	100,494
Total liabilities	**774,082**	697,883
Net assets	**54,799**	47,849
Equity		
Contributed equity	**34,407**	27,856
Reserves	**316**	784
Retained profits	**20,076**	19,209
Total equity (parent entity interest)	**54,799**	47,849
Total equity	**54,799**	47,849

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

42 Financial risk management

The Group is a major participant in the banking and financial services industry. The financial risks associated with these activities are a significant component of the Group's overall risk exposure. The key financial risks faced by the Group are:

- Credit risk.
- Market risk - trading.
- Market risk - non-trading / banking positions.
- Market risk - Wealth Management.
- Liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Group, and how these risks are managed, are outlined as part of this note. Financial risks together with other material risks faced by the Group including operational, compliance and regulatory risks are managed and overseen as part of the Group's broader corporate governance structure and Risk Management Framework as follows:

Board Governance

The Group's corporate governance structure provides guidance for effective decision making in all areas of the Group through:

- Strategic and operational planning.
- Risk management and compliance.
- Financial management and external reporting.
- Succession planning and culture.

The Board determines the most appropriate corporate governance practices for the Group and is supported by a number of committees. The Principal Board Risk Committee (PBRC) supports the framework for risk management across the Group by:

- Overseeing the risk profile and risk management of the Group within the context of the Board determined risk appetite.
- Making recommendations to the Board concerning the Group's risk appetite, risk management strategy and particular risks or risk management practices.
- Reviewing management's plans for mitigation of material risks faced by the Group.
- Overseeing the implementation and review of the risk management framework and internal compliance and control systems throughout the Group.
- Promoting awareness of a risk-based culture and the achievement of a balance between risk and return for risks accepted.

Executive Governance

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance.

GRRMC and its supporting sub-committees provide oversight of strategy, risk/return and performance of specific risks as follows:

- Group Asset & Liability Committee (GALCO): balance sheet structure.
- Group Credit and Market Risk Committee (GCMRC): credit and traded market risk portfolio.
- Group Capital Committee (GCC): regulatory and economic capital.
- Group Regulatory, Compliance and Operational Risk Committee (GRCORC): operational risk, regulatory and compliance.

GCMRC is further supported by two sub-committees which provide specialist advice, support and decision making in areas requiring deep subject matter expertise as follows:

- Transactional Credit Committee (TCC): significant credit facility approvals.
- Group Technical Risk Model Committee (GTRMC): risk model frameworks and methodology.

Additionally, each First Line division has a Risk Management Committee, chaired by the relevant Group Executive, to support them in executing their risk management accountabilities. Second Line risk specialists are embedded in the organisational structure (for example, as members of divisional Risk Management Committees and Executive management committees) to ensure that a risk and compliance lens is applied to executive decision making.

Risk management

Risk exists in all aspects of the Group's business and the environment in which it operates. Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to the businesses qualitatively (through risk, policies, standards and operating procedures) and quantitatively (through the Group's risk limits, settings and decision authorities).

Compliance with the Group's Risk Management Framework is non-negotiable. The Group's operating model differentiates accountabilities using the Three Lines of Defence Model as follows:

- First line: Management (who owns the risks).
- Second line: Risk (who establish frameworks and provide insight, oversight and appetite).
- Third line: Internal Audit (who provide independent assurance).

Further details of risk accountabilities across the Group are disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/our-business/corporate-governance.

The key financial risks faced by the Group are set out in detail in this note.

42 Financial risk management (continued)

Credit risk

Credit is any transaction that creates an actual or potential obligation for a counterparty or customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives

At any one time, the maximum exposure to credit risk is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

(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.

Further quantitative details around the effect of such netting arrangements are outlined in the Offsetting of financial assets and liabilities disclosures on page 146.

(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.

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

(d) Collateral and other credit enhancements obtained

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet. An exception occurred in respect of real estate assets, located in the United States, obtained by the Group from assuming ownership or foreclosing on the settlement of debt (referred to as 'other real estate owned' assets). These assets were disposed of with the Group's divestment of Great Western Bank in August 2015 and accordingly, there is no further exposure to 'other real estate owned' assets (2014: $57 million).

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for recognised and unrecognised financial instruments. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements mitigate the maximum exposure to credit risk is described in the footnotes to the table.

For financial assets recognised on the balance sheet, the gross exposure to credit risk equals their carrying amount.

42 Financial risk management (continued)

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

		Group		Company	
	Footnote	**2015** [(1)] **$m**	2014 $m	**2015** [(1)] **$m**	2014 $m
Financial assets					
Cash and liquid assets	(a)	**24,793**	35,474	**23,408**	33,806
Due from other banks	(b)	**50,595**	39,088	**37,698**	28,318
Trading derivatives	(c)	**78,384**	57,389	**79,149**	58,001
Trading securities	(d)	**42,937**	44,212	**38,512**	40,470
Debt instruments at fair value through other comprehensive income	(d)	**45,189**	-	**41,944**	-
Investments - available for sale	(d)	**-**	43,386	**-**	39,273
Investments - held to maturity	(d)	**-**	2,919	**-**	1,668
Investments relating to life insurance business	(f)	**89,350**	85,032	**-**	-
Other financial assets at fair value	(e)	**29,696**	84,488	**19,304**	55,830
Hedging derivatives	(c)	**11,599**	5,488	**11,219**	5,413
Loans and advances	(e)	**537,165**	438,956	**417,386**	344,343
Due from customers on acceptances	(e)	**19,437**	23,437	**19,428**	23,427
Due from controlled entities	(g)	**-**	-	**110,241**	87,053
Other assets	(g)	**4,063**	3,853	**2,604**	2,896
Total		**933,208**	863,722	**800,893**	720,498
Contingent liabilities	(h)	**18,944**	13,560	**18,112**	12,831
Credit-related commitments	(i)	**134,540**	126,424	**103,191**	96,683
Total		**153,484**	139,984	**121,303**	109,514
Total credit risk exposure		**1,086,692**	1,003,706	**922,196**	830,012

[(1)] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

a) The balance of **Cash and liquid assets** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements. These are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and liquid assets*.

b) The balance of **Due from other banks** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest bearing assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and liquid assets*.

   Balances held with central supervisory banks and other interest bearing assets that are due from other banks are managed based on the counterparties creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk. Details on the credit grading of Due from other banks balances held by the Group is disclosed in the credit quality table on page 149.

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

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

d) **Trading securities, Debt instruments at fair value through other comprehensive income, Investments available for sale and Investments held to maturity** are generally comprised of similar financial instruments being Government and Corporate bonds and notes. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

   The Group may utilise Credit Default Swaps (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk. The credit grading of Debt instruments at fair value through other comprehensive income, Investments available for sale and Investments held to maturity are disclosed in the Credit quality table.

e) **Other financial assets at fair value, Loans and advances and Due from customers on acceptances,** mainly comprise general lending and line of credit products. The distinction in classification reflects the type of lending product or is due to an accounting designation. These lending and line of credit products will generally have a significant level of collateralisation depending on the nature of the product.

   Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from

42 Financial risk management (continued)

customers on acceptance the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

f) **Investments relating to life insurance business** consist of $71,431million (2014: $66,900 million) of investment assets linked to policyholder liabilities, $3,399 million (2014: $4,009 million) of assets not linked to policyholder liabilities, and $14,520 million (2014: $14,123 million) of assets within managed investment schemes that are controlled by the Group's life insurance statutory funds that relate to external interests in the units of those managed investment schemes (External unitholders' liability).

Credit and market risk is borne by policyholders and external unitholders' in respect of investment assets linked to policyholder liabilities and external interests in the units of consolidated managed investment schemes respectively.

Investments not linked to policyholder liabilities consist of $1,838 million (2014: $2,201 million) of debt securities, which expose the Group to credit risk, and $1,561 million (2014: $1,808 million) of other investments, such as equity securities and units held in managed investment schemes. Minimal collateral or other credit enhancements are held in respect of these debt securities, however the Group has the ability (at its discretion) to adjust the non-guaranteed bonuses and interest credits of $593 million (2014: $551 million) to absorb any credit losses that may occur.

g) The balance of **Other assets** which is exposed to credit risk is primarily comprised of interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts Due from controlled entities. From 2015 included in other assets are Other debt instruments at amortised cost (previously Held to maturity) reclassified on adoption of AASB9. Refer to (d) above for a description of these financial instruments.

h) **Contingent liabilities** are comprised mainly of guarantees to customers, and to controlled entities of the Group under the deed of cross guarantee, standby or documentary letters of credit and performance related contingencies. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party.

i) **Credit-related commitments** are comprised mainly of irrevocable credit commitments to lend to a customer provided there is no breach of any condition established in the contract. If such credit commitments are drawn down by the customer there will typically be specific collateral requirements that will need to be satisfied by the customer in order to access the credit facilities.

Offsetting of financial assets and liabilities

The table below illustrates the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. Loans and Advances).

The "Net Amounts" presented in the table are not intended to represent the Group's actual exposure to credit risk, as the Group will utilise a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements. The offsetting and collateral arrangements and other credit risk mitigation strategies are further explained above on page 144.

The amounts recognised on the balance sheet comprise of the sum of the 'Net amounts reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the table below.

	2015							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	**Gross amounts** $m	**Amount offset** $m	**Net amounts reported on balance sheet** $m	**Financial Instruments** [(1)] $m	**Non Cash Collateral** [(2)] $m	**Cash Collateral** [(2)] $m	**Net Amount** $m	**Amounts not subject to enforceable netting arrangements** [(7)] $m
Derivative financial assets [(3)]	80,607	-	80,607	63,397	329	14,823	2,058	9,376
Reverse repurchase agreements [(5)]	67,055	29,224	37,831	-	37,831	-	-	-
Total assets	147,662	29,224	118,438	63,397	38,160	14,823	2,058	9,376
Derivative financial liabilities [(4)]	74,535	-	74,535	63,397	9	7,744	3,385	4,446
Repurchase agreements [(6)]	62,416	29,224	33,192	-	33,192	-	-	-
Total liabilities	136,951	29,224	107,727	63,397	33,201	7,744	3,385	4,446

42 Financial risk management (continued)

2014

	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				Amounts not subject to enforceable netting arrangements [7]
Group	Gross amounts $m	Amount offset $m	Net amounts reported on balance sheet $m	Financial Instruments [1] $m	Non Cash Collateral [2] $m	Cash Collateral [2] $m	Net Amount $m	$m
Derivative financial assets [3]	49,806	-	49,806	41,871	390	4,567	2,978	13,071
Reverse repurchase agreements [5]	61,929	17,166	44,763	-	44,763	-	-	140
Total assets	111,735	17,166	94,569	41,871	45,153	4,567	2,978	13,211
Derivative financial liabilities [4]	48,966	-	48,966	41,871	305	4,776	2,014	10,337
Repurchase agreements [6]	51,915	17,166	34,749	-	34,749	-	-	35
Total liabilities	100,881	17,166	83,715	41,871	35,054	4,776	2,014	10,372

2015

	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			**Related amounts not offset**				**Amounts not subject to enforceable netting arrangements** [7]
	Gross amounts	**Amount offset**	**Net amounts reported on balance sheet**	**Financial Instruments** [1]	**Non Cash Collateral** [2]	**Cash Collateral** [2]	**Net Amount**	
Company	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets [3]	81,718	-	81,718	61,452	329	14,925	5,012	8,650
Reverse repurchase agreements [5]	66,758	29,224	37,534	-	37,534	-	-	-
Total assets	148,476	29,224	119,252	61,452	37,863	14,925	5,012	8,650
Derivative financial liabilities [4]	77,808	-	77,808	61,452	9	6,469	9,878	4,215
Repurchase agreements [6]	62,169	29,224	32,945	-	32,945	-	-	-
Total liabilities	139,977	29,224	110,753	61,452	32,954	6,469	9,878	4,215

2014

	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				Amounts not subject to enforceable netting arrangements [7]
Company	Gross amounts $m	Amounts offset $m	Net amounts reported on balance sheet $m	Financial Instruments [1] $m	Non Cash Collateral [2] $m	Cash Collateral [2] $m	Net Amount $m	$m
Derivative financial assets [3]	47,802	-	47,802	38,369	408	4,805	4,220	15,612
Reverse repurchase agreements [5]	61,053	17,149	43,904	-	43,904	-	-	-
Total assets	108,855	17,149	91,706	38,369	44,312	4,805	4,220	15,612
Derivative financial liabilities [4]	45,284	-	45,284	38,369	285	4,009	2,621	14,893
Repurchase agreements [6]	50,432	17,149	33,283	-	33,283	-	-	-
Total liabilities	95,716	17,149	78,567	38,369	33,568	4,009	2,621	14,893

(1) *Financial instruments include recognised financial instruments amounts on the balance sheet.*

(2) *Collateral amounts (cash and non-cash financial collateral) included are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order to not include any over-collateralisation.*

(3) *Derivative financial assets comprise of both trading and hedging derivatives assets reported on the Group balance sheet $78,384 million and $11,599 million respectively (2014: $57,389 million and $5,488 million), and on the Company balance sheet $79,149 million and $11,219 million respectively (2014: $58,001 million and $5,413 million).*

(4) *Derivative financial liabilities comprise of both trading and hedging derivatives liabilities reported on the Group balance sheet $74,442 million and $4,539 million respectively (2014: $55,858 million and $3,445 million) and on the Company balance sheet $73,459 million and $8,564 million respectively (2014: $55,803 million and $4,374 million).*

(5) *Reverse Repurchase Agreements of $37,831 million (2014: $44,903 million) are reported on the Group balance sheet within Cash and Liquid Assets $23,292 million (2014: $34,185 million) and Due from other Banks $14,539 million (2014: $10,718 million) respectively, and on the Company balance sheet within Cash and Liquid Assets $23,111 million (2014: $33,603 million) and Due from Other Banks $14,423 million (2014: $10,301 million).*

(6) *Repurchase Agreements of $33,192 million (2014: $34,784 million) are reported on the Group balance sheet within Due to Other Banks $24,275 million (2014: $25,341 million) and Deposits and Other Liabilities $8,917 million (2014:$9,443 million) respectively, and on the Company balance sheet within Due to Other Banks $24,028 million (2014: $23,840 million) and Deposits and Other Liabilities $8,917 million (2014: $9,443 million).*

(7) *Amounts included not subject to enforceable netting arrangements relate to items which do not have an enforceable netting arrangement in place or there is uncertainty as to the legal enforceability of a close out netting arrangement in a default or liquidation under the laws of a specific jurisdiction. Some intercompany derivative financial asset and liability amounts classified previously in the 2014 Company level disclosures as Amounts not subject to enforceable netting arrangements have been reclassified in the current year as Amounts subject to enforceable netting arrangements as these trades are subject to a relevant ISDA agreement.*

Derivative financial assets and liabilities

Derivative financial instrument contracts are typically subject to International Swaps and Derivatives Association (ISDA) Master Agreements, as well as relevant Credit Support Annexes (CSA) around collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house.

