ANNUAL FINANCIAL REPORT 2010

National Australia Bank

National Australia Bank Limited **ABN 12 004 044 937**

This Annual Financial Report is lodged with the Australian Securities and Investments Commission and ASX Limited.

National Australia Bank Limited (NAB) is publicly listed in Australia and overseas. This Report contains information prepared on the basis of the *Banking Act* 1959 (Cth), *Corporations Act* 2001 (Cth) and Australian equivalents to International Financial Reporting Standards. The Group deregistered from the United States Securities Exchange Commission (SEC) effective 20 September 2007. Accordingly, NAB is not required to include SEC-related disclosures in this 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.

To view the Report online, visit **www.nabgroup.com**. Alternatively, to arrange for a copy to be sent to you free of charge, call Shareholder Services on 1300 367 347 from within Australia, or +61 3 9415 4299 from outside Australia.

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

All figures in this document are in Australian dollars unless otherwise stated.

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Report of the directors

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended 30 September 2010.

Certain definitions

The Group's fiscal year ends on 30 September. The fiscal year ended 30 September 2010 is referred to as 2010 and other fiscal 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.

A glossary of key terms used in this financial report is contained on pages 169 to 171.

Forward-looking statements

This financial 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 in *Note 43* in the financial report.

Rounding of amounts

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

Principal activities and significant changes in nature of activities

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

Review of operations and Group results

Financial performance summary

	Group	
	2010 $m	2009 $m
Net interest income	**12,256**	12,068
Net life insurance income	**813**	357
Other income	**3,939**	4,352
Operating expenses	**(8,541)**	(7,979)
Charge to provide for doubtful debts	**(2,791)**	(3,815)
Profit before income tax expense	**5,676**	4,983
Income tax expense	**(1,451)**	(2,394)
Net profit for the year	**4,225**	2,589
Non-controlling interest in controlled entities	**(1)**	-
Net profit attributable to owners of the Company	**4,224**	2,589

Net profit attributable to owners of the Company of $4,224 million in 2010 was $1,635 million or 63.2% higher compared with 2009. This reflects a strong performance by the Business Banking and MLC & NAB Wealth divisions, a significant decrease in the doubtful debts charge across the Group as economic conditions improved and the costs incurred for several long-standing legal and tax proceedings in the previous year. It also reflects the contribution made by the entities acquired during the year - refer to *Note 40* for further details.

Net interest income of $12,256 million was $188 million or 1.6% higher than 2009. The increase reflects the repricing of lending portfolios to align pricing with current market conditions particularly in UK Banking, Business Banking and NZ Banking, increased volumes on mortgage products and the small and medium enterprise segment, lower basis risk in the United Kingdom and the contributions from the entities acquired during the year.

This increase was partially offset by higher funding costs as the term funding portfolio progressively matured and was replaced at higher spreads over benchmark rates. In addition, there were greater competitive pressures on deposit margins.

The Group's net interest margin improved by 9 basis points during the year to September 2010. The increase was attributable to the repricing of the lending portfolio in line with current market conditions and lower short-term funding costs as spreads contracted. The improvement was partially offset by increasing term funding and deposit costs.

Net life insurance income increased by $456 million from $357 million in 2009 to $813 million in 2010. This reflected the contributions of Aviva and JBWere, and higher funds under management arising from an improvement in global investment markets, strong net inflows and continued momentum in the insurance business.

Total other income of $3,939 million was $413 million or 9.5% lower than the 2009 other income of $4,352 million. The decrease was primarily attributable to Wholesale Banking's Global Markets and Treasury divisions as volatility reduced from the high levels in 2009 and the abolition of certain fees as part of the Group's "Fair Value" initiatives. The decrease was partially offset by the contributions from the entities acquired during the year.

Total operating expenses of $8,541 million at 30 September 2010 were $562 million or 7.0% higher than the total expenses of $7,979 million at 30 September 2009. The increase was primarily as a result of the entities acquired during the year ($383 million). All businesses have maintained a cost focus within normal business activities, whilst continuing to focus on efficiency, quality and service initiatives to support sustainable business growth.

The charge to provide for doubtful debts of $2,791 million in 2010 was $1,024 million or 26.8% lower than the charge for 30 September 2009. The decline was mainly due to lower specific and collective charges as the economic environment improved.

Income tax expense of $1,451 million was $943 million or 39.4% lower than 2009. The main driver for the decrease was tax expenses relating to long standing tax proceedings incurred during the previous year.

Dividends

The directors have declared a final dividend of 78 cents per fully paid ordinary share, 100% franked, payable on 17 December 2010. The proposed payment amounts to approximately $1,664 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended 30 September 2009 of 73 cents per fully paid ordinary share, 100% franked, paid on 17 December 2009. The payment amount was $1,532 million; and
- the interim dividend for the year ended 30 September 2010 of 74 cents per fully paid ordinary share, 100% franked, paid on 8 July 2010. The payment amount was $1,570 million.

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

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

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

Balance sheet summary

	Group	
	2010 $m	2009 $m
Assets		
Cash and liquid assets	**26,072**	25,834
Due from other banks	**37,679**	33,265
Trading derivatives	**38,340**	37,030
Trading securities	**25,821**	22,219
Investments - available for sale	**14,572**	7,933
Investments - held to maturity	**13,789**	17,529
Investments relating to life insurance business	**64,560**	54,254
Other financial assets at fair value	**37,409**	31,530
Loans and advances	**354,835**	344,774
Due from customers on acceptances	**49,678**	55,035
All other assets	**23,197**	24,717
Total assets	**685,952**	654,120
Liabilities		
Due to other banks	**37,612**	36,148
Trading derivatives	**40,587**	38,090
Other financial liabilities at fair value	**19,887**	21,311
Deposits and other borrowings	**353,232**	336,188
Liability on acceptances	**12,549**	16,891
Life policy liabilities	**54,354**	47,314
Bonds, notes and subordinated debt	**93,203**	90,792
Other debt issues	**2,502**	2,627
All other liabilities	**33,072**	26,924
Total liabilities	**646,998**	616,285
Total equity	**38,954**	37,835
Total liabilities and equity	**685,952**	654,120

Total assets at 30 September 2010 increased by $31,832 million or 4.9% to $685,952 million from $654,120 million at 30 September 2009.

Total net loans and advances (including acceptances) increased by $4,704 million or 1.2% to $404,513 million at 30 September 2010 from $399,809 million at 30 September 2009. This increase reflected growth in housing lending, through improved momentum in the business, partially offset by a decline in non-housing lending as a result of the de-leveraging of large corporate balance sheets and the managing down of lending in the Specialised Group Assets division.

Marketable debt securities (comprising trading securities, investments - available for sale and investments - held to maturity) increased by $6,501 million or 13.6% from 30 September 2009, reflecting the Group's desire to maintain strong balance sheet settings.

Investments relating to life insurance business increased by $10,306 million or 19.0%, which was attributable to the entities acquired during the year and improved global equity and property markets when compared to the 2009 year, and the favourable impact this has had on returns made on policyholder contributions. Additionally, higher applications than redemptions resulted in an increase in funds under management.

Other financial assets at fair value, comprising mainly loans at fair value, increased by $5,879 million or 18.6%, reflecting the popularity of this form of lending due to the flexibility in tailoring loans to meet the individual needs of customers.

Total liabilities at 30 September 2010 increased by $30,713 million or 5.0% to $646,998 million from $616,285 million at 30 September 2009.

The increase in total liabilities is largely attributable to the increase in deposits and other borrowings, which increased by $17,044 million or 5.1% from 30 September 2009 as a result of growth in deposits from customers.

Life policy liabilities have increased by $7,040 million or 14.9% to $54,354 million at 30 September 2010. The increase in investments relating to life insurance business, has resulted in a similar increase in life policy liabilities and external unitholders' liability (included, within all other liabilities in the above table).

Total equity at 30 September 2010 increased by $1,119 million or 3.0% from 30 September 2009. This increase reflects the current year earnings and the issue of shares through the Group's dividend reinvestment plan, partly offset by the payment of dividends and an unfavourable movement in the foreign currency translation reserve.

Report of the directors

Directors

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

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

Age: 60

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

Independent: Yes

Skills & Experience: 27 years of experience in a range of industries in executive, financial management and governance roles including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia, US 1972 to 1980.

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

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

Board Committee membership

- Chairman of the Nomination Committee

Mr Cameron A Clyne BA

Age: 42

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

Independent: No

Skills & Experience: 20 years in financial services, including 12 years with PricewaterhouseCoopers, culminating in leadership of the Financial Services Industry practice in Asia Pacific, prior to the acquisition by IBM of PwC Consulting. During his consulting career he worked with many of the world's leading banks in Australia, New Zealand, United States, Europe and Asia. He is also a director of Bank of New Zealand and was appointed to the Board of National Australia Group Europe Limited and Clydesdale Bank Plc (subsidiaries of the Company) on 8 January 2010.

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

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

Mrs Patricia A Cross BSc (Hons), FAICD

Age: 51

Term of office: Director since December 2005.

Independent: Yes

Skills & Experience: Over 30 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and National Australia Bank. Mrs Cross was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years. She has served in a variety of honorary advisory capacities to the Federal Government over the last 14 years, including most recently as a member of the Federal Government's Panel of Experts for the Australian Financial Centre Forum. In 2003, she received a Centenary Medal for service to Australian society through the finance industry. She is also a Director of JBWere Pty Ltd (a subsidiary of the Company)

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

- Director of Qantas Airways Limited (since January 2004)
- Director of Grattan Institute (since September 2008)
- Director of Murdoch Childrens Research Institute (since August 2005)
- Director of Methodist Ladies College, Melbourne (since January 2008)
- Former Director of Wesfarmers Limited (from February 2003 to March 2010)

Board Committee membership

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

Mr Daniel T Gilbert AM, LLB

Age: 59

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 30 years in commercial law, specialising in technology and corporate law. He is Managing Partner of Gilbert + Tobin, which he co-founded in 1988. He is also co-chair of NAB's Indigenous Advisory Group.

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

- Chairman, National Museum of Australia (since March 2009)
- Chairman, Cape York Institute for Policy and Leadership (since March 2010)
- Director of Australia Indigenous Minority Supplier Council Limited (since December 2008)

Board Committee membership

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

Mr Mark Joiner ACA, MBA

Age: 52

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

Independent: No

Skills & Experience: Over 22 years in commerce, banking and finance including 16 years with the Boston Consulting Group. He joined National Australia Bank Group in 2006 as Executive General Manager, Office of the Chief Executive Office Australia. He then held the office of Group Executive General Manager, Development and New Business. Prior to joining the Group, he was Chief Financial Officer, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business based in New York.

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

- Director of Aurora Vineyard Limited (since October 1999)

Mr Paul J Rizzo BCom, MBA

Age: 66

Term of office: Director since September 2004.

Independent: Yes

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

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

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

Board Committee membership

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

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

Age: 55

Term of office: Director since September 2004.

Independent: Yes

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

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

- Director of ASX Limited (since July 2003)
- Director of ASX Compliance Pty Limited (since July 2006)
- Chairman of General Sir John Monash Foundation (since February 2008)
- Director of The Garvan Institute of Medical Research (since June 2009)
- Deputy Chancellor, University of New South Wales Council (since January 2010)
- Member, Australian Government's Remuneration Tribunal (since April 2010)
- Member, Sydney Advisory Council of the Centre for Social Impact (since August 2008)
- Former Member of Australia Council's Major Performing Arts Board (from February 2003 to February 2009)
- Former President of the Administrative Review Council (from September 2005 to October 2009)

Board Committee membership

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

Mr John G Thorn FCA, FAICD

Age: 62

Term of office: Director since October 2003.

Independent: Yes

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

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

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

Board Committee membership

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

Mr Geoffrey A Tomlinson BEc

Age: 63

Term of office: Director since March 2000.

Independent: Yes

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

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

- Chairman of Programmed Maintenance Services Limited (since August 1999)
- Former Director of Amcor Limited (from March 1999 to April 2010)
- Former Chairman of Dyno Nobel Limited (from February 2006 to June 2008)

Board Committee membership

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

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

Age: 59

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

Independent: No

Skills & Experience: 38 years in banking and finance, including 7 years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group

Report of the directors

Executive, Financial and Risk Management from 1997 to 2002. Formerly partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992. He is Chairman of JBWere Pty Ltd and Great Western Bank, and he is also a Director of Bank of New Zealand (subsidiaries of the Company).

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

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

Mr John A Waller BCom, FCA

Age: 58

Term of office: Director since February 2009.

Independent: Yes

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

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

- Director of Fonterra Co-operative Group Limited (since February 2009)
- Director of Sky Network Television Limited (since April 2009)
- Director of Alliance Group Limited (since January 2009)
- Director of Haydn & Rollett Limited (since February 2009)
- Director of Donaghys Limited (since March 2009)
- Director of JAW Advisory Limited (since May 2009)
- Director of Direct Property Fund (since November 2010)
- Chairman of Eden Park Trust (since September 2009)
- Member of the Auckland Transition Agency (since 2009)
- Member of the New Zealand Takeovers Panel (since December 2006)

Board Committee membership

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

Sir Malcolm Williamson

Age: 71

Term of office: Director since May 2004.

Independent: Yes

Skills & Experience: Over 50 years in banking and finance industry both in the United Kingdom and the United States. He served with Barclays Plc from 1957 to 1985, and the Post Office Board and was Managing Director of Girobank PLC. In 1989, he joined Standard Chartered Plc and became Group Chief Executive. In 1998, he moved to the United States and took up the role of President and Chief Executive Officer of Visa International, which he held until 2004. He is also Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC, since June 2004 (subsidiaries of the Company).

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

- Chairman of Signet Jewelers Ltd (since September 2008) and Director of Signet Group Limited (formerly Signet Group plc) (since November 2005)
- Chairman of SAV Credit Limited (since June 2010)
- Chairman of Friends Provident Group plc and Friends Provident Holdings (UK) plc (Director since November 2009, Chairman since February 2010)
- Chairman of The Prince of Wales Youth Business International Limited (since March 2008)
- Chairman of Cass Business School Strategy and Development Board (since April 2008)
- Former Chairman of CDC Group plc (Director from January 2004 to April 2009)
- Former Deputy Chairman of Resolution plc (from September 2005 to May 2008)
- Former Director of G4S plc (from May 2004 to May 2008)
- Former Director of JPMorgan Cazenove Holdings (from April 2005 to January 2010).

Board Committee membership

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

Mr Anthony KT Yuen B.Soc.Scs & Law

Age: 60

Term of office: Director since March 2010.

Independent: Yes

Skills & Experience: 36 years in international banking and finance including senior executive roles in China and Hong Kong with Bank of America, National Westminster Bank and The Royal Bank of Scotland.

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

- Member of Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006)

Board Committee membership

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

Board changes

Mr Anthony KT Yuen was appointed as a director of the Company on 1 March 2010.

No directors have retired during the current year.

Company secretaries

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

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

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

Report of the directors

Mr Jason Elphick B.Com, LLB, LLM, joined the Group in 2004 and was appointed as a company secretary on 8 October 2010. Mr Elphick is the Head of Governance and General Counsel Capital and Funding and advises the Group on a wide range of debt, capital, equity, governance and regulatory matters.

Ms Robyn Weatherley BIntBus, MAppLaw joined the Group in 1997 and has worked in a number of corporate governance, credit and corporate recovery roles. Ms Weatherley was appointed a company secretary in March 2009 and ceased to be a company secretary on 8 October 2010.

Directors' and officers' indemnity

The Company's constitution

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

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

except to the extent that:

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

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

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

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

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

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

Directors' and officers' insurance

During the year, the Company, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The insurance does not provide cover for the independent auditors of the Company or of a related body corporate of the Company.

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

Significant changes in the state of affairs

Senior executive appointments

On 14 September 2010 the Company announced the appointment of Andrew Hagger to the Group Executive Committee, as Group Executive Corporate Affairs and Marketing, effective from 1 October 2010.

Recent market conditions

The economic environment in which the Group's divisions operate remains challenging. There are marked variations in the economic conditions and outlook for the major economic regions, with the big emerging market economies driving an unusually large amount of the limited global recovery. The overall pace of global economic growth remains sluggish. Sovereign credit concerns about several European economies have intensified and caused further market volatility.

Domestically the Australian economy performed well during the global financial crisis, with the financial system remaining relatively resilient and stable.

The Group is regulated in Australia and the other countries in which it operates. Following the global financial crisis, a process of reforming banking and financial services regulation around the world has commenced. These reforms include new requirements on the amount and quality of capital held by financial institutions, the introduction of leverage and liquidity ratios, and provision for a counter cyclical capital buffer.

Acquisitions of controlled entities and business combinations

A number of acquisitions of controlled entities and business combinations were successfully completed by the Group during the year.

On 1 October 2009 the Group acquired Aviva Australia Holdings Limited, a life insurance and wealth management business. The acquisition enhances the Group's offering in key wealth segments including insurance and investment platforms, adding scale, efficiency and new capabilities to the operations.

On 30 October 2009 the Group acquired the mortgage management business, Challenger Mortgage Management Holdings Pty Ltd. The acquisition enhances the Group's organic growth possibilities as it provides additional distribution and capability in Australian mortgages and increases the Group's presence in the broker distribution segment.

On 1 November 2009, National Wealth Management Holdings Limited acquired 80.1% of Goldman Sachs JBWere's (GSJBW) private wealth management business in Australia and New Zealand, which was subsequently rebranded as JBWere. The alliance incorporates a strategic distribution relationship which enables GSJBW to distribute certain products to JBWere on an exclusive or preferred basis and creates a highly competitive expanded offering for their clients.

On 23 April 2010 Great Western Bank acquired all 10 branches of F&M Bank. The acquisition establishes a strong foothold for Great Western Bank's operations in the Midwest states of the United States, and provides the opportunity to leverage existing financial stability and expand, particularly in the areas of consumer, business and agricultural banking.

On 4 June 2010 Great Western Bank acquired the banking franchise, including all deposits and loans, of TierOne Bank in Nebraska, United States. The acquisition expanded the Great Western Bank footprint in the key region of Nebraska.

More information in respect of these, and other, acquisitions of controlled entities and business combinations is set out in Note 40 in the financial report.

Report of the directors

Events subsequent to balance date

No matter, item, transaction or event of a material or unusual nature has arisen in the interval between the end of the financial year 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.

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 the Company

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

Environmental regulation

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

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

Both the *Energy Efficiency Opportunities Act* 2006 (Cth) and the *National Greenhouse and Energy Reporting Act* 2007 (Cth) require the Group to make assessments and report on the basis of the year from 1 July to 30 June (the environmental reporting year). During the environmental reporting year to 30 June 2010, the Group continued to implement an energy efficiency programme in Australia, including energy efficiency opportunity assessments pursuant to the *Energy Efficiency Opportunities Act* 2006 (Cth), which helped to produce greenhouse gas emissions savings and contributed to NAB's carbon neutral commitment. The Group's total Australian vehicle fleet and building related energy use during the 2010 environmental reporting year was 663,118 gigajoules (GJ), which is approximately 60% of the Group's measured total energy use.

During the 2010 environmental reporting year, the Group carried out 178 assessments, identifying potential energy savings of 79,137 GJ per annum. Since the commencement of the Energy Efficiency Opportunities Programme, the Group has assessed energy efficiency opportunities in 69% of the Australian building portfolio by energy use, including energy efficiency assessments at the Group's two major data centres, 13 office buildings, and 351 branches. In total the Group has conducted 556 energy efficiency opportunity assessments since the commencement of the Energy Efficiency Opportunities Programme. These assessments have identified potential energy savings of approximately 240,517 GJ per annum. Of the energy efficiency opportunities identified to date, the Group has implemented opportunities equivalent to 189,624 GJ of ongoing savings. Some of the energy efficiency projects implemented this environmental year included:

- the refurbishment of a number of large commercial offices occupied by the Group in capital cities around Australia, including the office at 500 Bourke Street in Melbourne which is now one of the largest Green Star joint tenant/landlord refurbishments in Australia. This refurbishment is estimated to deliver a total energy saving of around 42,500 GJ per annum;
- phase one of an ongoing server virtualisation programme designed to allow multiple applications to operate on each server and reduce the number of servers required in the Group's data centres. This is estimated to deliver 1,570 GJ of energy savings per annum; and
- efficiency works at 177 branches resulting in an estimated 16,570 GJ in energy savings per annum. This work included changing lighting, adding lighting and air conditioning controls and installation of smart metering allowing more efficient energy use.

More information about the Group's participation in the Energy Efficiency Opportunities Programme is available at both www.nabgroup.com and www.nab.com.au.

In the United Kingdom, the Group was registered on 2 September 2010 as a participant in the Carbon Reduction Commitment Energy Efficiency Scheme. The Group's first regulatory return is due to be made in 2011.

As a lender, the Group can also incur environmental liabilities arising from the operations of its borrowers and as a result it has developed credit policies to ensure that this risk is managed appropriately. In addition to responding to regulatory requirements, the Group can perform a key role, as a global provider of financial products and services in contributing to the environmental sustainability of the communities in which it operates. The Group's approach to environmental sustainability and management of direct and indirect environmental impacts is outlined in its environmental policy at www.nabgroup.com. Further information on the Group's environmental management and commitments is outlined in the 2010 Annual Review and associated online Corporate Responsibility reporting available at www.nabgroup.com.

Executive performance options and performance rights

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

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

The Company has moved to a policy of generally providing performance shares rather than options and rights as long-term incentives. Long-term incentive performance rights and/or options (with the same performance hurdles and similar terms to performance shares) may be provided to senior executives for jurisdictional reasons. (Refer to the Remuneration report for a description of the key terms and conditions of the long-term incentive shares.)

The number and terms of performance options and performance rights granted by the Company during 2010 over ordinary shares by the Group under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2010, are shown in the following table:

Executive performance options and rights

Exercise period [(1)]	Exercise price [(2)]	Number held at 30 September 2010	Number exercised from 1 October 2009 to 30 September 2010	Number granted since 1 October 2009
Performance options				
21 March 2006 - 20 March 2011	$30.46	4,369,375	-	-
21 March 2006 - 20 March 2011	$30.98	102,500	-	-
16 January 2007 - 15 January 2012	$29.91	126,250	-	-
16 January 2007 - 15 January 2012	$30.25	4,447,647	-	-
6 February 2009 - 6 August 2011	$34.53	1,123,519	-	-
6 February 2010 - 6 August 2011	$34.53	2,094,774	-	-
6 February 2010 - 6 August 2011	$35.50	25,699	-	-
6 February 2010 - 6 August 2011	$37.55	9,167	-	-
6 February 2010 - 6 August 2011	$38.29	153,543	-	-
6 February 2010 - 6 August 2012	$34.53	125,000	-	-
7 February 2010 - 7 August 2012	$39.25	27,397	-	-
7 February 2010 - 7 August 2012	$40.91	3,785,064	-	-
7 February 2010 - 7 August 2012	$43.43	8,382	-	-
6 February 2011 - 6 August 2011	$34.53	2,094,433	-	-
6 February 2011 - 6 August 2011	$35.50	25,695	-	-
6 February 2011 - 6 August 2011	$37.55	9,166	-	-
6 February 2011 - 6 August 2011	$38.29	153,539	-	-
6 February 2011 - 6 August 2012	$34.53	125,000	-	-
7 February 2011 - 7 August 2012	$39.25	27,396	-	-
7 February 2011 - 7 August 2012	$40.91	3,784,001	-	-
7 February 2011 - 7 August 2012	$43.43	8,381	-	-
14 February 2011 - 14 August 2013	$31.70	449,376	-	-
16 January 2012 - 16 July 2014	$19.89	350,775	-	-
6 February 2012 - 6 August 2012	$34.53	125,000	-	-
7 February 2012 - 7 August 2012	$39.25	27,395	-	-
7 February 2012 - 7 August 2012	$40.91	3,782,892	-	-
7 February 2012 - 7 August 2012	$43.43	8,381	-	-
14 February 2012 - 14 August 2013	$31.70	449,374	-	-
16 January 2013 - 16 July 2014	$19.89	350,772	-	-
14 February 2013 - 14 August 2013	$31.70	449,374	-	-
16 January 2014 - 16 July 2014	$19.89	350,770	-	-

Exercise period [(1)]	Exercise price [(2)]	Number held at 30 September 2010	Number exercised from 1 October 2009 to 30 September 2010	Number granted since 1 October 2009
Performance rights				
21 March 2006 - 20 March 2011	-	1,080,461	-	-
16 January 2007 - 15 January 2012	-	1,089,944	-	-
30 August 2009 - 30 August 2012	-	-	77,000	-
11 November 2009 - 11 May 2011	-	690	74,116	-
6 February 2010 - 6 August 2011	-	548,766	-	-
7 February 2010 - 7 August 2012	-	931,704	-	-
30 May 2010 - 30 November 2010	-	75,841	105,444	-
1 November 2010 - 1 May 2012	-	19,325	-	19,325
11 November 2010 - 11 May 2011	-	78,892	-	-
16 November 2010 - 16 May 2011	-	8,464	-	8,464
16 November 2010 - 16 May 2012	-	18,695	-	18,695
6 February 2011 - 6 August 2011	-	548,565	-	-
7 February 2011 - 7 August 2012 [(3)]	-	929,381	-	344
28 February 2011 - 28 August 2011	-	202,731	9,924	-
4 March 2011 - 4 September 2011	-	19,113	-	19,113
1 November 2011 - 1 May 2012	-	41,190	-	41,190
16 November 2011 - 16 May 2012	-	19,929	-	19,929
31 December 2011 - 30 June 2012	-	345,187	8,182	-
1 January 2012 - 1 January 2016	-	100,969	-	-
7 February 2012 - 7 August 2012	-	929,070	-	-
16 December 2012 - 16 June 2013	-	21,684	-	21,823
31 December 2012 - 30 June 2013	-	81,575	-	81,575

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

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

(3) *Number granted represents performance rights reinstated to an employee for performance rights incorrectly lapsed during the year.*

Performance options and performance rights on issue and number exercised

There are currently 28,910,943 performance options and 6,994,074 performance rights which are exercisable, or may become exercisable in the future under the respective plans.

There were no fully paid ordinary shares of the Company issued during the year as a result of performance options and performance rights granted being exercised. There were 73,640 fully paid ordinary shares of the Company issued since the end of the year as a result of performance options and performance rights granted being exercised, for no consideration.

For the period 1 October 2009 to the date of this report, there were 15,922,126 performance options expired and 765,950 forfeited. During this period there were also 2,488,352 performance rights expired and 226,255 performance rights forfeited.

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

Directors' attendances at meetings

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

	Board meetings		Audit Committee meetings		Risk Committee meetings		Nomination Committee meetings		Remuneration Committee meetings		Directors' meetings of controlled entities [(1)]		Additional meetings [(2)]
Directors	A	B	A	B	A	B	A	B	A	B	A	B	B
MA Chaney	10	10	2	2	6	6	2	2	6	6	2	2	9
CA Clyne	10	10	3	3	8	8	1	1	5	5	30	30	8
PA Cross [(3)]	10	10	2	2	8	8	2	2	7	7	3	3	6
DT Gilbert	10	10	3	3	8	8	2	2	7	7	2	2	7
MA Joiner	10	10	7	7	8	8	-	-	-	-	2	2	10
PJ Rizzo	10	10	8	8	8	8	2	2	-	-	2	2	12
JS Segal [(4)]	10	10	4	4	8	8	2	2	4	4	2	2	5
JG Thorn	10	10	8	8	7	7	2	2	-	-	2	2	12
GA Tomlinson	10	10	2	2	7	7	2	2	7	7	52	50	7
MJ Ullmer	10	10	2	2	8	8	-	-	-	-	20	20	13
JA Waller	10	10	8	8	8	8	2	2	-	-	34	32	1
GM Williamson	10	10	1	1	8	6	2	1	-	-	30	29	6
AKT Yuen [(5)]	5	5	2	2	5	5	1	1	3	3	1	1	1

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

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

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

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

[(3)] *Mrs Patricia Cross was appointed as a director of JBWere Pty Limited on 10 May 2010.*

[(4)] *Ms Jillian Segal became a member of the Audit Committee on 3 March 2010.*

[(5)] *Mr Anthony Yuen was appointed a non-executive Director and a member of the Risk, Nomination and Remuneration Committees on 1 March 2010.*

Report of the directors

Directors' and executives' interests

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

Directors	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company [(1)]	Performance rights over fully paid ordinary shares of the Company [(1)]	National Income Securities
MA Chaney [(2)]	28,373	-	-	-
CA Clyne	274,745	281,712	155,534	-
PA Cross [(2)]	18,645	-	-	-
DT Gilbert [(2)]	16,190	-	-	1,253
MA Joiner	373,197	513,029	40,365	-
PJ Rizzo [(2)]	5,824	-	-	-
JS Segal [(2)]	16,986	-	-	180
JG Thorn [(2)]	12,333	-	-	-
GA Tomlinson [(2)]	39,655	-	-	350
MJ Ullmer	246,282	592,397	64,629	841
JA Waller	2,000	-	-	-
GM Williamson	9,407	-	-	-
AKT Yuen	5,059	-	-	-

Senior executives [(3)]	Fully paid ordinary shares of the Company	Performance options over fully paid ordinary shares of the Company [(1)]	Performance rights over fully paid ordinary shares of the Company [(1)]	National Income Securities
LJ Gray	103,581	106,500	25,146	-
MJ Healey	83,176	27,358	6,840	-
JC Healy	213,269	12,500	3,125	-
BF Munro	67,688	77,083	74,145	-
LM Peacock	284,763	838,209	119,055	-
RJ Sawers	118,441	70,833	17,708	-
GR Slater	134,415	135,666	33,917	-
AG Thorburn	63,471	115,666	145,230	-
SJ Tucker	103,163	195,666	48,917	-

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

(2) *Includes shares acquired in prior financial years under the Non-Executive Director Share Plan previously operated through the National Australia Bank Staff Share Ownership Plan which has since been terminated.*

(3) *Senior executives in current employment with the Group as at 30 September 2010 where information on shareholdings is disclosed in Note 48 in the financial report.*

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

The level of interests held directly and indirectly by a Director as at 30 September 2010:

Directors	Nature of product	Relevant interest (Units)
MA Joiner	PIC Wholesale 85/15 Portfolio	3,436,509
JA Waller	Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd	250,000

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 interests in, a registered scheme made available by the Company or a related body corporate. All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between the Company and any such organisations.

Integrity of reporting

The directors of the Company have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements. Further details of the role of the Board and its committees can be found in the Corporate Governance section and on the Group's website www.nabgroup.com.

Report of the directors

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2010. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2010 are as follows:

	Group 2010 $'000
Non-audit services fees	
Audit-related regulatory	
Financial statement reviews in relation to acquisition activities	1,854
APRA reporting	1,380
Assurance services relating to Basel II	1,339
Guidance Statement (GS) 007 reports	1,106
UK Financial Services Authority Section 166 Skilled Persons Reports review	453
Audit of the Group's Australian Financial Services Licences	298
Regulatory audit, reviews, attestations and assurances for Group entities:	
- Australia	236
- Offshore	271
Total audit-related regulatory	**6,937**
Audit-related non-regulatory	
Assurance services relating to credit	729
Internal controls review of external service provider	268
Agreed upon procedures on results announcements	247
Other non-regulatory reviews, attestations and assurances for Group entities:	
- Australia	139
- Offshore	25
Total audit-related non-regulatory	**1,408**
All other	
Controls reviews and related work	1,072
Other services relating to credit	402
Other:	
- Australia	491
- Offshore	38
Total all other	**2,003**
Total non-audit services fees	**10,348**

Ernst & Young also provides audit and non-audit services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and non-consolidated Group superannuation or pension funds. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2010 total $2,194,751 (2009: $2,459,388).

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 2010 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 44. Details of the services provided by Ernst & Young to the Group during 2010 and the fees paid or due and payable for those services are set out in Note 49 of the financial report. A copy of Ernst & Young's independence declaration is set out on the following page.

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GPO Box 67 Melbourne VIC 3001

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

In relation to our audit of the financial report of National Australia Bank Limited (the Company) and the entities it controlled during the year (the Group) for the financial year ended 30 September 2010, 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

AJ (Tony) Johnson
Partner
Melbourne

15 November 2010

Report of the directors

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Contents - Remuneration report

This Remuneration report has been audited.

Introduction from the Remuneration Committee

Dear Shareholder,

We are pleased to present our 2010 Remuneration report.

Your directors continue to work to strongly align executive pay with shareholder returns. While we are satisfied with the outcomes our remuneration policies and practices have delivered, we continue to carefully consider our remuneration framework, monitoring external developments while tracking our own internal performance.

The Group increased cash earnings by 19.3% to $4.6 billion as business conditions improved and NAB made progress against its strategic priorities. However, lack of strong NAB share price performance appropriately resulted in a limit on payouts under our executive incentive plans especially in long term incentives where there was no vesting or payout during this year.

The Remuneration Committee believes our remuneration framework delivered the right balance between fixed and variable pay, in light of our financial year performance. Earnings were bolstered by a combination of strong business bank growth, recovery of market share in retail banking, improved wealth management results, and remediation and risk management of under-performing assets. Risk management has been further embedded in our Performance and Reward framework, consistent with what we foreshadowed to you in our 2009 Remuneration report.

Our leadership role in the fair value agenda is well established. We are committed to drive this agenda because we view it to be critical to customer and wider community satisfaction, which in turn underpins a sustainable base for development of shareholder wealth.

Our customer satisfaction measures continue to improve and track at high levels (as measured through a number of indicators such as market share and reputation) while our improvement on employee engagement and enablement indicates we are now on a par with the financial services industry norm and have built a solid basis for future improvements.

Last year, we introduced an improved performance management framework. The short term incentive (STI) plan rewarded our executives for financial performance, customer satisfaction measures, improved community and stakeholder reputation, improvement in market share and improved employee engagement. These STI payments continue to have a portion deferred.

However, given that our share price and return on capital do not yet adequately reflect the longer term success of our strategies, the long term incentives granted to executives in previous years have not vested. As well, previous tranches of options and rights granted have lapsed. Pursuant to statutory obligations, those options and rights have been reported as part of executives' remuneration and expensed over previous years, and thus we continue to provide in our commentary and tables an explanation of executives' "take-home pay" in addition to the required statutory disclosures.

Your directors welcome the continued public debate about executive pay. We believe our policies and practices must be consistent with community expectations, while at the same time giving an appropriate incentive to our executives. We are concerned about an overseas trend in financial services to increase the proportion of fixed pay. This trend is counter to shareholder interests because it can result in executives receiving inappropriately large amounts of pay in poor years and can lead to a universal increase in pay levels. We are working with our regulators, industry associations and wider community groups to voice our view.

We hope you find this year's Remuneration report to be useful, and as always welcome your feedback.

Yours sincerely,

Patricia Cross
Remuneration Committee Chair

Executive summary

Overview of the Company's approach to performance and reward

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

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

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

As advised in the 2009 Remuneration report, a number of changes for 2010 were made to the Company's performance and reward framework as a result of a decision by the directors to conduct a thorough review of the Group's practices in light of market developments and stakeholders' expectations. Key changes were:

- Risk adjustments have been further incorporated through all stages of the performance and reward process;
- The behavioural 'quality' gate has been replaced with a behavioural assessment in order to better embed our desired culture. Individual Short Term Incentive (STI) outcomes incorporate both the scorecard performance outcome and the new behavioural assessment (based on the Group's Enterprise Behaviours) - creating a direct link between behaviours and STI rewards;
- The measures used for determining the business STI outcome incorporate a range of risk-adjusted measures to minimise the risk of management actions that promote short term results at the expense of longer term business growth and success;
- The scope of STI deferral has been broadened, consistent with regulatory guidance and the Board's assessment of broader stakeholder expectations. The proportion deferred will be commensurate with the level of risk and responsibility of each role. The length of deferral aligns with both the level of risk and impact of the role on business results;
- The Board may determine that deferred STI is fully or partially forfeited if individual or business performance does not meet assurance requirements; and
- The Group Chief Risk Officer has a standing invitation to attend Remuneration Committee meetings and is specifically required to attend meetings where matters specific to risk-adjusted reward measures are discussed.

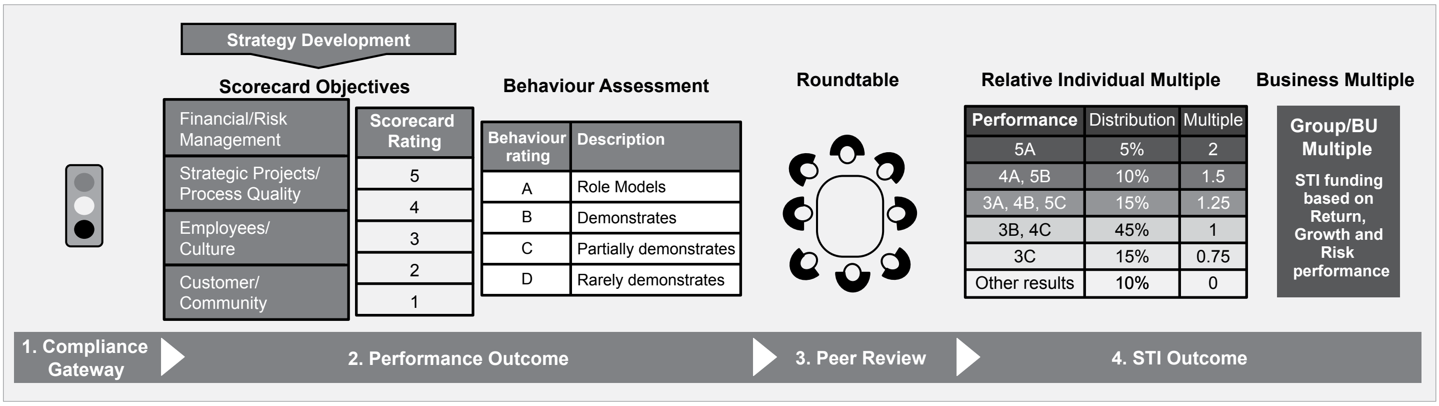
Our performance and reward framework drives superior rewards for individuals who have the best relative performance. The framework applies to all employees.

The Company's remuneration structure for our employees consists of:

- Fixed remuneration;
- Short term incentive; and
- Long term incentive (LTI).

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

Short term incentives: as shown in the following diagram, STI rewards reflect both individual performance and business performance through the use of individual performance scorecards, behavioural assessment, peer review resulting in a relatively ranked individual performance multiple, and a business multiple driven by business performance:



1 **Compliance Gateway:** All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.

2 **Performance Outcome:** Reflects an individual's overall achievement against both their scorecard objectives and how well they have demonstrated the Group's Enterprise Behaviours.

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

- Financial and risk management;
- Strategic projects and process quality;
- Employees and culture; and
- Customer and community.

Under each of these drivers an employee will have objectives linked to the Group's strategy that they need to achieve.

Behaviour: Assessment of how well an individual demonstrates our Enterprise Behaviours. Enterprise Behaviours are the foundation of our culture and brand and define how we relate to one another, how we work together and how we interact with our customers and communities. They are to:

- Be authentic and respectful;
- Work together; and
- Create value through excellence.

3 **Peer Review:** Individual performance is validated in roundtable discussions to ensure a consistent approach and methodology has been applied in rating individual performance and behaviour. Individuals are relatively ranked against their peers during roundtables.

4 **STI Outcome:** The actual incentive awarded to an employee based on an employee's individual performance outcome and business results.

Relative Individual Multiple: An individual's relative performance outcome determines their individual STI multiple. This ensures the highest relative performers receive higher STI rewards.

Business Multiple: Group or Business Unit performance determines the STI pool amount available for distribution. An employee's role and/or reporting line determines whether they are on a Group or Business Unit multiple. A weighted combination of Cash Earnings (CE), Return on Equity and Return on Total Allocated Equity determines the Group STI pool. At the line of business level, a weighted combination of CE and Return on Allocated Equity determines the STI pool. A qualitative overlay is applied by the Remuneration Committee to all STI pools to reflect shareholder expectations and NAB's management of business risks.

This year the Group's performance was above plan, resulting in higher STI outcomes than last year.

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

Linking remuneration and performance for senior executives in 2010

The Group's results for the 2010 financial year reflected robust results from Business Banking and MLC & NAB Wealth as signs of economic recovery became evident in Australia and Asia.

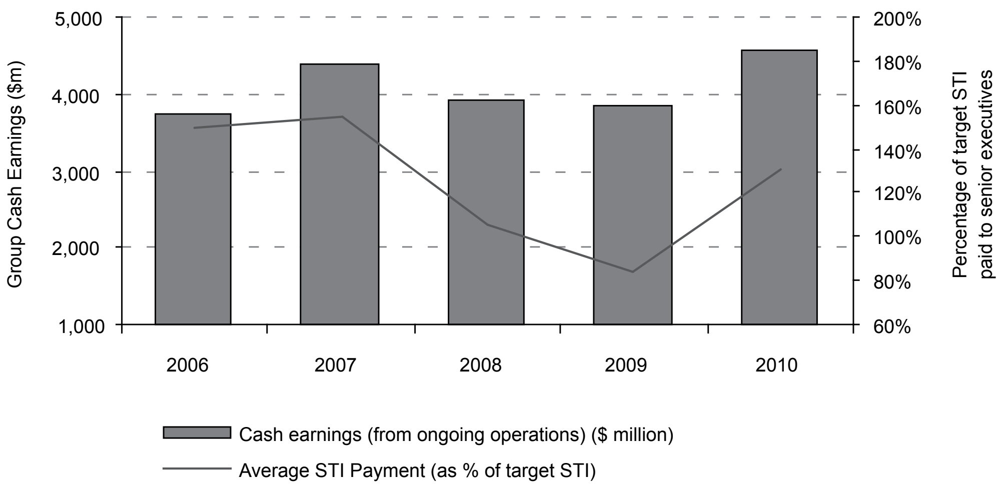
The Group's results demonstrate:

- Progress on the Group's strategic priorities;
- Increased cash earnings of 19.3% to $4,581 million;
- Improved management of bad and doubtful debts;
- Good management of economic risk and market volatility; and
- Strong funding and liquidity position management.

As a result, performance related payments for the Group Chief Executive Officer (CEO) and other senior executives were affected as follows:

- The average STI amount paid to senior executives rose reflective of the Group's stronger business outcomes (as shown in the graph below);
- Some retention/recognition shares granted in 2006 and 2008 vested during the 2010 year;
- No LTI securities vested during the year; and
- LTI securities held by several senior executives lapsed during the year, unvested and therefore unexercised, as performance hurdles had not been met.

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



The average STI payments in the graph include the senior executives in each of those years. The 2010 average in the graph is based on the full-year incentive for each of the 12 members of the current Group Executive Committee.

Five year Company performance

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

	2010	2009	2008	2007	2006
Basic earnings per share (cents)	191.8	123.4	262.7	269.0	262.6
Cash Earnings (from ongoing operations)	$4,581m	$3,841m	$3,916m	$4,386m	$3,728m
Dividends paid	$1.47	$1.70	$1.92	$1.71	$1.66
Share price at beginning of year	$30.76	$24.26	$39.71	$36.70	$33.05
Share price at end of year	$25.34	$30.76	$24.26	$39.71	$36.70
Absolute TSR for the year	**(13.3%)**	**34.6%**	**(35.2%)**	**13.0%**	**16.3%**

Report of the directors

Senior executive remuneration

The following table summarises the actual remuneration senior executives received, including cash paid and the value of equity that vested. Additionally, equity that has lapsed without providing any value to the executive is shown. The information is different to that provided in the **Statutory remuneration data table** which shows accounting expensed amounts that reflect a portion of expected earnings from prior, current and future years. 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.

Remuneration outcomes table:

Name	Fixed remuneration (1)	Cash STI (2)	Deferred STI vested during year (3)	Equity vested during year (4)	Remuneration earned for 2010 (5)	Equity lapsed during the year to 30 Sep 2010 (6)
Executive directors						
CA Clyne	2,691,571	1,916,397	485,712	497,033	5,590,713	(492,601)
MA Joiner	1,291,954	825,000	863,512	444,325	3,424,791	(446,676)
MJ Ullmer	1,350,180	1,110,158	-	-	2,460,338	(355,100)
Other senior executives						
LJ Gray	821,630	467,500	46,192	133,397	1,468,719	(198,852)
MJ Healey	565,482	371,250	92,959	177,829	1,207,520	(61,426)
JC Healy	1,002,088	825,000	738,770	257,779	2,823,637	-
BF Munro	813,187	412,500	72,860	86,501	1,385,048	(120,064)
LM Peacock (7)	1,212,547	345,395	279,362	2,569,614	4,406,918	(1,073,885)
RJ Sawers	907,956	584,375	-	177,829	1,670,160	(69,814)
GR Slater	884,804	660,000	323,828	178,479	2,047,111	(350,750)
AG Thorburn	1,151,285	550,000	197,905	177,829	2,077,019	(814,863)
SJ Tucker	883,588	584,375	-	257,779	1,725,742	(655,675)
Other named executives						
JE Hooper	1,346,430	564,251	-	444,325	2,355,006	(629,627)
PL Thodey	1,656,472	458,007	167,302	985,195	3,266,976	(786,669)

(1) *Fixed remuneration is the total amount received by the executive during the year including cash salary, cash value of non-monetary benefits such as cars and parking, superannuation and annual leave and long service leave entitlements. This definition is consistent with the* ***Statutory remuneration data table****.*

(2) *The cash component (50%) of the STI received in respect of the 2010 year. The remaining 50% of the STI for 2010 is deferred in shares, 25% restricted for 12 months and 25% for 24 months and is not reflected in this table because this equity is subject to forfeiture and further performance conditions and cannot be accessed by the relevant executives. In respect of Mr Ullmer it also includes a cash payment under the 2008 Motivation and Retention cash programme of $250,000.*

(3) *Deferred STI amounts from the 2008 STI programme fully vested in November 2009. The value is calculated using the closing share price of Company shares on the vesting date.*

(4) *Equity based programmes from prior years (other than the deferred STI shares referred to in (3)) that have vested during the 2010 year. The value is calculated using the closing share price of Company shares on the vesting date (less any applicable exercise price). This could include LTI , however there has been no vesting of LTI during the 2010 year. Any securities where the exercise price is greater than the share price on the day of vesting is valued at zero.*

(5) *Total value of remuneration received during the 2010 year. This is the total of the previous columns.*

(6) *The value of equity lapsed during the year includes LTI securities that have been lapsed, unvested and/or unexercised on their Expiry Date. The value is calculated using the closing share price of Company shares on the Expiry Date (with the exercise price subtracted in the case of any lapsed performance options). Any securities where the exercise price is greater than the share price on the Expiry Date is valued at zero.*

(7) *Ms Peacock's STI outcomes for the 2010 performance year reflect the business result for the UK banks compared with business plan and results for the rest of the Group. She is entitled to a higher STI payment, however has elected to receive an STI payment that reflects the business results for the UK. The UK results reflect improved earnings and asset quality.*

Statutory disclosure for senior executives

The following section describes the remuneration policy for senior executives. These individuals are Key Management Personnel (KMP) for the 2010 financial year as defined in the **Table of key terms** and listed in the **Remuneration outcomes table** on the previous page.

Remuneration policy for senior executives

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

Total Reward framework

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

The Total Reward framework is designed to:

- Reward those who deliver highest relative performance;
- Link employee rewards to the generation of sustainable value for shareholders;
- Attract, recognise, motivate and retain high performers;
- Provide fair and consistent rewards, benefits and conditions within an integrated global strategy;
- Provide rewards that are competitive within the global markets in which the Group operates; and
- Align the interests of employees and other shareholders through employee ownership of Company shares and securities.

Each individual's actual remuneration will reflect:

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

Performance management framework

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

The performance management framework for senior executives includes:

- Meeting the compliance requirements expected from each employee;
- Setting corporate key performance measures for the Group, which cascade to an individual's scorecard measures for each senior executive;
- Assessment of enterprise-wide behaviours expected from each employee; and
- A peer review process where the Group Chief Executive Officer compares and calibrates the performance of his collective Group reports.

Each scorecard has four key business drivers. For the 2010 performance year these were:

- Financial and risk management (e.g. Return on equity, adherence to NAB Group risk appetite statement measures);
- Strategic projects and process quality (e.g. NextGen (upgrade to banking systems) project implementation);
- Employees and culture (e.g. Employee engagement); and
- Customer and community (e.g. Customer satisfaction).

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

Components of Total Reward

The performance framework delivers superior rewards for individuals who have the best relative performance by providing them with:

- Fixed remuneration levels and STI targets set generally higher in the market range;
- A greater STI individual multiple; and
- An LTI reward.

Collectively, these components drive higher Total Reward for the best performers.

Fixed Remuneration

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

Short Term Incentives (STI)

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

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

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

Long Term Incentives (LTI)

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

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

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

Total Reward mix

An appropriate target reward mix is determined with at risk rewards increasing with the level of responsibility and the influence of the person's role. Total reward includes fixed reward, STI and LTI and the typical target mix for the 2010 year is shown below:

Target mix for 2010	Group Chief Executive Officer	Other senior executives
Fixed remuneration	30% to 40%	30% to 45%
STI (50% Cash)	15% to 20%	15% to 22.5%
STI (50% Deferred)	15% to 20%	15% to 22.5%
LTI (100% Deferred)	30% to 40%	30% to 40%
Total	**100%**	**100%**

Actual reward mix will vary depending on the achievement of individual and business performance under the STI and LTI programmes. The actual reward mix for 2010 for each senior executive is shown in the **Performance related remuneration table**.

STI rewards

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

The impact of individual performance on STI rewards

The Board assesses the performance of the Group Chief Executive Officer against his scorecard of key performance measures and demonstration of Enterprise Behaviours. An individual STI multiple of between 0.0 and 2.0 (for exceptional individual performance) is awarded based on the overall performance outcome.

The Group Chief Executive Officer assesses the performance of the other senior executives against their individual scorecards and demonstration of Enterprise Behaviours, then against the scorecard outcomes for their peers. An individual STI multiple of between 0.0 and 2.0 (for exceptional individual performance) is awarded based on the individual's overall performance outcome. The Remuneration Committee approves the remuneration for senior executives.

Only the most outstanding performers may receive an individual STI multiple of 2 times their STI target. The total for all employees is limited to the size of the funded STI pool. The STI pool is distributed based on individual performance as follows:

Performance Outcome	1 A/B/C/D 2 A/B/C/D 3/4/5 D	3 C	3 B 4 C	3 A 4 B 5 C	4 A 5 B	5 A
Expected Distribution	10%	15%	45%	15%	10%	5%
Individual STI Multiple (of target)	0.00	0.75	1.00	1.25	1.50	2.00

The impact of business performance on STI rewards

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

For 2010, the performance of the Group for the purposes of calculating the STI pool is determined by a mix of growth in Cash Earnings and Return on Equity (ROE). The combination of these measures is intended to correlate with Total Shareholder Return (TSR), and therefore to value creation. In addition 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. The Remuneration Committee adjusts the financial outcomes with a qualitative overlay that reflects shareholder expectations and NAB's management of business risks.

The business STI multiples can range from 0.0 up to 1.3 for exceptional business performance.

STI awards for senior executives for the 2010 performance year

The graph on page 19 shows the average STI payment (including cash and deferred components) for current senior executives for the 2010 performance year.

Delivery and deferral of STI rewards

Changes for 2010: Members of the Group Executive Committee and other senior executives (who have not left the Group) will have half of their 2010 STI reward deferred in the form of Company shares (subject to jurisdictional legal or tax reasons and any required shareholder approval for executive directors). Half of the shares will be restricted from trading and subject to forfeiture and performance conditions for 12 months following allocation, and the other half for 24 months. The other half of the 2010 STI reward will be provided in the form of cash.

The shares will be held in trust with restrictions on trading during the deferral periods. Deferred STI rewards can be fully or partially forfeited if the rewards are later considered to be inappropriate given individual or business performance. The Remuneration Committee will review on an annual basis the appropriateness of releasing deferred STI rewards. At that time, Group Risk and Group Finance will confirm to the Remuneration Committee any known risk or business performance issues that are likely to have materially impacted the financial soundness of the Group. The Remuneration Committee may, taking into account all relevant information, recommend to the Board the full or partial forfeiture of any deferred STI rewards for the Group CEO and other executive directors. The Remuneration Committee may approve the full or partial forfeiture of any deferred STI rewards for other senior executives across the Group, by line of business, by role and/or individual depending on circumstances.

The terms and forfeiture conditions of the deferred STI shares are set out in the **Table of key terms**, and include forfeiture on resignation from the Group. The Remuneration Committee believes the restrictions and forfeiture conditions on the shares instil an appropriate focus on business performance beyond the current year, allow for alignment with risk outcomes, help to ensure that targets are consistently achieved and encourage an appropriate level of shareholding by senior executives.

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

LTI rewards

The impact of individual performance on LTI rewards

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

The impact of business performance on LTI rewards

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

LTI awards for senior executives for the 2010 performance year

The **Performance related remuneration table** on page 27 shows the LTI value which will be allocated for the 2010 performance year (in the column headed: **LTI opportunity for 2010**).

Delivery and deferral of LTI rewards

Since 2009 the whole of the value of LTI rewards has been provided in the form of shares. An equivalent value in the form of LTI performance rights (with the same performance hurdles and similar terms) is provided to senior executives within the New Zealand jurisdiction.

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

Performance hurdles for 2010 LTI allocations

The performance hurdles for 2010 combine both external and internal measures:

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

- The Company's TSR performance relative to Top Financial Services (as defined in the **Table of key terms**) for the 2011, 2012 and 2013 financial years. Vesting will be determined on a straight line scale from 50% vesting at median TSR performance up to 100% vesting at 75th percentile TSR performance.

The hurdle in respect of the remaining half of the allocation value has two components:

- Group Cash Earnings of 100% of business plan to be achieved (for the same financial years). Where TSR performance is at the 75th percentile or higher (as described above) Group Cash Earnings must achieve at least 90% of business plan; and
- Group ROE must also be at least 90% of business plan for the same financial years.

If both Cash Earnings and ROE thresholds are met, then the level of ROE achieved compared to business plan will determine vesting on a straight line scale from 50% vesting at 90% ROE achievement to 100% vesting at 100% ROE achievement.

The hurdles are tested once at the end of the three year performance period and there is no retesting.

Value of previous LTI awards

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

The remuneration data shown in the **Statutory remuneration data table** includes the accounting value of the allocations that each individual holds. LTI has not delivered any actual value to current senior executives during 2010 (other than dividends paid on any LTI shares). Previous allocations to several of the senior executives have lapsed, unvested and unexercised, during the year as shown in the **Remuneration outcomes table** (in the column headed 'Equity lapsed during the year') and the **Value of shares, performance options and performance rights table** on page 28. This is due to the performance hurdles not being achieved, preventing vesting of many allocations. During 2009 there was vesting of some performance options for employees from the February 2006 LTI grant. However, no actual value has yet been delivered from that grant (i.e. no options have been exercised) as these vested options have an exercise price of $34.53. The remuneration data shown in the **Statutory remuneration data table** includes the accounting value of these options for relevant individuals. These options expire on 6 August 2011 if not exercised before that date.

Joining and retention programmes

Commencement awards for senior executives are only entered into with approval of the Group Chief Executive Officer and with the oversight of the Remuneration Committee. These enable buy-out of unvested equity from previous employment. The amount, timing, and performance hurdles relevant to any such awards must be based on evidentiary information. The awards are primarily provided in the form of shares, performance options and performance rights, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation unique to each offer. No commencement awards have been provided to any senior executives since 2008.

The Company provides retention awards for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares subject to a restriction period, achievement of individual performance standards and forfeiture conditions, including forfeiture on resignation. Retention awards provided to senior executives during 2010 are detailed in footnote (6) to the **Statutory remuneration data table**.

Senior executive remuneration

Remuneration data for the senior executives is shown in the following tables. All were Key Management Personnel (KMP) of both the Company and of the Group during the 2010 financial year:

Current Key Management Personnel (KMP) on 30 September 2010 and/or on 30 September 2009

Current members of the Group Executive Committee on 30 September 2010, comprising:

- Executive directors, being Mr Cameron Clyne, Mr Mark Joiner and Mr Michael Ullmer. The executive directors were also all KMP during the year to 30 September 2009; and
- Other senior executives as listed in the table below.

There have been no other members of the Group Executive Committee during the financial year.

Named executives

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

Contractual arrangements

The following table shows the position and contract terms for all senior and named executives:

Name	Position	Term of agreement/contract and date commenced if during the year	Notice period [1] (weeks) Employee	Company
Senior executives on 30 September 2010				
Executive directors				
CA Clyne	Group Chief Executive Officer, Executive Director	No fixed term	52	52
MA Joiner	Executive Director, Finance	No fixed term	13	52
MJ Ullmer	Deputy Group Chief Executive Officer, Executive Director	No fixed term	13	52
Other senior executives				
LJ Gray	Group Executive, Personal Banking	No fixed term	13	26
MJ Healey	Group Executive, Governance	No fixed term	8	26
JC Healy	Group Executive, Business Banking	No fixed term	26	52
BF Munro	Group Chief Risk Officer	No fixed term	13	52
LM Peacock	Group Executive, United Kingdom	No fixed term	13	52
RJ Sawers	Group Executive, Wholesale Banking	No fixed term	26	52
GR Slater	Group Executive, Group Business Services	No fixed term	13	65
AG Thorburn	Group Executive, New Zealand, Asia and United States	No fixed term	13	52
SJ Tucker	Group Executive, MLC & NAB Wealth	No fixed term	13	26
Other named executives				
JE Hooper	Executive Director, United Kingdom	No fixed term	13	52
PL Thodey	Executive General Manager, Specialised Group Assets	No fixed term	26	52

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

Statutory remuneration data for senior executives

The following tables have been prepared in accordance with Section 300A of the *Corporations Act* 2001 (Cth), using the required table headings and definitions. They show details of the nature and amount of each element of the remuneration paid or awarded for services provided for the year to 30 September 2010 (including STI amounts in respect of performance during the year to 30 September 2010) which are paid following the end of the year.

Full year remuneration data is included in a separate table for the five named executives who are the most highly remunerated for the 2010 and 2009 year for comparative purposes.

Statutory remuneration data table

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary (1) $	Cash STI (2) $	Non-monetary (3) $	Super-annuation (4) $	Other long-term benefits (5) $	Shares (6) $	Options and rights (7) $	Termination benefits $	Total $
Senior executives on 30 September 2010										
Executive directors										
CA Clyne	**2010**	**2,674,937**	**1,916,397**	**-**	**16,634**	-	**2,034,912**	**1,082,748**	-	**7,725,628**
	2009	2,346,519	812,500	18,580	56,461	-	784,400	1,178,419	-	5,196,879
MA Joiner	**2010**	**1,253,502**	**825,000**	**-**	**38,452**	**-**	**2,338,756**	**569,827**	**-**	**5,025,537**
	2009	1,154,788	576,000	-	95,683	-	2,528,082	763,513	-	5,118,066
MJ Ullmer	**2010**	**1,311,044**	**985,158**	**4,190**	**34,946**	**-**	**1,521,860**	**726,627**	**-**	**4,583,825**
	2009	1,281,331	876,000	6,472	67,592	-	960,286	869,688	-	4,061,369
Other senior executives										
LJ Gray	**2010**	**784,623**	**467,500**	**3,551**	**33,456**	**-**	**843,015**	**100,806**	**-**	**2,232,951**
For prorated period	2009	346,283	171,299	6,012	16,653	-	216,849	72,160	-	829,256
MJ Healey	**2010**	**549,050**	**371,250**	**-**	**16,432**	**-**	**632,810**	**39,783**	**-**	**1,609,325**
For prorated period	2009	292,738	132,367	-	18,523	-	242,667	32,740	-	719,035
JC Healy (8)	**2010**	**985,496**	**825,000**	**-**	**16,592**	**-**	**1,002,872**	**20,956**	**-**	**2,850,916**
For prorated period	2009	419,541	200,219	-	8,698	-	472,662	14,007	-	1,115,127
BF Munro	**2010**	**772,636**	**412,500**	**24,046**	**16,505**	**-**	**439,891**	**501,637**	**-**	**2,167,215**
For prorated period	2009	520,554	230,367	12,371	11,916	-	126,550	427,441	-	1,329,199
LM Peacock (8)	**2010**	**833,864**	**345,395**	**188,245**	**190,438**	**-**	**2,372,705**	**842,479**	**-**	**4,773,126**
	2009	965,580	241,500	328,267	230,896	-	2,650,780	1,029,386	-	5,446,409
RJ Sawers	**2010**	**769,027**	**584,375**	**7,525**	**131,404**	-	**835,835**	**115,488**	-	**2,443,654**
For prorated period	2009	358,367	213,567	4,468	68,750	-	358,631	83,220	-	1,087,003
GR Slater	**2010**	**743,133**	**660,000**	**107,037**	**21,301**	**13,333**	**1,015,154**	**174,633**	**-**	**2,734,591**
For prorated period	2009	369,437	195,770	56,749	28,944	22,247	404,396	123,767	-	1,201,310
AG Thorburn (8)	**2010**	**1,042,900**	**550,000**	**58,350**	**50,035**	**-**	**215,316**	**1,029,122**	**-**	**2,945,723**
For prorated period	2009	849,081	319,825	13,690	45,677	-	394,257	452,033	-	2,074,563
SJ Tucker	**2010**	**778,401**	**584,375**	**-**	**91,020**	**14,167**	**817,091**	**222,562**	**-**	**2,507,616**
For prorated period	2009	377,876	189,652	-	16,062	7,187	263,161	162,562	-	1,016,500
Other senior executives during the year to 30 September 2009										
JE Hooper										
For prorated period	2009	476,594	266,745	-	6,787	22,212	263,795	281,148	-	1,317,281
PL Thodey										
For prorated period	2009	824,255	609,425	-	93,420	-	350,252	912,227	-	2,789,579
Former executives										
A Fahour (9)										
For part year	2009	1,387,780	1,558,000	46,373	21,759	-	1,202,872	(38,464)	1,626,207	5,804,527
G Frazis (10)										
For part year	2009	324,121	-	5,764	6,495	-	(289,454)	(849,805)	-	(802,879)
MJ Hamar (9)										
For part year	2009	230,184	150,000	12,175	29,573	-	35,942	86,163	747,126	1,291,163
JM Stewart (9)										
For part year	2009	1,632,889	687,500	114,105	-	-	-	2,205,557	2,750,000	7,390,051
Total KMP (11)	**2010**	**12,498,613**	**8,526,950**	**392,944**	**657,215**	**27,500**	**14,070,217**	**5,426,668**	**-**	**41,600,107**
Total KMP (11)	2009	14,157,918	7,430,736	625,026	823,889	51,646	10,966,128	7,805,762	5,123,333	46,984,438

Statutory remuneration data table - named executives

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary (1) $	Cash STI (2) $	Non-monetary (3) $	Super-annuation fixed (4) $	Other long-term benefits (5) $	Shares (6) $	Options and rights (7) $	Termination benefits $	Total $
2010 named executives										
JE Hooper	**2010**	**1,109,035**	**564,251**	**203,951**	**16,345**	**17,099**	**851,253**	**572,766**	**-**	**3,334,700**
PL Thodey	**2010**	**1,472,797**	**458,007**	**183,675**	**-**	**-**	**387,524**	**898,060**	**-**	**3,400,063**
2009 named executives										
PG Coad	2009	549,820	1,250,000	-	86,327	-	856,027	145,929	-	2,888,103
A Hagger	2009	736,791	596,000	6,745	15,485	-	1,360,307	-	-	2,715,328
JE Hooper	2009	1,078,303	601,000	34,794	15,485	50,046	625,612	648,095	-	3,053,335
LM Peacock	2009	965,580	241,500	328,267	230,896	-	2,650,780	1,029,386	-	5,446,409
PL Thodey	2009	930,264	664,000	-	93,420	-	378,249	997,872	-	3,063,805