Derivative amounts will only be offset on the balance sheet where the Group has a legal right of offset both for payments netting (i.e. in the ordinary course of business) and close out netting (i.e. upon default or insolvency), which is typically associated with certain exchange and central clearing

42 Financial risk management (continued)

counterparty settled contracts and where the Group is satisfied that such a right of offset is legally enforceable and meets all accounting standard requirements for offsetting.

The amounts included in the Financial Instruments column refers to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. The Cash Collateral and Non Cash Collateral columns include amounts of cash and non-cash collateral respectively, which are either obtained or pledged, to cover the net exposure between the counterparty in the event of default or insolvency.

Reverse Repurchase and Repurchase Agreements

Reverse Repurchase and Repurchase Agreements will typically be subject to Global Master Repurchase Agreements (GMRAs) or similar agreements whereby all outstanding transactions with the same counterparty can be offset and closed out upon a default or insolvency event (i.e. close out netting). In some instances, under the relevant agreement, the Group has a legally enforceable right of offset both for payments and default netting and will offset amounts with that counterparty on the balance sheet when the agreement satisfies accounting standard requirements.

Where the Group has a right of offset on default or insolvency only, the related non cash collateral amounts comprise of highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Credit quality of financial assets

The Group has an internally developed credit rating master-scale derived from historical default data drawn from a number of sources to assess the potential risk in lending or through providing other financial services products to counterparties or customers. For loans and advances, the Group has a single common master-scale across all, retail and non-retail, counterparties for probability of default. The probability of default master-scale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post-default) grades.

In assessing for the impairment of financial assets under the expected credit loss model, the Group defines default in accordance with its Credit Policy and Procedures, which includes defaulted assets and impaired assets as described below.

Defaulted assets consist of retail loans (excluding unsecured portfolio managed facilities) and non-retail loans which are at least 90 days past due on any material obligation.

Impaired assets under the expected credit loss model consist of:
- Retail loans: excluding unsecured portfolio managed facilities which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and interest.
- Non-retail loans: which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and interest.
- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- Unsecured portfolio managed facilities which are 180 days past due (if not written off).

An asset will migrate down the ECL stages as asset quality deteriorates by comparing the credit risk rating of the asset at reporting date with its credit risk rating at origination using the Group's internal credit rating system. The trigger to move down an ECL stage is based on a pre-determined ratings downgrade shift that determines whether significant deterioration has occurred. Conversely, assets will migrate up an ECL stage as asset quality improves.

Financial assets neither past due nor impaired

The credit quality of the portfolio of financial assets that are neither past due nor impaired can be assessed by reference to the Group's standard credit rating. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty/customer risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. Financial assets that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria, or which are less than 30 days past due, are considered to have low credit risk. These financial assets will be assigned a 12 month expected credit loss provision calculation. Further assessment of credit deterioration for retail assets is determined by days past due and for non-retail assets the Group's standard credit rating system and days past due is used.

The tables below represent an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following grades:
- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired (internal rating 12 to 23).

	Group Loans and advances		Company Loans and advances		Group Acceptances		Company Acceptances	
	2015 [(1)] $m	2014 $m	**2015** [(1)] $m	2014 $m	**2015** [(1)] $m	2014 $m	**2015** [(1)] $m	2014 $m
Senior investment grade	**143,423**	106,616	**118,771**	97,711	**201**	2,420	**201**	2,419
Investment grade	**173,814**	135,092	**156,025**	125,525	**3,598**	4,528	**3,597**	4,524
Sub-investment grade	**207,907**	182,775	**133,322**	109,686	**15,638**	16,489	**15,630**	16,484
Total	**525,144**	424,483	**408,118**	332,922	**19,437**	23,437	**19,428**	23,427

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

42 Financial risk management (continued)

Group	Due from other banks 2015 [(1)] $m	Due from other banks 2014 $m	Debt instruments at FVOCI 2015 [(1)] $m	Debt instruments at FVOCI 2014 $m	Investments - HTM 2015 [(1)] $m	Investments - HTM 2014 $m	Investments - AFS [(2)] 2015 [(1)] $m	Investments - AFS [(2)] 2014 $m
Senior investment grade	**48,412**	36,417	**44,883**	-	**-**	2,011	**-**	42,559
Investment grade	**2,116**	2,645	**306**	-	**-**	685	**-**	451
Sub-investment grade	**67**	26	**-**	-	**-**	154	**-**	12
Total	**50,595**	39,088	**45,189**	-	**-**	2,850	**-**	43,022

Company	Due from other banks 2015 $m	Due from other banks 2014 $m	Debt instruments at FVOCI 2015 [(1)] $m	Debt instruments at FVOCI 2014 $m	Investments - HTM 2015 $m	Investments - HTM 2014 $m	Investments - AFS [(2)] 2015 $m	Investments - AFS [(2)] 2014 $m
Senior investment grade	**35,439**	25,604	**41,657**	-	**-**	1,577	**-**	38,598
Investment grade	**2,192**	2,688	**287**	-	**-**	23	**-**	362
Sub-investment grade	**67**	26	**-**	-	**-**	94	**-**	-
Total	**37,698**	28,318	**41,944**	-	**-**	1,694	**-**	38,960

[(1)] *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

[(2)] *Investments - available for sale excluding equity investments.*

Credit risk exposures by risk grade

The tables below show significant exposures to credit risk to which the expected credit loss model is applied, for recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

	2015 Loans and advances and loan commitments for which the loss allowance is measured at:			
Group [(1)]	**12-months expected credit loss Not credit impaired $m**	**Lifetime expected credit losses Not credit impaired $m**	**Lifetime expected credit losses Credit impaired $m**	**Total $m**
Senior investment grade	**188,919**	**-**	**-**	**188,919**
Investment grade	**226,086**	**4,427**	**-**	**230,513**
Sub-investment grade	**188,106**	**73,171**	**-**	**261,277**
Default	**-**	**1,378**	**6,191**	**7,569**
Total	**603,111**	**78,976**	**6,191**	**688,278**

	2015 Acceptances for which the loss allowance is measured at:			
Group [(1)]	**12-months expected credit loss Not credit impaired $m**	**Lifetime expected credit losses Not credit impaired $m**	**Lifetime expected credit losses Credit impaired $m**	**Total $m**
Senior investment grade	**369**	**-**	**-**	**369**
Investment grade	**3,789**	**257**	**-**	**4,046**
Sub-investment grade	**7,762**	**9,495**	**-**	**17,257**
Default	**-**	**-**	**136**	**136**
Total	**11,920**	**9,752**	**136**	**21,808**

[(1)] *The September 2015 information has been provided following the adoption of AASB9. Comparative information is not required. Refer to Note 1(c)(i) for information on the adoption of AASB9.*

42 Financial risk management (continued)

Group [1]	2015 Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at: 12-months expected credit loss Not credit impaired $m	Lifetime expected credit losses Not credit impaired $m	Lifetime expected credit losses Credit impaired $m	Total $m
Senior investment grade	44,745	-	-	44,745
Investment grade	376	-	-	376
Sub-investment grade	7	9	-	16
Default	-	-	52	52
Total	45,128	9	52	45,189

Company [1]	2015 Loans and advances and loan commitments for which the loss allowance is measured at: 12-months expected credit loss Not credit impaired $m	Lifetime expected credit losses Not credit impaired $m	Lifetime expected credit losses Credit impaired $m	Total $m
Senior investment grade	157,409	-	-	157,409
Investment grade	201,137	3,327	-	204,464
Sub-investment grade	112,825	55,586	-	168,411
Default	-	1,377	4,667	6,044
Total	471,371	60,290	4,667	536,328

Company [1]	2015 Acceptances for which the loss allowance is measured at: 12-months expected credit loss Not credit impaired $m	Lifetime expected credit losses Not credit impaired $m	Lifetime expected credit losses Credit impaired $m	Total $m
Senior investment grade	369	-	-	369
Investment grade	3,786	256	-	4,042
Sub-investment grade	7,756	9,486	-	17,242
Default	-	-	136	136
Total	11,911	9,742	136	21,789

Company [1]	2015 Debt instruments at fair value through other comprehensive income for which the loss allowance is measured at: 12-months expected credit loss Not credit impaired $m	Lifetime expected credit losses Not credit impaired $m	Lifetime expected credit losses Credit impaired $m	Total $m
Senior investment grade	41,508	-	-	41,508
Investment grade	368	-	-	368
Sub-investment grade	7	9	-	16
Default	-	-	52	52
Total	41,883	9	52	41,944

(1) *The September 2015 information has been provided following the adoption of AASB9. Comparative information is not required. Refer to Note 1(c)(i) for information on the adoption of AASB9.*

Risk concentrations

Concentration of risk is managed by client/counterparty, by industry sector and geographical region.

Counterparty concentration

Concentration of risk to a counterparty or groups of related counterparties is monitored in accordance with APS 221 “Large Exposures”, including the establishment of policies governing large exposures, implementation of appropriate limits and regular monitoring and reporting against those limits.

42 Financial risk management (continued)

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group are such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Industry concentration of financial assets

The following tables show the level of industry concentrations of financial assets as at 30 September:

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Group [(1)]	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Government and public authorities	**585**	1,901	**1,760**	622	**-**	2	**2,506**	2,364
Agriculture, forestry, fishing and mining	**7,744**	22,951	**28,601**	11,136	**537**	234	**12,122**	10,904
Financial, investment and insurance	**692**	2,558	**20,032**	13,789	**149**	105	**19,625**	14,438
Real estate - construction	**652**	1,959	**3,198**	3,619	**41**	97	**1,925**	1,883
Manufacturing	**1,404**	4,576	**10,530**	6,389	**272**	127	**9,418**	8,818
Instalment loans to individuals and other personal lending (including credit cards)	**70**	170	**13,814**	13,670	**338**	281	**19,509**	18,581
Real estate - mortgage	**-**	-	**341,965**	312,039	**330**	222	**31,095**	31,019
Asset and lease financing	**-**	-	**11,764**	11,729	**114**	111	**740**	645
Commercial property services	**8,220**	23,965	**42,033**	20,016	**579**	757	**13,669**	11,310
Other commercial and industrial	**8,178**	24,888	**63,468**	45,947	**1,160**	1,182	**42,875**	40,022
Total	**27,545**	82,968	**537,165**	438,956	**3,520**	3,118	**153,484**	139,984

	Due from other banks		Debt instruments at fair value through other comprehensive income		Investments - HTM		Investments - AFS		Acceptances	
Group [(1)]	**2015** [(2)] **$m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Government and public authorities	**-**	3,915	**26,416**	-	**-**	-	**-**	26,138	**4**	38
Agriculture, forestry, fishing and mining	**-**	-	**5**	-	**-**	-	**-**	-	**1,616**	2,158
Financial, investment and insurance	**50,595**	35,173	**11,942**	-	**-**	2,718	**-**	12,505	**392**	494
Real estate - construction	**-**	-	**-**	-	**-**	-	**-**	-	**65**	112
Manufacturing	**-**	-	**35**	-	**-**	-	**-**	-	**638**	1,038
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**-**	-	**6**	14
Real estate - mortgage	**-**	-	**6,685**	-	**-**	23	**-**	4,690	**-**	-
Commercial property services	**-**	-	**-**	-	**-**	93	**-**	24	**12,069**	14,209
Other commercial and industrial	**-**	-	**106**	-	**-**	85	**-**	29	**4,647**	5,374
Total	**50,595**	39,088	**45,189**	-	**-**	2,919	**-**	43,386	**19,437**	23,437

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Company [(1)]	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Government and public authorities	**503**	1,680	**1,672**	458	**-**	1	**720**	750
Agriculture, forestry, fishing and mining	**3,763**	11,901	**16,499**	5,751	**392**	183	**9,960**	8,904
Financial, investment and insurance	**602**	1,698	**17,730**	12,857	**112**	79	**19,203**	13,976
Real estate - construction	**464**	1,336	**2,038**	2,357	**33**	80	**1,743**	1,717
Manufacturing	**869**	2,731	**6,953**	4,442	**185**	91	**6,392**	6,205
Instalment loans to individuals and other personal lending (including credit cards)	**6**	26	**9,288**	9,094	**265**	191	**12,524**	12,034
Real estate - mortgage	**-**	-	**265,149**	245,306	**200**	145	**24,283**	24,352
Asset and lease financing	**-**	-	**10,254**	10,467	**99**	91	**185**	192
Commercial property services	**6,695**	18,297	**35,763**	18,072	**470**	690	**11,733**	9,767
Other commercial and industrial	**5,797**	18,161	**52,040**	35,539	**771**	874	**34,560**	31,617
Total	**18,699**	55,830	**417,386**	344,343	**2,527**	2,425	**121,303**	109,514

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Amounts classified previously as Government and public authorities in September 2014 have been reclassified.*

42 Financial risk management (continued)

Company [(1)]	Due from other banks 2015 [(2)] $m	2014 $m	Debt instruments at fair value through other comprehensive income 2015 $m	2014 $m	Investments - HTM 2015 $m	2014 $m	Investments - AFS 2015 $m	2014 $m	Acceptances 2015 $m	2014 $m
Government and public authorities	**-**	3,915	23,293	-	-	-	-	23,985	4	38
Agriculture, forestry, fishing and mining	-	-	5	-	-	-	-	-	1,616	2,158
Financial, investment and insurance	**37,698**	24,403	11,824	-	-	1,466	-	10,761	392	494
Real estate - construction	-	-	-	-	-	-	-	-	65	112
Manufacturing	-	-	35	-	-	-	-	-	629	1,029
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	-	-	-	-	-	-	6	14
Real estate - mortgage	-	-	6,680	-	-	23	-	4,500	-	-
Commercial property services	-	-	-	-	-	93	-	-	12,069	14,209
Other commercial and industrial	-	-	107	-	-	86	-	27	4,647	5,373
Total	**37,698**	28,318	**41,944**	-	**-**	1,668	**-**	39,273	**19,428**	23,427