The following notes apply to both of the previous tables:

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

(2) *Includes all STI provided in the form of cash. In respect of Mr Ullmer it also includes a cash payment under the Motivation and Retention cash programme of $125,000 paid in May 2010. The terms of this programme were detailed in the Company's 2008 Annual Financial Report. This last payment for Mr Ullmer was based on the level of achievement of the performance hurdle - a combination of quantitative and qualitative Group performance measures over the financial periods from 1 April 2008 to 31 March 2010.*

(3) *Includes motor vehicle benefits, parking and the provision of health fund benefits and personal tax advice to international assignees. Any related fringe benefits tax is included. Also includes approximately $150,686 (2009: $285,900) for Ms Peacock in relation to UK National Insurance contributions.*

(4) *Includes Company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration or of STI. Superannuation contributions are not required to be paid to individuals based in New Zealand but such payments may be made as part of fixed remuneration. For Mr Tucker, who is a member of a defined benefit plan, the amount included for remuneration purposes is the annual benefit received by Mr Tucker during the year, as per an independent actuarial valuation, and may or may not reflect the Company contributions made.*

(5) *Includes long service entitlements accrued but not taken during the year. The initial 13 week long-service leave entitlement under the Company's scheme is recognised at the end of the 10th year of service at a rate of 8.6667 weeks and accrues at 0.8667 weeks per each year of service greater than 10 years.*

(6) *The amount included in remuneration each year for share rewards is the grant date fair value, amortised straight line over the vesting period. An explanation of the fair value basis used to determine equity-based benefits is shown in the section:* ***Fair value basis used to determine equity remuneration****. Amounts shown for 2010 include portions of shares allocated under employee programmes as follows:*

- *2008, 2009 and 2010 STI programme shares (allocated each November, or after the following AGM for Executive Directors), being in respect of above target performance for 2008, and STI deferral for 2009 and 2010. The 2008 shares were allocated in November 2008 and vested the following November (e.g. awards related to 2008 financial year performance vested in November 2009, and therefore in the current financial year). Half of the 2009 grant will vest in November 2010 and the remaining half in November 2011 subject to the terms and conditions of the grant. Half of the 2010 grant will vest in November 2011 and the remaining half in November 2012. Forfeiture conditions apply to all STI programme shares, including forfeiture on resignation during the deferral period.*
- *2007, 2008 and 2009 LTI shares provided in February 2008, December 2008 and December 2009 respectively (may vest after assessment of the performance hurdle in February 2011, December 2011 and December 2012 respectively). The December 2008 allocation for Mr Clyne may vest after the assessment of the related performance hurdle in January 2013 as shown in the section:* ***Summary of LTI****.*
- *2007, 2008, 2009 and 2010 General Employee Offer grants shares to senior executives located in New Zealand and in the United Kingdom at the relevant offer times. The UK shares for the 2010 performance year (with a value of $1,100) vest on allocation in the UK for accounting purposes. The 2009 UK General Employee Offer shares have vested during the 2010 year. In New Zealand the shares vest after a three-year restriction period (with forfeiture conditions, including on resignation).*
- *Commencement shares provided to Mr Hagger in May 2008 following the commencement of his employment with the Company, and with ongoing restrictions and forfeiture conditions (34,780 shares vested on 27 February 2010 and 34,781 shares may vest on 27 February 2011).*
- *Retention shares with ongoing restrictions and forfeiture conditions, provided to Mr Ullmer in February 2007 following approval by shareholders at the Company's 2007 AGM (24,444 shares may vest in February 2014), to Mr Thodey in June 2007 (19,036 shares vested on 1 March 2010), to Ms Peacock in September 2007 and November 2008 (50,000 shares vested on 1 March 2010 and 50,000 shares may vest on 1 March 2011), to Mr Joiner in September 2007 (18,300 may vest on 1 May 2011) and in August 2008 (100,000 shares may vest on 30 September 2011). In December 2008, 3,000 shares were provided under this programme to members of the Australian leadership team at that time (vested in December 2009) including Ms Gray, Mr Hagger, Mr Healy, and Mr Tucker, and 1,000 such shares were provided to Mr Munro. In March 2010, 18,924 shares were provided to Ms Gray (2,993 vested on 1 October 2010, 2,993 may vest on 1 April 2011 and 12,938 may vest on 1 July 2011).*
- *Motivation and Retention programme shares provided in April 2008 vested in May 2010. 2,170 shares vested to Ms Gray; 7,220 shares vested to Mr Coad, Mr Hagger, Ms Healey, Mr Healy, Mr Sawers, Mr Slater, Mr Thorburn and Mr Tucker; and 18,040 shares to Mr Hooper, Mr Joiner and Ms Peacock. Mr Frazis received 18,040 Motivation and Retention shares in April 2008 which were forfeited on cessation of employment (see footnote (10) below).*

Details of the above programmes are described in the section: ***Remuneration policy for senior executives*** *and in the* ***Table of key terms****. For rewards provided for the year to 30 September 2010, the* ***maximum*** *amount that may vest (if no portion is forfeited), are also shown for each executive in the table in the* ***Value of shares, performance options and performance rights*** *section. The* ***minimum*** *amount for all of these share awards is zero (if the shares are forfeited).*

(7) *The amount included in remuneration each year for performance options and performance rights is the grant date fair value amortised straight line over the expected vesting period. An explanation of fair value basis calculation at grant date used to determine equity-based remuneration is shown in the section:* ***Fair value basis used to determine equity remuneration****. Under AASB 2, only performance options and performance rights granted after 7 November 2002 and unvested at 1 January 2005 are included in the remuneration calculation. 2010 LTI rewards (as shown in the* ***Performance related remuneration table****) will be allocated in December 2010 or January 2011 and are not included in the remuneration value in this table. Amounts shown for 2010 include portions of performance options and performance rights allocated under employee programmes as shown below. Terms and conditions of all grants are included in the section:* ***Summary of LTI****.*

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

(8) *Ms Peacock was one of the five named Company and Group executives, who received the highest remuneration in 2009. Mr Healy, Ms Peacock and Mr Thorburn were among the five named Company and Group executives, who received the highest remuneration in 2010.*

(9) *On the cessation of their employment with the Company, Mr Fahour, Mr Hamar, and Mr Stewart were permitted to retain some LTI shares, performance options and/or performance rights for which retention did not automatically apply. However, where this was not the case, forfeiture accounting has been applied resulting in negative values in the options and rights column for Mr Fahour.*

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

(11) *The 2010 Total for KMP are full year figures for all 12 senior executives who were KMP in that year. The 2009 Total for KMP includes only the amounts related to the periods that each senior executive acted as KMP of the Group and Company during the year, for all of the 18 individuals in the table.*

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

STI and LTI remuneration

The design of the share, performance option, and performance rights plans (and the expected outcome for executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Share and Option Scheme Guidelines', Guidance Note 12. The main departure from the IFSA guidelines is that performance rights issued by the Company have no exercise price, and that any performance options whose exercise price is set at a date other than at the date of grant could potentially have an exercise price lower (or higher) than the market price prevailing at or around the date of grant.

Performance related remuneration table

The following table analyses the amounts shown in the **Statutory remuneration data table**, as a proportion of each individual's total remuneration.

				Performance-related remuneration				
				Cash-based	Equity-based			
	Fixed salary (not linked to Company performance) (1)	STI Target as % of fixed salary	STI awarded as % of fixed salary	Cash STI at risk	Deferred STI (Shares)	Options and rights at risk	Total (2)	LTI opportunity for 2010 (3)
	%			%	%	%	%	$
Senior executives on 30 September 2010								
Executive directors								
CA Clyne	35	93	142	25	26	14	100	2,500,000
MA Joiner	26	93	128	16	47	11	100	1,020,000
MJ Ullmer	29	116	137	22	33	16	100	1,063,468
Other senior executives								
LJ Gray	37	103	114	21	38	4	100	722,500
MJ Healey	35	95	131	23	39	3	100	459,000
JC Healy	35	100	165	29	35	1	100	850,000
BF Munro	38	92	101	19	20	23	100	637,500
LM Peacock	25	81	57	7	50	18	100	838,816
RJ Sawers	37	94	129	24	34	5	100	722,500
GR Slater	32	90	149	24	37	7	100	680,000
AG Thorburn	39	69	96	19	7	35	100	680,000
SJ Tucker	35	96	132	23	33	9	100	722,500
Other named executives								
JE Hooper	40	76	84	17	25	18	100	307,773
PL Thodey	49	50	55	14	11	26	100	249,822

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

(2) *The total amount is the sum of the percentages in the columns: Fixed salary; Cash STI at risk; Deferred STI (Shares); and Options and rights at risk.*

(3) *The 2010 LTI will be allocated in December 2010 or January 2011 (subject to any relevant shareholder approval).*

STI

Ms Peacock has elected to be paid against the UK STI multiple resulting in a below target STI outcome. Had Ms Peacock's STI payment been calculated based on the Group STI multiple, in line with her STI plan, her STI outcome would have been above target.

- The minimum amount of STI for the 2010 performance year (if the deferred equity-based portions are later forfeited) is the amount shown as Cash STI in the **Remuneration outcomes table** on page 20; and
- The maximum amount of STI provided to each individual is twice the amount shown as Cash STI (Cash STI plus the amount of Deferred STI).

LTI

LTI is granted as LTI shares or performance rights for jurisdictional reasons. They may be forfeited or may lapse on cessation of employment (in some circumstances), or if performance hurdles are not achieved.

- The minimum deferred value for LTI is therefore zero; and
- The maximum deferred value of LTI rewards is calculated as the anticipated fair value of the equity to be allocated in December 2010 or January 2011 as shown in the column: 'LTI opportunity for 2010' in the table above.

Report of the directors

Value of shares, performance options and performance rights

The following tables show the value of shares, performance options and performance rights issued to each individual as part of their remuneration that were granted, lapsed or vested during the year to 30 September 2010. Note that no performance options or performance rights were exercised during this period. The performance options and performance rights are rights to acquire Company ordinary shares, subject to certain conditions being met, under the Company's National Australia Bank Executive Share Option Plan No. 2 (Option plan) and the National Australia Bank Performance Rights Plan (Rights plan). Each performance option and performance right entitles the holder to be provided with one Company ordinary share subject to adjustment for capital actions. No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right are set out in the section: **Summary of LTI.** Performance shares are issued under: the National Australia Bank New Zealand Staff Share Allocation Plan; the National Australia Bank Staff Share Allocation Plan; the National Australia Bank Staff Share Ownership Plan; and the National Australia Bank Limited Share Incentive Plan.

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

		Granted [1] No.	Grant date	Lapsed [2] No.	Vested [3] No.	Granted $	Lapsed $	Vested $	Total $
Senior executives on 30 September 2010									
Executive directors									
CA Clyne	Options	55,000	7/02/2005	55,000	-	-	(154,000)	-	(154,000)
	Rights	13,750	7/02/2005	13,750	-	-	(235,813)	-	(235,813)
	Options	21,250	6/02/2006	21,250	-	-	(71,188)	-	(71,188)
	Rights	5,313	6/02/2006	5,313	-	-	(105,038)	-	(105,038)
	Rights	20,180	24/04/2008	-	20,180		-	537,999	537,999
	Shares	16,046	11/11/2008	-	16,046	-	-	405,001	405,001
	Shares	28,822	31/12/2009	-	-	812,492	-		812,492
	Shares	130,747	31/12/2009	-	-	2,499,974	-	-	2,499,974
MA Joiner	Options	66,667	31/10/2006	66,667	-	-	(243,335)	-	(243,335)
	Rights	16,667	31/10/2006	16,667	-	-	(353,007)	-	(353,007)
	Shares	18,040	24/04/2008	-	18,040	-	-	524,784	524,784
	Shares	28,527	11/11/2008	-	28,527	-	-	720,021	720,021
	Shares	20,432	31/12/2009	-	-	575,978	-	-	575,978
	Shares	53,345	31/12/2009	-	-	1,019,994	-	-	1,019,994
MJ Ullmer	Options	53,000	22/02/2006	53,000	-	-	(155,820)	-	(155,820)
	Rights	13,250	22/02/2006	13,250	-	-	(252,943)	-	(252,943)
	Shares	22,206	31/12/2009	-	-	625,987	-	-	625,987
	Shares	55,620	31/12/2009	-	-	1,063,495	-	-	1,063,495
Other senior executives									
LJ Gray	Options	72,500	14/06/2002	72,500	-	-	(462,550)	-	(462,550)
	Options	25,000	7/02/2005	25,000	-	-	(70,000)	-	(70,000)
	Rights	6,250	7/02/2005	6,250	-	-	(107,188)	-	(107,188)
	Rights	1,480	6/02/2006	1,480	-	-	(44,400)	-	(44,400)
	Shares	2,170	24/04/2008	-	2,170	-	-	63,125	63,125
	Shares	1,526	11/11/2008	-	1,526	-	-	38,516	38,516
	Shares	3,000	19/12/2008	-	3,000	-	-	57,870	57,870
	Shares	10,652	16/11/2009	-	-	308,056	-	-	308,056
	Shares	31,119	31/12/2009	-	-	595,018	-	-	595,018
	Shares	18,924	4/03/2010	-	-	474,235	-	-	474,235
MJ Healey	Options	9,167	3/05/2006	9,167	-	-	(33,735)	-	(33,735)
	Rights	2,292	3/05/2006	2,292	-	-	(48,361)	-	(48,361)
	Shares	7,220	24/04/2008	-	7,220	-	-	210,030	210,030
	Shares	3,071	11/11/2008	-	3,071	-	-	77,512	77,512
	Shares	8,230	16/11/2009	-	-	238,012	-	-	238,012
	Shares	24,007	31/12/2009	-	-	459,033	-	-	459,033
JC Healy	Shares	7,220	24/04/2008	-	7,220	-	-	210,030	210,030
	Shares	24,406	11/11/2008	-	24,406	-	-	616,007	616,007
	Shares	3,000	19/12/2008	-	3,000	-	-	57,870	57,870
	Shares	12,450	16/11/2009	-	-	360,054	-	-	360,054
	Shares	33,342	31/12/2009	-	-	637,525	-	-	637,525
BF Munro	Options	17,917	6/02/2006	17,917	-	-	(60,022)	-	(60,022)
	Rights	4,480	6/02/2006	4,480	-	-	(88,570)	-	(88,570)
	Rights	2,430	24/04/2008	-	2,430	-	-	64,784	64,784
	Shares	2,407	11/11/2008	-	2,407	-	-	60,753	60,753
	Shares	1,000	19/12/2008	-	1,000	-	-	19,290	19,290
	Shares	10,652	16/11/2009	-	-	308,056	-	-	308,056
	Shares	31,119	31/12/2009	-	-	595,018	-	-	595,018
LM Peacock	Options	100,000	7/02/2005	100,000	-	-	(280,000)	-	(280,000)
	Rights	25,000	7/02/2005	25,000	-	-	(428,750)	-	(428,750)
	Options	65,244	6/02/2006	65,244	-	-	(218,567)	-	(218,567)
	Rights	16,311	6/02/2006	16,311	-	-	(322,468)	-	(322,468)
	Shares	25	20/12/2006	-	25	-	-	995	995
	Shares	33,352	21/09/2007	-	33,352	-	-	1,278,382	1,278,382
	Shares	18,040	24/04/2008	-	18,040	-	-	524,784	524,784
	Shares	59,229	11/11/2008	-	59,229	-	-	1,494,940	1,494,940
	Shares	7,070	16/11/2009	-	-	204,464	-	-	204,464
	Shares	28	11/12/2009	-	-	786	-	-	786
	Shares	45,770	31/12/2009	-	-	875,155	-	-	875,155

		Granted [(1)] No.	Grant date	Lapsed [(2)] No.	Vested [(3)] No.	Granted $	Lapsed $	Vested $	Total $
RJ Sawers	Options	10,417	6/02/2006	10,417	-	-	(34,897)	-	(34,897)
	Rights	2,605	6/02/2006	2,605	-	-	(51,501)	-	(51,501)
	Shares	7,220	24/04/2008	-	7,220	-	-	200,211	200,211
	Shares	13,280	16/11/2009	-	-	384,058	-	-	384,058
	Shares	35,565	31/12/2009	-	-	680,032	-	-	680,032
GR Slater	Options	25,000	14/06/2002	25,000	-	-	(159,500)	-	(159,500)
	Options	45,000	7/02/2005	45,000	-	-	(126,000)	-	(126,000)
	Rights	11,250	7/02/2005	11,250	-	-	(192,938)	-	(192,938)
	Options	9,584	6/02/2006	9,584	-	-	(32,106)	-	(32,106)
	Rights	2,396	6/02/2006	2,396	-	-	(47,369)	-	(47,369)
	Shares	25	20/12/2006	-	25	-	-	995	995
	Shares	7,220	24/04/2008	-	7,220	-	-	210,030	210,030
	Shares	10,698	11/11/2008	-	10,698	-	-	270,018	270,018
	Shares	12,172	16/11/2009	-	-	352,014	-	-	352,014
	Shares	35,565	4/03/2010	-	-	680,032	-	-	680,032
AG Thorburn	Rights	25,000	18/04/2005	25,000	-	-	(412,000)	-	(412,000)
	Options	100,000	18/04/2005	100,000	-	-	(242,000)	-	(242,000)
	Rights	6,646	6/02/2006	6,646	-	-	(131,391)	-	(131,391)
	Options	26,584	6/02/2006	26,584	-	-	(89,056)	-	(89,056)
	Shares	7,220	24/04/2008	-	7,220	-	-	210,030	210,030
	Shares	6,538	11/11/2008	-	6,538	-	-	165,019	165,019
	Rights	14,623	16/11/2009	-	-	378,424	-	-	378,424
	Rights	48,309	4/03/2010	-	-	680,016	-	-	680,016
SJ Tucker	Options	60,000	14/06/2002	60,000	-	-	(382,800)	-	(382,800)
	Options	75,000	7/02/2005	75,000	-	-	(210,000)	-	(210,000)
	Rights	18,750	7/02/2005	18,750	-	-	(321,563)	-	(321,563)
	Options	26,584	6/02/2006	26,584	-	-	(89,056)	-	(89,056)
	Rights	6,646	6/02/2006	6,646	-	-	(131,391)	-	(131,391)
	Shares	3,000	1/10/2007	-	3,000	-	-	57,870	57,870
	Shares	7,220	24/04/2008	-	7,220	-	-	210,030	210,030
	Shares	11,792	16/11/2009	-	-	341,025	-	-	341,025
	Shares	34,453	31/12/2009	-	-	658,765	-	-	658,765
Other named executives									
JE Hooper	Options	30,000	14/06/2002	30,000	-	-	(191,400)	-	(191,400)
	Rights	17,500	7/02/2005	17,500	-	-	(300,125)	-	(300,125)
	Options	70,000	7/02/2005	70,000	-	-	(196,000)	-	(196,000)
	Rights	6,862	6/02/2006	6,862	-	-	(135,662)	-	(135,662)
	Options	27,448	6/02/2006	27,448	-	-	(91,951)	-	(91,951)
	Shares	18,040	24/04/2008	-	18,040	-	-	524,784	524,784
	Shares	13,088	31/12/2009	-	-	250,252	-	-	250,252
PL Thodey	Rights	25,000	7/02/2005	25,000	-	-	(428,750)	-	(428,750)
	Rights	5,594	6/02/2006	5,594	-	-	(110,593)	-	(110,593)
	Rights	20,180	24/04/2008	-	20,180	-	-	537,999	537,999
	Options	150,000	14/06/2002	150,000	-	-	(957,000)	-	(957,000)
	Options	100,000	7/02/2005	100,000	-	-	(280,000)	-	(280,000)
	Options	22,374	6/02/2006	22,374	-	-	(74,953)	-	(74,953)
	Shares	2,317	16/11/2009	-	-	67,008	-	-	67,008
	Shares	10,853	31/12/2009	-	-	207,520	-	-	207,520
	Shares	5,527	11/11/2008	-	5,527	-	-	139,501	139,501
	Shares	25	1/10/2005	-	25	-	-	995	995
	Shares	19,036	5/06/2007	-	19,036	-	-	750,018	750,018

(1) *The following securities have been granted during the 2010 year:*

- *Deferred STI allocations in November 2009 (in respect of the 2009 performance year) and December 2009 for the Executive Directors as approved by shareholders at the December 2009 AGM;*
- *LTI allocations in December 2009 (in respect of the 2009 performance year) and in March 2010 for Mr Slater; and*
- *A recognition allocation to Ms Gray in March 2010.*

(2) *The following securities have lapsed during the 2010 year:*

- *LTI Performance rights and options allocated in February 2005 which lapsed on the Expiry Date of 6 February 2010. They had not vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2005 to 6 November 2009);*
- *LTI Tranche 1 performance rights and options allocated in February 2006 which lapsed on the Expiry Date of 10 March 2010. They had not vested under the relative TSR performance hurdle (which was measured over the period from 6 February 2006 to 6 February 2010); and*
- *LTI performance options allocated on 14 June 2002 which lapsed on the Expiry Date of 13 June 2010. They had not vested under the performance hurdle (which was measured over the period from 14 June 2002 to 13 June 2010).*

(3) *The following securities have vested during the 2010 year:*

- *2008 STI programme shares allocated in November 2008.*
- *Shares and rights allocated under the Motivation and Retention programme in May 2008.*
- *Retention shares to members of the Australian leadership team allocated in December 2009 and individual retention offers to Ms Peacock in September 2007 and Mr Thodey in June 2007.*
- *2006 UK General Employee Offer for Ms Peacock and Mr Slater and 2006 NZ General Employee Offer to Mr Thodey.*

Fair value basis used to determine equity remuneration

The grant date fair value of shares, performance options and performance rights in the previous tables is calculated in accordance with AASB 2 and amortised straight line over the vesting period and included in each executive's remuneration for disclosure purposes.

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 therefore taken into consideration in valuing the securities. For further details, refer to *Note 1* in the financial report.

Fair value of securities granted to senior executives

The fair value and exercise price per share, performance option and performance right (at grant date) are set out below for grants provided to senior executives during 2010. No performance options have been granted during the year.

Type of allocation	Grant date	Performance options		Performance rights		
		Fair value $	Restriction period end $	Fair value $	Exercise period From	Exercise period To [4]
STI Deferred Shares [1]	16 November 2009	$28.92	16 November 2010	$26.73	16 November 2010	16 May 2012
STI Deferred Shares [1]	16 November 2009	$28.92	16 November 2011	$25.08	16 November 2011	16 May 2012
STI Deferred Shares [2]	31 December 2009	$28.19	16 November 2010			
STI Deferred Shares [2]	31 December 2009	$28.19	16 November 2011			
Long Term Incentive	31 December 2009	$15.05	31 December 2012			
Long Term Incentive	31 December 2009	$26.21	31 December 2012			
Long Term Incentive [3]	4 March 2010			$10.44	31 December 2012	30 June 2013
Long Term Incentive [3]	4 March 2010			$21.60	31 December 2012	30 June 2013
Recognition	4 March 2010	$25.06	1 October 2010			
Recognition	4 March 2010	$25.06	1 April 2011			
Recognition	4 March 2010	$25.06	1 July 2011			

(1) *Performance rights were granted to Mr Andrew Thorburn, being based in New Zealand, instead of the 2009 STI deferred shares granted to other senior executives, due to jurisdictional reasons.*

(2) *Deferred STI allocations (in respect of the 2009 performance year) for the Executive Directors as approved by shareholders at the December 2009 AGM.*

(3) *Performance rights were granted to Mr Andrew Thorburn, being based in New Zealand, instead of the 2009 LTI shares granted to other senior executives, due to jurisdictional reasons.*

(4) *The end of the exercise period for each grant is also the Expiry Date.*

Report of the directors

Summary of LTI: terms and conditions of the LTI currently held by senior executives (i.e. allocated to senior executives between June 2002 and September 2010)

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

Some details are provided at the end of this section for the June 2009 allocation to Mr Cameron Clyne, following approval by shareholders at the December 2008 AGM, where it varies from the summary information below.

Frequency of offers

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

Form of securities

- Until 2002, LTI rewards were provided solely in the form of performance options ('options').
- From 2003 to 2007, options were provided for approximately half of the grant value, with the remainder provided in performance rights ('rights') to enable delivery of rewards where the Company had performed well against the performance hurdles but market conditions were adverse (i.e. if the exercise price of the options exceeded the Company's share price).
- For 2008, options were provided for half of the grant value only for members of the Group Executive Committee (at the time of each allocation - excluding the Group CEO), with the remainder in shares (or rights in Asia and New Zealand due to jurisdictional reasons). Other employees received the whole of any LTI reward in shares (or rights in Asia and New Zealand). The provision of shares created a stronger link to the shareholder experience - especially as the hurdle incorporated a Total Shareholder Return (TSR) measurement.
- Since 2009, LTI rewards have been provided as performance shares or performance rights, dependent on jurisdictional circumstances, to all participants.

Exercise price

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

Basis for allocation of LTI securities

Prior to March 2003, individual allocations were based on seniority and the assessed future value of the individual. From March 2003 they have been determined by assessment of an individual's performance and potential under the Executive Talent Review. From December 2009 individual allocations are based on market relativity and Total Reward mix.

Life of the grant (and expiry date)

LTI allocations made prior to September 2004 have an overall life of eight years after allocation, until the expiry date. Vested securities can be exercised until the expiry date and any securities that do not vest under the performance hurdles lapse on the expiry date. The June 2002 allocation has therefore expired during this financial year.

From September 2004 the life of the securities was reduced to five years, with the expiry date on the 5th anniversary of the grant. The February 2005 allocation has therefore expired during this financial year.

With tranche-based performance testing introduced from 2006, the final of the three tests occurs on the 5th anniversary date, and an additional six month period has been added to allow time for participants to exercise any securities that might vest from that test. This approach also applies to rights granted since 2008, with one hurdle test on the 3rd anniversary, and an additional six month period for exercise.

The shares allocated from 2008 are simply released from restrictions on trading if the performance hurdles are achieved.

Restriction period

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

Performance hurdles

- LTI allocated prior to 2006 has a TSR performance hurdle - measured relative to peer companies.
- In 2006 and 2007, the TSR performance hurdle was continued for the most senior executives at the time (approximately 80 positions) and for any grants made to individuals joining the Group. An internal hurdle applies to allocations to other employees.
  - 2006: vesting of the options is based on Cash Earnings (CE) results against the business plan for the Group or for the relevant regional business (once a Return on Equity (ROE) threshold has been met). Vesting of the rights is based on Earnings Per Share (EPS) for the Company relative to peer companies.
  - 2007: vesting of both the options and rights is based on Total Business Return (TBR) results against the business plan for the Group or for the relevant regional business. TBR is a combined measure including ROE and CE.
- In 2008 the relative TSR hurdle was confined to the options allocated to the Group Executive Committee. The hurdle on their LTI shares (or rights), and on the LTI shares (or rights) for the remainder of the LTI participants, is based on ROE performance against the business plan for the Group or for the relevant regional business for each individual (once a CE threshold has been met).
- During 2009, the 2006, 2007 and 2008 performance hurdles moved to being measured at Group level rather than regional level as a result of the Group business restructure announced in early 2009.
- From 2009, the same performance hurdles apply to all participants of the executive LTI (approximately 100 positions). Half the allocation has a TSR performance hurdle relative to the Top Financial peer companies for the performance period and the other half has a performance hurdle based on Group CE and ROE with a TSR overlay.

Reasons for the performance hurdles

TSR is considered a relevant and direct link to shareholder returns over the medium to long term, and appropriate for the most senior executives. The Group CE/ROE hurdle provides a link to business results. For those other LTI participants prior to 2009, the CE/ROE hurdle is more relevant as it can be measured on a regional business basis, and participants have better line of sight to regional results and achievement of the hurdle.

Peer groups used in performance hurdles

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

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

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

Performance hurdle testing

- Allocations made prior to September 2004 have ongoing performance testing - which is conducted continuously over the five year performance period following the end of the restriction period (with the last test being three months prior to the end of the performance period and eight year expiry date).
- Allocations made from September 2004 until the end of 2005 have the same testing structure as above, but the performance period is only for three years (and the final test three months prior to the five year expiry date).
- For allocations made in 2006 and 2007, the hurdles are tested on three occasions over the two year performance period - i.e. at the 3rd, 4th, and 5th anniversaries of the allocation date. Each test affects the vesting of different tranches as described below. This approach is designed to balance the number of performance hurdle tests, with providing a fair level of reward to employees.
- For allocations made in 2008, the TSR hurdles on performance options for the Group Executive Committee are tested on three separate occasions as above. The ROE/CE hurdle for the LTI shares (or rights) is tested once only, at the end of the performance period.
- From 2009, the hurdles are tested once only, at the end of the three year performance period.

Performance hurdle methodology

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

Vesting schedule

- For grants before 2002, there is no vesting if the Company is ranked below the 25th percentile of the peer group, 25% to 49% progressive vesting for 25th to 49th percentile ranking (1% vesting per percentile), and 50% to 98% progressive vesting for 50th to 74th percentile ranking (2% vesting per percentile). All of the securities vest when the Company's performance ranking is at or above the 75th percentile of the peer group.
- For grants from 2002 to September 2004, the vesting below the 50th percentile was removed - with vesting from the 50th percentile as outlined above (i.e. no change from prior years).
- From September 2004, vesting at the 50th percentile was removed - with 50% to 98% progressive vesting from the 51st to 75th percentiles (2% vesting per percentile), and vesting of all securities when the Company's performance ranking is at or above the 76th percentile of the peer group.
- From 2006, TSR vesting schedules have no vesting at the 50th percentile, and 35% to 97% progressive vesting from the 51st to 75th percentiles (2.6% vesting per percentile). All securities vest when the Company's performance ranking is at or above the 76th percentile of the peer group.
- For the participants with internal hurdles the following applies:
  - 2006: the EPS vesting schedule for the rights is the same as for the TSR as above. Under the ROE/CE hurdle, there is 35% to 100% progressive vesting when business results are 90% to 120% of business plan (i.e. achievement of 120% of business plan required for full vesting);
  - 2007: under the TBR hurdle, there is 50% to 100% progressive vesting when business results are 90% to 120% of business plan (i.e. achievement of 120% of business plan required for full vesting);
  - 2008: under the ROE/CE hurdle, there is 50% to 100% progressive vesting (or retention of shares) when business results are 90% to 100% of business plan (i.e. achievement of 100% of business plan required for full vesting or retention). There is capacity for the Board to approve an additional allocation of securities if the Group significantly exceeds business plan over the three year hurdle period; and
  - 2009: under the TSR hurdle, there is 50% vesting at median TSR performance to 100% vesting at 75th percentile TSR performance. Under the Group CE/ROE hurdle, Group CE must achieve business plan over the 3-year performance period. Where TSR performance is in the top quartile Group CE must achieve at least 90% of business plan. If Group CE performance is achieved, there is 50% to 100% progressive vesting when Group ROE achieved is 90% to 100% of business plan.

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

Lapsing and forfeiture

- **Options and Rights:** Options and rights lapse if not exercised on or before their expiry date (as described above). If a senior executive is dismissed or resigns all unvested options and rights lapse immediately. All vested options and rights lapse immediately in the case of dismissal or after 90 days in the case of resignation. When a senior executive's employment ceases in any other circumstances all vested options and rights will be retained until the original expiry date. Unvested options and rights will be retained under the relevant performance conditions and restrictions.
- **Shares:** If a senior executive fails to meet individual compliance requirements or is dismissed or resigns, shares are forfeited. When a senior executive's employment ceases in any other circumstances shares, if allocated:
  - Prior to December 2009: Subject to Board discretion, some or all of the shares are retained and released based on the calculated probability of the performance hurdle being achieved and the elapsed period of the grant at the time of cessation; and
  - From December 2009: Retained subject to the relevant performance hurdle and restriction periods.