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group [(1)]	Australia 2015 $m	2014 $m	Europe 2015 $m	2014 $m	New Zealand 2015 $m	2014 $m	United States 2015 $m	2014 $m	Asia 2015 $m	2014 $m
Cash and liquid assets	**9,180**	9,593	**8,900**	15,039	**176**	573	**6,530**	10,254	**7**	15
Due from other banks	**12,414**	9,756	**30,693**	18,812	**1,463**	1,884	**4,105**	6,299	**1,920**	2,337
Trading derivatives	**53,863**	41,646	**19,123**	12,561	**5,116**	2,985	**15**	11	**267**	186
Trading securities	**37,860**	39,300	**652**	1,200	**4,425**	3,712	**-**	-	**-**	-
Debt instruments at fair value through other comprehensive income	**30,066**	-	**9,805**	-	**-**	-	**2,853**	-	**2,465**	-
Investments - available for sale	**-**	28,980	**-**	6,937	**-**	-	**-**	4,196	**-**	3,273
Investments - held to maturity	**-**	391	**-**	686	**-**	571	**-**	1,178	**-**	93
Investments relating to life insurance business	**89,275**	84,968	**-**	-	**75**	64	**-**	-	**-**	-
Other financial assets at fair value	**18,270**	54,848	**2,824**	3,833	**8,012**	24,682	**590**	1,125	**-**	-
Hedging derivatives	**11,277**	5,298	**203**	135	**119**	55	**-**	-	**-**	-
Loans and advances	**399,742**	327,321	**66,009**	55,438	**55,526**	34,320	**2,263**	8,075	**9,244**	9,571
Due from customers on acceptances	**19,428**	23,427	**9**	10	**-**	-	**-**	-	**-**	-
Other assets	**2,425**	2,213	**835**	538	**764**	142	**22**	64	**17**	15
Total	**683,800**	627,741	**139,053**	115,189	**75,676**	68,988	**16,378**	31,202	**13,920**	15,490

Company [(1)]	Australia 2015 $m	2014 $m	Europe 2015 $m	2014 $m	United States 2015 $m	2014 $m	Asia 2015 $m	2014 $m
Cash and liquid assets	**8,106**	8,622	**8,792**	14,938	**6,508**	10,246	**2**	-
Due from other banks	**12,502**	9,802	**19,176**	10,116	**4,102**	6,067	**1,918**	2,333
Trading derivatives	**58,441**	43,943	**20,348**	13,802	**93**	70	**267**	186
Trading securities	**37,860**	39,270	**652**	1,200	**-**	-	**-**	-
Debt instruments at fair value through other comprehensive income	**30,066**	-	**6,681**	-	**2,731**	-	**2,466**	-
Investments - available for sale	**-**	28,860	**-**	4,772	**-**	2,368	**-**	3,273
Investments - held to maturity	**-**	23	**-**	686	**-**	866	**-**	93
Other financial assets at fair value	**18,253**	54,913	**461**	917	**590**	-	**-**	-
Hedging derivatives	**11,114**	5,298	**105**	115	**-**	-	**-**	-
Loans and advances	**396,248**	322,771	**6,234**	6,986	**2,263**	1,483	**9,244**	9,574
Due from customers on acceptances	**19,428**	23,427	**-**	-	**-**	-	**-**	-
Other assets	**2,242**	2,209	**327**	121	**19**	13	**16**	15
Total	**594,260**	539,138	**62,776**	53,653	**16,306**	21,113	**13,913**	15,474

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Amounts classified previously as Government and public authorities in September 2014 have been reclassified.*

42 Financial risk management (continued)

Market risk - trading

Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Products & Markets (P&M) Fixed Income, Currencies & Commodities (FICC).

Trading activity represents dealings that encompass both active management of market risk and supporting its client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Traded Market Risk is primarily managed and controlled using Value at Risk (VaR) which is a standard measure used in the industry, and is subject to the disciplines prescribed in the Group Traded Market Risk Policy.

Objectives and limitations of the VaR methodology

VaR is a statistical estimate of the potential loss that could arise from shifts in interest rates, currency exchange rates, option volatility, equity prices, credit spreads, commodity prices and inflation. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using 550 days (approximately two years) of historical pricing shifts. The pricing data is rolled daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a VaR methodology has limitations, which include:
- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via backtesting for reasonableness and continued relevance of the model assumptions.

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk. Risk limits are applied in these categories separately, and against the total risk position.

Value at risk for physical and derivative positions

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	As at 30 September		Average value during reporting period		Minimum value during reporting period [(1)]		Maximum value during reporting period [(1)]	
Group	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**10.3**	5.6	**3.9**	3.7	**0.8**	0.6	**11.5**	9.3
Interest rate risk	**6.2**	4.7	**6.0**	6.7	**3.4**	4.1	**13.2**	13.6
Volatility risk	**2.5**	1.4	**2.2**	1.3	**1.2**	0.9	**4.1**	1.6
Commodities risk	**0.5**	0.1	**0.4**	0.3	**0.1**	0.1	**0.7**	1.1
Credit risk	**1.5**	3.2	**2.6**	4.4	**1.5**	2.4	**3.5**	7.0
Inflation risk	**0.4**	0.8	**0.6**	0.4	**0.2**	0.2	**1.4**	1.0
Diversification benefit	**(8.5)**	(7.9)	**(7.6)**	(7.1)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**12.9**	7.9	**8.1**	9.7	**4.9**	6.1	**14.0**	16.8
Other market risks [(3)]	**0.1**	0.8	**0.4**	0.4	**0.1**	0.1	**0.9**	0.9
Total VaR for physical and derivative positions [(2)]	**13.0**	8.7	**8.5**	10.1	**5.0**	6.2	**14.9**	17.7

(1) *The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.*

(2) *VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk, and inflation risk . Risk limits are applied in these categories separately, and against the total risk position.*

(3) *Other market risks includes exposures to various basis risks measured individually at a portfolio level.*

42 Financial risk management (continued)

Company	As at 30 September 2015 $m	As at 30 September 2014 $m	Average value during reporting period 2015 $m	Average value during reporting period 2014 $m	Minimum value during reporting period [(1)] 2015 $m	Minimum value during reporting period [(1)] 2014 $m	Maximum value during reporting period [(1)] 2015 $m	Maximum value during reporting period [(1)] 2014 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**10.2**	5.8	**3.8**	3.7	**0.8**	0.5	**11.5**	9.3
Interest rate risk	**6.5**	4.5	**5.8**	6.1	**3.1**	3.6	**10.1**	12.0
Volatility risk	**2.5**	1.4	**2.2**	1.3	**1.2**	0.9	**4.1**	1.6
Commodities risk	**0.5**	0.1	**0.4**	0.3	**0.1**	0.1	**0.7**	1.1
Credit risk	**1.4**	2.9	**2.3**	4.0	**1.3**	2.2	**3.3**	6.6
Inflation risk	**0.4**	0.8	**0.6**	0.4	**0.2**	0.2	**1.4**	1.0
Diversification benefit	**(8.5)**	(7.5)	**(7.2)**	(6.7)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**13.0**	8.0	**7.9**	9.1	**4.6**	5.9	**13.3**	14.4
Other market risks [(3)]	**0.1**	0.8	**0.4**	0.4	**0.1**	0.1	**0.9**	0.9
Total VaR for physical and derivative positions [(2)]	**13.1**	8.8	**8.3**	9.5	**4.7**	6.0	**14.2**	15.3

(1) The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.

(2) VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk, and inflation risk . Risk limits are applied in these categories separately, and against the total risk position.

(3) Other market risks includes exposures to various basis risks measured individually at a portfolio level.

Market risk - non-trading / banking positions

The Group has exposure to non-traded market risk, primarily, Interest Rate Risk in the Banking Book (IRRBB).

Interest Rate Risk in the Banking Book

IRRBB is the risk that the Group's earnings or economic value will be affected or reduced due to changes in interest rates. The sources of IRRBB are as follows:

- Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risk types.

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the Group Non-Traded Market Risk (GNTMR) policy and IRRBB guidance notes. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains/losses and any inter-risk and/or inter-currency diversification. The IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

Key features of the internal interest rate risk management model include:

- Historical simulation approach utilising instantaneous interest rate shocks.
- Static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing).
- VaR and EaR are measured on a consistent basis.
- 99% confidence level.
- Three month holding period.
- EaR utilises a 12 month forecast period.
- Eight years of business day historical data (updated daily by GNTMR).
- Rate changes are proportional rather than absolute (VaR only).
- Investment term for capital is modelled with an established benchmark term of between one and five years.
- Investment term for core 'Non-Bearing Interest' (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

Model parameters and assumptions are reviewed and updated on at least an annual basis by GNTMR, in consultation with Group Treasury. Material changes require the approval of the Group Asset and Liability Committee (GALCO) and are advised to the local regulatory authorities.

42 Financial risk management (continued)

Value at risk and earnings at risk for the IRRBB

The following tables show the Group and Company aggregate VaR and EaR for the IRRBB:

	2015			
Group	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	**70.5**	**62.2**	**46.2**	**80.0**
UK Region	**68.1**	**58.8**	**47.9**	**68.1**
New Zealand Region	**8.8**	**16.0**	**8.0**	**22.9**
United States Region	**1.7**	**9.7**	**1.5**	**15.6**
Asia Region	**2.0**	**2.0**	**1.6**	**2.7**
Earnings at risk [(1)]				
Australia Region	**84.8**	**59.6**	**19.8**	**96.4**
UK Region	**19.3**	**10.6**	**4.6**	**19.3**
New Zealand Region	**10.5**	**14.5**	**6.9**	**26.0**
United States Region	**-**	**10.6**	**-**	**14.1**

	2014			
Group	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	82.5	75.3	57.1	96.8
UK Region	75.2	78.7	70.4	96.3
New Zealand Region	6.9	24.4	6.9	52.7
United States Region	6.7	16.7	6.7	28.1
Asia Region	2.1	2.5	1.4	4
Earnings at risk [(1)]				
Australia Region	91.4	72.6	32.7	98.2
UK Region	2.8	6.2	2.8	15.8
New Zealand Region	5.8	11.8	3.4	29
United States Region	9.9	17.1	9.9	19.5

	2015			
Company	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	**70.5**	**62.2**	**46.2**	**80.0**
UK Region	**9.9**	**8.8**	**7.6**	**10.9**
United States Region	**1.7**	**0.8**	**0.2**	**1.9**
Asia Region	**2.0**	**2.0**	**1.6**	**2.7**
Earnings at risk [(1)]				
Australia Region	**84.8**	**59.6**	**19.8**	**96.4**

	2014			
Company	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	82.5	75.3	57.1	96.8
UK Region	8.5	11.3	5.3	16.4
United States Region	0.2	0.6	0.2	1.8
Asia Region	2.1	2.5	1.4	4
Earnings at risk [(1)]				
Australia Region	91.4	72.6	32.7	98.2

[(1)] *EaR amounts calculated under the IRRBB model include Australian Banking and other overseas banking subsidiary books however excludes offshore branches. The Australia region amount shows a centralised Australian Banking EaR reported within NAB Ltd.*

42 Financial risk management (continued)

Market risk - Wealth Management

This is the potential for losses to arise from the Group's wealth management business activities as a result of its investments being exposed to market risk. Wealth Management refers to the National Wealth Management Holdings Limited consolidated group (NWMHL) which has investment linked and non-investment business. For investment linked business, policyholder liabilities are directly linked to the performance of the assets held to back those liabilities. Consequently, financial risks associated with those assets do not flow through to Wealth Management. However, a decline in the performance of investments would reduce the value of funds under management, which, in turn, would reduce the fee income earned from this type of business. A significant proportion of Wealth Management's business is investment linked business. For non-investment linked business, Wealth Management is exposed to market risk. The primary financial risk on non-investment linked business is that income from the assets backing the liabilities is insufficient to fund the benefits payable. The sources of market risk are: (a) interest rate risk, (b) equity and other price risk, and (c) foreign currency risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in interest rates. Interest rate risk arises primarily from investments in debt securities. In addition, to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk.

Wealth Management manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and by managing maturity dates of interest bearing instruments. Wealth Management also enters into interest rate derivative financial instruments to manage cash flows, maximise opportunities to increase returns, and reduce risk and transaction costs. The management of risks that relate to life insurance business are also governed by the requirements of the Life Insurance Act 1995 (Cth) and APRA both of which include provisions to hold reserves against unmatched assets and liabilities.

Interest rate sensitivity analysis [(1)]

The impact of a change in interest rates on the last date of the reporting period is shown below.

	Impact on profit		Impact on equity	
	2015 $m	2014 $m	**2015 $m**	2014 $m
+100 basis points	**11.5**	(21.0)	**11.5**	(21.0)
-100 basis points	**(21.4)**	16.0	**(21.4)**	16.0

(1) *Interest rate sensitivity excludes the impact of internal hedging derivatives taken out at the NWMHL consolidated level.*

(b) Equity and other price risk

Equity and other price risk is the risk that the fair value of equities and unit priced investments change as a result of changes in market prices, whether these changes are caused by factors specific to an individual investment or factors affecting all instruments, or classes of instruments, in the market.

Pricing sensitivity analysis

The following table shows the pre-tax impact of a change in equity and unit prices as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2015 $m	2014 $m	**2015 $m**	2014 $m
10% increase	**17.7**	25.8	**17.7**	25.8
10% decrease	**(17.7)**	(25.8)	**(17.7)**	(25.8)

(c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Wealth Management's assets that directly support the policy liabilities are predominantly denominated in the same currency as its policy liabilities. Currency derivative financial instruments are entered into to facilitate efficient portfolio management by obtaining desired currency exposures or to hedge against existing holdings of certain investments in foreign currencies or significant foreign currency transactions.

Currency sensitivity analysis

The following table shows the pre-tax impact of a change in foreign exchange rates as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2015 $m	2014 $m	**2015 $m**	2014 $m
10% increase	**9.2**	14.1	**9.2**	14.1
10% decrease	**(9.2)**	(14.1)	**(9.2)**	(14.1)

This analysis assumes that all other variables remain constant. The risks faced and methods used for the sensitivity analysis remain unchanged from prior periods.

42 Financial risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations mostly include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. This is managed by Group Treasury and measured and monitored by Group Balance Sheet and Liquidity Risk with oversight by the Group Asset and Liability Committee (GALCO). The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:

- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a high quality liquid asset portfolio which supports intra-day operations and can be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, Government, State Government and highly rated investment grade paper. The total liquid assets held at 30 September 2015 was $123,603 million (2014: $117,279 million). In addition to these liquid assets, the Group holds Internal Securitisations in the form of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity to further support its liquidity requirements. RMBS must meet central bank requirements to be eligible for repurchase agreements with a central bank. As at 30 September 2015 the amount of eligible Internal RMBS held was $43,558 million (2014: $34,418 million).

Funding mix

The Group's funding liabilities are comprised of a mix of deposits, term wholesale funding and short-term wholesale funding. The Group manages funding mix and liquidity profile within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions.

The Group maintains a strong focus on deposits both from a growth and quality perspective and continues to source deposits as a key stable funding source for lending with $27,844 million raised for the financial year versus $38,786 million of loan growth.

The Group supplements deposits raising via its term funding programmes, raising $26,539 million of term wholesale funding in the 2015 financial year (2014: $28,212 million) at a weighted average maturity of approximately 4.7 years to first call (2014: 5.1 years). In addition, throughout 2015, the Group continued to access international and domestic short-term wholesale markets.

42 Financial risk management (continued)

The following table shows the Group's funding position as at 30 September:

Core assets	2015 [(1)] $m	2014 $m
Gross loan and advances	**537,165**	438,956
Loans at fair value	**27,545**	82,968
Other financial assets at fair value	**590**	-
Due from customers on acceptances	**19,437**	23,437
Investments held to maturity	**-**	2,919
Other debt instruments at amortised cost	**618**	-
Total core assets	**585,355**	548,280
Customer deposits		
On-demand and short-term deposits	**216,530**	191,073
Term deposits	**157,572**	161,116
Deposits not bearing interest	**41,138**	34,060
Customer deposits at fair value	**3,658**	4,805
Total customer deposits	**418,898**	391,054

Wholesale funding	2015 [(1)] $m	2014 $m
Bonds, notes and subordinated debt	**130,518**	118,165
Other debt issues	**6,292**	4,686
Preference shares and other contributed equity	**3,317**	4,331
Certificates of deposit	**38,691**	66,127
Securities sold under repurchase agreements	**8,917**	9,443
Due to other banks - Securities sold under repurchase agreements	**24,275**	25,341
Due to other banks - Other	**30,130**	19,863
Other borrowings	**26,162**	14,389
Other financial liabilities at fair value	**26,388**	24,168
Total wholesale funding	**294,690**	286,513
Total funding liabilities	**713,588**	677,567
Total equity excluding preference shares and other contributed equity	**52,196**	43,577
Life insurance liabilities [(3)]	**90,831**	85,824
Other liabilities [(4)]	**98,437**	76,333
Total liabilities and equity	**955,052**	883,301
Wholesale funding by maturity		
Short-term funding	**135,092**	142,766
Term funding		
less than 1 year residual maturity	**37,893**	34,042
greater than 1 year residual maturity	**121,705**	109,766
Total wholesale funding by maturity [(5)]	**294,690**	286,574

(1) *Information is presented on a continuing operations basis with no restatement to prior period comparatives.*

(2) *The September 2015 information has been provided following the adoption of AASB9. Comparative information is not required. Refer to Note 1(c)(i) for information on the adoption of AASB9.*

(3) *Comprises life policy liabilities and external unitholders' liability.*

(4) *Other liabilities includes liability on acceptance.*

(5) *Total wholesale funding by maturity includes liability on acceptances of nil (2014: $61 million).*

42 Financial risk management (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The following tables show cash flows associated with non-derivative financial liabilities and hedging derivatives, within relevant maturity groupings based on the earliest date on which the Group and Company may be required to pay.

The balances in the tables will not necessarily agree to amounts presented on the balance sheet as amounts incorporate cash flows on an undiscounted basis and therefore include both principal and associated future interest payments.

	2015						
Group (1)	**At call $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**No specific maturity $m**	**Total $m**
Due to other banks	19,158	33,424	1,581	294	-	-	54,457
Other financial liabilities at fair value (2)	413	5,625	7,159	14,887	3,866	44	31,994
Deposits	256,109	121,984	68,264	10,276	-	-	456,633
Other borrowings	178	24,657	10,264	-	-	-	35,099
Life investment contract liabilities (3)	-	206	302	54	6	73,016	73,584
Bonds, notes and subordinated debt	-	3,294	27,560	80,992	27,233	-	139,079
Other debt issues	-	-	-	-	-	6,292	6,292
External unitholders' liability (4)	-	-	-	-	-	14,520	14,520
Other financial liabilities (5)	4,482	948	-	-	26	-	5,456
Hedging derivatives							
- contractual amounts payable	-	390	1,290	7,690	14,342	-	23,712
- contractual amounts receivable	-	(155)	(490)	(4,632)	(11,870)	-	(17,147)
Total cash flow payable	280,340	190,373	115,930	109,561	33,603	93,872	823,679
Contingent liabilities	18,944	-	-	-	-	-	18,944
Credit-related commitments and investment commitments	135,608	-	-	-	-	-	135,608
Total (6)	154,552	-	-	-	-	-	154,552

	2014						
Group	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Due to other banks	11,487	31,716	1,588	493	-	-	45,284
Other financial liabilities at fair value (2)	528	6,387	7,263	12,788	2,928	963	30,857
Deposits	220,616	125,174	98,165	12,473	128	-	456,556
Other borrowings	457	15,953	7,422	4	-	-	23,836
Life investment contract liabilities (3)	-	296	320	70	10	68,535	69,231
Bonds, notes and subordinated debt	-	10,163	19,961	71,279	27,226	-	128,629
Other debt issues	-	-	-	-	-	4,686	4,686
External unitholders' liability (4)	-	-	-	-	-	14,123	14,123
Other financial liabilities (5)	3,812	1,302	-	-	25	-	5,139
Hedging derivatives							
- contractual amounts payable	-	1,056	3,135	7,058	4,868	-	16,117
- contractual amounts receivable	-	(803)	(2,495)	(4,534)	(3,982)	-	(11,814)
Total cash flow payable	236,900	191,244	135,359	99,631	31,203	88,307	782,644
Contingent liabilities	13,560	-	-	-	-	-	13,560
Credit-related commitments and investment commitments	127,485	-	-	-	-	-	127,485
Total (6)	141,045	-	-	-	-	-	141,045

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Some other financial liabilities at fair value have not been allocated by contractual maturity because they are typically held for varying periods of time. Some items classified as no specific maturity in September 2014 have been reclassified.*

(3) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $72,829 million (2014: $68,276 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, primarily have contractual maturities.*

(4) *External unitholders' liability does not have a contractual maturity. Liquidity risk is borne by the unitholders based on the ability to liquidate assets held by managed investment schemes which are controlled by the Group.*

(5) *Other financial liabilities includes liability on acceptance.*

(6) *The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.*

42 Financial risk management (continued)

Company	**At call $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**No specific maturity $m**	**Total $m**
				2015			
Due to other banks	18,310	32,030	1,569	71	-	-	51,980
Other financial liabilities at fair value (1)	227	216	1,906	2,626	3,240	44	8,259
Deposits	192,245	111,325	54,155	2,516	-	-	360,241
Other borrowings	178	23,371	10,193	-	-	-	33,742
Bonds, notes and subordinated debt	-	3,247	25,283	75,413	22,721	-	126,664
Other debt issues	-	-	-	-	-	5,652	5,652
Other financial liabilities (2)	602	450	-	-	26	-	1,078
Hedging derivatives							
- contractual amounts payable	-	345	2,438	17,544	19,888	-	40,215
- contractual amounts receivable	-	(206)	(1,533)	(12,061)	(16,876)	-	(30,676)
Total cash flow payable	211,562	170,778	94,011	86,109	28,999	5,696	597,155
Contingent liabilities	18,112	-	-	-	-	-	18,112
Credit-related commitments and investment commitments	103,191	-	-	-	-	-	103,191
Total (3)	121,303	-	-	-	-	-	121,303

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2014			
Due to other banks	10,380	30,176	1,110	63	-	-	41,729
Other financial liabilities at fair value (1)	268	171	1,237	2,449	2,650	963	7,738
Deposits	164,036	112,882	83,617	6,690	1	-	367,226
Other borrowings	325	9,999	546	-	-	-	10,870
Bonds, notes and subordinated debt	-	10,104	18,176	66,239	23,789	-	118,308
Other debt issues	-	-	-	-	-	4,106	4,106
Other financial liabilities (2)	408	768	-	-	25	-	1,201
Hedging derivatives							
- contractual amounts payable	-	874	1,250	13,630	11,542	-	27,296
- contractual amounts receivable	-	(774)	(860)	(11,318)	(10,859)	-	(23,811)
Total cash flow payable	175,417	164,200	105,076	77,753	27,148	5,069	554,663
Contingent liabilities	12,831	-	-	-	-	-	12,831
Credit-related commitments and investment commitments	96,683	-	-	-	-	-	96,683
Total (3)	109,514	-	-	-	-	-	109,514

(1) *Some other financial liabilities at fair value have not been allocated by contractual maturity because they are typically held for varying periods of time. Some items classified as no specific maturity in September 2014 have been reclassified.*

(2) *Other financial liabilities includes liability on acceptance.*

(3) *The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.*

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities at reporting date of assets and liabilities. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

42 Financial risk management (continued)

Group [(1)]	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2015			
Assets				
Cash and liquid assets	30,934	-	-	30,934
Due from other banks	49,092	1,503	-	50,595
Trading derivatives [(2)]	-	-	78,384	78,384
Trading securities	11,391	31,444	102	42,937
Debt instruments at fair value through other comprehensive income	6,965	38,224	-	45,189
Investments - available for sale	-	-	-	-
Investments - held to maturity	-	-	-	-
Investments relating to life insurance business	10,693	14,152	64,505	89,350
Other financial assets at fair value	7,766	21,913	17	29,696
Loans and advances	92,537	432,169	8,078	532,784
Due from customers on acceptances	19,437	-	-	19,437
All other assets	11,903	10,963	12,880	35,746
Total assets	240,718	550,368	163,966	955,052
Liabilities				
Due to other banks	54,114	291	-	54,405
Trading derivatives [(2)]	-	-	74,442	74,442
Other financial liabilities at fair value	12,103	17,899	44	30,046
Deposits	444,041	9,890	-	453,931
Other borrowings	35,079	-	-	35,079
Life insurance contract liabilities [(3)]	-	-	2,731	2,731
Life investment contract liabilities [(4)]	508	56	73,016	73,580
Bonds, notes and subordinated debt	28,162	102,356	-	130,518
Other debt issues	-	-	6,292	6,292
All other liabilities [(5)]	14,865	4,519	19,131	38,515
Total liabilities	588,872	135,011	175,656	899,539
Net (liabilities)/assets	(348,154)	415,357	(11,690)	55,513

Group	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2014			
Assets				
Cash and liquid assets	41,034	-	-	41,034
Due from other banks	37,220	1,868	-	39,088
Trading derivatives [(2)]	-	-	57,389	57,389
Trading securities	13,487	30,575	150	44,212
Debt instruments at fair value through other comprehensive income	-	-	-	-
Investments - available for sale	4,465	38,543	378	43,386
Investments - held to maturity	616	2,303	-	2,919
Investments relating to life insurance business	9,858	15,617	59,557	85,032
Other financial assets at fair value	27,413	57,075	-	84,488
Loans and advances	74,100	352,626	7,999	434,725
Due from customers on acceptances	23,437	-	-	23,437
All other assets	7,158	4,774	15,659	27,591
Total assets	238,788	503,381	141,132	883,301
Liabilities				
Due to other banks	44,721	483	-	45,204
Trading derivatives [(2)]	-	-	55,858	55,858
Other financial liabilities at fair value	13,269	14,741	963	28,973
Deposits	440,777	11,599	-	452,376
Other borrowings	23,828	4	-	23,832
Life insurance contract liabilities [(3)]	-	-	2,477	2,477
Life investment contract liabilities [(4)]	616	74	68,534	69,224
Bonds, notes and subordinated debt	27,146	91,019	-	118,165
Other debt issues	-	-	4,686	4,686
All other liabilities [(5)]	12,370	3,329	18,899	34,598
Total liabilities	562,727	121,249	151,417	835,393
Net (liabilities)/assets	(323,939)	382,132	(10,285)	47,908

42 Financial risk management (continued)

Company	2015 Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	24,308	-	-	24,308
Due from other banks	36,195	1,503	-	37,698
Trading derivatives [(2)]	-	-	79,149	79,149
Trading securities	8,390	30,020	102	38,512
Debt instruments at fair value through other comprehensive income	6,738	35,206	-	41,944
Investments - available for sale	-	-	-	-
Investments - held to maturity	-	-	-	-
Other financial assets at fair value	5,044	14,260	-	19,304
Loans and advances	71,270	336,501	6,218	413,989
Due from customers on acceptances	19,428	-	-	19,428
All other assets	10,383	10,007	134,981	155,371
Total assets	181,756	427,497	220,450	829,703
Liabilities				
Due to other banks	51,867	71	-	51,938
Trading derivatives [(2)]	-	-	73,459	73,459
Other financial liabilities at fair value	1,769	5,145	44	6,958
Deposits	355,769	2,293	-	358,062
Other borrowings	33,723	-	-	33,723
Bonds, notes and subordinated debt	26,019	93,117	-	119,136
Other debt issues	-	-	5,652	5,652
All other liabilities [(5)]	8,669	8,519	108,370	125,558
Total liabilities	477,816	109,145	187,525	774,486
Net (liabilities)/assets	(296,060)	318,352	32,925	55,217

Company	2014 Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	34,665	-	-	34,665
Due from other banks	26,450	1,868	-	28,318
Trading derivatives [(2)]	-	-	58,001	58,001
Trading securities	10,617	29,703	150	40,470
Debt instruments at fair value through other comprehensive income	-	-	-	-
Investments - available for sale	4,171	34,763	339	39,273
Investments - held to maturity	616	1,052	-	1,668
Other financial assets at fair value	15,816	40,014	-	55,830
Loans and advances	60,630	274,055	6,129	340,814
Due from customers on acceptances	23,427	-	-	23,427
All other assets	5,542	4,709	113,668	123,919
Total assets	181,934	386,164	178,287	746,385
Liabilities				
Due to other banks	41,614	63	-	41,677
Trading derivatives [(2)]	-	-	55,803	55,803
Other financial liabilities at fair value	1,276	4,355	963	6,594
Deposits	357,778	5,892	-	363,670
Other borrowings	10,868	-	-	10,868
Bonds, notes and subordinated debt	25,490	83,520	-	109,010
Other debt issues	-	-	4,106	4,106
All other liabilities [(5)]	6,637	4,356	95,467	106,460
Total liabilities	443,663	98,186	156,339	698,188
Net (liabilities)/assets	(261,729)	287,978	21,948	48,197

(1) *The September 2015 information has been provided following the adoption of AASB9. Comparative information is not required. Refer to Note 1(c)(i) for information on the adoption of AASB9.*

(2) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

(3) *Life insurance contract liabilities do not have a fixed maturity date. Based on the Group's assumptions as to likely withdrawals and claim patterns, $1,095 million (2014: $1,026 million) is estimated to be settled within 12 months from the reporting date.*

(4) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $72,829 million (2014: $68,276 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, primarily have contractual maturities.*

(5) *All other liabilities includes liability on acceptance.*

42 Financial risk management (continued)

Hedge accounting

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from potential movements in the fair value of fixed rate assets and liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The fair value of these swaps is disclosed in *Note 11 - Trading and hedging derivative assets and liabilities*.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable rate assets and liabilities at any given time using derivatives such as interest rate swaps, forward rate agreements and futures contracts. The Group also utilises derivatives to hedge a portion of the variability in future cash flows attributable to foreign exchange risk created by assets, liabilities and forecast transactions denominated in a currency other than an entity's functional currency. The fair value of these hedges is disclosed in *Note 11 - Trading and hedging derivative assets and liabilities*.