Report of the directors

Conditions for retaining securities

In the majority of cases, options and rights only vest as a result of achieving the relevant performance hurdle. The Board has discretion, following death or permanent disablement, to approve early vesting and retention of securities as permitted by law (and without requiring shareholder approval).

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

March 2008 allocation to Mr Stewart

As Mr Stewart left the Group with the Board's approval during the 2009 year, he retained the performance rights, with vesting still to be determined in accordance with the performance hurdles. Any shares resulting from the exercise of any rights that vest prior to 30 August 2011 will be subject to restrictions on trading until 30 August 2011 (except for the purposes of meeting tax obligations arising from this grant).

- **Form of Securities:** Performance rights in three equal tranches.
- **Restriction Period:** To August 2009.
- **Performance Hurdles:**
  - Tranche 1: Vesting was based on the TSR growth of the Company compared with that of 4 peer financial companies. Half of the tranche would have vested (and become exercisable) if the Company was ranked at the median against the comparator group, and 100% would vest if the Company was ranked in the upper quartile. The performance hurdles were not achieved when testing occurred on 30 August 2009 and 30 August 2010 so this tranche has lapsed, unvested and unexercised.
  - Tranche 2: Vesting is based on achievement of the Group ROE plan since 30 August 2007. Half of the tranche was tested at August 2009 and August 2010 with no vesting; a quarter was tested at August 2010 with no vesting, and will be tested again at August 2011, and the final quarter will be tested at August 2011.
  - Tranche 3: Vesting was based on the Board's assessment of CEO succession planning and cultural and management development, as assessed at August 2009. This tranche vested 100%.

June 2009 allocation to Mr Clyne

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

Statutory disclosure for the non-executive directors

The table below shows the individuals who were both non-executive directors and KMP of the Company and Group during 2010:

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

(1) *Mr AKT Yuen joined the Board and became a non-executive director on 1 March 2010.*

Remuneration policy for non-executive directors

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

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

The Board reviewed fees in March 2010. There has been no change to the fees paid to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board Committees since 2008. The next review is scheduled for March 2011.

The total fees paid by the Group to the Chairman and the non-executive directors on the Board, including fees paid for their involvement on Board committees and for, or in connection with, their services to controlled entities of the Company, are kept within the total approved by shareholders from time to time. The total fees paid in this regard during the 2009 and 2010 years are shown in the total row of the following table.

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

At the Company's January 2007 AGM, shareholders approved the continuation of the non-executive directors' share arrangement under the Non-Executive Director Share Plan (NED Share Plan), which is operated through the National Australia Bank Staff Share Ownership Plan. Under this arrangement, non-executive directors salary sacrificed a minimum of 10% of their fees, up to a maximum of 40%, to receive issued shares. The non-executive directors who are domiciled overseas purchased shares, on market, to a value equivalent to 10% of their Board fees.

As a result of Australian tax changes impacting employee equity schemes, the NED Share Plan was terminated. Accordingly, no shares have been allocated to the non-executive directors under the NED Share Plan during the 2010 year. Non-executive directors can elect to take part of their remuneration as additional Company superannuation contributions.

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

The Remuneration Committee

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

The Committee:

- Reviews and approves, at least annually, the remuneration policy and its adequacy and effectiveness;
- Monitors the Group's reward strategy so that it:
  - Motivates employees to pursue the long-term growth and success of the Group;
  - Demonstrates a clear relationship between individual performance and reward;
  - Attracts and retains top talent to deliver superior performance; and
  - Continues to support effective risk management and does not expose the Group to excessive risk.
- Approves policies for the Group's leaders in relation to reward, recruitment, retention, and succession planning;
- Determines Total Reward outcomes for the Group Chief Executive Officer and other executive directors;
- Approves the remuneration structure in respect of employees in risk, compliance and financial control roles within the Group;
- Recommends appropriate remuneration for non-executive directors;
- Determines the Group's STI pools based on Company performance; and
- Supports the Board in monitoring the Group's culture, and the process for managing behaviours against the Group's behavioural standards, and diversity in the workplace.

Committee members at 30 September 2010 were Mrs Patricia Cross (Chairman), Mr Daniel Gilbert, Mr Geoff Tomlinson and Mr Anthony Yuen.

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

Report of the directors

Non-executive director remuneration

The following table sets out the nature and amount of each element of the remuneration of the non-executive directors of the Company in relation to services they provided in the 2010 year. No performance options or performance rights are granted to non-executive directors.

The amounts in the table include Committee fees (as detailed in the table on the following page), and variances from one year to another will also reflect changes in Committee memberships.

		Short-term benefits		Post-employment benefits	Equity-based benefits	Total
Name		**Cash salary and fees (1) fixed $**	**Non-monetary (2)**	**Superannuation (3) fixed $**	**Shares (4) fixed $**	**$**
MA Chaney	**2010**	**755,354**	**5,636**	**14,646**	**-**	**775,636**
	2009	711,159	-	13,924	44,917	770,000
PA Cross	**2010**	**293,632**	**-**	**19,225**	**-**	**312,857**
	2009	201,218	-	49,949	68,833	320,000
DT Gilbert	**2010**	**199,540**	**-**	**42,960**	**-**	**242,500**
	2009	123,256	-	90,952	28,292	242,500
PJ Rizzo	**2010**	**260,000**	**-**	**50,000**	**-**	**310,000**
	2009	241,917	-	50,000	18,083	310,000
JS Segal	**2010**	**262,229**	**-**	**14,646**	**-**	**276,875**
	2009	202,941	-	13,924	55,635	272,500
JG Thorn	**2010**	**265,354**	**-**	**14,646**	**-**	**280,000**
	2009	220,493	-	43,174	16,333	280,000
GA Tomlinson	**2010**	**505,354**	**-**	**14,646**	**-**	**520,000**
	2009	481,734	-	13,924	30,771	526,429
JA Waller	**2010**	**395,100**	**-**	**14,646**	-	**409,746**
	2009	323,238	-	9,228	-	332,466
GM Williamson	**2010**	**515,031**	**65,216**	**2,180**	**-**	**582,427**
	2009	635,492	79,828	-	-	715,320
AKT Yuen (5)	**2010**	**169,704**	**-**	**3,837**	**-**	**173,541**
Former						
TK McDonald (6)	2009	41,102	-	1,532	-	42,634
Total (7)	**2010**	**3,621,298**	**70,852**	**191,432**	**-**	**3,883,582**
Total (7)	2009	3,182,550	79,828	286,607	262,864	3,811,849

(1) Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities as set out on the following page.

(2) Mr Chaney received a non-monetary benefit relating to travel expenses. Sir Malcolm Williamson receives a non-monetary benefit in relation to UK National Insurance contributions.

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

(4) Represents the value of newly-issued ordinary shares in the Company that were allocated to Australian non-executive directors under the non-executive director share plan prior to termination of that plan. The price used to determine the number of shares was the volume weighted average price of the Company's ordinary shares traded on the ASX during the one week up to and including the date of allocation. Amounts which were held from Australian directors' fees since April 2009 have been provided to the directors in the form of cash and are included in the cash salary column for 2009. During 2002, the Board decided not to enter into any new contractual obligations to pay retirement allowance benefits to non-executive directors appointed after 31 December 2002. At the Company's December 2003 AGM, a proposal was approved permitting non-executive directors of the Company and its controlled entities who had accrued retirement benefits, to apply those benefits, which were frozen as at 31 December 2003, to either cash (to be paid on retirement), to additional superannuation contributions or to the acquisition of shares in the Company (to be held in trust until retirement). Where non-executive directors elected to apply those benefits toward shares held in trust, the dividends earned on those shares are applied to the acquisition of further Company shares in the week up to and including the date of allocation, less $0.01, rounded down to the nearest whole number, on the Company's dividend payment date. The value of accumulated retirement benefit for Mr Tomlinson was subsequently provided to him during 2004 in the form of shares to be held on trust until cessation of office. The value of the accrued benefits provided at that time was $272,608. The dividends earned on those shares were applied to the acquisition of further Company shares as set out above. During 2010, 774 shares (2009: 1,021 shares) were acquired in this way in respect of Mr Tomlinson. From 31 December 2003, neither new nor existing non-executive directors are entitled to additional retirement benefits. No retirement benefits have been accrued by non-executive directors since 1 January 2004.

(5) Mr AKT Yuen joined the Board as a non-executive director on 1 March 2010.

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

(7) The 2010 Total includes the 2010 amounts for all of the 10 relevant directors in that year. The 2009 Total includes the 2009 amounts for all of the 10 relevant non-executive directors in that year.

Report of the directors

Non-executive director fees

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

	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Controlled Entities $	Other $	Total $
Current							
MA Chaney [(1)]	770,000	-	-	-	-	5,636	775,636
PA Cross [(2)]	220,000	-	30,000	45,000	17,857	-	312,857
DT Gilbert	220,000	-	-	22,500	-	-	242,500
PJ Rizzo	220,000	30,000	60,000	-	-	-	310,000
JS Segal [(3)]	220,000	17,500	30,000	9,375	-	-	276,875
JG Thorn	220,000	60,000	-	-	-	-	280,000
GA Tomlinson [(4)]	220,000	-	-	22,500	277,500	-	520,000
JA Waller [(5)]	210,952	30,000	30,000	-	138,794	-	409,746
GM Williamson [(1)(5)]	220,000	-	30,000	-	267,211	65,216	582,427
AKT Yuen [(6)]	128,333	-	17,500	13,125	14,583	-	173,541
Total	**2,649,285**	**137,500**	**197,500**	**112,500**	**715,945**	**70,852**	**3,883,582**

(1) *Mr Chaney received a non-monetary benefit relating to travel expenses. Sir Malcolm Williamson received a non-monetary benefit in relation to UK National Insurance contributions.*

(2) *From 10 May 2010, Mrs Cross was appointed as a Director of the JBWere Pty Limited Board.*

(3) *From 1 March 2010, Ms Segal was no longer a member of the Remuneration Committee and was appointed as a member of the Audit Committee.*

(4) *Mr Tomlinson receives fees in respect of services performed as Chairman of the Board of National Wealth Management Holdings Limited and subsidiaries.*

(5) *The fees that were paid to Sir Malcolm Williamson in respect of services performed as non-executive director of controlled entity boards and committees were paid in GBP. Mr Waller receives fees in respect of services performed as non-executive director of BNZ which are paid in New Zealand dollars.*

(6) *Mr Yuen became a Director of the Board, a member of the Risk Committee, Remuneration Committee, Nomination Committee and the Asia Management Board on 1 March 2010.*

Committee fee schedule

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, which became effective on 1 April 2008.

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

Appendices

Insider trading and derivatives policy

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

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

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

Table of key terms

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

Cash earnings (CE)	The STI and LTI programmes use a measure of cash earnings from ongoing operations (before significant items). For senior executives, this is for the consolidated Group. Refer to the Glossary for a definition of Cash Earnings.
Deferred STI shares	STI shares are Company ordinary shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least one year, are restricted from trading and may be fully or partially forfeited if individual or business performance warrants. The shares are forfeited if the participant fails to meet the compliance gateway, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances.
Group Executive Committee	The Group's leadership team, comprising the individuals listed in the **Statutory remuneration data table** on page 25.
Key Management Personnel (KMP)	Key executives of the Group and Company who have the authority and responsibility for planning, directing and controlling the activities of NAB Ltd, directly or indirectly, including any director (whether executive or otherwise) as defined in AASB 124 Related Party Disclosures (AASB 124).
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long term performance of the Company. LTI is allocated under the Group's programme in the form of LTI shares as described below (performance rights in some jurisdictions). The LTI programme is described in the section: **LTI rewards**.
LTI shares	LTI shares are Company ordinary shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least three years on the employee's behalf, are restricted from trading and are forfeited if the performance hurdles are not achieved, if the participant fails to meet individual performance standards or compliance gateway, or if they resign or are dismissed. The shares are retained on cessation of employment in other circumstances (unless the Board determines otherwise) with vesting still subject to the performance hurdles.
Motivation and Retention shares	Shares were allocated under the Motivation and Retention programme in April 2008, with forfeiture conditions which include upon failure to meet the performance hurdle based on achievement of a combination of qualitative and quantitative Group performance measures from 1 April 2008 to 31 March 2010. The shares are also forfeited by the participant if they fail to meet individual performance standards or behaviour and compliance quality gates, or if they resign their employment prior to May 2010. The shares may be retained and released from restriction on cessation of employment in other circumstances (unless the Board determines otherwise). Performance rights were allocated to participants in New Zealand in lieu of shares on a similar basis.
Performance options	A performance option is a right to acquire one Company ordinary share, once the performance option has vested based on achievement of the related performance hurdle or at the Board's discretion. The performance option is issued at no charge to the employee. To acquire a share, the holder must pay the exercise price, which is generally the weighted average price at which Company ordinary shares traded on the ASX over the one week up to and including the allocation date of the performance options.

Report of the directors

Performance rights	A performance right is a right to acquire one Company ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. A performance right is similar to a performance option as described above, except that there is no exercise price to be paid to exercise the performance right. Performance rights may be used instead of shares due to jurisdictional reasons.
Return on equity (ROE)	ROE is calculated as cash earnings (ongoing operations) divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. For senior executives, the STI and LTI programmes use ROE performance for the consolidated Group.
Senior executives	Defined in this report as current and former members of the Group Executive Committee, comprising the individuals listed in the **Statutory remuneration data table**.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual bonus. Each employee has a short term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 20% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in the section: **STI rewards**. STI rewards may be allocated in the form of STI shares as described above under **Deferred STI shares**.
Top 50 Companies (used in the LTI performance hurdle)	The top 50 companies in the S&P/ASX100 by market capitalisation, excluding the Company, determined as at the effective date of the LTI allocation.
Top Financial Services (used in the LTI performance hurdle)	The top financial services companies in the S&P/ASX200 (approximately 12 companies) by market capitalisation, excluding the Company, determined as at the effective date of the LTI allocation.
Total Business Return (TBR)	A value management tool using the metrics of ROE and Cash Earnings growth to provide an assessment of relative value creation.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions, but does not include STI and 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 Company, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions.
Total Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Total shareholder return (TSR) (used in the LTI performance hurdle)	The return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. TSR is calculated on the basis that all dividends and distributions are reinvested in Company shares.

Report of the directors

Directors' signatures

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

Michael A Chaney
Chairman

15 November 2010

Cameron A Clyne
Group Chief Executive Officer

Corporate governance

The Board of directors of the Company is responsible for the governance of the Company and its controlled entities (the Group). Good corporate governance is a fundamental part of the culture and business practices of the Group. The key aspects of the Group's corporate governance framework and primary corporate governance practices for the 2010 year are outlined below.

The Board of directors

The role and responsibilities of the Board

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

The Board's most significant responsibilities are:

Stakeholder interests

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

Strategy

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

Performance

- reviewing business results; and
- monitoring budgetary controls.

Integrity of external reporting

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

Risk management and compliance

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

Executive review, succession planning and culture

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

Board performance

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

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

- development and implementation of Board approved strategies;
- setting operational plans within a comprehensive risk management framework; and
- 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.

Composition of the Board

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

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

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

The Board is composed of a majority of independent non-executive directors. There are three executive directors and ten independent non-executive directors. The role of Chairman and that of Group Chief Executive Officer are held by two separate individuals.

The Chairman is an independent non-executive director and the Group Chief Executive Officer is an executive director. The other executive directors are the Deputy Group Chief Executive Officer and the Executive Director, Finance.

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

A 'Fit and Proper' policy that meets the requirements of the Prudential Standard has been approved by the Board and implemented by the Company. The assessment process includes police checks and confirming the authenticity of academic records and employment history.

All 'responsible persons', as defined by the Prudential Standard, have been assessed as meeting the criteria to ensure that they are 'fit and proper'.

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

Corporate governance

Chairman

The Group's Chairman is Mr Michael Chaney. Mr Chaney has been Chairman of the Company since September 2005 and a non-executive director since December 2004.

Mr Chaney has skills and experience across a broad portfolio of industries and companies including corporate, mining, investment and general banking. A detailed list of his directorships and prior experience can be found in the Report of the directors.

Mr Chaney's positions held outside the Company are not deemed to prevent him executing and fulfilling all of his obligations and responsibilities to the Board and the Company.

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 and independent judgement, free of any business or other relationship that could materially interfere with the exercise of the director's ability to act in the best interests of the Company.

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

In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations.

The Board considers that all of the non-executive directors are independent. That is, for the 2010 year, no non-executive director had any relationships that could materially interfere, or be perceived to materially interfere, with the director's unfettered and independent judgement.

In determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board. Any assessment of independence for a non-executive director who does not meet the independence standards adopted by the Board will be specifically disclosed to the market.

The Board has procedures in place to ensure it operates independently of management.

This is achieved by the non-executive directors meeting together in the absence of management at each scheduled Board and Board Committee meeting.

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

Conflicts of interest

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

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

- the directors without a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;
- the Australian Securities and Investments Commission (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; or
- the matter is of a type which the *Corporations Act* 2001 (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

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

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

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

Appointment and re-election of Board members

A review of Board composition and skills is undertaken annually by the Nomination Committee using a skills matrix that enables the Committee to assess the skills and the experience of each director and the combined capabilities of the Board. The results of this review are considered in the context of the Group's operations and strategy and the need for diversity on the Board (refer to pages 45 and 48). The results of this review are then incorporated into the selection process for new directors.

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

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

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

Corporate governance

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

(The commencement dates of the directors are set out in the Report of the directors on pages 4 to 6).

Induction and continuing education

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

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

Board meetings

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

The number of Board meetings and each director's attendance at those meetings are set out in the Report of the directors. The Board also met with key regulators in various jurisdictions, periodically throughout the year.

Performance of Board, its committees and individual directors

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

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

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

Remuneration arrangements

The remuneration policy for the Board and the remuneration of each director is set out in both the Remuneration report which forms part of the Report of the directors, and in *Note 47* 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 also provides advice and support to the Board and is responsible for the Group's day-to-day governance framework.

Access to independent professional advice

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

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

Shareholding requirements

Within two months of appointment, a director must hold at least 2,000 fully paid ordinary shares in the Company. Executive directors may receive shares, performance options and performance rights as approved by shareholders. Non-executive directors do not receive any securities via incentive schemes.

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

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 the Company'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 and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these Committees:

- Audit Committee;
- Risk Committee;
- Remuneration Committee; and
- Nomination Committee.

Following each Committee meeting, the Board receives a copy of the minutes of meeting from the relevant Committee. Further, on an annual basis, the Board receives a report from each Committee on its activities undertaken during the year. The qualifications of each Committee's members and the number of meetings they attended during the 2010 year are set out in the Report of directors.

The Board will also establish sub-committees to address matters of specific importance, including consideration of borrowing, projects, significant litigation, capital strategies, major investments and commitments and capital expenditure.

Corporate governance

	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Members	Mr John Thorn (Chair) Mr Paul Rizzo Mrs Jillian Segal Mr John Waller	Mr Paul Rizzo (Chair) Mrs Patricia Cross Mrs Jillian Segal Mr John Waller Sir Malcolm Williamson Mr Anthony Yuen	Mrs Patricia Cross (Chair) Mr Daniel Gilbert Mr Geoff Tomlinson Mr Anthony Yuen	Mr Michael Chaney (Chair) Mrs Patricia Cross Mr Daniel Gilbert Mr Paul Rizzo Mrs Jillian Segal Mr John Thorn Mr Geoff Tomlinson Mr John Waller Sir Malcolm Williamson Mr Anthony Yuen
Composition	Minimum three All members to be Non Executive Directors One member must also be a member of the Risk Committee	Minimum three Majority must be Non Executive Directors One member must also be a member of the Audit Committee	Minimum three All members to be Non Executive Directors	Minimum three All members to be Non Executive Directors

Responsibilities:

Audit Committee

- integrity of the accounting and financial 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; and
- 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

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

Remuneration Committee

- oversee the Group's general remuneration strategy; and
- review and make recommendations to the Board concerning:
  - remuneration policy and Total Reward packages for the Group Chief Executive Officer and direct reports;
  - remuneration arrangements for non-executive directors (as listed on page 34); and
  - arrangements for recruiting, retaining and terminating senior executives; and
- support the Board with monitoring the principles and framework required for measuring the compliance and behavioural requirements of the Group, including the Group's culture and diversity.

Nomination Committee

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

Audit Committee

Audit committee

The Audit Committee assists the Board in carrying out its responsibility to exercise due care, diligence and skill in relation to the Group's reporting of financial information, internal control systems, compliance with applicable laws and regulations, and monitoring and controlling the accounting policies and procedures designed to safeguard company assets and maintain the integrity of 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 on pages 4 to 6. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, governance principles, recommendations and listing standards.

The Chairman of the Board cannot be a member of the 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 on the Group's website.

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

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

Access to the Committee

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

Other employees of the Group may have access to the Audit Committee through the 'Whistleblower Protection Programme'. Refer to page 47 for further information on the 'Whistleblower Protection Programme'.

Audit Committee finance professional

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

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 2010 of the external auditor and internal auditor, and oversight of the work performed by the auditors throughout the year;
- review of significant accounting, financial reporting and other issues raised by the internal and external auditors;
- review of the performance and independence of the external auditor and internal auditor together with their assurances that all applicable independence requirements were met;
- holding of separate meetings without the presence of management with Internal Audit and key partners from the external auditor, Ernst & Young;
- consideration and recommendations to the Board on significant accounting policies and areas of accounting judgement; and
- review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements.

The Audit Committee met 8 times during the 2010 year. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. A meeting of the Group's regional audit committee Chairmen was held in September 2010 at which key finance related issues from a regional and Group perspective were considered.

External auditor

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

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

The Audit Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the 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 the professional accounting bodies. This independence declaration forms part of the Report of the directors and is provided on page 13 of this financial report.

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.

Internal audit

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

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

Audit Committee pre-approval policies and procedures

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

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

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

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

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

The Audit Committee may delegate to one or more of its membership or to management as it sees fit, the authority to 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 at its next scheduled meeting. 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 on the Group's website.

Activities during the year

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

The Group has continued to strengthen its risk management processes. Key activities undertaken by the Risk Committee during the year include:

- review of the Group's key risks and risk management framework as developed by management;
- review of the Group's Internal Capital Adequacy Assessment Process;
- ongoing critical review of credit environment, asset quality and provisioning;
- approval of the budget and headcount of the Group's risk management function;
- review of the Group's 2010 risk appetite statement;
- review of the certifications from management in relation to the Group's compliance with applicable prudential standard obligations;
- review of the certifications and assurances from Internal Audit and management in relation to the effectiveness of the Group's internal controls and risk management framework; and
- joint meetings of the Group's New Zealand and United Kingdom board risk committees to consider key local risk issues.

The Risk Committee met 8 times during the 2010 year, with senior representatives from the Company's external auditor, Ernst & Young, and Internal Audit invited to attend every scheduled meeting of the Risk Committee throughout the period.

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

The Chairs of each main subsidiary board risk committee met regularly in the 2010 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the UK, the US, Australia and New Zealand. This meeting is chaired by the chair of the Board Risk Committee.

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

Remuneration Committee

Members of the Remuneration Committee have been selected to ensure the appropriate level of remuneration, risk, legal and industry expertise and knowledge. Two members of the Remuneration Committee are also members of the Risk Committee recognising the importance of aligning remuneration and risk.

Responsibilities and Remuneration Committee charter

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

Information in relation to the Group's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Group performance) can be found in the Remuneration report which forms part of the Report of the directors, together with details of the remuneration paid to Board members and senior executives who were the key management personnel of the Company during the 2010 year.

Activities during the year

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

- reviewing and recommending to the Board the remuneration package for the Group Chief Executive Officer and other senior executives;
- monitoring regulatory reform and stakeholder views on remuneration and reward in the financial services industry;
- reviewing and approving remuneration governance and delegation requirements across the Group;
- monitoring the Group's implementation of changes to the performance and reward framework as a result of a review undertaken by the Committee last year in conjunction with independent experts;
- reviewing the governance arrangements for use of independent experts on performance and rewards;
- reviewing and recommending to the Board the incentives payable to senior executives based on performance criteria structured to increase shareholder value;
- reviewing, approving and determining vesting outcomes of employee equity plans and allocations; and
- reviewing remuneration of non-executive directors of subsidiary companies.

The Remuneration Committee met 7 times during the 2010 year. In recognition of the Remuneration Committee's increased focus and responsibilities associated with remuneration related risks, the Group's Chief Risk Officer is invited to attend all Remuneration Committee meetings.

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 on the Group's website.

Activities during the year

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

- assessment of the appropriate size and composition of the Board;
- succession planning for non-executive directors;
- consideration of diversity, including gender diversity in director succession planning;
- review of the methodology for the annual Board performance review; and
- review of committee composition and memberships.

Corporate governance

Controlled entities

The activities of each company in the Group are overseen by its own respective board of directors. Mr Geoffrey Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities. Sir Malcolm Williamson is the Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC. Mr John Waller is the Chairman of Bank of New Zealand. Mr Michael Ullmer is the Chairman of Great Western Bank. The chairman of each of the Group's major subsidiary boards are members of the Board and this provides a key link between the Board of the parent company and the subsidiary entities and enable issues considered by the major operating subsidiaries to be efficiently escalated to the Board. The Board's confidence in the activities of a controlled entity board is based on having a high-quality controlled entity board committed to the Group's objectives.

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

Communicating with shareholders

Strategy

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

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

The Group employs a range of communication approaches, including direct written communication with shareholders, publication of all relevant Group information in the Shareholder Centre section of the Group's website and webcasting of significant market briefings 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.

Continuous disclosure

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

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

Pursuant to the disclosure policy and supplementary guidelines and procedures, all material matters which may potentially require disclosure are promptly reported to a Disclosure Committee of executives. Where appropriate the Committee will 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 Group Executive Committee are responsible for reporting matters qualifying for disclosure to the General Counsel Corporate 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's Disclosure and External Communications Policy is available on the Company's website.

ASX Corporate Governance Principles and Recommendations

The Company has complied with the ASX Corporate Governance Principles and Recommendations for the 2010 year.

In accordance with Recommendation 7.2 of the ASX Corporate Governance Principles and Recommendations, management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

In 2010, the ASX Corporate Governance issued a revised version of the Principles and Recommendations, which includes, amongst other things, diversity requirements (Revised ASX Corporate Governance Principles and Recommendations). The Company intends to make an early transition to the Revised ASX Corporate Governance Principles and Recommendations during the 2011 financial year.

Assurance provided to the Board

The Board has received:

- the relevant declarations required under section 295A of the *Corporations Act* 2001 (Cth); and
- the relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles and Recommendations,

jointly from the Group Chief Executive Officer and the Executive Director, Finance.

Corporate responsibility

Values and culture

In 2009, the Board and management took the opportunity to review the Group's core beliefs and behaviour expectations. The review identified an opportunity to differentiate the Group's culture and reputation by focussing on an enterprise-wide approach to behaviour that built on the foundations of the Corporate Principles. These clear expectations are supported by a common purpose or beliefs that bind the organisation together. Emphasising for our people that why and how we do things is as important as what we do. The Group's unifying set of beliefs and behaviours are:

At the heart of the Group is a belief in the potential of our customers and communities, and in each other. It unites and motivates us:

- to do the right thing;
- to help our customers and communities; and
- to realise potential.

From these beliefs come a common set of Enterprise Behaviours that require our people to:

- be authentic and respectful;
- work together; and
- create value through excellence.

Aligning with the Group's Corporate Principles, management has formed a Customer Council (chaired by the Group Chief Executive Officer) to increase the Company's focus and resolve as regards to customer relations and service.

Our approach to corporate responsibility

The Group's approach to corporate responsibility (CR) seeks to ensure that our beliefs and behaviours are embedded in our everyday decision making and our longer-term planning for the future. This approach is centred around the following core commitments:

- getting the fundamentals right with our customers - by delivering fair value and quality advice;
- being a good employer - through investing in the skills and capabilities of our employees; and
- addressing our broader responsibility to society - by supporting communities, managing our environmental impact and having a positive impact through our supply chain.

This is:

- engaging with our stakeholders in each of these commitment areas to inform us of current and emerging material issues, challenge us to develop mutually beneficial solutions and help us define our strategic direction;
- developing a CR strategy that sets clear objectives, establishes appropriate policies, procedures and activities and includes measuring and reporting on our progress; and
- installing governance structures and internal communication that ensures that CR is understood by our leaders and our people, and continues to help inform balanced decision making.

Corporate responsibility performance

Further information on our CR approach and performance is provided in our Annual Review and on our Group website. In 2010, we have combined our Shareholder and Corporate Responsibility Reviews in recognition that our CR approach is integrated into core business strategy.

Code of conduct

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

The Code of Conduct covers:

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

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

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

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

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 programme.

Whistleblower protection

The Group has a Whistleblower Protection Programme for confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, directly to the Audit Committee. The Group does not tolerate incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

Accordingly, there are established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

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

It is a responsibility of the Audit Committee to ensure that employees can make confidential, anonymous submissions regarding such matters.

The Company will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) of any person taking reprisals against them.

Corporate governance

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

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

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

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

Diversity

The Group recognises that a diverse and inclusive workforce is not only good for our employees, it also good for our business. It helps the Group attract and retain talented people, create more innovative solutions, and be more flexible and responsive to our customers' and shareholders' needs. Across the Group, there is increasing momentum on diversity with a particular focus on gender and age, as well as greater work and career flexibility.

Gender diversity and inclusion continues to be a key priority for the Company, and is reflective of the Revised ASX Corporate Governance Principles and Recommendations on diversity issued in June 2010. The Company is committed to building strong female representation at all levels in our organisation, including executive management.

The Company intends to make an early transition to the Revised ASX Corporate Governance Principles and Recommendations (which include, amongst other things, diversity requirements) for the 2011 financial year and has made the following progress:

- established a Diversity Forum to align diversity strategy with business objectives – the forum is chaired by the Deputy Group Chief Executive Officer with senior business representatives as members;
- ratified a three-year Diversity Strategy to maximise leverage from our diversity and inclusion initiatives;
- established a Diversity Policy that has been reviewed and approved by the Board which contains measurable objectives for key diversity categories, and will be published on the Group's website; and
- agreed enterprise gender targets.

The Company is committed to ensuring that the composition of its Board of Directors continues to be appropriate. The Board Charter clearly states that it should comprise Directors with a broad range of skills, experience, and diversity to build the profile of future Board candidates.

Please refer to the Corporate Responsibility section of the Group website for additional reporting on the Group's recent activities and initiatives relating to diversity.

Financial report

Income statement

For the year ended 30 September	Note	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Interest income	3	**29,824**	31,102	**25,502**	24,891
Interest expense	3	**(17,568)**	(19,034)	**(16,729)**	(16,223)
Net interest income		**12,256**	12,068	**8,773**	8,668
Premium and related revenue		**1,294**	846	**-**	-
Investment revenue		**2,769**	726	**-**	-
Fee income		**479**	439	**-**	-
Claims expense		**(695)**	(477)	**-**	-
Change in policy liabilities		**(1,724)**	(373)	**-**	-
Policy acquisition and maintenance expense		**(930)**	(755)	**-**	-
Investment management expense		**(35)**	(37)	**-**	-
Movement in external unitholders' liability		**(345)**	(12)	-	-
Net life insurance income		**813**	357	**-**	-
Gains less losses on financial instruments at fair value	4	**122**	665	**232**	1,051
Other operating income	4	**3,817**	3,687	**2,946**	3,694
Total other income		**3,939**	4,352	**3,178**	4,745
Personnel expenses	5	**(4,644)**	(4,402)	**(3,079)**	(2,999)
Occupancy-related expenses	5	**(592)**	(555)	**(353)**	(318)
General expenses	5	**(3,305)**	(3,022)	**(1,932)**	(1,867)
Total operating expenses		**(8,541)**	(7,979)	**(5,364)**	(5,184)
Charge to provide for doubtful debts	5	**(2,791)**	(3,815)	**(1,951)**	(2,683)
Profit before income tax expense		**5,676**	4,983	**4,636**	5,546
Income tax expense	6	**(1,451)**	(2,394)	**(1,086)**	(1,511)
Net profit for the year		**4,225**	2,589	**3,550**	4,035
Attributable to:					
Owners of the Company		**4,224**	2,589	**3,550**	4,035
Non-controlling interest in controlled entities		**1**	-	**-**	-
Net profit for the year		**4,225**	2,589	**3,550**	4,035
Basic earnings per share (cents)	8	**191.8**	123.4		
Diluted earnings per share (cents)	8	**190.6**	122.5		

Statement of comprehensive income

For the year ended 30 September	Note	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Net profit for the year		**4,225**	2,589	**3,550**	4,035
Other comprehensive income					
Actuarial (losses)/gains on defined benefit pension schemes	36	**(114)**	(1,125)	**4**	(13)
Cash flow hedges					
Gains/(losses) taken to equity	35	**424**	(24)	**309**	(237)
Losses/(gains) transferred to the income statement	35	**3**	66	**(4)**	23
Exchange differences on translation of foreign operations	35	**(969)**	(1,485)	**(32)**	(4)
Tax on items taken directly (from)/to equity		**(92)**	289	**(98)**	72
Investments - available for sale					
Revaluation gains/(losses)	35	**60**	(6)	**48**	(66)
Gains from sale transferred to the income statement	35	**(28)**	(12)	**(13)**	(5)
Impairment transferred to the income statement	35	**3**	52	**-**	57
Revaluation of land and buildings		**9**	3	**-**	-
Other comprehensive income for the year, net of income tax		**(704)**	(2,242)	**214**	(173)
Total comprehensive income for the year		**3,521**	347	**3,764**	3,862
Attributable to:					
Owners of the Company		**3,520**	347	**3,764**	3,862
Non-controlling interest in controlled entities		**1**	-	**-**	-
Total comprehensive income for the year		**3,521**	347	**3,764**	3,862

Balance sheet

As at 30 September	Note	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Assets					
Cash and liquid assets	9	**26,072**	25,834	**21,570**	23,437
Due from other banks	10	**37,679**	33,265	**30,102**	26,200
Trading derivatives	11	**38,340**	37,030	**37,832**	36,587
Trading securities	12	**25,821**	22,219	**23,386**	19,210
Investments - available for sale	13	**14,572**	7,933	**8,965**	3,650
Investments - held to maturity	14	**13,789**	17,529	**5,111**	5,201
Investments relating to life insurance business	15	**64,560**	54,254	**-**	-
Other financial assets at fair value	16	**37,409**	31,530	**13,996**	4,343
Hedging derivatives	11	**3,712**	3,926	**2,268**	1,885
Loans and advances	17	**354,835**	344,774	**269,807**	259,665
Due from customers on acceptances		**49,678**	55,035	**49,665**	55,031
Current tax assets	23	**222**	-	**128**	210
Property, plant and equipment	20	**1,778**	1,716	**982**	902
Due from controlled entities		**-**	-	**49,556**	51,367
Investments in controlled entities	21	**-**	-	**17,333**	15,446
Goodwill and other intangible assets	22	**7,077**	6,243	**547**	520
Deferred tax assets	23	**2,026**	3,272	**1,374**	2,212
Other assets	24	**8,382**	9,560	**5,007**	5,435
Total assets		**685,952**	654,120	**537,629**	511,301
Liabilities					
Due to other banks		**37,612**	36,148	**34,267**	31,377
Trading derivatives	11	**40,587**	38,090	**38,473**	35,887
Other financial liabilities at fair value	25	**19,887**	21,311	**2,749**	3,671
Hedging derivatives	11	**1,444**	2,131	**811**	1,238
Deposits and other borrowings	26	**353,232**	336,188	**272,833**	251,083
Liability on acceptances		**12,549**	16,891	**12,536**	16,887
Life policy liabilities	27	**54,354**	47,314	**-**	-
Current tax liabilities	28	**-**	382	**-**	-
Provisions	29	**1,445**	1,555	**944**	1,064
Due to controlled entities		**-**	-	**36,760**	43,106
Bonds, notes and subordinated debt	30	**93,203**	90,792	**83,559**	78,438
Other debt issues	31	**2,502**	2,627	**1,940**	1,963
Defined benefit pension scheme liabilities	32	**522**	584	**-**	-
External unitholders' liability		**10,241**	7,458	**-**	-
Deferred tax liabilities	28	**19**	793	**30**	594
Other liabilities	33	**19,401**	14,021	**14,200**	9,065
Total liabilities		**646,998**	616,285	**499,102**	474,373
Net assets		**38,954**	37,835	**38,527**	36,928
Equity					
Contributed equity	34	**23,551**	22,781	**22,260**	21,351
Reserves	35	**(639)**	(976)	**1,087**	75
Retained profits	36	**16,028**	16,010	**15,180**	15,502
Total equity (parent entity interest)		**38,940**	37,815	**38,527**	36,928
Non-controlling interest in controlled entities		**14**	20	**-**	-
Total equity		**38,954**	37,835	**38,527**	36,928

Cash flow statement

For the year ended 30 September	Note	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Cash flows from operating activities					
Interest received		**28,499**	31,600	**24,684**	25,060
Interest paid		**(16,299)**	(20,406)	**(15,657)**	(17,193)
Dividends received		**16**	7	**870**	1,276
Life insurance					
Premiums and other revenue received		**8,859**	8,564	**-**	-
Investment revenue received		**2,376**	1,614	**-**	-
Policy and other payments		**(6,275)**	(7,030)	**-**	-
Fees and commissions paid		**(483)**	(400)	**-**	-
Net trading revenue received		**233**	1,223	**162**	348
Other operating income received		**4,679**	3,873	**2,744**	3,115
Cash payments to employees and suppliers					
Personnel expenses paid		**(4,256)**	(3,979)	**(2,807)**	(2,642)
Other operating expenses paid		**(3,654)**	(3,877)	**(2,197)**	(2,171)
Net goods and services tax paid		**(32)**	(30)	**(40)**	(6)
Cash payments for income taxes		**(1,186)**	(1,419)	**(990)**	(1,082)
Cash flows from operating activities before changes in operating assets and liabilities		**12,477**	9,740	**6,769**	6,705
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with and withdrawal of deposits from supervisory central banks that are not part of cash equivalents		**(24)**	(20)	**(19)**	(15)
Net payments for and receipts from transactions in acceptances		**1,023**	(864)	**1,023**	(864)
Net funds advanced to and receipts from customers for loans and advances		**(14,744)**	(11,018)	**(12,852)**	(11,381)
Net acceptance from and repayment of deposits and other borrowings		**26,620**	25,459	**26,963**	21,982
Net movement in life insurance business investments		**(2,141)**	(1,625)	**-**	-
Net movement in other life insurance assets and liabilities		**(311)**	(701)	**-**	-
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		**(360)**	(845)	**(36)**	(311)
Net payments for and receipts from transactions in trading securities		**(6,138)**	(405)	**(4,223)**	(973)
Net payments for and receipts from trading derivatives		**1,278**	3,211	**1,567**	2,631
Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value		**(7,446)**	(4,219)	**(9,869)**	(3,012)
Net receipts from and payments for hedging derivative liabilities and other financial liabilities at fair value		**(744)**	(391)	**(1,293)**	471
Net increase in other assets		**(2,025)**	(1,819)	**(2,856)**	(1,481)
Net decrease in other liabilities		**(1,600)**	(3,802)	**(3,006)**	(3,299)
Net cash provided by operating activities	40(a)	**5,865**	12,701	**2,168**	10,453
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(19,994)**	(22,648)	**(17,289)**	(18,781)
Proceeds from disposal		**1,130**	618	**66**	74
Proceeds on maturity		**12,743**	18,624	**12,459**	18,430
Movement in investments - held to maturity					
Purchases		**(24,466)**	(19,410)	**(24,460)**	(18,246)
Proceeds on maturity		**27,984**	20,177	**25,507**	17,262
Net movement in amounts due from controlled entities		**-**	-	**(4,724)**	(1,306)
Net movement in shares in controlled entities		**-**	-	**(1,915)**	(188)
Purchase of controlled entities and business combinations, net of cash acquired	40(d)	**(4,994)**	194	**-**	-
Purchase of property, plant, equipment and software		**(797)**	(951)	**(511)**	(466)
Proceeds from sale of property, plant, equipment and software, net of costs		**26**	208	**-**	-
Net cash used in investing activities		**(8,368)**	(3,188)	**(10,867)**	(3,221)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(18,326)**	(33,287)	**(16,284)**	(27,846)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**27,303**	30,600	**26,800**	27,773
Proceeds from issue of ordinary shares, net of costs		**-**	5,913	**-**	5,913
Proceeds from issue of BNZ Income Securities 2, net of costs		**-**	203	**-**	-
Proceeds from other debt issues, net of costs		**-**	1,082	**-**	1,082
Dividends and distributions paid (excluding dividend reinvestment plan)		**(2,500)**	(1,742)	**(2,355)**	(1,585)
Net cash provided by financing activities		**6,477**	2,769	**8,161**	5,337
Net increase/(decrease) in cash and cash equivalents		**3,974**	12,282	**(538)**	12,569
Cash and cash equivalents at beginning of year		**24,154**	12,789	**18,233**	5,771
Effects of exchange rate changes on balance of cash held in foreign currencies		**(2,445)**	(917)	**(2,069)**	(107)
Cash and cash equivalents at end of year	40(b)	**25,683**	24,154	**15,626**	18,233

Statement of changes in equity

Group	Contributed equity $m	Reserves [2] $m	Retained profits [3] $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2009						
Balance at 1 October 2008	14,731	549	17,510	32,790	56	**32,846**
Net profit for the year	-	-	2,589	2,589	-	**2,589**
Other comprehensive income for the year	-	(1,432)	(810)	(2,242)	-	**(2,242)**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	7,460	-	-	7,460	-	**7,460**
Transfer from equity-based compensation reserve						
- issued shares	267	(267)	-	-	-	**-**
Transfer from equity-based compensation reserve						
- purchased shares	86	(86)	-	-	-	**-**
Net loss realised on treasury shares	(114)	-	-	(114)	-	**(114)**
Movement in treasury shares relating to life insurance business	148	-	-	148	-	**148**
Issue of BNZ Income Securities 2	203	-	-	203	-	**203**
Transfer from/(to) retained profits	-	7	(7)	-	-	**-**
Equity-based compensation	-	244	-	244	-	**244**
Tax on equity-based compensation	-	6	-	6	-	**6**
Dividends paid	-	-	(2,978)	(2,978)	-	**(2,978)**
Distributions on other equity instruments	-	-	(245)	(245)	-	**(245)**
Adjustment from adoption of new Accounting Standards	-	-	(49)	(49)	-	**(49)**
Other	-	3	-	3	-	**3**
Changes in ownership interests [1]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(36)	**(36)**
Balance at 30 September 2009	**22,781**	**(976)**	**16,010**	**37,815**	**20**	**37,835**
Year to 30 September 2010						
Net profit for the year	-	-	4,224	4,224	1	**4,225**
Other comprehensive income for the year	-	(612)	(92)	(704)	-	**(704)**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	808	-	-	808	-	**808**
Transfer from equity-based compensation reserve						
- issued shares	84	(84)	-	-	-	**-**
Transfer from equity-based compensation reserve						
- purchased shares	17	(17)	-	-	-	**-**
Net loss realised on treasury shares	(6)	-	-	(6)	-	**(6)**
Movement in treasury shares relating to life insurance business	(133)	-	-	(133)	-	**(133)**
Transfer from/(to) retained profits	-	841	(841)	-	-	**-**
Equity-based compensation	-	213	-	213	-	**213**
Tax on equity-based compensation	-	(4)	-	(4)	-	**(4)**
Dividends paid	-	-	(3,039)	(3,039)	-	**(3,039)**
Distributions on other equity instruments	-	-	(215)	(215)	-	**(215)**
Adjustment from adoption of new Accounting Standards	-	-	(19)	(19)	-	**(19)**
Changes in ownership interests [1]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(7)	**(7)**
Balance at 30 September 2010	**23,551**	**(639)**	**16,028**	**38,940**	**14**	**38,954**

[1] *Change in ownership interests in controlled entities that does not result in a loss of control.*

[2] *Refer to Note 35 for further details.*

[3] *Refer to Note 36 for further details.*

Statement of changes in equity (continued)

Company	Contributed equity $m	Reserves [1] $m	Retained profits [2] $m	Total $m	Total equity $m
Year to 30 September 2009					
Balance at 1 October 2008	13,538	345	14,689	28,572	**28,572**
Net profit for the year	-	-	4,035	4,035	**4,035**
Other comprehensive income for the year	-	(167)	(6)	(173)	**(173)**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	7,460	-	-	7,460	**7,460**
Transfer from equity-based compensation reserve					
- issued shares	267	(267)	-	-	**-**
Transfer from equity-based compensation reserve					
- purchased shares	86	(86)	-	-	**-**
Transfer to retained profits	-	-	-	-	**-**
Equity-based compensation	-	244	-	244	**244**
Tax on equity-based compensation	-	6	-	6	**6**
Dividends paid	-	-	(3,009)	(3,009)	**(3,009)**
Distributions on other equity instruments	-	-	(116)	(116)	**(116)**
Adjustment from adoption of new Accounting Standards	-	-	(49)	(49)	**(49)**
Other	-	-	(42)	(42)	**(42)**
Balance at 30 September 2009	**21,351**	**75**	**15,502**	**36,928**	**36,928**
Year to 30 September 2010					
Net profit for the year	-	-	3,550	3,550	**3,550**
Other comprehensive income for the year	-	211	3	214	**214**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	808	-	-	808	**808**
Transfer from equity-based compensation reserve					
- issued shares	84	(84)	-	-	**-**
Transfer from equity-based compensation reserve					
- purchased shares	17	(17)	-	-	**-**
Transfer (to)/from retained profits	-	693	(693)	-	**-**
Equity-based compensation	-	213	-	213	**213**
Tax on equity-based compensation	-	(4)	-	(4)	**(4)**
Dividends paid	-	-	(3,056)	(3,056)	**(3,056)**
Distributions on other equity instruments	-	-	(107)	(107)	**(107)**
Adjustment from adoption of new Accounting Standards	-	-	(19)	(19)	**(19)**
Balance at 30 September 2010	**22,260**	**1,087**	**15,180**	**38,527**	**38,527**

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

(2) *Refer to Note 36 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 during the year (Group) for the year ended 30 September 2010 was authorised for issue in accordance with a resolution of the directors on 15 November 2010.

(a) Basis of preparation

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

The preparation of financial statements in conformity with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date, (e.g. the calculation of provisions for doubtful debts, defined benefit pensions and fair value adjustments), are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Comparative amounts have been reclassified to accord with changes in presentations made in 2010, except where otherwise stated. Certain key terms used in this financial report are defined in the glossary.

(b) Statement of compliance

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

Amendments to the *Corporations Act* 2001(Cth) remove the requirement to provide parent entity financial statements in favour of a note to the financial statements containing limited financial information about the Company. As a holder of an Australian Financial Services licence, the Group is required to continue to present parent entity financial statements under Chapter 7 of the *Corporations Act* 2001 (Cth). Australian Securities and Investments Commission Class Order 10/654 permits entities to continue to include parent entity financial statements in their financial reports.

(c) Recently issued accounting standards

(i) New Standards and Interpretations issued and effective

The Group has adopted the following AASB Accounting Standards, Amending Pronouncements and Interpretations which are mandatory and applicable from 1 October 2009. None of the Accounting Standards, Amending Pronouncements and Interpretations have had a material impact on earnings per share.

- AASB 3 "Business Combinations" (revised 2008) and AASB 2008-3 "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127" are applicable for business combinations occurring from 1 October 2009. The revised accounting policy is outlined in *Note 1(v)* and has been applied prospectively*;*
- AASB 127 "Consolidated and Separate Financial Statements" (revised 2008) is applicable for the acquisition of non-controlling interests from 1 October 2009. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no additional goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in net assets acquired at the date of exchange. The change in accounting policy was applied prospectively;
- AASB 101 "Presentation of Financial Statements", AASB 2007-8 "Amendments to Australian Accounting Standards arising from AASB 101", AASB 2007-10 "Further Amendments arising from AASB 101" and AASB 2009-6 "Amendments to Australian Accounting Standards" are applicable from 1 October 2009. As a result, the Group presents owner changes in equity in the statement of changes in equity and non owner changes in equity separately in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense which are not recognised in the income statement as required or permitted by other Accounting Standards. Comparative information has been re-presented so that it conforms with the revised requirements;
- AASB 2009-2 "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments" is applicable from 1 October 2009 and requires enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments. The amendments require that fair value measurement disclosures use a three-level fair value hierarchy reflecting the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. Revised disclosures in respect of fair values of financial instruments are included in *Note 44* and revised disclosures in respect of liquidity risk are included in *Note 43;*
- AASB 2008-1 "Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations" amends AASB 2 to clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share based payment transaction are not vesting conditions. The amendments clarify that all cancellations should receive the same accounting treatment;
- AASB 2008-2 "Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations Arising on Liquidation" amends AASB 101 and AASB 132 to introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments that impose an obligation to deliver a pro-rata share of net assets to holders only upon liquidation;
- AASB 2008-5 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" and AASB 2008-6 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" detail numerous changes to Accounting Standards arising from the IASB's annual improvements project;

1 Principal accounting policies (continued)

- AASB 2008-7 "Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" amends AASB 118, AASB 127 and AASB 136. AASB 118 is amended to remove the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. AASB 127 is amended to require a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of equity of the original parent;
- AASB 2008-8 "Amendments to Australian Accounting Standards - Eligible Hedged Items" amends AASB 139 to clarify how the principles, that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item, should be applied in particular situations;
- AASB 2009-4 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" makes consequential amendments to AASB 2, AASB 138 and Interpretation 9 arising from the revision of AASB 3. It also amends the restriction on the entity that can hold hedging instruments in Interpretation 16;
- AASB 2009-7 "Amendments to Australian Accounting Standards" makes editorial amendments to AASB 5, AASB 7, AASB 139 and Interpretation 17 resulting from the issue of AASB 2008-12 and AASB 2008-13;
- AASB 2008-13 "Amendments to Australian Accounting Standards arising from AASB Interpretation 17 - Distributions of Non-cash Assets to Owners" and Interpretation 17 "Distributions of Non-cash Assets to Owners" clarifies that a non-cash dividend payable to owners should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. An entity should measure the dividend payable at the fair value of the net assets to be distributed. An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in the income statement.

(ii) Early adoptions

The Group has not elected to early adopt any Accounting Standards or Amending Pronouncements in the current year.

(iii) New Standards and Interpretations issued but not yet effective

The following Accounting Standards, Amending Pronouncements and Interpretations have been identified as those which may impact the Group in the period of initial adoption. They are available for early adoption at 30 September 2010, but have not been applied in preparing this financial report.

- AASB 9 "Financial Instruments" and AASB 2009-11 "Amendments to Australian Accounting Standards arising from AASB 9" will be applicable to the Group for the year commencing 1 October 2013 and addresses the classification and measurement of financial assets. The Group is yet to assess the potential impact of the standard, although changes are likely to significantly affect the Group's accounting for its financial assets.

Other Accounting Standards, Amending Pronouncements and Interpretations include:

- AASB 124 "Related Party Disclosures" (revised 2009) and AASB 2009-12 "Amendments to Australian Accounting Standards" clarifies the definition of a related party;
- AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" makes non-urgent amendments to several Accounting Standards arising from the 2009 annual improvements project;
- AASB 2009-8 "Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions" clarifies the scope of AASB 2 and supersedes Interpretation 8 and 11;
- AASB 2009-10 "Amendments to Australian Accounting Standards - Classification of Rights Issues" clarifies that the rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own derivative equity instruments;
- AASB 2009-14 "Amendments to Australian Interpretation - Prepayment of a Minimum Funding Requirement" makes amendments to Interpretation 14 which requires entities to recognise as an economic benefit any prepayment of future funding requirements contributions.
- AASB 2010-3 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" and AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" make non-urgent amendments to several Accounting Standards arising from the 2010 annual improvements project, including amendments to AASB 7.

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

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

Entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation.

External interest in the equity and results of the entities that are controlled by the Company are shown as a separate item in the equity section of the consolidated balance sheet and is titled non-controlling interest in controlled entities.

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

1 Principal accounting policies (continued)

investment schemes. External interest in the units and results of the managed investment schemes that are controlled by the statutory funds is shown as a separate item in the liability section of the consolidated balance sheet and is titled external unitholders' liability.

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

(ii) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. 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) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the income statement. Such gains and losses will be deferred in equity as qualifying cash flow hedges and qualifying net investment hedges where applicable. Non monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Controlled entities

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

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

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

(h) Fair value measurement

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

Where the classification of a financial asset or liability requires it to be 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 such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analyses, option pricing models and other valuation techniques based on market conditions and risks existing at balance date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

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

(i) 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 and subsequently measured at amortised cost.

(j) Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as deposits with other banks or cash and cash equivalents. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements unless they are sold to third parties in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value as a trading liability.

(k) 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.

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.

1 Principal accounting policies (continued)

Financial assets and liabilities are offset and the net amount is presented in the balance sheet, when, and only 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.

(l) Derivative financial instruments and hedge accounting

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.

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); or
- hedges of net investments in foreign operations.

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

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

(i) Fair value hedges

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

(ii) Cash flow hedges

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(iii) Net investment hedges

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

(iv) Derivatives that do not qualify for hedge accounting

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

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

In both of these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(m) 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 at initial recognition. Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a financial asset is held at fair value, the movement in fair value attributable to changes in credit risk is calculated by determining the changes in credit spreads above observable market interest rates, established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risk.

Where a financial liability is held at fair value, 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.

(i) 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.

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

Upon initial recognition, financial instruments may be designated as held at fair value through profit or loss. Restrictions are placed on the

1 Principal accounting policies (continued)

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

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

(iii) Assets relating to life insurance businesses

Refer to Note 1(p) for further details.

(n) Investments - available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of fair value through profit 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. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until sale when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated change in fair value within the available for sale investments reserve is recognised in the income statement.

(o) Investments - held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus directly attributable transaction costs and subsequently recorded 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 not close to their maturity would result in a reclassification of all held to maturity investments as available for sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

(p) Assets relating to life insurance businesses

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

(i) Assets backing policy liabilities

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

(ii) Restrictions on assets

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

(q) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus directly attributable transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, net of any provision for doubtful debts.

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

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

(r) Impairment

(i) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets that is 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 balance sheet date (a loss event) and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such

1 Principal accounting policies (continued)

judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

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

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

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

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

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured. Such accounts 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 security below its cost to determine whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for other financial assets 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 securities classified as available for sale are recognised in the income statement. Reversals of impairment of equity instruments classified as available for sale are not recognised in the income statement, but rather directly in equity.

(ii) 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 create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

(s) Acceptances

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

(t) Property, plant and equipment

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

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

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

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

- buildings - 3.3%;
- leasehold improvements - up to 10%;
- furniture, fixtures and fittings and other equipment - from 10% to 20%;
- motor vehicles - 20%;
- personal computers - 33.3%;
- other data processing equipment - from 20% to 33.3%; and
- major core infrastructure assets 14.3%.

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

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

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

(u) Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an 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. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the

1 Principal accounting policies (continued)

use of the underlying asset. At inception or upon reassessment of the 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. If the Group concludes for a finance lease that it is impracticable to separate the amounts reliably, an asset and a liability is recognised at an amount equal to the fair value of the underlying asset. 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

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

Assets leased under operating leases are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease 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) 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 values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are expensed as incurred.

When a non-controlling interest is present in an entity which the Group gains controls of, this is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. This choice is applied on a transaction by transaction basis. Any put and call instruments transacted concurrently with the business combination to acquire the remaining non-controlling interest are assessed to determine whether there is creation of a forward purchase agreement to acquire the remaining outstanding equity at a future date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised either in the income statement or in equity depending on the nature of the payment.

(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 at each reporting date, 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 that 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 usually amortised on a straight-line basis over their expected useful lives which are between three and seven 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 they are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives which varies from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

(x) Investment property

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

(y) Due to other banks

Due to other banks includes deposits, vostro balances, repurchase agreements and settlement account balances due to other banks. These items are brought to account at the gross value of the

1 Principal accounting policies (continued)

outstanding balance. Due to other banks are initially recognised at fair value 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 funds raised publicly by borrowing corporations. Deposits and other borrowings are initially recognised at fair value and subsequently measured at amortised cost.

(aa) Life policy liabilities

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 1.04 "Valuation of Policy Liabilities" issued by the Australian Prudential Regulation Authority (APRA).

(i) Life insurance contracts

Policy liabilities from insurance contracts are measured predominantly using the projection method which is the net present value of estimated future policy cash flows. Future cash flows incorporate investment income, premiums, expenses, redemptions and benefit payments (including bonuses). The accumulation method may be used only where the result would not be materially different to the projection method.

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

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

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

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

(ii) Life investment contracts

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

(bb) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and it can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

(i) Operational risk events

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

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

(ii) Restructuring costs

Provisions for restructuring costs include provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that it has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. Provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities and future operating losses are not provided for.

(cc) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

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

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

(dd) Employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation, based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases.

1 Principal accounting policies (continued)

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. If the benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

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

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

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

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

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

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

(ee) Trustee and funds management activities

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

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

(ff) Securitisation

Through its loan securitisation programme, 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 programme have been met. The Group is considered to hold the majority of the residual risks and benefits within the vehicles and all relevant financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction.

In addition to its loan securitisation programme, 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.

(gg) Income tax

Income tax expense (or revenue) is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it related to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are realised simultaneously.

Deferred tax assets 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.

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

For life insurance business, taxation is not based on the concept of profit. Special legislative provisions apply to tax policyholders and

Notes to the financial statements

1 Principal accounting policies (continued)

shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

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

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

Tax consolidation

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

Current tax expense/income and deferred tax assets and liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to/receivable from other entities in the tax-consolidated group under the tax funding arrangement. The inter-entity payable/receivable is at call. 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 tax authorities.

(hh) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included within other assets or other liabilities. Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

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

Bonds, notes and subordinated debt and other debt issues are short and long-term debt issues of the Group including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues. Debt issues are typically recorded at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Interest is charged to the income statement using the effective interest method. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument. These embedded derivative instruments are recorded at fair value with gains and losses on the embedded derivative recorded in the income statement.

In certain limited circumstances the Group applies the fair value measurement option to bonds, notes and subordinated debt issues and other debt issues. This option is applied to debt issues where an accounting mismatch is significantly reduced or eliminated that would occur if the debt was measured on another basis. Where debt issues are classified as held at fair value through profit and loss, they are initially recognised at fair value, with transaction costs recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses recognised in the income statement as they arise.

(jj) Contributed equity

In accordance with the *Corporations Act* 2001 (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are 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.

(kk) 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 part of income.

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

(ll) Reserves

(i) General reserve

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

(ii) Asset revaluation reserve

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

(iii) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

Notes to the financial statements

1 Principal accounting policies (continued)

(iv) Cash flow hedge reserve

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

(v) Equity-based compensation reserve

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

Share capital tainting rules contained in the Australian tax legislation apply prospectively from 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, NAB received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of NAB's share capital account for tax purposes (i.e. no adverse taxation consequences).

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

(vi) General reserve for credit losses

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-distribution reserves. The general reserve for credit losses must be freely available to meet any credit losses that subsequently materialise.

(mm) Income and expense recognition

Revenue is recognised and 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.

(nn) Interest income

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

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

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

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

(oo) Life insurance business

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

(i) Types of business

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

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

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is 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).

(ii) Allocation of profit

Life insurance contracts

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

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

1 Principal accounting policies (continued)

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

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

Life investment contracts

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

(iii) Premium and related revenue

Life insurance contracts

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

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

Life investment contracts

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

(iv) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income. Net realised profits and losses and changes in the measurement of fair values in respect of all investments recognised at fair value are recognised in the income statement in the period in which they occur.

(v) Claims expense

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

- **Life insurance contracts**
  Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.
- **Life investment contracts**
  Claims incurred in respect of investment contracts, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

(vi) Basis of expense apportionment

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

- expenses and other outgoings that relate specifically to a particular statutory fund are directly charged to that fund; and
- expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) 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 commissions, policy counts, funds under management and benchmark profit.

Investment income, profits and losses on sale of property, plant and equipment, profits and losses on sale of investments, and appreciation and depreciation of investments are directly credited or charged to the appropriate statutory fund or shareholders' fund.

(vii) Deferred acquisition costs

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

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

(pp) 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.

(qq) 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.

1 Principal accounting policies (continued)

(rr) 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; and
- other financial assets and liabilities designated at fair value through profit and loss.

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

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

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

(ss) Equity-based compensation

The Group provides equity-based compensation to its employees in respect of services received. The value of the services received is measured by reference to the grant date fair value of the shares, performance options or performance rights provided to employees.

The fair value expense of each tranche of shares, performance options or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the services are received by the Group (the vesting period), with a corresponding increase in reserves. The fair value of share plans granted is generally determined by reference to the weighted average Company share price in the week up to, and including, the date on which the shares were granted. Existing employee share plans are linked to internal performance or service conditions and vest when these conditions are satisfied.

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

The key assumptions and inputs for the valuation model are the exercise price of the performance option or performance right, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model.

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

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

2 Segment information

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

The Group's business is organised into eight reportable segments: Business Banking provides commercial banking services to business customers; Personal Banking provides services to retail customers and small businesses; Wholesale Banking is a global division, with key lines of business comprising Global Markets, Treasury, Specialised Finance, Financial Institutions and Asset Servicing; UK Banking and NZ Banking offer a range of banking services in these geographies; MLC & NAB Wealth provides investments, insurance, financial advice and private wealth services; Great Western Bank (GWB) offers a range of traditional banking and wealth management products throughout seven Midwest states of the United States; Specialised Group Assets comprises non-franchise assets. The Group's Corporate Functions & Other are Group Funding, Group Business Services, other supporting units and Asia Banking which are not considered to be separate reportable operating segments.

The accounting policies of the reportable segments are consistent with those described in *Note 1*.