There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction no longer being expected to occur in the current or the prior period.

(c) Hedges of net investments in foreign operations

Borrowings of GBP 1,025 million (2014: GBP 1,019 million) and foreign exchange forward contracts of GBP 1,150 million (2014: GBP 600 million) have been designated as a hedge of net investments in foreign operations with a GBP functional currency.

Foreign exchange forward contracts of NZD 450 million (2014: NZD 450 million) have been designated as a hedge of the spot foreign exchange risk arising on a net investment in foreign operations with a NZD functional currency.

During the year, approximately USD 1,437 million of foreign exchange forward contracts were designated as a hedge of the spot foreign exchange risk arising on a net investment in foreign operations with a USD functional currency. Throughout the financial year the volume of hedging instruments was adjusted to reflect outcomes of progressive divestment of the Group's USD denominated foreign operations. At 30 September 2015, this net investment hedge had matured due to the disposal of discontinued operations in the United States and the subsequent repatriation of USD proceeds back to Australia in mid September 2015. See *Note 51 Discontinued operations for further details.*

These hedges have been designated to protect against the Group's exposure to foreign exchange risk on investments. Gains or losses on the translation of these borrowings and any effective portion of gains or losses on the forward contract hedging instruments are transferred to equity to the extent that they offset any gains or losses on translation of the net investment in the foreign operations. For the year ended 30 September 2015 there was no gain or loss due to hedge ineffectiveness (2014: nil) recognised in profit or loss related to net investment hedges.

43 Fair value of financial instruments

(a) Fair value of financial instruments, carried at amortised cost

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and fair values of those financial assets and liabilities measured at amortised cost where the directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities, and the fair values of amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand. Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items was not calculated, as very few of the commitments extending beyond six months would commit the Company or the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available at the reporting date and involves judgement.

The fair value estimates are based on the following methodologies and assumptions:

- The fair value of **loans and advances** that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value 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 interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date. The difference between estimated fair values of loans and advances and carrying value reflects changes in interest rates since loan or advance origination and credit worthiness of the borrower.
- The fair value of **deposits and other borrowings** that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
- The fair values of **bonds, notes and subordinated debt** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads; or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.

	30 September 2015					30 September 2014				
	Carrying value	**Fair Value**				Carrying value	Fair Value			
		Level 1	**Level 2**	**Level 3**	**Total**		Level 1	Level 2	Level 3	Total
Group	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Financial assets										
Investments - held to maturity	**-**	**-**	**-**	**-**	**-**	2,919	-	2,826	-	2,826
Loans and advances	**532,784**	**-**	**8,859**	**525,020**	**533,879**	434,725	-	9,372	425,502	434,874
Financial liabilities										
Deposits and other borrowings	**489,010**	**-**	**489,473**	**-**	**489,473**	476,208	-	476,326	-	476,326
Bonds, notes and subordinated debt	**130,518**	**7,979**	**124,356**	**-**	**132,335**	118,165	-	120,839	-	120,839

	30 September 2015					30 September 2014				
	Carrying value	**Fair Value**				Carrying value	Fair Value			
		Level 1	**Level 2**	**Level 3**	**Total**		Level 1	Level 2	Level 3	Total
Company	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Financial assets										
Investments - held to maturity	**-**	**-**	**-**	**-**	**-**	1,668	-	1,681	-	1,681
Loans and advances	**413,989**	**-**	**4,273**	**411,231**	**415,504**	340,814	-	4,950	336,437	341,387
Financial liabilities										
Deposits and other borrowings	**391,785**	**-**	**391,950**	**-**	**391,950**	374,538	-	374,588	-	374,588
Bonds, notes and subordinated debt	**119,136**	**7,979**	**112,696**	**-**	**120,675**	109,010	-	111,536	-	111,536

43 Fair value of financial instruments (continued)

(b) Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using a fair value hierarchy described in (a) above.

The fair value estimates are based on the following methodologies and assumptions:

- The fair values of **trading** and **hedging derivative** assets and liabilities, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
- The fair values of **trading securities, investments** - **available for sale** and **debt instruments at fair value through other comprehensive income** are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
- The fair values of **investments relating to life insurance business** and **external unitholders' liability** are based on quoted closing market prices at reporting date. Where no quoted market value exists, various valuation methods have been adopted.
- The fair values of **other financial assets and liabilities at fair value** are based on quoted closing market prices and data or valuation techniques appropriate to the nature and type of the underlying instrument.
- **Life policy liabilities** consist of policy liabilities from insurance contracts and policy liabilities from investment contracts. Policy liabilities from insurance contracts are measured predominantly using the projection method using assumptions outlined in *Note 49 - Life insurance business disclosures* and the carrying amount approximates fair value. Policy liabilities from investment contracts are measured at fair value which is based on the value of the assets that back those liabilities.

	Fair value measurement as at 30 September 2015				Fair value measurement as at 30 September 2014			
Group	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading derivatives	**1,011**	**77,317**	**56**	**78,384**	494	56,877	18	57,389
Trading securities	**18,639**	**24,298**	**-**	**42,937**	18,019	26,193	-	44,212
Debt instruments at fair value through other comprehensive income	**5,166**	**40,018**	**5**	**45,189**	-	-	-	-
Investments - available for sale	**-**	**-**	**-**	**-**	5,412	37,637	337	43,386
Investments relating to life insurance business [(1)]	**5,037**	**80,930**	**3,383**	**89,350**	5,286	77,108	2,638	85,032
Other financial assets at fair value	**11**	**26,852**	**2,833**	**29,696**	1	80,653	3,834	84,488
Hedging derivatives	**-**	**11,599**	**-**	**11,599**	-	5,488	-	5,488
Total financial assets measured at fair value	**29,864**	**261,014**	**6,277**	**297,155**	29,212	283,956	6,827	319,995
Financial liabilities								
Trading derivatives	**1,184**	**73,258**	**-**	**74,442**	677	55,174	7	55,858
Other financial liabilities at fair value	**1,304**	**28,600**	**142**	**30,046**	1,485	27,324	164	28,973
Hedging derivatives	**-**	**4,539**	**-**	**4,539**	-	3,445	-	3,445
Life investment contract liabilities	**-**	**73,580**	**-**	**73,580**	-	69,224	-	69,224
External unitholders' liability	**-**	**14,520**	**-**	**14,520**	-	14,123	-	14,123
Total financial liabilities measured at fair value	**2,488**	**194,497**	**142**	**197,127**	2,162	169,290	171	171,623

	Fair value measurement as at 30 September 2015				Fair value measurement as at 30 September 2014			
Company	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading derivatives	**1,011**	**78,082**	**56**	**79,149**	494	57,489	18	58,001
Trading securities	**16,272**	**22,240**	**-**	**38,512**	15,687	24,783	-	40,470
Debt instruments at fair value through other comprehensive income	**2,048**	**39,896**	**-**	**41,944**	-	-	-	-
Investments - available for sale	**-**	**-**	**-**	**-**	1,677	37,295	301	39,273
Other financial assets at fair value	**-**	**18,833**	**471**	**19,304**	-	54,913	917	55,830
Hedging derivatives	**-**	**11,219**	**-**	**11,219**	-	5,413	-	5,413
Total financial assets measured at fair value	**19,331**	**170,270**	**527**	**190,128**	17,858	179,893	1,236	198,987
Financial liabilities								
Trading derivatives	**1,183**	**72,276**	**-**	**73,459**	676	55,127	-	55,803
Other financial liabilities at fair value	**1,304**	**5,654**	**-**	**6,958**	1,485	5,109	-	6,594
Hedging derivatives	**-**	**8,564**	**-**	**8,564**	-	4,374	-	4,374
Total financial liabilities measured at fair value	**2,487**	**86,494**	**-**	**88,981**	2,161	64,610	-	66,771

[(1)] *In the current year various listed international equities and sovereign bonds, previously classified as Level 2, have been now classified as Level 1. Accordingly, the prior year comparative amounts have been restated by $892 million to reflect this classification.*

There were no transfers between Level 1 and 2 during the year for the Group and the Company.

Notes to the financial statements

43 Fair value of financial instruments (continued)

Reconciliation of assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	2015 [(1)]						
	Assets					Liabilities	
	Trading derivatives	Debt instruments at fair value through other comprehensive income	Investments - available for sale [(5)]	Investments relating to life insurance business [(6)]	Other financial assets at fair value	Trading derivatives	Other financial liabilities at fair value
Group	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Balance at the beginning of year	18	-	337	2,638	3,834	7	164
Impact from adoption of new accounting standards	-	3	(337)	-	1,565	-	-
Total gains/(losses)							
In profit or loss [(2)]	3	-	-	314	93	-	(4)
In other comprehensive income [(3)]	-	-	-	-	-	-	-
Purchases and issues	-	3	-	725	-	-	-
Sales and settlements	(1)	(1)	-	(294)	(3,546)	(7)	(42)
Transfers into Level 3 [(4)]	78	-	-	-	-	-	-
Transfers out of Level 3 [(4)]	(43)	-	-	-	-	-	-
Foreign currency translation adjustments	1	-	-	-	887	-	24
Balance at the end of year	56	5	-	3,383	2,833	-	142
Total gain/(losses) for the reporting period related to assets held at the end of the reporting period:							
- In profit or loss	3	-	-	506	73	-	(4)
- In other comprehensive income	-	-	-	-	-	-	-

	2014 [(1)]						
	Assets					Liabilities	
	Trading derivatives	Debt instruments at fair value through other comprehensive income	Investments - available for sale [(5)]	Investments relating to life insurance business [(6)]	Other financial assets at fair value	Trading derivatives	Other financial liabilities at fair value
Group	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of year	70	-	157	2,873	5,375	6	208
Impact from adoption of new accounting standards		-					
Total gains/(losses)							
In profit or loss [(2)]	(15)	-	-	404	(36)	1	(7)
In other comprehensive income [(3)]	-	-	8	-	-	-	-
Purchases and issues	-	-	159	169	-	-	-
Sales and settlements	(2)	-	-	(742)	(1,883)	-	(53)
Transfers into Level 3 [(4)]	32	-	-	-	-	-	-
Transfers out of Level 3 [(4)]	(70)	-	-	(65)	-	-	-
Foreign currency translation adjustments	3	-	13	(1)	378	-	16
Balance at the end of year	18	-	337	2,638	3,834	7	164
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:							
- In profit or loss	(10)	-	-	143	(89)	1	(7)
- In other comprehensive income	-	-	8	-	-	-	-

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.*

(3) *Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.*

(4) *Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.*

(5) *The significant majority of level 3 Investments- available for sale in the prior period are now classified as other equity instruments at fair value through other comprehensive income and included within other assets in the balance sheet. Refer to Note 25 - Other assets on page 121 for further information.*

(6) *The gains and losses associated with the changes in the fair value of the investments relating to life insurance business are offset by the movements in the fair value of the life investment contract liabilities which are classified as Level 2.*

43 Fair value of financial instruments (continued)

	2015 [1]		
	Assets		
Company	**Trading derivatives $m**	**Investments - available for sale [5] $m**	**Other financial assets at fair value $m**
Balance at the beginning of year	18	301	917
Impact from adoption of new accounting standards	-	(301)	1,565
Total gains/(losses)			
In profit or loss [2]	3	-	160
In other comprehensive income [3]	-	-	-
Purchases and issues	-	-	-
Sales and settlements	(1)	-	(2,591)
Transfers into Level 3 [4]	78	-	-
Transfers out of Level 3 [4]	(43)	-	-
Foreign currency translation adjustments	1	-	420
Balance at the end of year	56	-	471
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	3	-	69
- In other comprehensive income	-	-	-

	2014 [1]		
	Assets		
Company	Trading derivatives $m	Investments - available for sale [5] $m	Other financial assets at fair value $m
Balance at the beginning of year	70	126	1,614
Total gains/(losses)			
In profit or loss [2]	(15)	-	90
In other comprehensive income [3]	-	4	-
Purchases and issues	-	158	-
Sales and settlements	(2)	-	(902)
Transfers into Level 3 [4]	32	-	-
Transfers out of Level 3 [4]	(70)	-	-
Foreign currency translation adjustments	3	13	115
Balance at the end of year	18	301	917
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	(10)	-	(10)
- In other comprehensive income	-	4	-

(1) *September 2015 results reflect the adoption of AASB 9. Prior periods have not been restated. Refer to Note 1 - Principal accounting policies on page 76 for further information.*

(2) *Net gains or losses were recorded in other operating income, interest income or interest expense or impairment losses as appropriate.*

(3) *Net gains or losses were recorded in debt instruments at fair value through other comprehensive income reserve.*

(4) *Transfers into Level 3 were due to the lack of observable inputs for valuation of certain financial instruments. Transfers out of Level 3 were due to the valuation inputs becoming observable during the period. Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.*

(5) *The significant majority of Level 3 Investments - available for sale in the prior period are now classified as other equity instruments at fair value through other comprehensive income and included within other assets in the balance sheet. Refer to Note 25 - Other assets on page 121 for further information.*

43 Fair value of financial instruments (continued)

Quantitative information about significant unobservable inputs in Level 3 valuations

Investments relating to life insurance business include private equity investments not traded in active markets. The fair value of these investments is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile and other factors. Given the bespoke nature of the fair value estimate, where the fair value of the underlying investment or net asset value represents fair value of the Group's investment, it is not practical to disclose the range of key unobservable inputs.