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

Major customers

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

Operating segments

Year ended 30 September 2010	Business Banking $m	Personal Banking $m	Wholesale Banking $m	UK Banking $m	NZ Banking $m	MLC & NAB Wealth $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Group Cash Earnings $m
Net interest income	4,664	2,501	1,189	1,665	978	295	245	178	573	-	12,288
Other operating income	955	604	739	452	351	34	72	(268)	16	(117)	2,838
MLC & NAB Wealth net operating income	-	-	-	-	-	1,512	-	-	-	-	1,512
Net operating income	5,619	3,105	1,928	2,117	1,329	1,841	317	(90)	589	(117)	16,638
Operating expenses	(1,714)	(1,700)	(914)	(1,232)	(581)	(1,114)	(152)	(51)	(521)	117	(7,862)
Underlying profit	3,905	1,405	1,014	885	748	727	165	(141)	68	-	8,776
Charge to provide for doubtful debts	(791)	(347)	(45)	(601)	(148)	(9)	(54)	(268)	-	-	(2,263)
Cash earnings before tax [(1)]	3,114	1,058	969	284	600	718	111	(409)	68	-	6,513
Income tax expense	(921)	(315)	(264)	(80)	(184)	(169)	(37)	147	46	-	(1,777)
Cash earnings after tax [(2)]	2,193	743	705	204	416	549	74	(262)	114	-	4,736
Net profit - non-controlling interest	-	-	-	-	-	(1)	-	-	-	-	(1)
Investment earnings on shareholders' retained profits	-	-	-	-	-	61	-	-	-	-	61
Distributions	-	-	-	-	-	-	-	-	-	(215)	(215)
Cash earnings	2,193	743	705	204	416	609	74	(262)	114	(215)	4,581

(1) *Cash earnings before tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

(2) *Cash earnings after tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

2 Segment information (continued)

Year ended 30 September 2009	Business Banking $m	Personal Banking $m	Wholesale Banking $m	UK Banking $m	NZ Banking $m	MLC & NAB Wealth $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Group Cash Earnings $m
Net interest income	4,305	2,468	1,467	1,866	947	286	196	220	317	-	12,072
Other operating income	917	807	1,377	669	391	58	56	(469)	57	(97)	3,766
MLC & NAB Wealth net operating income	-	-	-	-	-	1,068	-	-	-	-	1,068
Net operating income	5,222	3,275	2,844	2,535	1,338	1,412	252	(249)	374	(97)	16,906
Operating expenses	(1,645)	(1,574)	(898)	(1,417)	(589)	(842)	(122)	(95)	(495)	97	(7,580)
Underlying profit	3,577	1,701	1,946	1,118	749	570	130	(344)	(121)	-	9,326
Charge to provide for doubtful debts	(1,316)	(482)	(345)	(892)	(154)	(18)	(19)	(488)	(101)	-	(3,815)
Cash earnings before tax [(1)]	2,261	1,219	1,601	226	595	552	111	(832)	(222)	-	5,511
Income tax expense	(662)	(344)	(455)	(64)	(173)	(139)	(38)	255	169	-	(1,451)
Cash earnings after tax [(2)]	1,599	875	1,146	162	422	413	73	(577)	(53)	-	4,060
Net profit - non-controlling interest	-	-	2	-	-	(2)	-	-	-	-	-
Investment earnings on shareholders' retained profits	-	-	-	-	-	26	-	-	-	-	26
Distributions	-	-	-	-	-	-	-	-	-	(245)	(245)
Cash earnings	1,599	875	1,148	162	422	437	73	(577)	(53)	(245)	3,841

(1) *Cash earnings before tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

(2) *Cash earnings after tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

Reportable segment assets	Business Banking $m	Personal Banking $m	Wholesale Banking $m	UK Banking $m	NZ Banking $m	MLC & NAB Wealth $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Total Assets $m
Year ended 30 September 2010	187,115	118,850	196,046	72,691	43,958	92,433	8,570	12,572	8,525	(54,808)	685,952
Year ended 30 September 2009	180,690	99,005	194,135	78,134	47,949	80,480	5,927	17,380	16,095	(65,675)	654,120

2 Segment information (continued)

Reconciliations between reportable segments and statutory results:

The tables below reconcile the information in the reportable segment tables presented above, which have been prepared on an ongoing cash earnings basis, to the relevant statutory information presented in the financial report. In addition to the sum of the eight reportable segments, the ongoing cash earnings basis includes the Group's Corporate Functions & Other segment and intra group eliminations. The MLC & NAB Wealth net adjustment represents income included from management results for the MLC & NAB Wealth business.

	Group	
	2010	2009
	$m	$m
Net interest income		
Net interest income for reportable segments	**12,288**	12,072
MLC & NAB Wealth net adjustment	**(32)**	(4)
Net interest income	**12,256**	12,068
Total other operating and MLC & NAB Wealth income		
Other operating income	**2,838**	3,766
MLC & NAB Wealth net operating income	**1,512**	1,068
Total other operating and MLC & NAB Wealth income [(1)]	**4,350**	4,834
MLC & NAB Wealth net adjustment	**190**	307
Treasury shares	**133**	(311)
Fair value and hedge ineffectiveness	**(501)**	(115)
Gain on bargain purchase	**4**	-
Investment earnings on shareholders' retained profits discount rate variation	**48**	(6)
Recovery on synthetic collateralised debt obligation (SCDO) risk mitigation trades	**528**	-
Total other operating and MLC & NAB Wealth income	**4,752**	4,709

[(1)] *Includes distributions.*

Total operating expenses		
Total operating expenses for operating segments	**7,862**	7,580
MLC & NAB Wealth net adjustment	**29**	(42)
Efficiency, quality and service initiatives	**339**	254
Litigation expense	**18**	157
Provision for tax on NZ structured finance transactions	**4**	5
Property revaluation	**7**	-
Amortisation of acquired intangible assets	**101**	7
Due diligence, acquisition and integration costs	**181**	18
Total operating expenses	**8,541**	7,979
Charge to provide for doubtful debts		
Provision for doubtful debts cash earnings	**2,263**	3,815
Impairment charges on conduit assets	**528**	-
Charge to provide for doubtful debts	**2,791**	3,815
Income tax expense		
Income tax expense - ongoing	**1,777**	1,451
Income tax expense/(benefit) on non-cash earnings items:		
MLC & NAB Wealth net adjustment	**68**	319
Treasury shares	**27**	(55)
Fair value and hedge ineffectiveness	**(148)**	(36)
Investment earnings on shareholders' retained profits discount rate variation	**14**	(2)
Efficiency, quality and service initiatives	**(102)**	(75)
Litigation expense	**(6)**	(47)
Property revaluation	**(3)**	-
Provision for tax on NZ structured finance transactions	**(132)**	537
MLC reinsurance dispute	**36**	-
Amortisation of acquired intangible assets	**(24)**	(1)
ExCaps taxation assessment	**-**	309
Due diligence, acquisition and integration costs	**(56)**	(6)
Total income tax expense	**1,451**	2,394
Investment earnings on shareholders' retained profits		
Investment earnings on shareholders' retained profits	**61**	26
MLC & NAB Wealth net adjustment	**(61)**	(26)
Total investment earnings on shareholders' retained profits	**-**	-

2 Segment information (continued)

	Group 2010 $m	Group 2009 $m
Distributions and non-controlling interest in controlled entities		
Distributions and non-controlling interest in controlled entities	**(216)**	(245)
Distributions	**215**	245
Net profit attributable to non-controlling interest in controlled entities	**(1)**	-
Cash earnings		
Group cash earnings - ongoing [1]	**4,581**	3,841
Non-cash earnings items (after tax):		
Distributions	**215**	245
Treasury shares	**106**	(256)
Fair value and hedge ineffectiveness	**(353)**	(79)
Investment earnings on shareholders' retained profits discount rate variation	**34**	(4)
Efficiency, quality and service initiatives	**(237)**	(179)
Litigation expense	**(12)**	(110)
Property revaluation	**(4)**	-
Provision for tax on NZ structured finance transactions	**128**	(542)
MLC reinsurance dispute	**(36)**	-
Amortisation of acquired intangible assets	**(73)**	(6)
ExCaps taxation assessment	**-**	(309)
Due diligence, acquisition and integration costs	**(125)**	(12)
Net profit attributable to owners of the Company	**4,224**	2,589

[1] Includes distributions.

	Group 2010 $m	Group 2009 $m
Reportable segment assets		
Total assets for reportable segments	**685,952**	654,120
Total assets	**685,952**	654,120

Geographical information

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

	Group			
	Revenue		Non-current assets [1]	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Australia	**12,590**	11,605	**6,976**	6,004
Europe	**2,447**	3,276	**1,162**	1,245
New Zealand	**1,283**	1,314	**511**	501
United States	**636**	564	**922**	880
Asia	**165**	151	**7**	6
Total before inter-geographic eliminations	**17,121**	16,910	**9,578**	8,636
Elimination of inter-geographic items	**(113)**	(133)	**-**	-
Total	**17,008**	16,777	**9,578**	8,636

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

3 Net interest income

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Interest income				
Due from other banks	**674**	1,155	**585**	883
Marketable debt securities [1]	**1,335**	2,320	**861**	1,195
Loans and advances [2]	**23,140**	23,426	**17,590**	16,639
Due from customers on acceptances	**3,919**	3,604	**3,919**	3,604
Due from controlled entities	**-**	-	**1,807**	1,985
Other interest income [3]	**756**	597	**740**	585
Total interest income	**29,824**	31,102	**25,502**	24,891
Interest expense				
Due to other banks and official institutions	**795**	1,272	**725**	1,041
Deposits and other borrowings [4]	**10,387**	11,530	**8,618**	8,284
Liability on acceptances	**1,122**	1,200	**1,122**	1,200
Bonds, notes and subordinated debt [5]	**4,936**	4,871	**4,502**	4,105
Due to controlled entities	**-**	-	**1,624**	1,549
Other debt issues	**148**	71	**138**	44
Other interest expense	**180**	90	**-**	-
Total interest expense	**17,568**	19,034	**16,729**	16,223
Net interest income	**12,256**	12,068	**8,773**	8,668

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

(2) *Includes $1,748 million (2009: $1,706 million) of interest income on loans and advances accounted for at fair value for the Group, and $606 million (2009: $207 million) for the Company.*

(3) *Includes interest income on impaired financial assets.*

(4) *Includes $199 million (2009: $451 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and $44 million (2009: $44 million) for the Company.*

(5) *Includes $255 million (2009: $239 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $2 million (2009: nil) for the Company.*

4 Other income

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Gains less losses on financial instruments at fair value				
Trading securities	**713**	551	**685**	556
Trading derivatives	**(387)**	(119)	**(218)**	631
Assets, liabilities and derivatives designated in hedge relationships [1]	**(308)**	(51)	**(348)**	43
Assets and liabilities designated at fair value [2]	**92**	435	**99**	(23)
Impairment of investments - available for sale	**(3)**	(52)	**-**	(57)
Other	**15**	(99)	**14**	(99)
Total gains less losses on financial instruments at fair value	**122**	665	**232**	1,051
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**862**	1,276
Other entities	**16**	7	**8**	-
Gains from sale of investments - available for sale	**28**	12	**13**	5
Gains from sale of loans and advances	**3**	-	**3**	-
Gains from sale of property, plant and equipment and other assets	**10**	25	**1**	-
Banking fees	**930**	1,018	**738**	825
Money transfer fees	**652**	693	**463**	499
Fees and commissions [3]	**1,733**	1,525	**438**	462
Investment management fees	**305**	338	**-**	-
Fleet management fees	**22**	18	**22**	18
Rentals received on leased vehicle assets	**19**	28	**8**	11
Revaluation gains/(losses) on investment properties	**6**	(15)	**-**	-
Other income	**93**	38	**390**	598
Total other operating income	**3,817**	3,687	**2,946**	3,694

(1) *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.*

(2) *The impact on net profit of assets and liabilities designated at fair value is this amount, offset by related gains less losses on derivatives reported within trading derivatives, consisting of $285 million loss (2009: $499 million loss) for the Group and $36 million loss (2009: $113 million gain) for the Company.*

(3) *Included in fees and commissions is $99 million (2009: $111 million) with respect to fee income from trust and other fiduciary activities for the Group, and $92 million (2009: $104 million) for the Company.*

5 Operating expenses

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Personnel expenses				
Salaries and related on-costs	**3,089**	3,020	**2,042**	1,986
Superannuation costs - defined contribution schemes	**235**	214	**177**	168
Superannuation costs - defined benefit schemes	**52**	11	**3**	4
Performance-based compensation				
Cash	**491**	413	**308**	313
Equity-based compensation	**208**	230	**147**	172
Other expenses	**569**	514	**402**	356
Total personnel expenses	**4,644**	4,402	**3,079**	2,999
Occupancy-related expenses				
Operating lease rental expense	**385**	372	**243**	234
Other expenses	**207**	183	**110**	84
Total occupancy-related expenses	**592**	555	**353**	318
General expenses				
Fee and commission expense	**275**	262	**53**	76
Depreciation and amortisation of property, plant and equipment	**304**	295	**204**	184
Amortisation of intangible assets	**357**	280	**158**	168
Depreciation on leased vehicle assets	**9**	9	**5**	5
Operating lease rental expense	**36**	30	**21**	16
Advertising and marketing	**228**	219	**154**	155
Charge to provide for operational risk event losses	**56**	209	**39**	195
Communications, postage and stationery	**300**	329	**161**	175
Computer equipment and software	**342**	316	**242**	226
Data communication and processing charges	**124**	140	**55**	65
Transport expenses	**71**	74	**57**	58
Professional fees	**460**	324	**206**	216
Travel	**98**	82	**60**	53
Losses on disposal of property, plant and equipment and other assets	**36**	18	**29**	8
Impairment losses recognised	**7**	19	**42**	31
Other expenses	**602**	416	**446**	236
Total general expenses	**3,305**	3,022	**1,932**	1,867
Charge to provide for doubtful debts				
Investments - held to maturity (1)	**555**	52	**555**	52
Loans and advances	**2,236**	3,763	**1,396**	2,631
Total charge to provide for doubtful debts	**2,791**	3,815	**1,951**	2,683

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

6 Income tax expense

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Total income tax expense				
Current tax	**1,514**	1,964	**1,123**	1,556
Deferred tax	**(63)**	430	**(37)**	(45)
Total income tax expense	**1,451**	2,394	**1,086**	1,511

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Profit before income tax expense	**5,676**	4,983	**4,636**	5,546
Deduct profit before income tax expense attributable to the life insurance statutory funds and their controlled trusts	**(690)**	(673)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	**4,986**	4,310	**4,636**	5,546
Prima facie income tax at 30%	**1,496**	1,293	**1,391**	1,664
Add/(deduct): Tax effect of amounts which are not deductible/(assessable)				
Assessable foreign income	**8**	8	**5**	5
Restatement of deferred tax balances for changes in UK and NZ tax rates	**5**	(5)	**-**	-
Depreciation on buildings not deductible	**3**	5	**-**	1
Impairment of ExCaps tax receivable	**-**	309	**-**	309
Tax provision for New Zealand structured finance tax case	**(66)**	339	**-**	-
Tax provision for interest on New Zealand structured finance tax case	**(66)**	200	**-**	-
Over provision in prior years	**(52)**	(54)	**(20)**	(5)
Foreign branch income not assessable	**(44)**	(65)	**(44)**	(65)
Foreign tax rate differences	**(15)**	13	**(3)**	27
Offshore banking unit income	**(14)**	(24)	**(14)**	(24)
Treasury shares adjustment	**(13)**	38	**-**	-
Investment allowance	**(5)**	(24)	**(5)**	(24)
Dividend income adjustments	**-**	(1)	**(251)**	(369)
Other	**(37)**	(43)	**27**	(8)
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	**1,200**	1,989	**1,086**	1,511
Income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**251**	405	**-**	-
Total income tax expense	**1,451**	2,394	**1,086**	1,511

Taxation of financial arrangements (TOFA)

The new Australian legislation for financial arrangements, TOFA, applies to the tax-consolidated group from 1 October 2010. The legislation aims to align the tax and accounting recognition and measurement of financial arrangements and their related flows. Elections on the application of this legislation will be made on 15 April 2011.

At this point in its assessment, the Group has identified no significant impact on the deferred tax and income tax balances at 30 September 2010.

Notes to the financial statements

7 Dividends and distributions

	Amount per share cents	Total amount $m	Franked amount per share %
Dividends recognised by the Company for the years shown below at 30 September:			
2010			
Final 2009 ordinary	**73**	**1,532**	**100**
Interim 2010 ordinary	**74**	**1,570**	**100**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(46)**	**n/a**
Total dividends paid		**3,056**	
2009			
Final 2008 ordinary	97	1,669	100
Interim 2009 ordinary	73	1,400	100
Deduct: Bonus shares in lieu of dividend	n/a	(60)	n/a
Total dividends paid		3,009	

Franked dividends declared or paid during the year or declared after year end were franked at a tax rate of 30% (2009: 30%).

Proposed final dividend

On 27 October 2010, the directors declared the following dividend:

Final 2010 ordinary	**78**	**1,664**	**100**

The final 2010 ordinary dividend is payable on 17 December 2010. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2010 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2010, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as receivable at balance date, are estimated to be $669 million (2009: $617 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $713 million (2009: $657 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax and any changes to the dividend imputation system as a result of the Australian Government's review of the Australian tax system.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.10 per share will be attached to the final 2010 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	
	2010 $m	2009 $m	**2010 $m**	2009 $m
National Income Securities	**107**	116	**107**	116
Trust Preferred Securities	**39**	48	**-**	-
Trust Preferred Securities II	**49**	60	**-**	-
National Capital Instruments	**20**	21	**-**	-
Total distributions on other equity instruments	**215**	245	**107**	116

Dividends on preference shares

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
BNZ Income Securities	**25**	25	**-**	-
BNZ Income Securities 2	**13**	3	**-**	-
Total dividends on preference shares	**38**	28	**-**	-

8 Earnings per share

	Group			
	2010		2009	
	Basic	**Diluted**	Basic	Diluted [1]
Earnings ($m)				
Net profit attributable to owners of the Company	**4,224**	**4,224**	2,589	2,589
Distributions on other equity instruments	**(253)**	**(253)**	(273)	(273)
Potential dilutive adjustments				
Interest expense on convertible notes (after tax)	**-**	**75**	-	-
Adjusted earnings	**3,971**	**4,046**	2,316	2,316
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,070,897**	**2,070,897**	1,876,821	1,886,054
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**3,065**	-	895
Partly paid ordinary shares	**-**	**118**	-	117
Employee share plans	**-**	**7,116**	-	4,211
Convertible notes	**-**	**41,589**	-	-
Total weighted average ordinary shares	**2,070,897**	**2,122,785**	1,876,821	1,891,277
Earnings per share (cents)	**191.8**	**190.6**	123.4	122.5

[1] *For the year ended 30 September 2009 the impact of convertible notes was not included in the diluted earnings per share because they were anti-dilutive.*

There have been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since 30 September 2010 and before the completion of this financial report.

9 Cash and liquid assets

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Coins, notes and cash at bank	**3,937**	2,026	**821**	766
Securities purchased under agreements to resell	**20,491**	21,217	**20,342**	21,130
Other (including bills receivable and remittances in transit)	**1,644**	2,591	**407**	1,541
Total cash and liquid assets	**26,072**	25,834	**21,570**	23,437

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $1,275 million (2009: $675 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

Cash collateral on securities borrowed and reverse repurchase agreements

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Cash collateral received on securities borrowed	**215**	3,098	**-**	-

As part of the reverse repurchase and securities borrowing agreements included within "Cash and liquid assets" and "Due from other banks" *(Note 10)*, the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2010 amounts to $34,890 million (2009: $42,186 million) for the Group and $34,795 million (2009: $42,086 million) for the Company, of which $6,717 million (2009: $2,590 million) for the Group and $6,717 million (2009: $2,590 million) for the Company has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short sale transactions.

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

10 Due from other banks

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Central banks and other regulatory authorities	**8,206**	6,632	**1,441**	669
Other banks	**29,473**	26,633	**28,661**	25,531
Total due from other banks	**37,679**	33,265	**30,102**	26,200

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related services and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. All positions held for trading purposes are revalued on a daily basis to reflect market movements, and any revaluation profit or loss is recognised immediately in the income statement. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for 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 or issued for the purposes of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors its non-trading interest rate risk by simulating future net interest income requirements by applying a range of possible future interest rate environments to its projected balance sheet.

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

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

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk and 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 the notional principal values:

Trading derivative financial instruments

	Group					
	Notional principal 2010 $m	**Fair value assets 2010 $m**	**Fair value liabilities 2010 $m**	Notional principal 2009 $m	Fair value assets 2009 $m	Fair value liabilities 2009 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**355,925**	**7,537**	**9,348**	373,777	8,072	9,640
Cross currency swaps	**326,291**	**10,605**	**10,848**	281,466	8,438	7,945
Options/swaptions purchased	**8,369**	**201**	**24**	12,862	267	8
Options/swaptions written	**5,771**	**16**	**207**	34,922	27	291
Total foreign exchange rate-related contracts	**696,356**	**18,359**	**20,427**	703,027	16,804	17,884
Interest rate-related contracts						
Forward rate agreements	**433,015**	**156**	**178**	399,595	171	205
Swaps	**1,294,015**	**18,138**	**18,744**	1,114,927	18,121	18,591
Futures	**954,229**	**264**	**99**	705,718	295	93
Options/swaptions purchased	**34,374**	**364**	**14**	36,854	344	3
Options/swaptions written	**28,349**	**71**	**383**	24,530	39	375
Total interest rate-related contracts	**2,743,982**	**18,993**	**19,418**	2,281,624	18,970	19,267
Credit derivatives	**30,351**	**563**	**336**	28,365	619	318
Commodity derivatives	**2,025**	**135**	**116**	3,222	245	230
Other derivatives	**3,001**	**290**	**290**	2,728	392	391
Total trading derivative financial instruments	**3,475,715**	**38,340**	**40,587**	3,018,966	37,030	38,090

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Group					
	Notional principal 2010 $m	**Fair value assets 2010 $m**	**Fair value liabilities 2010 $m**	Notional principal 2009 $m	Fair value assets 2009 $m	Fair value liabilities 2009 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**41,652**	**1,527**	**100**	34,570	1,905	104
Total foreign exchange rate-related contracts	**41,652**	**1,527**	**100**	34,570	1,905	104
Interest rate-related contracts						
Swaps	**42,610**	**1,088**	**494**	47,756	796	690
Total interest rate-related contracts	**42,610**	**1,088**	**494**	47,756	796	690
Total derivatives held for hedging - fair value hedges	**84,262**	**2,615**	**594**	82,326	2,701	794
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**108,300**	**1,097**	**850**	107,296	1,225	1,337
Total interest rate-related contracts	**108,300**	**1,097**	**850**	107,296	1,225	1,337
Total derivatives held for hedging - cash flow hedges	**108,300**	**1,097**	**850**	107,296	1,225	1,337
Total hedging derivative financial instruments	**192,562**	**3,712**	**1,444**	189,622	3,926	2,131

Trading derivative financial instruments

	Company					
	Notional principal 2010 $m	**Fair value assets 2010 $m**	**Fair value liabilities 2010 $m**	Notional principal 2009 $m	Fair value assets 2009 $m	Fair value liabilities 2009 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**335,543**	**7,206**	**8,739**	347,870	7,439	8,668
Cross currency swaps	**321,880**	**10,661**	**10,737**	284,076	8,498	7,638
Options/swaptions purchased	**9,550**	**196**	**51**	12,409	263	31
Options/swaptions written	**5,105**	**16**	**175**	34,440	27	268
Total foreign exchange rate-related contracts	**672,078**	**18,079**	**19,702**	678,795	16,227	16,605
Interest rate-related contracts						
Forward rate agreements	**431,558**	**155**	**178**	397,228	172	205
Swaps	**1,242,632**	**17,843**	**17,363**	1,095,197	18,177	17,665
Futures	**940,144**	**264**	**99**	695,886	295	93
Options/swaptions purchased	**35,824**	**425**	**20**	37,905	455	3
Options/swaptions written	**28,061**	**81**	**372**	24,158	8	377
Total interest rate-related contracts	**2,678,219**	**18,768**	**18,032**	2,250,374	19,107	18,343
Credit derivatives	**30,351**	**563**	**336**	28,365	619	318
Commodity derivatives	**2,035**	**133**	**114**	2,928	243	229
Other derivatives	**3,001**	**289**	**289**	2,728	391	392
Total trading derivative financial instruments	**3,385,684**	**37,832**	**38,473**	2,963,190	36,587	35,887

Notes to the financial statements

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Company					
	Notional principal 2010 $m	**Fair value assets 2010 $m**	**Fair value liabilities 2010 $m**	Notional principal 2009 $m	Fair value assets 2009 $m	Fair value liabilities 2009 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**38,880**	**900**	**95**	29,484	838	31
Total foreign exchange rate-related contracts	**38,880**	**900**	**95**	29,484	838	31
Interest rate-related contracts						
Swaps	**27,706**	**890**	**138**	26,900	462	246
Total interest rate-related contracts	**27,706**	**890**	**138**	26,900	462	246
Total derivatives held for hedging - fair value hedges	**66,586**	**1,790**	**233**	56,384	1,300	277
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**81,366**	**478**	**578**	72,515	585	961
Total interest rate-related contracts	**81,366**	**478**	**578**	72,515	585	961
Total derivatives held for hedging - cash flow hedges	**81,366**	**478**	**578**	72,515	585	961
Total hedging derivative financial instruments	**147,952**	**2,268**	**811**	128,899	1,885	1,238

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 impact the income statement in the following periods:

	Group						
As at 30 September 2010	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	1,974	1,069	494	291	186	243	4,257
Forecast payable cash flows	1,878	1,233	605	327	212	439	4,694

As at 30 September 2009	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	1,163	933	662	347	235	423	3,763
Forecast payable cash flows	2,067	1,557	1,133	572	386	791	6,506

	Company						
As at 30 September 2010	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	1,768	923	403	236	158	230	3,718
Forecast payable cash flows	1,420	965	470	243	169	438	3,705

As at 30 September 2009	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	1,007	779	537	296	213	416	3,248
Forecast payable cash flows	1,518	1,218	951	499	358	780	5,324

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Gains/(losses) on hedge ineffectiveness - cash flow hedges	**(3)**	(66)	**4**	(23)
Gains or losses arising from fair value hedges				
Gains/(losses)				
- on hedging instruments	**21**	1,696	**515**	93
- on the hedged items attributable to the hedged risk	**(95)**	(1,936)	**(575)**	(281)

12 Trading securities

	Group		Company	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m
Government bonds, notes and securities	**7,474**	5,136	**5,680**	2,689
Semi-government bonds, notes and securities	**3,907**	5,672	**3,907**	5,672
Corporate/financial institution bonds, notes and securities	**13,847**	11,314	**13,206**	10,764
Other bonds, notes and securities	**593**	97	**593**	85
Total trading securities	**25,821**	22,219	**23,386**	19,210

13 Investments - available for sale

	Group		Company	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m
Government bonds, notes and securities	**8,109**	3,891	**2,910**	-
Corporate/financial institution bonds, notes and securities	**3,909**	3,683	**3,837**	3,447
Other bonds, notes and securities	**2,554**	359	**2,218**	203
Total investments - available for sale	**14,572**	7,933	**8,965**	3,650

14 Investments - held to maturity

	Group		Company	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m
Government bonds, notes and securities	**806**	392	**800**	392
Corporate/financial institution bonds, notes and securities	**4,773**	6,765	**4,201**	4,809
Other bonds, notes and securities	**8,391**	10,542	**110**	-
Deduct: Provision for impairment	**(181)**	(170)	**-**	-
Total investments - held to maturity	**13,789**	17,529	**5,111**	5,201

Provision for impairment				
Balance at beginning of year	**170**	131	**-**	-
Charge to the income statement	**555**	52	**-**	-
Amounts written off	**(528)**	(2)	**-**	-
Foreign currency translation adjustments	**(16)**	(11)	**-**	-
Balance at end of year	**181**	170	**-**	-

15 Investments relating to life insurance business

	Group		Company	
	2010 **$m**	2009 $m	**2010** **$m**	2009 $m
Equity security investments				
Direct	**1,859**	497	**-**	-
Indirect	**39,631**	34,979	**-**	-
	41,490	35,476	**-**	-
Debt security investments				
Direct	**4,163**	2,147	**-**	-
Indirect	**15,826**	13,659	**-**	-
	19,989	15,806	**-**	-
Units held in property trusts				
Indirect	**3,081**	2,972	**-**	-
	3,081	2,972	**-**	-
Total investments relating to life insurance business	**64,560**	54,254	**-**	-

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

Investment assets held in statutory funds are not available for use by other parts of the Group's business *(refer to Note 1(p))*.

16 Other financial assets at fair value

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Loans	**36,700**	29,567	**13,984**	4,039
Securities	**-**	819	**-**	-
Other financial assets	**709**	1,144	**12**	304
Total other financial assets at fair value	**37,409**	31,530	**13,996**	4,343

Loans

The maximum credit exposure of loans included in other financial assets at fair value through profit or loss (designated on initial recognition) is $36,700 million (2009: $29,567 million) for the Group and $13,984 million (2009: $4,039 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a $471 million loss (2009: $345 million loss) for the Group and a $131 million loss (2009: $24 million loss) for the Company and the charge for the current year is a $296 million loss (2009: $216 million loss) for the Group and a $107 million loss (2009: $14 million loss) for the Company.

17 Loans and advances

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Overdrafts	**15,407**	16,196	**7,673**	7,039
Credit card outstandings	**7,427**	7,338	**5,517**	5,325
Asset and lease financing	**16,109**	17,350	**13,425**	13,860
Housing loans	**224,900**	202,538	**176,229**	158,201
Other term lending	**91,118**	100,258	**66,435**	73,769
Other lending	**6,642**	8,288	**5,809**	7,091
Total gross loans and advances	**361,603**	351,968	**275,088**	265,285
Deduct:				
Unearned income and deferred net fee income	**(2,494)**	(2,793)	**(1,985)**	(2,149)
Provision for doubtful debts [1]	**(4,274)**	(4,401)	**(3,296)**	(3,471)
Total net loans and advances	**354,835**	344,774	**269,807**	259,665

(1) *Refer to Note 18 for further details.*

As at 30 September 2010, there was $4,731 million (2009: $6,283 million) of loans sold or transferred within the Group under external securitisation programmes that do not qualify for derecognition from the balance sheet of the Company and Group. The loans do not qualify for derecognition because the Company and Group remain exposed to the risks and rewards of ownership on an ongoing basis. The Company and Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated into the Group.

The carrying amount of the associated liability within the Group, net of derivatives used to manage the currency risk associated with this liability, is $4,408 million (2009: $5,986 million).

Investment in finance lease receivables

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Due within one year	**2,870**	3,472	**2,153**	2,354
Due after one year but not later than five years	**4,386**	5,340	**3,113**	3,877
Due after five years	**1,025**	1,335	**61**	113
Total investment in finance lease receivables	**8,281**	10,147	**5,327**	6,344

Investment in finance lease receivables, net of unearned income

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Due within one year	**2,537**	3,015	**1,821**	1,969
Due after one year but not later than five years	**3,942**	4,825	**2,781**	3,456
Due after five years	**997**	1,325	**56**	105
Total investment in finance lease receivables, net of unearned income	**7,476**	9,165	**4,658**	5,530

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or inter-locking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

Distribution of loans and advances by credit quality

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Gross loans and advances:								
Neither past due nor impaired	**115,023**	136,404	**228,453**	197,080	**84,237**	107,805	**177,409**	143,322
Past due but not impaired	**5,320**	5,706	**7,065**	7,644	**3,484**	3,941	**5,890**	6,401
Impaired	**4,942**	4,333	**800**	801	**3,470**	3,132	**598**	684
Total gross loans and advances	**125,285**	146,443	**236,318**	205,525	**91,191**	114,878	**183,897**	150,407

17 Loans and advances (continued)

Credit quality of loans and advances

The Group has an internally developed credit rating system that uses data drawn from a number of sources to assess the potential risk in lending to customers. The Group has a single common masterscale across all (non-retail and retail) counterparties for probability of default. This probability of default masterscale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post-default) grades. Impaired assets consist of retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non-retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectibility of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired when they become 180 days past due (if not written off).

Distribution of loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that 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 risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

The table below presents an analysis of the credit quality of loans and advances 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-;
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB-; and
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ or worse.