The fair value of other financial assets at fair value is calculated using discounted expected cash flows based on the maturity of the assets. The discount rates applied are based on the market interest rates at reporting date and the fair value incorporates future expectations of credit losses, which are unobservable inputs. The expected range of average portfolio lifetime default rates on non-defaulted assets are estimated between 4.7% and 11.3%.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Group is in respect of the UK Tailored Business Loans (TBL) fair value loans and private equity investments included in investments relating to life insurance business.

The most significant input impacting the carrying value of the UK TBL fair value loans, other than interest rates, are future expectations of credit losses. If lifetime expected losses were 20% greater than predicted, the carrying value of the loans would decrease by $38 million (2014: $49 million). If lifetime expected losses were 20% lower, the carrying value of the loans would increase by $38 million (2014: $49 million). There are interdependencies between a number of the key assumptions which add to the complexity of the judgements the Group has exercised which mean that no single factor is likely to move independent of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

Investments relating to the life insurance business largely comprise of private equity investments. Changing one or more of the inputs for measurement of these private equity investments using reasonable alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than these significant Level 3 measurements, the Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonably alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity of the Group or Company in relation to these remaining Level 3 measurements.

44 Financial asset transfers and securitisations

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to special purpose entities (SPEs). Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	2015			2014		
Group	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**12,703**	**32,610**	**11,801**	16,089	27,474	7,695
Carrying amount of associated liabilities	**12,703**	**27,873**	**9,069**	16,089	25,447	6,161
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**11,825**			7,699
Fair value of associated liabilities			**9,195**			6,300
Net position			**2,630**			1,399

	2015			2014		
Company	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**12,456**	**25,596**	**63,725**	14,638	18,907	45,318
Carrying amount of associated liabilities	**12,456**	**22,962**	**63,725**	14,638	19,263	46,965
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**63,958**			45,401
Fair value of associated liabilities			**64,548**			48,053
Net position			**(590)**			(2,652)

Repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories when substantially all the risks and rewards of ownership remain with the Company or the Group. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction.

Covered bonds

The Group engages in covered bonds programs for funding and liquidity purposes. Housing loans have been assigned to bankruptcy remote SPEs associated with covered bond programs to provide security for the obligations payable on the covered bonds issued by the Group. The Group is entitled to any residual income after all payments due to covered bonds investors have been met. The Group retains all of the risks and rewards associated with the housing loans and where derivatives have not been externalised, interest rate and foreign currency risk are held in the Group. The covered bonds SPEs are consolidated by the Group, the housing loans are included in loans and advances and the covered bonds issued are included within Bonds, notes and subordinated debt on the Group and Company's balance sheet. The covered bond holders have dual recourse to the issuer or the cover pool assets.

Securitisation

Through its loan securitisation programs, the Group packages and sells loans and advances (principally housing loans) as securities to investors through a series of securitisation vehicles. This includes loans that are held for potential repurchase with central banks. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. The Company and the Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated by the Group and the loans are retained on the Group and the Company's balance sheet. The note holders have recourse only to the loan pool of assets.

45 Operating leases

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Due within one year	**439**	417	**322**	315
Due after one year but no later than five years	**1,243**	1,223	**896**	896
Due after five years	**940**	1,053	**620**	747
Total non-cancellable operating lease commitments	**2,622**	2,693	**1,838**	1,958

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

The total of future minimum sub-lease payments to be received under non-cancellable sub leases at 30 September 2015 for the Group is $16 million (2014: $47 million) and for the Company is $16 million (2014: $47 million).

During 2015, sub-lease payments received for the Group amounted to $20 million (2014: $19 million) and for the Company $18 million (2014: $15 million) and were netted against operating lease rental expense.

Where the Group is the lessor, the future minimum lease receipts under non-cancellable operating leases are:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Due within one year	**19**	29	**14**	20
Due after one year but no later than five years	**28**	49	**15**	18
Due after five years	**4**	5	**-**	-
Total non-cancellable operating lease receivables	**51**	83	**29**	38

46 Investment commitments

Investment commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Investment commitments				
Statutory funds	**1,068**	1,061	**-**	-
Total investment commitments	**1,068**	1,061	**-**	-

47 Related party disclosures

During the year, there have been dealings between NAB and its controlled entities and other related parties. NAB provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. NAB also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

NAB currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to this compensation is recharged from NAB to the employing subsidiaries in the Group. For further details, refer to *Note 38 - Shares, performance options and performance rights*.

The aggregate of material amounts receivable from or payable to controlled entities and NAB, at reporting date, is disclosed in the balance sheet of NAB. Refer to *Note 22 - Investments in controlled entities* for details of NAB's investment in controlled entities. Refer to *Note 40 - Interests in subsidiaries and other entities* for details of material controlled entities. NAB has certain guarantees and undertakings with entities in the Group. For further details, refer to *Note 41 - Contingent liabilities and credit commitments*.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The aggregate amounts receivable/(payable) from subsidiaries for the last two years to 30 September were:

	Company	
	2015 $m	2014 $m
Balance at beginning of year	**(6,807)**	(5,783)
Net cash flows in amounts due from/(to) controlled entities	**8,583**	(322)
Provisions for impairment of intercompany loans to securitisation conduits	**-**	8
Net foreign currency translation movements and other amounts receivables	**1,762**	(710)
Balance at end of year	**3,538**	(6,807)

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2015 $m	2014 $m
Net interest (expense)	**(414)**	(214)
Net operating lease (expense)	**(78)**	(69)
Net management fees (expense)	**(20)**	103
Dividend revenue	**1,692**	1,835

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
Payment to:	**2015 $m**	2014 $m	**2015 $m**	2014 $m
National Australia Bank Group Superannuation Fund A	**214**	238	**214**	238
Yorkshire and Clydesdale Bank Pension Scheme	**100**	451	**-**	-
National Australia Group Defined Contribution Pension Scheme (UK)	**32**	26	**-**	-
National Wealth Management Superannuation Plan	**2**	2	**-**	-
Bank of New Zealand Officers Provident Association (Division 2)	**11**	10	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**12**	10	**12**	10

Transactions between the Group and superannuation plans sponsored by the Group during the last two years were made on commercial terms and conditions.

47 Related party disclosures (continued)

Details of key management personnel (KMP) of the Group

The following persons were KMP of NAB and Group during the year ended 30 September:

Name	Position
Executive director	
Andrew G Thorburn	Group Chief Executive Officer & Managing Director
Other senior executives	
Antony J Cahill	Group Executive, Product & Markets
Craig M Drummond	Group Executive, Finance and Strategy
A David Gall	Group Chief Risk Officer
Andrew P Hagger	Group Executive, NAB Wealth
Michaela J Healey (1)	Group Executive, Governance and Reputation
Anthony J Healy	Managing Director and Chief Executive Officer, Bank of New Zealand
Angela Mentis	Group Executive, Business Banking
Renée M Roberts	Group Executive, Enterprise Services and Transformation
Gavin R Slater	Group Executive, Personal Banking
Non-executive directors	
Michael A Chaney	Non-executive director, Chairman
David H Armstrong	Non-executive director
Daniel T Gilbert	Non-executive director
Peeyush K Gupta	Non-executive director (from 5 November 2014)
Kenneth R Henry	Non-executive director
Geraldine C McBride	Non-executive director
Paul J Rizzo	Non-executive director
Jillian S Segal	Non-executive director
Anthony KT Yuen	Non-executive director
Former non-executive directors	
John G Thorn	Non-executive director (to 18 December 2014)
Geoffrey A Tomlinson	Non-executive director (to 18 December 2014)
John A Waller	Non-executive director (to 31 July 2015)

(1) *Ms Healey held the position of Group Executive, People, Communications and Governance until 2 August 2015 and then Group Executive, Governance and Reputation from 3 August 2015.*

Details of directors of NAB who held office during the year are set out in the *Report of the Directors*.

Remuneration of KMP

Total remuneration of KMP of NAB and Group for the year ended 30 September 2015:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
NAB and the Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2015	**15,186,210**	**6,087,180**	**60,473**	**485,587**	**155,351**	**1,349,902**	**7,886,760**	**-**	**31,211,463**
2014	16,260,281	5,198,724	378,251	451,006	169,508	(185,159)	6,562,138	1,706,897	30,541,646

Performance options, performance rights and shareholdings of KMP are set out in the *Remuneration report*.

Loans to KMP and their related parties

During the financial year loans made to KMP's and other related parties of NAB and Group were $6 million (2014: $13 million). Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2015, the total loan balances outstanding were $47 million (2014: $53 million).

No amounts were written off in respect of any loans made to directors or other KMP of NAB and Group during the current or prior financial years.

Further details regarding loans advanced to KMPs of NAB and Group are included in the *Remuneration report*.

48 Remuneration of external auditor

	Group		Company	
	2015 $'000	2014 $'000	**2015 $'000**	2014 $'000
Amounts paid or due and payable to Ernst & Young Australia: [(1)] [(2)]				
Audit fees				
Audit and review of financial reports	**11,413**	10,882	**7,491**	6,961
Comfort letters	**432**	459	**432**	459
Total audit fees	**11,845**	11,341	**7,923**	7,420
Audit-related fees				
Regulatory	**6,659**	4,216	**4,475**	2,582
Non-regulatory	**675**	478	**413**	294
Total audit-related fees	**7,334**	4,694	**4,888**	2,876
All other fees	**1,573**	585	**1,377**	523
Total remuneration of Ernst & Young Australia	**20,752**	16,620	**14,188**	10,819
Amounts paid or due and payable to overseas practices of Ernst & Young: [(1)] [(2)]				
Audit fees				
Audit and review of financial reports	**12,441**	8,484	**1,869**	1,639
Comfort letters	**1,328**	163	**-**	-
Total audit fees	**13,769**	8,647	**1,869**	1,639
Audit-related fees				
Regulatory	**717**	590	**292**	148
Non-regulatory	**190**	165	**178**	143
Total audit-related fees	**907**	755	**470**	291
All other fees	**1,037**	10	-	-
Total remuneration of overseas practices of Ernst & Young	**15,713**	9,412	**2,339**	1,930

(1) *Amounts exclude goods and services tax, value-added tax or equivalent taxes.*

(2) *Including any network firm.*

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, regulation or regulatory compliance obligations 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.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute, regulation or regulatory compliance obligations 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.

All other fees include due diligence activities.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Further details of the non-audit services provided by Ernst & Young to the Group during 2015 and the fees paid or due and payable for those services are set out in the *Report of the Directors.*

49 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) 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.

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 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 of the financial risks).

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 Financial report, including compliance with the regulations of the *Life Insurance Act 1995* (Cth) where appropriate.

(a) Risk management in life insurance business

The management of risks inherent in the life insurance business in Australia are governed by the requirements of the *Life Insurance Act 1995* (Cth) and other Prudential Regulations, which include provisions to hold reserves against unmatched assets and liabilities. Insurance risk is generally managed through the use of claims management practices to ensure that only genuinely insured claims are admitted and paid, and ensuring premium rates and policy charges are priced at appropriate levels.

Insurance risk exposure arises in the life insurance business primarily through mortality (death) or morbidity (illness or injury) risks. Insurance concentration risk is managed through a geographically diverse portfolio of insured lives and the use of reinsurance.

(b) Details of the regulatory capital 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. These additional reserves are necessary to provide a cushion against adverse experience in managing risks. In Australia, the Australian Prudential Regulation Authority (APRA) has issued a set of Prudential Standards which prescribe a minimum capital requirement for each Statutory Fund and the Company as a whole.

The summarised information provided below has been extracted from the financial statements prepared by MLC Limited for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules. For detailed regulatory capital information on a statutory fund and shareholder fund basis, users of this Financial report should refer to the financial statements prepared for MLC Limited.

The regulatory capital position for MLC Limited is shown below in accordance with Prudential Standard LPS 110 "Capital Adequacy".

	MLC	
	2015	2014
Common Equity Tier 1 Capital ($m)	1,269	1,028
Total Capital Base ($m)	1,269	1,028
Prescribed Capital Amount ($m)	583	766
Capital Adequacy Multiple	2.2	1.3

49 Life insurance business disclosures (continued)

Non-Australian life insurers

The non-Australian life insurer in the Group is not governed by the *Life Insurance Act 1995* (Cth) as it is a foreign-domiciled life insurance company. This company is required to meet and has met similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

(c) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 "Valuation of Policy Liabilities" issued by APRA (refer to *Note 1(aa) - Life policy liabilities)*. This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 " Life insurance contracts", and AASB 9 "Financial Instruments" and AASB 118 "Revenue" for life investment contracts.

(ii) Types of business and profit carriers

The methods used, and in the case of life 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	Accumulation	n/a
Traditional business - non-participating insurance riders	Projection	Claims
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Group insurance	Accumulation	n/a
Annuity business	Projection	Annuity payments
Term deposits	Accumulation	n/a
Fixed rate options	Accumulation	n/a
Investment account	Accumulation	n/a
National credit card cover	Accumulation	n/a

(iii) Discount rates

These are the rates used to discount future cash flows to determine their 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	2015 %	2014 %
Traditional business - participating		
Ordinary [1]	**3.7**	4.0
Superannuation [1]	**4.5**	4.8
Term life and disability income (excluding claims in payment) insurance [2]	**3.2**	3.9
Disability claims in payment [2]	**2.8**	3.8
Annuity business [2]	**2.2 - 2.9**	3.0 - 3.8

(1) *After tax.*

(2) *Before tax.*

(iv) Future expense inflation and indexation

Future expense inflation is assumed to be 2.1% (2014: 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The policy liabilities assume a future take-up of these indexation options based on recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability and salary continuance claims is 2.1% (2014: 2.4%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *Note 1(k) -Income tax*.

49 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by various bodies as indicated below, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 75% of IA 95-97 [(1)] Female: 85% of IA 95-97 [(1)]
Term life insurance - Mortality	Male: 75 - 100% of FSC 04-08 [(2)] Female: 70 - 90% of FSC 04-08 [(2)]
Term life insurance - Morbidity	TPD: 260% of FSC 04-08 Trauma: 130% - 137% of FSC 04-08
Loan cover term life insurance	Male/Female: 100% of FSC 04-08 [(2)]
Disability income insurance	Male: Rates similar to 130%-150% of incidence and 20 - 110% of termination rates of IAD 89-93 [(3)] Female: Rates similar to 85%-90% of incidence and 20 - 110% of termination rates of IAD 89-93 [(3)]
LoanCover / EasyCover disability income insurance	Male/Female: Rates similar to 110-180% for non-smokers and 135 - 225% for smokers of incidence and 20% - 80% of termination rates of IAD 89-93 [(3)]
Annuity business	Male: 97.5% of IML00Ult(Base) [(4)] Female: 82.5% of IFL00Ult(Base) [(4)] Improvement Factors Male: 1.5% long term improvement assumptions Female: 1.0% long term improvement assumptions

(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) *FSC 04-08 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 2004 to 2008.*

(3) *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.*

(4) *IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1999 to 2002. The tables refer to male and female lives respectively. (There are no standard Australian annuitant mortality tables.)*

(vii) Lapses

Assumed future annual lapse rates for the major classes of business are as follows. Lapse rates may vary according to a range of policyholder variables. Rates shown generally reflect the weighted average within each range.

Product type	**2015** %	2014 %
Traditional business - participating		
Ordinary	**6**	6
Superannuation	**7**	7
Term life insurance (Full; Partial) [(1)]	**10 - 15; 1 - 4**	10 - 15; 1.4
Disability income insurance (Full; Partial) [(1)]	**10 - 15; 0.4**	10 - 15; 0.4
Loan cover/ Easy cover term life and disability insurance	**17 - 35**	17 - 35
National Credit Card	**17 - 35**	17 - 35

(1) *Full refers to policies that have fully lapsed. Partial refers to a change in the sum insured.*

(viii) Surrender values

Surrender values are based on the terms specified in policy contracts and typically allows for recovery of policy acquisition and maintenance costs.

(ix) Future participating benefits

For participating business, bonus rates are set 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 participating business are:

	Ordinary business		Superannuation business	
	2015 **%**	2014 %	**2015** **%**	2014 %
Bonus rate on sum assured	**0.4**	0.4	**1.3**	1.3
Bonus rate on existing bonuses	**0.4**	0.4	**1.3**	1.3

49 Life insurance business disclosures (continued)

(d) Actuarial 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.

(e) Effects of changes in actuarial assumptions

	2015		2014	
Assumption category	**Increase/ (decrease) in future profit margins $m**	**Increase/ (decrease) in net policy liabilities $m**	Increase/ (decrease) in future profit margins $m	Increase/ (decrease) in net policy liabilities $m
Market-related changes to discount rates	**(16)**	**90**	(14)	125
Non-market-related changes to discount rates	**-**	**-**	13	20
Inflation rate	**-**	**(35)**	-	(1)
Mortality and morbidity	**250**	**(120)**	211	62
Lapse rates	**(498)**	**28**	(102)	(20)
Maintenance expenses	**19**	**22**	(202)	38
Other assumptions	**137**	**6**	345	(34)
Total	**(108)**	**(9)**	251	190

(f) Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as 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.

		2015			
		Gross (before reinsurance)		**Net (of reinsurance)**	
Variable	**Change in variable**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**
Discount rate	1% increase in discount rate	(3)	(73)	8	(78)
Inflation rate	0.5% increase in inflation rate	(21)	57	(10)	42
Annuitant mortality	50% increase in rate of mortality improvements	(8)	12	(4)	6
Mortality and Morbidity - Lump Sum [(1)]	10% increase in mortality and morbidity rates	(5)	7	(14)	19
Morbidity disability income	10% increase in disability incidence rates	(46)	66	(29)	42
Morbidity disability income	10% decrease in disability termination rates	(141)	202	(93)	133
Lapse rates	10% increase in lapse rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	(5)	8	(5)	7

(1) TPD and Trauma (riders to Lump Sum products) morbidity rate sensitivities are included with the mortality rate sensitivities for Lump Sum products for the first time in 2015. Given existing profit margins, excluding TPD and Trauma the sensitivities to policy liabilities and profit/loss would have been negligible.

		2014			
		Gross (before reinsurance)		Net (of reinsurance)	
Variable	Change in variable	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m
Discount rate	1% increase in discount rate	6	(91)	(3)	(78)
Inflation rate	0.5% increase in inflation rate	(18)	56	(13)	49
Annuitant mortality	50% increase in rate of mortality improvements	(7)	11	(7)	11
Mortality	10% increase in mortality rates	(10)	15	(8)	12
Morbidity	10% increase in disability incidence rates	(60)	86	(59)	84
Morbidity	10% decrease in disability termination rates	(175)	250	(164)	234
Lapse rates	10% increase in lapse rates	(2)	3	(2)	3
Maintenance expenses	10% increase in maintenance expenses	(8)	12	(12)	18

49 Life insurance business disclosures (continued)

(g) 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 variables affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapses, expenses
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality, expenses
Conventional with discretionary participating benefits	Combination of life insurance and savings. Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapses, expenses, investment earnings

(h) Other life insurance disclosures

	Group	
Premium and related revenue	**2015 $m**	2014 $m
Life insurance contract premium revenue	**1,875**	1,800
Reinsurance commissions received	**525**	-
Less: outwards reinsurance expense	**(675)**	(168)
Total	**1,725**	1,632

Claims Expense	**$m**	$m
Life insurance contract claim expense	**1,024**	1,118
Less: reinsurance recoveries	**(181)**	(157)
Total	**843**	961

	Group	
Sources of operating profit	**2015 $m**	2014 $m
Life insurance contracts		
Emergence of shareholder planned margins	**182**	144
Experience profit/(loss)	**(22)**	(89)
Reversal of capitalised losses/(losses recognised)	**7**	1
Life investment contracts		
Fees earned	**181**	182
Investment earnings on shareholder retained profits and capital	**69**	45

	Group	
Schedule of expenses	**2015 $m**	2014 $m
Policy acquisition expense [(1)]		
Commission	**259**	248
Other	**79**	93
Policy maintenance expense [(2)]		
Commission	**260**	249
Other	**375**	356
Investment management expense	**6**	13

(1) *The Group policy acquisition expense includes $128 million (2014: $148 million) relating to life insurance contracts, of which $64 million (2014: $66 million) relates to commissions.*

(2) *The Group policy maintenance expense includes $399 million (2014: $369 million) relating to life insurance contracts.*

50 Capital adequacy

As an authorised deposit-taking institution (ADI), NAB is subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959 (Cth). APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel capital adequacy framework.

The Group's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk-weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk-weighted assets is called the Tier 1 capital ratio.

Tier 2 capital mainly comprises of subordinated debt instruments, and contributes to the overall capital framework.

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital ratio. The minimum CET1 ratio, Tier 1 capital ratio and Total Capital ratio under APRA's Basel capital adequacy Prudential Standards are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

From 1 January 2016, APRA will implement a capital conservation buffer of 2.5% of an ADI's total risk-weighted assets. In addition, for ADI's considered systemically important such as the Company, a further Domestic Systemically Important Bank (D-SIB) requirement of 1% will be added to the required capital conservation buffer.

Under APRA's Prudential Standards, life insurance and funds management entities activities are deconsolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The investment in these controlled entities is deducted 100% from CET1 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of CET1 capital to the extent they have not been remitted to NAB.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Board. The Group remains well capitalised with a CET 1 ratio of 10.24% as at September 2015. The Group's CET 1 operating target remains between 8.75% and 9.25% based on current regulatory requirements.

The Group's CET 1 ratio for September 2015 exceeds the operating target in anticipation of the planned demerger of Clydesdale Bank and in response to APRA's recent announcements for ADIs to increase risk-weighted assets (RWA) for residential mortgage loans from 1 July 2016.

51 Discontinued operations

During the Financial year to 30 September 2015, the Group divested its investment in Great Western Bancorp, Inc. (GWB), a US based subsidiary of the Group resulting in discontinued operations. This operating segment was not previously classified as held-for-sale or as a discontinued operation. The operating segment previously formed part of the Corporate Functions & Other reportable segment. (*Refer to Note 2 - Segment information*). The comparative Income Statements and Statements of Other Comprehensive Income of the Group have been restated to show the discontinued operations separately from continuing operations. *Refer Principal accounting policies Note 1 - (aj) Discontinued operations*.

The overall divestment of GWB was achieved in stages commencing with an initial and secondary public offering (see (a)) and a final offering in which the Group lost of control over and de-consolidated its subsidiary (see (b)).

(a) Sale of interest in a subsidiary

On 15 October 2014, an initial public offering was undertaken in respect of GWB in which the Group sold 31.8% of the common stock.

On 6 May 2015, a secondary public offering was finalised with the Group selling a further 39.7% of common stock.

Total net consideration proceeds received from these transactions was $955 million[(1)].

A change in ownership without loss of control has been treated as an equity transaction and the loss on sale is recognised in retained earnings. The total pre and post tax accounting loss recognised in retained earnings in respect of these two offerings was $329 million[(2)]. The accounting loss recognised in retained earnings included a proportional release of Foreign Currency Translation Reserves (FCTR) and other comprehensive income reserves [(3)] related to the US foreign operations.

(b) Loss of control of a subsidiary

On 3 August 2015, shortly after the Group finalised the divestment of its remaining 28.5% interest, the Group lost control over and de-consolidated GWB (including the subsidiary entities of GWB) being the GWB Consolidated Group (GWB Group).

The total pre and post tax accounting loss recognised in the Group's income statement in respect of the final offering in which the Group lost control was $83 million, which included a release of any remaining FCTR and other comprehensive income reserves [(3)] related to the US foreign operations.

The total FCTR (inclusive of net investment hedge adjustments) which was recycled to the Group's income statement was a $13 million gain. Total FCTR released (either to the income statement or proportionally to retained earnings) from the overall divestment of GWB Group was a $46 million gain.

Total net cash consideration proceeds received from the final sell down where the Group lost control was $509 million [(1)]. The amount of cash and cash equivalents in the consolidated GWB Group as of the date when control was lost was $343 million.

Total dividends paid to the Non-Controlling Interests of GWB Group for the period from 15 October 2014 up until the loss of control date was $9 million.

(c) Analysis of profit for the year from discontinued operations

The results of GWB discontinued operations for the period up to the loss of control date included in the Group's income statement, are set out below, including full year comparative information.

	Group	
	2015 $m	2014 $m
Net interest income	**314**	324
Total other income	**73**	68
Total other operating expenses	**(200)**	(211)
Charge to provide for doubtful debts	**(18)**	(8)
Profit before income tax	**169**	173
Income tax expense	**(57)**	(59)
Net profit from discontinued operations before disposal of subsidiary	**112**	114
Attributable to owners of NAB	***64***	*114*
Attributable to non-controlling interests	***48***	-
Loss on disposal of subsidiary	**(83)**	-
Net profit from discontinued operations	**29**	114
Net loss from discontinued operations (attributable to owners of NAB)	***(19)***	-
Net profit from discontinued operations (attributable to non-controlling interests)	***48***	-

(1) Comprises of gross proceeds less underwriting fees but excludes transaction costs.
(2) Amount excludes a $6 million favourable Asset Revaluation Reserve release to retained earnings at the point of loss of control.
(3) Includes a $73 million Cash Flow Hedge Reserve loss arising from a cash flow hedge of foreign currency exposures on the original acquisition price of GWB Group in 2008.

51 Discontinued operations (continued)

(d) Cash flow from/(used in) discontinued operations

The results of cash flows from/(used in) of GWB discontinued operations for the period up to the loss of control date included in the Group's cash flow statement, are set out below, including full year comparative information.

	2015 $m	2014 $m
Net cash from/(used in) operating activities	33	(256)
Net cash from/(used in) investing activities	(171)	129
Net cash from/(used in) financing activities	115	98
Net cash inflows/(outflows)	**(23)**	(29)

(e) Effect of disposal on the financial position of the Group

The assets and liabilities of GWB discontinued operations removed from the Group's balance sheet as at the loss of control date (3 August 2015) is set out below. In line with accounting standard requirements the comparative information on the Group's balance sheet for GWB discontinued operations has not been restated.

	2015 $m
Assets	
Cash and liquid assets	156
Due from other banks	187
Debt instruments at fair value through other comprehensive income	1,951
Other financial assets at fair value	1,468
Loans and advances	8,416
Property, plant and equipment	127
Goodwill and other intangible assets	954
Deferred tax assets	48
Other assets	129
Total assets	**13,436**
Liabilities	
Trading derivatives	51
Deposits and other borrowings	11,159
Current tax liabilities	3
Provisions	7
Due to controlled entities	2
Bonds, notes and subordinated debt	124
Other liabilities	55
Total liabilities	**11,401**
Net assets	**2,035**

52 Events subsequent to reporting date

Sale of 80% of Life Insurance Business

On 28 October 2015 NAB announced it had entered into an agreement to sell 80% of NAB Wealth's life insurance business to Nippon Life Insurance Company for $2.4 billion, while NAB will retain the remaining 20%. The purchase price is an estimate and may be adjusted for certain capital inflows and outflows between signing and completion, including dividends paid by the life insurance business. As part of the agreement, NAB will enter a 20 year distribution agreement to provide life insurance products through its owned and aligned distribution networks. NAB will retain ownership of its investments business which includes superannuation, platforms, advice and asset management. The transaction will occur through the sale of 80% of MLC Limited after the extraction of NAB's superannuation and investments business and certain other restructuring steps. NAB will retain the MLC brand, although it will be licensed for use by the life insurance business for 10 years.

The transaction is expected to be completed in late 2016 subject to certain conditions including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the superannuation business from MLC Limited and the finalisation of certain agreements. NAB will retain responsibility for managing the life insurance business until completion, subject to certain restrictions on carrying out material transactions and transactions outside the ordinary course of business.

An indicative loss on sale of $1.1 billion is anticipated as a result of the transaction. The final loss on sale will vary depending on the level of earnings between signing and completion, the final allocation of goodwill at the time of deconsolidation, final transaction costs and a number of other items.