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Senior investment grade	**40,875**	52,537	**197,549**	183,245	**32,553**	46,369	**153,909**	133,943
Investment grade	**40,449**	48,219	**19,729**	5,650	**28,925**	37,836	**16,055**	4,745
Sub-investment grade	**33,699**	35,648	**11,175**	8,185	**22,759**	23,600	**7,445**	4,634
Total loans and advances neither past due nor impaired	**115,023**	136,404	**228,453**	197,080	**84,237**	107,805	**177,409**	143,322

Loans and advances past due but not impaired

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
1 to 7 day(s) past due	**2,945**	3,574	**3,362**	3,459	**2,141**	2,651	**3,148**	3,242
8 to 29 days past due	**642**	683	**1,322**	1,509	**304**	343	**1,016**	1,202
30 to 59 days past due	**390**	495	**773**	930	**272**	392	**554**	681
60 to 89 days past due	**232**	166	**357**	400	**184**	120	**232**	266
Past due over 90 days	**1,111**	788	**1,251**	1,346	**583**	435	**940**	1,010
Total loans and advances past due but not impaired	**5,320**	5,706	**7,065**	7,644	**3,484**	3,941	**5,890**	6,401

Loans and advances that are past due but are not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group are such that its lending is widely spread both geographically and in terms of the types of industries it serves. *Refer to Note 43 for a disclosure of industry and geographic concentrations of assets.*

18 Provisions for doubtful debts

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Specific provision for doubtful debts	**1,409**	1,453	**1,142**	1,186
Collective provision for doubtful debts	**2,865**	2,948	**2,154**	2,285
Total provision for doubtful debts	**4,274**	4,401	**3,296**	3,471

Group	**2010 Specific Non-retail $m**	**Specific Retail $m**	**Total Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	**1,293**	**160**	**1,453**	**2,948**	**4,401**
Acquisition of controlled entities and business combinations	**-**	**-**	**-**	**9**	**9**
Transfer to/(from) specific/collective provision	**1,729**	**506**	**2,235**	**(2,235)**	**-**
Bad debts recovered	**39**	**138**	**177**	**-**	**177**
Bad debts written off	**(1,770)**	**(654)**	**(2,424)**	**-**	**(2,424)**
Charge to the income statement [(1)]	**-**	**-**	**-**	**2,236**	**2,236**
Foreign currency translation and other adjustments	**(29)**	**(3)**	**(32)**	**(93)**	**(125)**
Balance at end of year	**1,262**	**147**	**1,409**	**2,865**	**4,274**

[(1)] *Excludes $555 million of impairment charges on conduit assets classified as investments - held to maturity. Refer to Note 14 for further details.*

Group	2009 Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	512	133	645	2,318	2,963
Transfer to/(from) specific/collective provision	2,332	643	2,975	(2,975)	-
Bad debts recovered	7	158	165	-	165
Bad debts written off	(1,510)	(772)	(2,282)	-	(2,282)
Charge to the income statement [(1)]	-	-	-	3,763	3,763
Foreign currency translation and other adjustments	(48)	(2)	(50)	(158)	(208)
Balance at end of year	1,293	160	1,453	2,948	4,401

[(1)] *Excludes $52 million of impairment charges on conduit assets classified as investments - held to maturity. Refer to Note 14 for further details.*

Company	**2010 Specific Non-retail $m**	**Specific Retail $m**	**Total Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	**1,076**	**110**	**1,186**	**2,285**	**3,471**
Transfer to/(from) specific/collective provision	**1,171**	**332**	**1,503**	**(1,503)**	**-**
Bad debts recovered	**25**	**37**	**62**	**-**	**62**
Bad debts written off	**(1,203)**	**(397)**	**(1,600)**	**-**	**(1,600)**
Charge to the income statement [(1)]	**-**	**-**	**-**	**1,396**	**1,396**
Foreign currency translation and other adjustments	**(9)**	**-**	**(9)**	**(24)**	**(33)**
Balance at end of year	**1,060**	**82**	**1,142**	**2,154**	**3,296**

[(1)] *Excludes $555 million of impairment charges on intercompany loans to securitisation conduits.*

Company	2009 Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	500	114	614	1,632	2,246
Transfer to/(from) specific/collective provision	1,598	340	1,938	(1,938)	-
Bad debts recovered	7	62	69	-	69
Bad debts written off	(872)	(406)	(1,278)	-	(1,278)
Charge to the income statement [(1)]	-	-	-	2,631	2,631
Foreign currency translation and other adjustments	(157)	-	(157)	(40)	(197)
Balance at end of year	1,076	110	1,186	2,285	3,471

[(1)] *Excludes $52 million of impairment charges on intercompany loans to securitisation conduits.*

19 Asset quality disclosures

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

The following table provides an analysis of the asset quality of the Group's loans and advances. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2010 $m	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Net impaired assets								
Gross impaired assets [(1)(2)]	**5,248**	4,699	**800**	801	**3,489**	3,132	**598**	684
Specific provision for doubtful debts [(3)]	**(1,377)**	(1,391)	**(147)**	(160)	**(1,060)**	(1,076)	**(82)**	(110)
Net impaired assets [(4)]	**3,871**	3,308	**653**	641	**2,429**	2,056	**516**	574

(1) *Gross impaired assets include $284 million (2009: $366 million) for the Group and nil (2009: nil) for the Company of gross impaired other financial assets at fair value and $22 million (2009: nil) of impaired off-balance sheet credit exposures for the Group and $19 million (2009: nil) for the Company.*

(2) *Gross impaired assets include $239 million (2009: $384 million) for the Group and $204 million (2009: $381 million) for the Company of restructured loans representing facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude nil (2009: $312 million) for the Group and nil (2009: $312 million) for the Company of facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty.*

(3) *Specific provision for doubtful debts includes $115 million (2009: $98 million) for the Group and nil (2009: nil) for the Company of fair value credit adjustments on other financial assets at fair value.*

(4) *The fair value of security in respect of impaired assets is $4,293 million (2009: $1,930 million) for the Group and $2,748 million (2009: $1,510 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.*

The following table provides additional information regarding non-impaired assets past due 90 days or more:

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Total non-impaired assets past due 90 days or more with adequate security	**1,953**	1,905	**1,400**	1,306
Total non-impaired portfolio managed facilities past due 90 to 180 days	**413**	229	**123**	139

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.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for its own business use.

In the United States, there is US$133 million (2009: US$5 million) of "Other Real Estate Owned" where the Group assumed ownership or foreclosed in settlement of debt. Of this amount, US$111 million (2009: nil) is covered by a loss sharing agreement with the Federal Deposit Insurance Corporation (FDIC), under which the FDIC will absorb 80% of losses arising in recovery of these assets. The real estate assets are included in other assets and are not included in impaired assets.

20 Property, plant and equipment

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Land and buildings [(1)]				
Freehold				
At cost (acquired subsequent to previous valuation date)	**32**	30	**-**	-
At directors' valuation	**241**	238	**15**	15
Leasehold				
At cost (acquired subsequent to previous valuation date)	**5**	9	**-**	-
At directors' valuation	**13**	10	**-**	-
Deduct: Accumulated depreciation on buildings	**(6)**	(3)	**-**	-
	285	284	**15**	15
Leasehold improvements				
At cost	**1,447**	1,338	**1,072**	971
Deduct: Accumulated amortisation	**(734)**	(661)	**(523)**	(468)
Deduct: Accumulated impairment losses	**(2)**	(2)	**-**	-
	711	675	**549**	503
Furniture, fixtures and fittings and other equipment				
At cost	**693**	703	**221**	191
Deduct: Accumulated depreciation and amortisation	**(392)**	(422)	**(139)**	(126)
Deduct: Accumulated impairment losses	**(3)**	(3)	**-**	-
	298	278	**82**	65
Data processing equipment [(2)]				
At cost	**1,277**	1,130	**985**	848
Under finance lease	**102**	102	**95**	95
Deduct: Accumulated depreciation and amortisation	**(1,019)**	(897)	**(786)**	(675)
	360	335	**294**	268
Leased assets held as lessor				
At cost	**145**	158	**57**	61
Deduct: Accumulated amortisation	**(21)**	(14)	**(15)**	(10)
	124	144	**42**	51
Total property, plant and equipment	**1,778**	1,716	**982**	902

[(1)] *Included within land and buildings are freehold and leasehold land and buildings that are carried at directors' valuation. Had these land and buildings been recognised under the cost model, the carrying amount would have been:*

Land and buildings under the cost model	**168**	176	**1**	1

[(2)] *Net carrying value of assets under finance lease comprises the following:*

Data processing equipment	**40**	55	**39**	54

Reconciliations of movements in property, plant and equipment

Land and buildings				
Balance at beginning of year	**284**	348	**15**	15
Additions from the acquisition of controlled entities and business combinations	**10**	18	**-**	-
Additions	**20**	18	**-**	-
Disposals	**(9)**	(44)	**-**	-
Net amount of revaluation increments to asset revaluation reserve	**9**	3	**-**	-
Depreciation	**(8)**	(9)	**-**	-
Impairment losses recognised	**(7)**	(19)	**-**	-
Foreign currency translation adjustments	**(14)**	(31)	**-**	-
Balance at end of year	**285**	284	**15**	15
Leasehold improvements				
Balance at beginning of year	**675**	646	**503**	437
Additions from the acquisition of controlled entities and business combinations	**4**	-	**-**	-
Additions	**170**	163	**135**	125
Disposals	**(18)**	(22)	**(15)**	(6)
Amortisation	**(105)**	(88)	**(74)**	(53)
Foreign currency translation adjustments	**(15)**	(24)	**-**	-
Balance at end of year	**711**	675	**549**	503

20 Property, plant and equipment (continued)

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**278**	279	**65**	40
Additions from the acquisition of controlled entities and business combinations	**2**	8	**-**	-
Additions	**90**	125	**33**	38
Disposals	**(11)**	(62)	**(2)**	(1)
Depreciation and amortisation	**(47)**	(46)	**(14)**	(12)
Foreign currency translation adjustments	**(14)**	(26)	**-**	-
Balance at end of year	**298**	278	**82**	65
Data processing equipment				
Balance at beginning of year	**335**	331	**268**	256
Additions from the acquisition of controlled entities and business combinations	**4**	-	**-**	-
Additions	**175**	165	**144**	132
Disposals	**(5)**	(2)	**(2)**	(1)
Depreciation and amortisation	**(144)**	(152)	**(116)**	(119)
Foreign currency translation adjustments	**(5)**	(7)	**-**	-
Balance at end of year	**360**	335	**294**	268
Leased assets held as lessor				
Balance at beginning of year	**144**	57	**51**	55
Additions	**1**	99	**-**	2
Disposals	**-**	(2)	**-**	-
Depreciation	**(9)**	(9)	**(5)**	(5)
Foreign currency translation adjustments	**(12)**	(1)	**(4)**	(1)
Balance at end of year	**124**	144	**42**	51

21 Investments in controlled entities

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Investments in controlled entities				
At cost	**-**	-	**17,553**	15,624
Deduct: Provision for diminution in value	**-**	-	**(220)**	(178)
Total investments in controlled entities	**-**	-	**17,333**	15,446

22 Goodwill and other intangible assets

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Goodwill				
At cost	**5,546**	5,182	**-**	-
Total goodwill	**5,546**	5,182	**-**	-
Internally generated software				
At cost	**1,930**	1,762	**1,181**	1,073
Deduct: Accumulated amortisation	**(1,060)**	(890)	**(747)**	(628)
Deduct: Accumulated impairment losses	**(32)**	(38)	**-**	-
Total internally generated software	**838**	834	**434**	445
Acquired software				
At cost	**503**	421	**379**	304
Deduct: Accumulated amortisation	**(343)**	(321)	**(266)**	(229)
Total acquired software	**160**	100	**113**	75
Other acquired intangible assets [(1)]				
At cost	**640**	189	**-**	-
Deduct: Accumulated amortisation	**(107)**	(62)	**-**	-
Total other acquired intangible assets	**533**	127	**-**	-
Total goodwill and other intangible assets	**7,077**	6,243	**547**	520

[(1)] *Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and value of business and contracts in force.*

Reconciliation of movements in goodwill and other intangible assets

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Goodwill				
Balance at beginning of year	**5,182**	5,227	**-**	-
Additions from the acquisition of controlled entities and business combinations	**439**	24	**-**	-
Foreign currency translation adjustments	**(75)**	(69)	**-**	-
Balance at end of year	**5,546**	5,182	**-**	-
Internally generated software				
Balance at beginning of year	**834**	829	**445**	438
Additions from internal development	**247**	342	**110**	141
Disposals and write-offs	**(5)**	(64)	**(1)**	-
Amortisation	**(204)**	(217)	**(120)**	(134)
Foreign currency translation adjustments	**(34)**	(56)	**-**	-
Balance at end of year	**838**	834	**434**	445
Acquired software				
Balance at beginning of year	**100**	134	**75**	101
Additions from the acquisition of controlled entities and business combinations	**44**	-	**-**	-
Additions	**83**	19	**78**	9
Disposals and write-offs	**(3)**	(4)	**(2)**	-
Amortisation	**(62)**	(45)	**(38)**	(34)
Foreign currency translation adjustments	**(2)**	(4)	**-**	(1)
Balance at end of year	**160**	100	**113**	75
Other acquired intangible assets				
Balance at beginning of year	**127**	145	**-**	-
Additions from the acquisition of controlled entities and business combinations	**508**	8	**-**	-
Disposals and write-offs	**(1)**	(1)	**-**	-
Amortisation	**(91)**	(18)	**-**	-
Foreign currency translation adjustments	**(10)**	(7)	**-**	-
Balance at end of year	**533**	127	**-**	-

Impairment and cash generating units

For the purposes of undertaking impairment testing, cash generating units (CGUs) are identified. CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

22 Goodwill and other intangible assets (continued)

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections utilise 10 year forecast earnings. The first three years are based on management approved forecasts. The remaining seven years are extrapolated using a constant growth rate for the relevant business segments. The forecast period is based on the Group's long-term perspective with respect to the operation of these business segments. 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, discount rate which was 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.

In March 2009, the Group announced a new organisational structure that would be reported from 1 October 2009. Previously, operating segments consisted of Australia Region, UK Region, NZ Region and nabCapital. The new structure and operating segments comprise Business Banking, Personal Banking, Wholesale Banking, UK Banking, NZ Banking, MLC & NAB Wealth, Great Western Bank, Specialised Group Assets and Corporate Functions & Other. This reorganisation has no impact on the CGU's compared to the previous period as each geographical CGU was the equivalent of a reportable segment under the new structure.

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill or indefinite life intangible assets have been allocated, are as follows:

	Goodwill at cost		Discount rate		Terminal value growth rate	
	2010	2009	**2010**	2009	**2010**	2009
Reportable segment	**$m**	$m	**% pa**	% pa	**% pa**	% pa
Personal Banking	**279**	-	**11.1%**	n/a	**5.3%**	n/a
UK Banking	**295**	295	**11.1%**	9.4%	**4.3%**	4.5%
NZ Banking	**258**	258	**11.2%**	12.3%	**4.5%**	4.5%
MLC & NAB Wealth	**4,003**	3,922	**11.5%**	10.2%	**5.3%**	5.0%
Great Western Bank	**711**	707	**10.4%**	11.3%	**4.3%**	5.4%

23 Current and deferred tax assets

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Current tax assets	**222**	-	**128**	210
Deferred tax assets	**2,026**	3,272	**1,374**	2,212
Total income tax assets	**2,248**	3,272	**1,502**	2,422
Deferred tax assets				
Life company statutory funds	**369**	545	**-**	-
Specific provision for doubtful debts	**377**	428	**303**	352
Collective provision for doubtful debts	**747**	777	**633**	660
Employee entitlements	**275**	257	**230**	204
Tax losses	**264**	224	**176**	153
Pension liabilities	**147**	158	**-**	-
Other	**892**	883	**541**	843
Total deferred tax assets	**3,071**	3,272	**1,883**	2,212
Set-off of deferred tax assets pursuant to set-off provisions [(1)]	**(1,045)**	-	**(509)**	-
Net deferred tax assets	**2,026**	3,272	**1,374**	2,212

[(1)] *Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group. Comparative amounts have not been reclassified to accord with changes in presentation made in 2010.*

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**(43)**	310	**(51)**	283
Employee entitlements	**(21)**	3	**8**	11
Tax losses	**66**	96	**39**	106
Pension liabilities	**-**	(1)	**-**	(1)
Other	**44**	249	**(35)**	100
Total deferred tax asset amounts recognised in the income statement	**46**	657	**(39)**	499
Deferred tax asset amounts recognised in equity				
Available for sale investment reserve	**-**	(13)	**-**	-
Cash flow hedge reserve	**(60)**	100	**(60)**	100
Asset revaluation reserve	**1**	-	**-**	-
Equity-based compensation reserve	**(4)**	6	**(4)**	6
Retained profits	**7**	291	**(5)**	(6)
Total deferred tax asset amounts recognised in equity	**(56)**	384	**(69)**	100
Total deferred tax asset amounts recognised during the year	**(10)**	1,041	**(108)**	599

23 Current and deferred tax assets (continued)

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	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Capital gains tax losses	**788**	813	**768**	758
Income tax losses	**3**	4	**-**	-
Temporary differences	**37**	27	**9**	-

24 Other assets

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Accrued interest receivable	**3,654**	2,657	**2,407**	1,767
Prepayments	**185**	201	**90**	64
Receivables [(1)]	**1,691**	2,773	**1,479**	1,863
Other life insurance assets	**527**	377	**-**	-
Defined benefit pension scheme assets [(2)]	**17**	22	**13**	9
Investment properties carried at fair value	**157**	25	**-**	-
Other	**2,151**	3,505	**1,018**	1,732
Total other assets	**8,382**	9,560	**5,007**	5,435

[(1)] *Included within this amount is $1,392 million for the Group (2009: $1,833 million) and $1,392 million (2009: $1,833 million) for the Company with respect to the net principal receivable on hedging and trading cross currency swaps used for risk management purposes.*

[(2)] *Refer to Note 32 for further details.*

25 Other financial liabilities at fair value

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Deposits and other borrowings				
On-demand and short-term deposits	**453**	404	**-**	-
Certificates of deposit	**1,338**	2,436	**-**	292
Term deposits	**2,881**	2,509	**1,031**	1,113
Borrowings	**5,540**	5,016	**-**	-
Bonds, notes and subordinated debt	**7,730**	6,526	**12**	-
Securities sold short	**1,587**	2,138	**1,587**	2,138
Other financial liabilities	**358**	2,282	**119**	128
Total other financial liabilities at fair value	**19,887**	21,311	**2,749**	3,671

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 $3 million (2009: $100 million loss) for the Group and nil (2009: nil) for the Company. The cumulative change in fair value attributable to changes in credit risk amounts to a gain of $34 million (2009: $31 million gain) for the Group and nil (2009: nil) for the Company. The contractual amount to be paid at maturity is $7,483 million (2009: $6,433 million) for the Group and $12 million (2009: nil) for the Company.

26 Deposits and other borrowings

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Deposits				
Deposits not bearing interest	**17,393**	14,309	**14,028**	11,430
On-demand and short-term deposits	**133,797**	125,684	**96,530**	88,365
Certificates of deposit	**58,840**	64,392	**53,131**	58,737
Term deposits	**128,857**	115,294	**100,250**	85,989
Securities sold under agreements to repurchase	**4,410**	1,283	**4,410**	1,283
Borrowings	**9,935**	15,226	**4,484**	5,279
Total deposits and other borrowings	**353,232**	336,188	**272,833**	251,083

27 Life policy liabilities

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**7,051**	5,486	**-**	-
Value of future expenses	**1,990**	1,688	**-**	-
Future charges for acquisition costs	**(44)**	(49)	**-**	-
Value of future revenues	**(10,292)**	(8,051)	**-**	-
Total best estimate liabilities for life insurance contracts	**(1,295)**	(926)	**-**	-
Value of future profits				
Value of policyholder bonuses	**279**	365	**-**	-
Value of future shareholder profit margins	**2,416**	1,927	**-**	-
Total value of future profits	**2,695**	2,292	**-**	-
Unvested policyholder benefits	**167**	148	**-**	-
Net policy liabilities for life insurance contracts	**1,567**	1,514	**-**	-
Policy liabilities ceded under reinsurance	**196**	155	**-**	-
Gross policy liabilities for life insurance contracts	**1,763**	1,669	**-**	**-**
Life investment contracts				
Life investment contract liabilities	**52,591**	45,645	**-**	-
Total life policy liabilities	**54,354**	47,314	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *Note 51*. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund *(refer to Note 1(aa))*.

In respect of life insurance contracts with a discretionary participating feature, there are $1,464 million (2009: $1,482 million) of liabilities that relate to guarantees. In respect of investment contracts, there are $3,456 million (2009: $2,455 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group	
	2010 $m	2009 $m
Life insurance contract liabilities		
Balance at beginning of year	**1,669**	1,782
Additions from the acquisition of controlled entities and business combinations	**144**	-
Decrease reflected in the income statement	**(6)**	(113)
Other	**(44)**	-
Balance at end of year	**1,763**	1,669
Life investment contract policy liabilities		
Balance at beginning of year	**45,645**	44,368
Additions from the acquisition of controlled entities and business combinations	**3,667**	-
Increase reflected in the income statement	**1,746**	546
Premiums recognised in policy liabilities	**7,134**	7,260
Claims recognised in policy liabilities	**(5,601)**	(6,529)
Balance at end of year	**52,591**	45,645
Total gross policy liabilities at end of year	**54,354**	47,314
Liabilities ceded under reinsurance		
Balance at beginning of year	**(155)**	(97)
Additions from the acquisition of controlled entities and business combinations	**(25)**	-
Increase in reinsurance assets reflected in the income statement	**(16)**	(58)
Balance at end of year [(1)]	**(196)**	(155)
Net policy liabilities at end of year	**54,158**	47,159

[(1)] *The $196 million (2009: $155 million) reinsurance balance is included within other life insurance assets in Note 24 .*

28 Current and deferred tax liabilities

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Current tax liabilities	**-**	382	**-**	-
Deferred tax liabilities	**19**	793	**30**	594
Total income tax liabilities	**19**	1,175	**30**	594
Deferred tax liabilities				
Depreciation	**121**	118	**(94)**	(103)
Life company statutory funds	**33**	4	**-**	-
Pension assets	**5**	7	**4**	3
Other	**905**	664	**629**	694
Total deferred tax liabilities	**1,064**	793	**539**	594
Set-off of deferred tax liabilities pursuant to set-off provisions [1]	**(1,045)**	-	**(509)**	-
Net deferred tax liability	**19**	793	**30**	594

[1] Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group. Comparative amounts have not been reclassified to accord with changes in presentation made in 2010.

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Deferred tax liability amounts recognised in the income statement				
Depreciation	**20**	(11)	**-**	(26)
Life company statutory funds	**(22)**	621	**-**	-
Pension assets	**(11)**	(1)	**-**	-
Other	**(4)**	478	**(76)**	480
Total deferred tax liability amounts recognised in the income statement	**(17)**	1,087	**(76)**	454
Deferred tax liability amounts recognised in equity				
Available for sale investment reserve	**-**	(3)	**(2)**	1
Cash flow hedge reserve	**42**	101	**27**	33
Foreign currency translation reserve	**-**	4	**-**	-
Asset revaluation reserve	**3**	1	**-**	-
Retained profits	**-**	(16)	**-**	(4)
Total deferred tax liability amounts recognised in equity	**45**	87	**25**	30
Total deferred tax liability amounts recognised during the year	**28**	1,174	**(51)**	484

29 Provisions

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Employee entitlements	**1,070**	924	**831**	772
Operational risk event losses	**70**	227	**51**	211
Restructuring costs	**14**	31	**12**	27
Other	**291**	373	**50**	54
Total provisions	**1,445**	1,555	**944**	1,064

Reconciliations of movements in provisions

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Employee entitlements				
Balance at beginning of year	**924**	768	**772**	681
Acquisition of controlled entities	**31**	-	**-**	-
Provisions made	**689**	636	**419**	460
Payments out of provisions	**(558)**	(465)	**(355)**	(348)
Provision no longer required and net foreign currency movements	**(16)**	(15)	**(5)**	(21)
Balance at end of year	**1,070**	924	**831**	772
Operational risk event losses				
Balance at beginning of year	**227**	74	**211**	46
Provisions made	**56**	209	**39**	195
Payments out of provisions	**(211)**	(53)	**(199)**	(30)
Provision no longer required and net foreign currency movements	**(2)**	(3)	**-**	-
Balance at end of year	**70**	227	**51**	211
Restructuring costs				
Balance at beginning of year	**31**	48	**27**	44
Payments out of provisions	**(17)**	(20)	**(15)**	(18)
Provision no longer required and net foreign currency movements	**-**	3	**-**	1
Balance at end of year	**14**	31	**12**	27
Other				
Balance at beginning of year	**373**	469	**54**	141
Acquisition of controlled entities	**35**	**-**	**-**	**-**
Provisions made	**469**	366	**211**	121
Payments out of provisions	**(582)**	(457)	**(215)**	(207)
Provision no longer required and net foreign currency movements	**(4)**	(5)	**-**	(1)
Balance at end of year	**291**	373	**50**	54

Other provisions include provisions for contributions tax on superannuation funds, legal and other business claims and other small items.

Notes to the financial statements

30 Bonds, notes and subordinated debt

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Medium-term notes	**79,094**	70,421	**75,391**	65,907
Other senior notes	**4,794**	10,140	**-**	3,581
Subordinated medium-term notes	**9,045**	9,937	**8,279**	9,066
Other subordinated notes	**382**	411	**-**	-
Total bonds, notes and subordinated debt	**93,315**	90,909	**83,670**	78,554
Net discounts	**(112)**	(117)	**(111)**	(116)
Total net bonds, notes and subordinated debt	**93,203**	90,792	**83,559**	78,438

Medium-term notes

The Group operates a number of medium-term note programmes:

- under the discontinued Euro medium-term note programme of the Company, notes could have been issued up to an aggregate amount of US$25,000 million for terms of three months or more. No further issues are envisaged under this programme as it has been replaced by the Global medium-term note programme which permits the Company, Clydesdale Bank PLC or BNZ International Funding Limited to issue notes. Outstanding under this programme are $297 million (2009: $996 million) fixed rate notes maturing up to five years with fixed rates between 1.00% - 4.70% (2009: 1.00% - 4.70%), nil fixed rate notes maturing greater than five years (2009: $24 million, with a fixed rate of 3.89%) and nil floating rate notes maturing up to five years (2009: $83 million);
- under the Domestic debt issuance programme of the Company, the aggregate issue amount is unlimited. Outstanding under this programme are $12,709 million (2009: $11,552 million) fixed rate notes maturing up to five years with fixed rates between 4.25% - 8.50% (2009: 4.25% - 8.50%), $11,293 million (2009: $9,206 million) floating rate notes maturing up to five years and $40 million (2009: $57 million) floating rate notes maturing greater than five years;
- under the Global medium-term note programme of the Company, Clydesdale Bank PLC and BNZ International Funding Limited notes may be issued up to an aggregate amount of US$100,000 million. Outstanding under this programme are $27,254 million (2009: $19,787 million) fixed rate notes maturing up to five years with fixed rates between 0.00% - 8.00% (2009: 0.01% - 8.00%), $5,527 million (2009: $5,792 million) fixed rate notes maturing greater than five years with fixed rates between 1.05% - 7.25% (2009: 1.93% - 6.25%), $18,821 million (2009: $21,017 million) floating rate notes maturing up to five years and $101 million (2009: $77 million) floating rate notes maturing greater than five years; and
- the Group has conducted a number of stand-alone medium-term note issues: $1,715 million (2009: $880 million) fixed rate notes maturing up to five years with fixed rates between 1.16% - 8.43% (2009: 1.70% - 8.43%) and $1,337 million (2009: $950 million) floating rate notes maturing up to five years.

The Group has designated certain debt issues as being carried at fair value, which are included within other financial liabilities at fair value on the balance sheet; refer to *Note 25* for further information. At 30 September 2010, these debt issues totalling $7,483 million (2009: $6,433 million) have been issued under the Global medium-term note programme and the BNZ Covered Bond Trust by BNZ Limited and the Domestic debt issuance programme of BNZ.

Other senior notes

The Group has issued a number of other senior notes under stand-alone issues or programmes:

- under the Extendible note programme of the Company, notes may be issued up to an aggregate amount of US$10,000 million. There are nil outstanding under this programme (2009: $3,581 million);
- National RMBS Trust mortgage backed floating rate notes of $1,216 million (2009: $1,805 million) maturing up to 2037;
- Medfin Trust lease backed floating rate notes nil outstanding (2009: $18 million);
- TSL Trust floating rate notes of $20 million (2009: $20 million) maturing up to 2020;
- under the National Wealth Management Holdings Limited medium-term note programme, $303 million (2009: $158 million) fixed rate notes maturing up to 2013 with fixed rates between 6.50% - 7.50% (2009: 6.50%) and $500 million (2009: $300 million) floating rate notes maturing up to five years; and
- Clydesdale RMBS Trust floating rate notes of $2,755 million (2009: $4,258 million) maturing up to 2013.

Subordinated notes

Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes with an original maturity of at least five years may constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

30 Bonds, notes and subordinated debt (continued)

Subordinated medium-term notes

Subordinated notes have been issued under the Euro medium-term note programme, US medium-term note programme, Domestic debt issuance programme and the Global medium-term note programme of the Group:

- under the Euro medium-term note programme of the Company, $1,054 million (2009: $2,193 million) fixed rate notes maturing in 2015 and 2016 with fixed rates between 4.50% - 5.38% (2009: 3.88% - 5.38%) are outstanding;
- under the previously registered US medium-term note programme of the Company, nil are outstanding (2009: $1,023 million, with a fixed rate of 8.60%);
- under the Domestic debt issuance programme of the Company, $317 million (2009: $300 million) fixed rate notes maturing in 2017 with a fixed rate of 7.25% (2009: 7.25%) and $1,200 million (2009: $1,200 million) floating rate notes maturing in 2017 and 2018 are outstanding;
- under the Global medium-term note programme, $4,175 million (2009: $2,826 million) fixed rate notes maturing between 2016 and 2023 with fixed rates between 4.55% - 7.13% (2009: 4.55% - 7.13%) and $2,151 million (2009: $2,238 million) floating rate notes maturing in 2016 and 2017 are outstanding; and
- the Group has conducted a number of stand-alone subordinated medium-term note issues: $56 million (2009: $57 million) fixed rate notes maturing up to five years with a fixed rate of 5.47% (2009: 5.47%), $40 million (2009: $40 million) fixed rate notes maturing greater than five years with a fixed rate of 7.50% (2009: 7.50%), and $52 million (2009: $60 million) floating rate notes maturing up to five years.

Other subordinated notes

The Group has issued a number of other subordinated notes under stand-alone issues or programmes:

- under the National Wealth Management Holdings Limited medium-term note programme, $210 million (2009: $214 million) fixed rate notes maturing in 2026 with a fixed rate of 6.75% (2009: 6.75%) and $100 million (2009: $100 million) floating rate notes maturing in 2026;
- Great Western Bank floating rate notes of $58 million (2009: $64 million) maturing between 2033 and 2035; and
- Securitisation conduits' floating rate notes of $14 million (2009: $33 million) maturing up to 2037.

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 11* for further information on the Group's trading and hedging derivative assets and liabilities.

Issued bonds, notes and subordinated debt (by currency):

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
AUD	**28,339**	24,443	**26,751**	23,029
USD	**23,788**	25,274	**22,349**	22,744
EUR	**21,656**	21,286	**19,385**	18,148
GBP	**8,586**	9,648	**4,240**	4,376
Other	**10,834**	10,141	**10,834**	10,141
Total bonds, notes and subordinated debt	**93,203**	90,792	**83,559**	78,438

31 Other debt issues

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Perpetual floating rate notes	**475**	487	**475**	487
Stapled Securities	**797**	793	**797**	793
National Capital Instruments	**562**	664	**-**	-
Capital Notes	**668**	683	**668**	683
Total other debt issues	**2,502**	2,627	**1,940**	1,963

Perpetual floating rate notes

On 9 October 1986, the Group issued US$250 million undated subordinated floating rate notes. Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The notes are unsecured and have no final maturity. All or some of the notes may be redeemed at the option of the Company with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million undated subordinated floating rate notes, which were subsequently cancelled by the Group.

On 24 September 2008, the Group issued A$300 million Convertible Notes (Convertible Notes). The Group extended the terms of the Convertible Notes on 25 August 2010. The Convertible Notes continue to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day Bank Bill Swap Rate (BBSW). Subject to APRA approval, the notes are redeemable at the Group's option on or about 24 September 2012 or every monthly interest payment date thereafter or earlier in certain circumstances. The notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2012 or every three months thereafter or earlier in certain circumstances.

Stapled Securities

On 24 September 2008, the Group issued A$300 million Stapled Securities (2008 Stapled Securities). The Group extended the terms of the 2008 Stapled Securities on 25 August 2010. The 2008 Stapled Securities are perpetual capital instruments. Each 2008 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 24 September 2012, every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 24 September 2012.

On 30 September 2009, the Group issued A$500 million Stapled Securities (2009 Stapled Securities). The Group extended the terms of the 2009 Stapled Securities on 4 March 2010. The 2009 Stapled Securities are perpetual capital instruments. Each 2009 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 30 March 2011 or every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 30 March 2011.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The notes are unsecured and all or some of them may be redeemed at the option of the Company with the prior consent of APRA.