Other than the matter referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between end of the reporting period (30 September 2015) and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1 (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 67 to 182 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1(b) - Statement of compliance* to the financial statements, and the *Corporations Act* 2001 (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2015, and of the performance of NAB and the Group for the year ended 30 September 2015;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and

2 there are reasonable grounds to believe that NAB and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between NAB and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 (refer to *Note 40 - Interests in subsidiaries and other entities* and *Note 41 - Contingent liabilities and credit commitments* to the financial statements for further details).

Dated this 16th day of November 2015 and signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

Andrew G Thorburn
Group Chief Executive Officer

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
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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 sheets as at 30 September 2015, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. 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.

Building a better working world

Opinion

In our opinion:

a. the financial report of National Australia Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of the Company and the Group as at 30 September 2015 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. 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 31 to 53 of the Report of the Directors for the year ended 30 September 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

16 November 2015

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2015

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	471,719,360	17.96
J P MORGAN NOMINEES AUSTRALIA LIMITED	323,027,579	12.30
NATIONAL NOMINEES LIMITED	250,820,276	9.55
CITICORP NOMINEES PTY LIMITED	133,077,284	5.07
BNP PARIBAS NOMS PTY LTD <DRP>	66,034,250	2.51
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	37,173,522	1.42
AMP GROUP	17,530,245	0.67
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	15,001,168	0.57
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	14,885,395	0.57
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	9,806,639	0.37
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,342,065	0.36
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	8,556,973	0.33
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	8,504,688	0.32
NATIONAL AUSTRALIA TRUSTEES LIMITED	8,078,182	0.31
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	6,143,257	0.23
ARGO INVESTMENTS LIMITED	6,055,138	0.23
MILTON CORPORATION LIMITED	4,757,857	0.18
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	4,411,172	0.17
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	3,627,485	0.14
PERSHING AUSTRALIA NOMINEES PTY LTD <D2MX PTY LTD A/C>	3,275,110	0.13
Total	1,401,827,645	53.39

Substantial shareholders

As at 31 October 2015 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	329,900	57.94	126,484,686	4.82
1,001 – 5,000	193,016	33.90	422,611,791	16.10
5,001 – 10,000	29,329	5.15	202,494,632	7.71
10,001 – 100,000	16,682	2.93	339,316,220	12.92
100,001 and over	440	0.08	1,534,880,946	58.45
Total	569,367	100	2,625,788,275	100
Less than marketable parcel of $500	15,746		111,195	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2015

	Number of securities	%
NATIONAL NOMINEES LIMITED	975,234	4.88
J P MORGAN NOMINEES AUSTRALIA LIMITED	768,440	3.84
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	639,398	3.20
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	402,167	2.01
CITICORP NOMINEES PTY LIMITED	269,890	1.35
UBS NOMINEES PTY LTD	235,556	1.18
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	221,136	1.11
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <PICREDIT>	220,767	1.10
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	219,178	1.10
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	212,973	1.06
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	152,193	0.76
MUTUAL TRUST PTY LTD	151,708	0.76
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	147,284	0.74
UBS NOMINEES PTY LTD <TP00014 10 A/C>	134,870	0.67
BNP PARIBAS NOMS PTY LTD <DRP>	127,066	0.63
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	84,189	0.42
THE AUSTRALIAN NATIONAL UNIVERSITY	80,000	0.40
RBC INVESTOR SERVICE AUSTRALIA NOMINEES PTY LIMITED <GSENIP A/C>	74,453	0.37
PENINSULA HARBOUR PTY LTD <PENINSULA HARBOUR UNIT A/C>	73,000	0.37
AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C>	63,418	0.32
Total	5,252,920	26.27

Shareholder information

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	30,183	92.21	7,315,317	36.58
1,001 – 5,000	2,274	6.95	4,464,670	22.32
5,001 – 10,000	160	0.49	1,106,103	5.53
10,001 – 100,000	100	0.31	2,236,050	11.18
100,001 and over	15	0.04	4,877,860	24.39
Total	32,732	100	20,000,000	100
Less than marketable parcel of $500	64		275	

Voting rights

Holders of NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares (NAB CPS) holders as at 31 October 2015

	Number of securities	%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	426,776	2.82
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	425,312	2.81
NATIONAL NOMINEES LIMITED	335,832	2.22
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	284,133	1.88
J P MORGAN NOMINEES AUSTRALIA LIMITED	235,463	1.55
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	213,466	1.41
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	135,663	0.89
DIMBULU PTY LTD	100,000	0.66
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	85,107	0.56
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	75,031	0.49
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	63,171	0.42
SNEATH & KING PTY LTD <BRIDGET KING EXEC B/P A/C>	52,330	0.35
JDB SERVICES PTY LTD <RAC & JD BRICE INVEST A/C>	50,000	0.33
RANDAZZO C & G DEVELOPMENTS PTY LTD	50,000	0.33
SERVCORP HOLDINGS PTY LTD	50,000	0.33
ZASHVIN PTY LTD	50,000	0.33
CITICORP NOMINEES PTY LIMITED <DPSL>	49,501	0.33
AVANTEOS INVESTMENTS LIMITED <2477966 DNR A/C>	47,503	0.31
THE WALTER AND ELIZA HALL INSTITUTE OF MEDICAL RESEARCH	45,000	0.30
RBC INVESTOR SERVICE AUSTRALIA NOMINEES PTY LIMITED <GSENIP A/C>	43,709	0.29
Total	2,817,997	18.61

Distribution of NAB CPS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	20,540	91.50	6,846,005	45.21
1,001 – 5,000	1,732	7.72	3,706,972	24.48
5,001 – 10,000	112	0.50	885,336	5.85
10,001 – 100,000	56	0.25	1,648,316	10.88
100,001 and over	7	0.03	2,056,645	13.58
Total	22,447	100	15,143,274	100
Less than marketable parcel of $500	10		26	

Voting rights

Holders of Convertible Preference Shares (CPS) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS.

Shareholder information

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2015

	Number of securities	%
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	559,248	3.26
PEJR PTY LTD <LEDERER GROUP A/C>	490,000	2.85
NATIONAL NOMINEES LIMITED	374,075	2.18
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	326,686	1.90
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	295,864	1.72
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	214,079	1.25
LONGHURST MANAGEMENT SERVICES PTY LTD	210,000	1.22
MRS EVA MARIA LEDERER	200,000	1.17
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	178,288	1.04
J P MORGAN NOMINEES AUSTRALIA LIMITED	173,825	1.01
AVANTEOS INVESTMENTS LIMITED <ENCIRCLE IMA A/C>	126,146	0.74
TANDOM PTY LTD	100,000	0.58
QUESTOR FINANCIAL SERVICES LIMITED <TPS RF A/C>	95,667	0.56
CITICORP NOMINEES PTY LIMITED	90,468	0.53
PERSHING AUSTRALIA NOMINEES PTY LTD <IMPLEMENTED PORTFOLIOS A/C>	79,698	0.46
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	75,516	0.44
AVANTEOS INVESTMENTS LIMITED <ENCIRCLE SUPER A/C>	66,101	0.38
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MULTIPORT A/C>	60,261	0.35
DIMBULU PTY LTD	50,000	0.29
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	50,000	0.29
Total	3,815,922	22.22

Distribution of NAB CPS II holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,955	90.13	6,737,223	39.23
1,001 – 5,000	1,946	8.79	4,105,105	23.91
5,001 – 10,000	137	0.62	1,008,710	5.88
10,001 – 100,000	92	0.41	2,172,681	12.65
100,001 and over	11	0.05	3,148,211	18.33
Total	22,141	100	17,171,930	100
Less than marketable parcel of $500	4		10	

Voting rights

Holders of Convertible Preference Shares II (CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the CPS II.

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:

- National Income Securities, NAB Convertible Preference Shares (CPS) and NAB CPS II, NAB Capital Notes, NAB Subordinated Notes, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Trust Preferred Securities, National Capital Instruments, Perpetual Capital Notes, medium-term notes, subordinated bonds and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes, Floating Rate Notes, subordinated debentures and subordinated notes which are quoted on the Channel Islands Securities Exchange.
- Undated subordinated floating rate notes, mortgage backed securities and covered bonds which are quoted on the London Stock Exchange.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.

Shareholder information

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AO, BSc, MBA, Hon. LLD *W. Aust*, FAICD

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BCom, MBA

Group Executive, Finance and Strategy
Mr Craig M Drummond
BCom, CA, SF Fin

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Shareholders' Centre website
The Group's website at www.nabgroup.com/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' Centre information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details
These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

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United States ADR depositary, Transfer agent and registrar

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Glossary

Term Used	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
AASB	Australian Accounting Standards Board.
ADR	American depositary receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
Australian Banking	Australian Banking offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking comprises Retail and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury.
Average assets	Represents the average of assets over the period adjusted for disposed operations. Disposed operations include any operations that will not form part of the continuing Group. These include operations sold and those which have been announced to the market that have yet to reach completion.
Average interest earning assets	The average balance of assets held by the Group that generate interest income.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposit, lending and other banking services in Australian Banking, UK Banking, NZ Banking, - Global Capital Markets and Treasury, Specialised Finance, Financial Institutions business within Product & Markets division of Australian Banking; and - NAB UK CRE operations and Group Funding within Corporate Functions and Other.
Banking Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BBSW	Bank bill swap rate.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as Net profit attributable to owners of NAB, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. In September 2015 cash earnings has been adjusted for the following: - Distributions - Treasury shares - Fair value and hedge ineffectiveness - Life insurance economic assumption variation - Amortisation of acquired intangible assets - Sale and demerger transaction costs.
Cash return on equity (Cash ROE)	Cash ROE is calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
CGU	Cash generating unit.
Clydesdale Bank and Yorkshire Bank	Clydesdale Bank plc.
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.
Conduit	Special Purpose Entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
Continuing Operations	Continuing operations are the components of the Group which are not discontinued operations.
Convertible Preference Share (CPS)	A preferred share that a shareholder may exchange, at any time after a waiting period, for a common share in the company.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and Other financial assets at fair value.
Corporate Functions and Other	Corporate Functions and Other includes functions that support all businesses including Group Funding, Other Corporate Functions activities and the results of Specialised Group Assets. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with captial and balance sheet management. Other Corporate Functions activities include Enterprise Services and Transformation, Australian Investment Committee and Support Units (which include Office of the CEO, Risk, Finance and Strategy and People, Communications and Governance).
Customer deposits	Deposits (Interest Bearing, Non-Interest Bearing and Term Deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CYBG Group	CYBI and its subsidiaries prior to the Demerger being implemented and, thereafter, CYBG PLC and its subsidiaries from time to time.

Glossary

Deferred Acquisition Cost (DAC) discount	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities, resulting from a movement in the inflation adjusted risk-free discount rate.
Demerger	The proposed demerger of CYBG Group from NAB.
Discontinued Operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single co-ordinated plan for disposal.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
EaR	Earnings at risk.
Fair value	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.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FATCA	The Foreign Account Tax Compliance Act (FATCA) is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority)
FUM	Funds Under Management.
FSA	United Kingdom Financial Services Authority. Effective from 1 April 2013, the FSA has been abolished and replaced with two successor organisations. The Prudential Regulation Authority (PRA) will ensure the stability of financial services firms and the Financial Conduct Authority (FCA) will provide oversight and regulate conduct in the financial services industry.
FSCS	United Kingdom Financial Services Compensation Scheme.
GDP	Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.
General reserve for credit losses (GRCL)	The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under APS 220 - Credit Quality. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes.
Group	The Company and its controlled entities.
GST	Australian Goods and Services Tax (GST) is a value added tax of 10% on most goods and services sales.
Great Western Bank (GWB)	Great Western Bancorp, Inc.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue. - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interests. - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Investment earnings on Retained Earnings (IoRE)	Investment earnings (gross of tax) on shareholders' retained earnings, comprising investment earnings on surplus assets which are held in the Statutory funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth).
Investments - AFS	Investments - available for sale.
Investments - HTM	Investments - held to maturity.
Life insurance economic assumption variation	The net impact on statutory profit of the change in value of life insurance policy liabilities (net of reinsurance) and investments relating to life insurance business due to changes in economic assumptions (inflation and the risk free discount rate).
Lifetime expected credit losses (ECL)	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	LCR is a new measure announced as part of the Basel III liquidity reforms that came into force on 1 January 2015. The ratio measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario.
LPS	Prudential Standards issued by APRA applicable to life companies.
Marketable debt securities	Comprises trading securities, debt instruments at fair value through other comprehensive income and other debt instruments at amortised cost (classified in comparative periods as investments - available for sale and investments - held to maturity respectively).
NAB	The Company.
NAB UK Commercial Real Estate (NAB UK CRE)	NAB UK CRE was created on 5 October 2012 following the transfer of certain commercial real estate loan assets from Clydesdale Bank plc to the Company. These loan assets are managed by the NAB London Branch.
NAB Wealth	NAB Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group.
Net profit attributable to owners of NAB	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Net interest margin (NIM)	Net interest income as a percentage of average interest earning assets.

Glossary

Net profit attributable to owners of NAB	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Net Promoter Score (NPS)	The Net Promoter Score is calculated as the difference between the proportion of customers who are deemed to be 'promoters' and the proportion of customers deemed 'detractors' following customer surveys.
Non-impaired assets 90+ days past due	Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
NZ Banking	NZ Banking comprises the Retail, Business, Agribusiness, Corporate & Institutional and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's markets operations which form part of Australian Banking.
NZDX	New Zealand Debt Market.
PRA	United Kingdom Prudential Regulation Authority.
Risk-weighted assets (RWA)	A quantitative measure of the Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RBNZ	Reserve Bank of New Zealand.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
SGA	Specialised Group Assets.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory funds	A Statutory Fund is a fund that: - is established in the records of a life company. - relates solely to the life insurance business of the Company or a particular part of that business.
Term Funding Index (TFI)	Term wholesale funding (with a remaining maturity to first call date greater than 12 months) divided by core assets.
Tier 1 Capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments issued by the Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy : Measurement of Capital.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total capital ratio	Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' securities over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares in the Company held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's life insurance business are eliminated for statutory reporting purposes.
UK Banking	UK Banking operates under the 'Clydesdale Bank' and 'Yorkshire Bank' brands offering a range of banking servies for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker channels.
VaR	Value at risk.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share'.

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