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 notes are redeemable at the Group's option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

32 Defined benefit pension scheme assets and liabilities

The Group maintains four defined benefit superannuation plans within different geographies. Three of the plans are currently in actuarial surplus and one is in deficit. Surpluses and deficiencies depend on many diverse factors and can vary significantly over time having regard, for example, to movements in investment markets, future salary increases and changes in employment patterns. This note sets out the Group's position in relation to its defined benefit plans. Plans listed below show the position using the most recent information available.

(a) Superannuation plans

The Group's accounting policy for superannuation commitments is set out in N*ote 1(dd)*. The defined benefit plans provide lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit pension plans are closed to new members.

Certain of the Group's defined benefit plans contain a defined contribution section. The defined contribution section of any plan receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. In accordance with AASB 119, Employee Benefits plans with both defined benefit and defined contributions sections are treated as defined benefit.

32 Defined benefit pension scheme assets and liabilities (continued)

The following sets out details in respect of the defined benefit plans.

(b) Balance sheet amounts

The amounts recognised on the Group's balance sheet are as follows:

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Net asset on the balance sheet				
Fair value of plan assets	**3,046**	2,779	**2,942**	2,663
Present value of defined benefit obligations	**(3,031)**	(2,758)	**(2,931)**	(2,655)
Net asset before adjustment for contributions tax	**15**	21	**11**	8
Adjustment for contributions tax	**2**	1	**2**	1
Net asset on the balance sheet [(1)]	**17**	22	**13**	9
Net liability on the balance sheet				
Fair value of plan assets	**3,292**	3,334	**-**	-
Present value of partly funded obligations	**(3,814)**	(3,918)	**-**	-
Net liability before adjustment for contributions tax	**(522)**	(584)	**-**	-
Adjustment for contributions tax	**-**	-	**-**	-
Net liability on the balance sheet	**(522)**	(584)	**-**	-

(1) *Included within Other assets (refer to Note 24).*

(c) Categories of plan assets

The fair value of the Group's defined benefit pension plan asset allocation, including the percentage of the total plan assets, as at 30 September is as follows:

	Group				Company			
	2010		2009		**2010**		2009	
	$m	**%**	$m	%	**$m**	**%**	$m	%
Cash	**159**	**2.5**	127	2.1	**77**	**2.6**	61	2.3
Equity instruments	**3,442**	**54.3**	3,354	54.9	**1,665**	**56.6**	1,548	58.1
Debt instruments	**1,770**	**27.9**	1,773	29.0	**400**	**13.6**	358	13.5
Property	**599**	**9.5**	579	9.4	**432**	**14.7**	416	15.6
Other assets	**368**	**5.8**	280	4.6	**368**	**12.5**	280	10.5
Fair value of plan assets	**6,338**	**100.0**	6,113	100.0	**2,942**	**100.0**	2,663	100.0

The fair value of plan assets includes ordinary shares issued by the Company with a fair value of nil (2009: nil) and land and buildings occupied by the Group with a fair value of $44 million (2009: $45 million) for the Group and nil (2009: nil) for the Company.

(d) Reconciliations

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Net asset on the balance sheet				
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year	**(2,758)**	(3,127)	**(2,655)**	(3,023)
Current service cost	**(152)**	(140)	**(149)**	(136)
Interest cost	**(203)**	(251)	**(199)**	(246)
Actuarial (losses)/gains	**(64)**	633	**(59)**	641
Benefits paid	**243**	221	**231**	205
Member contributions	**(100)**	(95)	**(100)**	(96)
Foreign currency translation adjustments	**3**	1	**-**	-
Balance at end of year	**(3,031)**	(2,758)	**(2,931)**	(2,655)
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**2,779**	3,187	**2,663**	3,043
Expected return on plan assets [(1)]	**208**	250	**200**	242
Actuarial gains/(losses)	**58**	(670)	**62**	(652)
Contributions by Group entities	**187**	179	**183**	173
Benefits paid	**(243)**	(221)	**(231)**	(205)
Member contributions	**100**	95	**100**	95
Plan expenses	**(12)**	(13)	**(8)**	(7)
Contributions tax paid	**(28)**	(27)	**(27)**	(26)
Foreign currency translation adjustments	**(3)**	(1)	**-**	-
Balance at end of year	**3,046**	2,779	**2,942**	2,663

32 Defined benefit pension scheme assets and liabilities (continued)

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Net liability on the balance sheet				
Reconciliation of the present value of the defined benefit obligations				
Balance at beginning of year	**(3,918)**	(3,587)	**-**	-
Current service cost	**(57)**	(53)	**-**	-
Interest cost	**(198)**	(236)	**-**	-
Actuarial gains/(losses)	**(182)**	(889)	**-**	-
Benefits paid	**139**	155	**-**	-
Past service cost	**(5)**	(8)	**-**	-
Gain on settlement	**2**	-	**-**	-
Foreign currency translation adjustments	**405**	700	**-**	-
Balance at end of year	**(3,814)**	(3,918)	**-**	-
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**3,334**	4,147	**-**	-
Expected return on plan assets [(1)]	**212**	293	**-**	-
Actuarial gains/(losses)	**74**	(205)	**-**	-
Contributions by Group entities	**162**	67	**-**	-
Benefits paid	**(139)**	(155)	**-**	-
Foreign currency translation adjustments	**(351)**	(815)	**-**	-
Effect of transfer from defined contribution scheme	**-**	2	**-**	-
Balance at end of year	**3,292**	3,334	**-**	-

[(1)] *The actual return on plan assets for the Group was $552 million (2009: $332 million reduction), and for the Company was $262 million (2009: $410 million reduction).*

	Group				
Historic summary	**2010 $m**	2009 $m	2008 $m	2007 $m	2006 $m
Fair value of plan assets	**6,338**	6,113	7,334	8,049	7,556
Present value of plan obligations	**(6,845)**	(6,676)	(6,714)	(7,549)	(7,645)
(Deficit)/surplus	**(507)**	(563)	620	500	(89)
Experience adjustments:					
Plan assets - actuarial (losses)/gains	**132**	(875)	(1,151)	414	356
Plan obligations - actuarial gains/(losses)	**(246)**	(256)	1,152	45	(174)

(e) Amounts recognised in the income statement

The amounts recognised in the income statement are as follows:

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Current service cost	**209**	193	**149**	136
Interest cost	**401**	487	**199**	246
Expected return on plan assets	**(420)**	(543)	**(200)**	(242)
Plan expenses	**12**	13	**8**	7
Contributions tax expense	**28**	27	**27**	26
Past service cost	**5**	8	**-**	-
Gains on settlements	**(2)**	-	**-**	-
Effect of transfer from defined contribution scheme	**-**	(2)	**-**	-
Total defined benefit plan expense	**233**	183	**183**	173

AASB 119 “Employee Benefits” requires that where a superannuation fund has both defined benefit and defined contribution elements, the entire fund is treated as defined benefit. The total defined benefit scheme expense shown above reflects the treatment of the Australian funds in this manner. However, in the income statement the defined benefit expense shown above is split to reflect separately the component that drives the expense and other elements of the pension arrangements. The total defined benefit schemes expense shown above is split between superannuation costs - defined benefit schemes and a portion of superannuation costs - defined contribution schemes *(refer to Note 5)* in the income statement.

The total cumulative amount of actuarial losses recognised directly in retained profits for the Group is $691 million (2009: $577 million), and for the Company is $75 million gain (2009: $71 million gain). Actuarial gains and losses are translated at the closing spot rate and have been grossed up for contribution taxes.

32 Defined benefit pension scheme assets and liabilities (continued)

(f) Principal actuarial assumptions

The investment policy and strategy for defined benefit plan assets are based on an expectation that equity securities will outperform debt securities over the long term. By managing the composition of plan assets, the Group aims to minimise investment risk. The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the following year is $269 million. The Group's expected rate of return on defined benefit plan assets is determined by the plan assets' historical long-term investment performance, the current asset allocation and estimates of future long-term returns by asset class.

The assets of all the plans are held independently of the Group's assets in separate administered funds. Defined benefit schemes are valued every year by independent actuaries for accounting purposes using the projected unit credit method. The latest actuarial valuations were made by applying the following principal average actuarial assumptions at 30 September (weighted averages):

	Group	
	2010 % pa	2009 % pa
Discount rate (per annum)	**4.7%**	5.2%
Expected return on plan assets (per annum)	**6.9%**	7.0%
Rate of compensation increase (per annum)	**3.5%**	3.4%
Future pension increases (per annum)	**3.0%**	3.0%

	Group			
	2010		2009	
	Australia / New Zealand years	**United Kingdom years**	Australia / New Zealand years	United Kingdom years
Expected future lifetime at the age of 60				
Male retired	**20.2**	**25.5**	20.3	25.5
Female retired	**24.8**	**27.3**	24.8	27.3
Male non-retired	**22.6**	**26.5**	21.7	26.5
Female non-retired	**26.0**	**28.2**	25.4	28.2

33 Other liabilities

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Accrued interest payable	**4,989**	3,846	**3,586**	2,528
Payables and accrued expenses	**1,552**	1,404	**879**	800
Notes in circulation	**2,079**	2,121	**-**	-
Other life insurance liabilities (1)				
Unsettled investment liabilities	**229**	-	**-**	-
Outstanding policy claims	**101**	51	**-**	-
Other	**107**	91	**-**	-
Other (2)	**10,344**	6,508	**9,735**	5,737
Total other liabilities	**19,401**	14,021	**14,200**	9,065

(1) Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to Note 1(p)).

(2) Included within this amount is $8,698 million (2009: $4,745 million) for the Group and $8,496 million (2009: $4,599 million) for the Company with respect to the net principal repayable on trading and hedging cross currency swaps used for risk management purposes.

34 Contributed equity

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**18,637**	17,867	**18,904**	17,995
Ordinary shares, partly paid to 25 cents [(1)]	**-**	-	**-**	-
Issued and paid-up preference share capital				
BNZ Income Securities	**380**	380	**-**	-
BNZ Income Securities 2	**203**	203	**-**	-
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II	**1,014**	1,014	**1,014**	1,014
National Capital Instruments	**397**	397	**397**	397
Total contributed equity	**23,551**	22,781	**22,260**	21,351

[(1)] *Ordinary shares, partly paid to 25 cents have a total value of less than $1 million.*

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Reconciliation of movements in contributed equity				
Ordinary share capital				
Balance at beginning of year	**17,867**	10,020	**17,995**	10,182
Shares issued				
Dividend reinvestment plan	**808**	1,540	**808**	1,540
Shares issued under placement	**-**	4,914	**-**	4,914
Share purchase plan	**-**	999	**-**	999
Employee share savings plan	**-**	7	**-**	7
Transfer from equity-based compensation reserve - issued shares	**84**	267	**84**	267
Transfer from equity-based compensation reserve - purchased shares	**17**	86	**17**	86
Net loss realised on treasury shares	**(6)**	(114)	**-**	-
Movement in treasury shares relating to life insurance business	**(133)**	148	**-**	-
Balance at end of year	**18,637**	17,867	**18,904**	17,995

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

	Company 2010 No. '000	Company 2009 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,095,595**	1,717,627
Shares issued		
Dividend reinvestment plan	**30,185**	74,899
Bonus share plan	**1,730**	2,953
Employee share plans	**5,536**	9,701
Executive share option plan no. 2	**275**	4
Shares issued under placement	**-**	243,023
Share purchase plan	**-**	47,366
Paying up of partly paid shares	**20**	22
	2,133,341	2,095,595
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**203**	225
Paying up of partly paid shares	**(20)**	(22)
	183	203
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,133,524**	2,095,798
Deduct: Treasury shares	**(47,232)**	(47,629)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,086,292**	2,048,169

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Treasury shares				
Balance at beginning of year	**1,167**	1,287	**252**	338
Net loss realised on treasury shares	**6**	114	**-**	-
Movement in treasury shares relating to life insurance business	**133**	(148)	**-**	-
Transfer from equity-based compensation reserve - purchased shares	**(17)**	(86)	**(17)**	(86)
Balance at end of year	**1,289**	1,167	**235**	252

34 Contributed equity (continued)

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
BNZ Income Securities				
Balance at beginning of year	**380**	380	**-**	-
Balance at end of year	**380**	380	**-**	-

On 28 March 2008, the Group raised $380 million through the issue by BNZ Income Securities Limited of 449,730,000 perpetual non-cumulative shares (BNZIS Shares) at NZ$1 each. Each BNZIS Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 28 March 2013, of 9.89% per annum. The dividend rate is reset five yearly.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities Limited has the right to acquire the BNZIS Shares for their issue price (plus any accrued unpaid distributions) on any dividend payment date on or after 28 March 2013, or at any time after the occurrence of certain specified events. The BNZIS Shares have no maturity date, are quoted on the New Zealand Debt Market (NZDX), and on liquidation of BNZ Income Securities Limited, holders will hold a right to participate in its surplus assets.

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
BNZ Income Securities 2				
Balance at beginning of year	**203**	-	**-**	-
Issued during the year	**-**	203	**-**	-
Balance at end of year	**203**	203	**-**	-

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 30 June 2014, as 28 June 2014 is not a business day, of 9.10% per annum. The dividend rate is reset five yearly.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities 2 Limited has the right to acquire the BNZIS 2 Shares for their issue price (plus any accrued unpaid distributions) on any dividend payment date on or after 28 June 2014, or at any time after the occurrence of certain specified events. The BNZIS 2 Shares have no maturity date, are quoted on the NZDX, and on liquidation of BNZ Income Securities 2 Limited, holders will hold a right to participate in its surplus assets.

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
National Income Securities				
Balance at beginning of year	**1,945**	1,945	**1,945**	1,945
Balance at end of year	**1,945**	1,945	**1,945**	1,945

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date, are quoted on the Australian Securities Exchange (ASX) and on a winding-up of the Company, holders will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Trust Preferred Securities				
Balance at beginning of year	**975**	975	**-**	-
Balance at end of year	**975**	975	**-**	-

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed by the issuer on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a 'make-whole' adjustment. In a winding-up of the Company, holders of a Trust Preferred Security will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

34 Contributed equity (continued)

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
Trust Preferred Securities II				
Balance at beginning of year	**1,014**	1,014	**1,014**	1,014
Balance at end of year	**1,014**	1,014	**1,014**	1,014

On 23 March 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 23 March 2015 equal to 5.486%. For all distribution periods ending after 23 March 2015, each Trust Preferred Security earns a non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month LIBOR.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed on or after 23 March 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the unpaid distributions for the last distribution period, and otherwise only where certain adverse tax or regulatory events have occurred subject to a 'make-whole' adjustment. In a winding-up of the Company, holders of a Trust Preferred Security will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
National Capital Instruments				
Balance at beginning of year	**397**	397	**397**	397
Balance at end of year	**397**	397	**397**	397

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the Australian 90 day 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 Australian 90 day bank bill rate plus a margin of 1.95% per annum.

With the prior consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or at any time after the occurrence of certain regulatory and tax events. In a winding-up of the Company, the Australian NCIs and (if issued) the Australian NCI preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

35 Reserves

	Group 2010 $m	Group 2009 $m	Company 2010 $m	Company 2009 $m
General reserve	**1,166**	1,009	**6**	5
Asset revaluation reserve	**68**	76	**8**	14
Foreign currency translation reserve	**(3,494)**	(2,525)	**(212)**	(180)
Cash flow hedge reserve	**182**	(142)	**(108)**	(326)
Equity-based compensation reserve	**668**	560	**668**	560
General reserve for credit losses	**698**	-	**698**	-
Available for sale investments reserve	**73**	46	**27**	2
Total reserves	**(639)**	(976)	**1,087**	75
Reconciliations of movements in reserves				
General reserve				
Balance at beginning of year	**1,009**	997	**5**	5
Transfer from retained profits	**157**	12	**1**	-
Balance at end of year	**1,166**	1,009	**6**	5
Asset revaluation reserve				
Balance at beginning of year	**76**	76	**14**	14
Revaluation of land and buildings	**9**	3	**-**	-
Tax on revaluation adjustments	**(3)**	(1)	**-**	-
Transfer to retained profits	**(14)**	(2)	**(6)**	-
Balance at end of year	**68**	76	**8**	14
Foreign currency translation reserve				
Balance at beginning of year	**(2,525)**	(1,040)	**(180)**	(176)
Currency translation adjustments	**(969)**	(1,485)	**(32)**	(4)
Balance at end of year	**(3,494)**	(2,525)	**(212)**	(180)

35 Reserves (continued)

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Cash flow hedge reserve				
Balance at beginning of year	**(142)**	(178)	**(326)**	(178)
Gains/(losses) on cash flow hedging instruments	**424**	(24)	**309**	(237)
Losses/(gains) transferred to the income statement	**3**	66	**(4)**	23
Tax on cash flow hedging instruments	**(103)**	(6)	**(87)**	66
Balance at end of year	**182**	(142)	**(108)**	(326)
Equity-based compensation reserve				
Balance at beginning of year	**560**	663	**560**	663
Equity-based compensation	**213**	244	**213**	244
Transfer to contributed equity - issued shares	**(84)**	(267)	**(84)**	(267)
Transfer to contributed equity - purchased shares	**(17)**	(86)	**(17)**	(86)
Tax on equity-based compensation	**(4)**	6	**(4)**	6
Balance at end of year	**668**	560	**668**	560
General reserve for credit losses				
Balance at beginning of year	**-**	-	**-**	-
Transfer from retained profits [(1)]	**698**	-	**698**	-
Balance at end of year	**698**	-	**698**	-

[(1)] *The Group has created a general reserve from retained profits to meet prudential requirements relating to a general reserve for credit losses.*

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Available for sale investments reserve				
Balance at beginning of year	**46**	31	**2**	17
Revaluation gains/(losses)	**60**	(6)	**48**	(66)
Gains from sale transferred to the income statement	**(28)**	(12)	**(13)**	(5)
Impairment transferred to the income statement	**3**	52	**-**	57
Tax on available for sale investments reserve	**(8)**	(19)	**(10)**	(1)
Balance at end of year	**73**	46	**27**	2

36 Retained profits

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Balance at beginning of year	**16,010**	17,510	**15,502**	14,689
Adjustment from adoption of new Accounting Standards	**(19)**	(49)	**(19)**	(49)
Actuarial (losses)/gains on defined benefit pension schemes	**(114)**	(1,125)	**4**	(13)
Tax on items transferred directly to/(from) equity	**22**	315	**(1)**	7
Net profit attributable to owners of the Company	**4,224**	2,589	**3,550**	4,035
Total available for appropriation	**20,123**	19,240	**19,036**	18,669
Transfer from/(to) foreign currency translation reserve	**-**	3	**-**	(42)
Transfer to general reserve for credit losses	**(698)**	-	**(698)**	-
Transfer to general reserve	**(157)**	(12)	**(1)**	-
Transfer from asset revaluation reserve	**14**	2	**6**	-
Dividends paid	**(3,039)**	(2,978)	**(3,056)**	(3,009)
Distributions on other equity instruments	**(215)**	(245)	**(107)**	(116)
Balance at end of year	**16,028**	16,010	**15,180**	15,502

37 Shares, performance options and performance rights

The Group's employee equity plans provide Company shares, performance options and performance rights to employees of the Group and Company shares to non-executive directors. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand staff share allocation plan, UK share incentive plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula used in calculating the fair value price per instrument. Each plan provides that the total number of shares issued in the last five years under the Company's employee share, performance option or performance right plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, must not exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. The calculation does not include offers or grants made of shares, performance options or performance rights acquired as a result of an offer made to a person situated outside Australia at the time of the offer or offers which did not require disclosure under section 708 of the *Corporations Act* 2001 (Cth), otherwise than as a result of relief granted by ASIC. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programmes for employees

Equity-based programmes offered to employees form part of the Group's remuneration strategy in rewarding current and future contributions to the Group's performance and strengthening the link between value created for shareholders and rewards for employees.

Under the terms of most offers there is a minimum holding period during which the shares are held in trust and cannot be dealt with by the employee. There may be forfeiture conditions particular to each programme as described below if the employee leaves during this period.

Salary sacrifice shares are allocated to United Kingdom and Australian employees when they nominate to contribute a portion of their gross salary to receive Company shares. Shares are allocated monthly under the UK programme, and quarterly under the Australian programme. The Australian programme was suspended in May 2009 due to changes to taxation legislation in Australia.

Short term incentives (STI) may be provided under the Up-to-Target, Above-Target, STI Deferral or Exceptional Behaviour programmes. Employees become eligible for these shares based on their individual or business performance (or both).

A new STI deferral model has been introduced in 2010 for employees based in Australia, Asia and the United States as well as for senior management employees in New Zealand and the United Kingdom. The proportion of the STI reward that is deferred is commensurate with the level of risk and responsibility within a role and the length of deferral, 12 or 24 months, aligns with both the level of risk and impact of the role on business performance and results. A deferral threshold of $1,000 is in place. For those employees in the United Kingdom (excluding senior management), individuals are generally required to take any Above-Target STI in Company shares for awards in excess of $500.

In addition to the above, in 2009, shares were offered to employees in the Australian Region who demonstrated exceptional behaviour. This programme has ceased and behavioural assessment is now linked to STI rewards.

Generally STI shares (or performance rights granted for jurisdictional reasons) are forfeited if the employee's employment is terminated for misconduct. STI Deferral and Above Target shares are forfeited during the first year and Exceptional Behaviour shares during the first three years after allocation if the employee resigns or fails to pass the compliance gateway during the following financial year or has their employment terminated for serious misconduct. In determining the release of an employee's STI Deferral shares, the Board may forfeit a full or partial STI Deferral award to ensure the financial soundness of the Group. In making such a determination factors that may be taken into consideration include qualitative factors such as reputational risk, customer and employee advocacy / experience, regulatory, shareholder and strategic risk and quantitative factors such as misstatement of financials, capital and liquidity measures.

For further details on STI awards granted to the executive directors of the Company, refer to the Remuneration report.

Commencement and recognition/retention shares respectively enable the buy-out of equity from previous employment, based on evidentiary information, for significant new hires or provide retention awards for key individuals in roles where retention is critical over a medium to long term timeframe. The shares may be subject to individual and business performance hurdles including meeting minimum compliance, behaviour and performance thresholds, regional return on equity (ROE) and cash earnings, and internal qualitative measures. The shares are subject to forfeiture, or staggered forfeiture, if the participant resigns or retires before specified key dates or key milestones are achieved, or if the individual engages in a breach of the Company's Code of Conduct (or other applicable standards set from time to time) or in the event of misconduct.

General employee shares up to a value of $1,000 of Company shares are offered to each eligible employee when the Group's performance is on target, measured against a scorecard of objectives for the financial year. These shares are held in trust restricted from dealing for three years and in Australia and Asia are not subject to forfeiture. In New Zealand and the United States, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years and in the UK these shares are forfeited if an employee is summarily dismissed prior to the end of three years.

Long Term Incentives (LTI) help to drive management decisions focussed on the long term prosperity of the Company through the use of performance hurdles. The review of the Performance and Reward framework in 2009 saw changes made to the LTI programmes across the Group. In December 2009 the Executive LTI programme was introduced for senior executives. 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 year restriction period and during the restriction period an executive will forfeit their shares for voluntary cessation of employment, if compliance requirements are not met or if performance hurdles are not met.

For other Group senior employees, the Restricted Share Plan was introduced. A $4,000 target award will be made based on Group performance and eligibility is based on service and threshold performance and compliance outcomes. An employee can forfeit shares for voluntary cessation of employment with the Group or failure to meet compliance requirements within the three year restriction period.

37 Shares, performance options and performance rights (continued)

Other employee share offers include various other offers made to employees of the Group from time to time. These include MLC Ownership shares which are provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. Due to changes to the Australian tax legislation in July 2009, these shares no longer have a restriction period. They are forfeited for misconduct.

Non-executive directors' shares have not been allocated to non-executive directors during the financial year due to the termination of the non-executive director share plan, following changes to the Australian tax legislation on employee equity schemes. Prior to this, non-executive director shares were provided to non-executive directors to ensure they receive at least 10% of their fees in the form of Company shares. Non-executive directors were also able to nominate to receive up to 40% of their fees in shares to provide flexibility in their remuneration structure.

For further details on non-executive remuneration, refer to the Remuneration report.

Performance options and **performance rights** are used to provide long-term incentives in recognition of executive potential and talent in the Group. They are also used instead of shares, to provide rewards under the above employee programmes to employees in some countries (such as New Zealand and Hong Kong) for jurisdictional reasons.

A variety of performance measures are used for different grants of long-term incentives (taking the form of shares, performance options, or performance rights) including total shareholder return (TSR) compared against peer group companies, and regional or Group ROE and cash earnings. The measures used will depend on the level and impact of the participant's role, the business or region in which they work, and the relevant programme. Vesting generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). The performance options and performance rights generally have an expiry date between three and eight years from the effective date if unexercised.

Each performance option or performance right is exchanged for one fully paid ordinary share in the Company upon exercise, subject to standard adjustments for capital actions. The exercise price for performance options is generally the market price for the Company's fully paid ordinary shares as at the date the performance option was granted or such other relevant date determined by the Board Remuneration Committee. No exercise price is payable by the holder on exercise of performance rights.

Details of shares are set out in Table 1. Details of performance options and performance rights are set out in Tables 2, 3 and 4.

Table 1 Employee share plans

Current employee share plans	No. of fully paid ordinary shares granted for the year ended 30 Sep 2010	Weighted average fair value	No. of fully paid ordinary shares granted for the year ended 30 Sep 2009	Weighted average fair value
Salary sacrifice shares	90,007	$26.43	493,340	$19.87
Short-term incentive shares	2,629,798	$28.86	2,483,751	$25.15
Commencement and recognition retention shares	2,327,757	$25.51	1,659,865	$19.69
General employee shares	885,752	$28.07	1,654,120	$19.19
Long-term incentive shares	1,499,387	$22.21	3,814,762	$19.76
Other employee shares	112,707	$26.14	142,393	$23.40
Non-executive directors' shares	-	-	24,589	$22.36

The closing market price of the Company's shares at 30 September 2010 was $25.34 (2009: $30.76). The volume weighted average share price during the year ended 30 September 2010 was $26.35 (2009: $22.27).

Table 2 Summary of executive share option plan and performance rights movements

	Performance options		Performance rights	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Equity instruments outstanding as at 30 September 2008	54,545,488	$34.09	9,948,892	-
Granted	1,760,911	$24.53	701,446	-
Forfeited	(1,481,529)	$33.93	(272,686)	-
Exercised	(780)	$28.87	(2,769)	-
Expired	(9,225,071)	$28.59	(548,354)	-
Equity instruments outstanding as at 30 September 2009	45,599,019	$34.84	9,826,529	-
Equity instruments exercisable as at 30 September 2009	1,146,237	$34.53	2,854	-
Granted	-	-	230,458	-
Forfeited	(706,856)	$37.29	(202,262)	-
Exercised	-	-	(274,666)	-
Expired	(15,922,126)	$34.12	(2,487,883)	-
Equity instruments outstanding as at 30 September 2010	28,970,037	$35.13	7,092,176	-
Equity instruments exercisable as at 30 September 2010	1,123,519	$34.53	83,619	-

37 Shares, performance options and performance rights (continued)

Table 3 Executive share option plan and performance rights outstanding

Terms and conditions	No. outstanding at 30 Sep 2010	Range of exercise prices	Weighted average remaining life (months)	No. outstanding at 30 Sep 2009	Range of exercise prices	Weighted average remaining life (months)
Performance options						
External hurdle [(1)]	16,870,677	$19.89 - $43.43	18	31,940,448	$19.89 - $43.43	20
Internal hurdle [(2)]	12,099,360	$34.53 - $40.91	19	13,658,571	$34.53 - $40.91	30
Individual hurdle [(3)]	-	-	-	-	-	-
Performance rights						
External hurdle [(1)]	3,521,750	-	15	5,395,596	-	22
Internal hurdle [(2)]	3,342,444	-	19	4,200,235	-	30
Individual hurdle [(3)]	227,982	-	16	230,698	-	25

(1) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as Cash Earnings and ROE compared to business plan.*

(3) *Vesting is determined by individual performance or time-based hurdles.*

Table 4 Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair valuation calculation of performance options and performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance options and performance rights which have non-market based performance hurdles attached. For further details on the fair value methodology, refer to *Note 1(m).*

	2010	2009
Weighted average values		
Contractual life (years)	2.7	4.9
Risk-free interest rate (per annum)	4.66%	2.49%
Expected volatility of share price	40.00%	25.27%
Closing share price on grant date	$27.20	$19.67
Dividend yield (per annum)	6.40%	5.30%
Exercise price of performance options	-	$19.89
Fair value of performance options	-	$3.63
Fair value of performance rights	$10.44	$12.69
'No hurdle' value of performance rights	$24.58	$17.45
Expected time to vesting (years)	2.01	3.61

38 Average balance sheets and related interest

The following tables set forth the major categories of interest-earning assets and interest-bearing liabilities, together with their respective interest rates earned or incurred by the Group. Averages are predominantly daily averages. Interest income figures include interest income on impaired assets to the extent cash payments have been received. Amounts classified as Other International represent interest earning assets or interest bearing liabilities of the controlled entities and overseas branches, domiciled in New Zealand, United States and Asia. Impaired assets are included within loans and advances in interest earning assets.

Average assets and interest income

	2010			2009		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-earning assets						
Due from other banks						
Australia	**14,057**	**510**	**3.6%**	14,923	608	4.1%
Europe	**22,260**	**110**	**0.5%**	23,305	462	2.0%
Other International	**3,851**	**54**	**1.4%**	4,591	85	1.9%
Marketable debt securities						
Australia	**24,197**	**973**	**4.0%**	29,239	1,595	5.5%
Europe	**13,756**	**144**	**1.0%**	14,498	347	2.4%
Other International	**10,174**	**218**	**2.1%**	12,881	378	2.9%
Loans and advances - housing						
Australia	**169,455**	**10,428**	**6.2%**	153,565	9,375	6.1%
Europe	**21,682**	**735**	**3.4%**	25,333	982	3.9%
Other International	**21,932**	**1,377**	**6.3%**	21,634	1,572	7.3%
Loans and advances - non-housing						
Australia	**96,214**	**7,197**	**7.5%**	93,275	6,680	7.2%
Europe	**44,860**	**1,827**	**4.1%**	58,738	2,903	4.9%
Other International	**31,176**	**1,576**	**5.1%**	33,176	1,914	5.8%
Acceptances						
Australia	**52,948**	**3,919**	**7.4%**	55,303	3,604	6.5%
Europe	**9**	**-**	**-**	4	-	-
Other interest-earning assets						
Australia	**3,260**	**520**	**n/a**	2,951	395	n/a
Europe	**13,975**	**187**	**n/a**	11,924	166	n/a
Other International	**2,778**	**49**	**n/a**	4,017	36	n/a
Total average interest-earning assets and interest revenue by						
Australia	**360,131**	**23,547**	**6.5%**	349,256	22,257	6.4%
Europe	**116,542**	**3,003**	**2.6%**	133,802	4,860	3.6%
Other International	**69,911**	**3,274**	**4.7%**	76,299	3,985	5.2%
Total average interest-earning assets and interest revenue	**546,584**	**29,824**	**5.5%**	559,357	31,102	5.6%
Average non-interest-earning assets						
Investments relating to life insurance business [(1)]						
Australia	**60,304**			48,853		
Other International	**42**			38		
Other assets	**63,626**			84,353		
Total average non-interest-earning assets	**123,972**			133,244		
Provision for doubtful debts						
Australia	**(3,142)**			(2,532)		
Europe [(2)]	**(991)**			(1,082)		
Other International	**(361)**			(297)		
Total average assets	**666,062**			688,690		

(1) *Included within investments relating to life insurance business are interest earning debt securities. The interest earned from these securities is reported in life insurance income, and has therefore been treated as non-interest earning for the purposes of this note. The assets and liabilities held in the statutory funds of the Group's Australian life insurance business are subject to the restrictions of the Life Insurance Act 1995 (Cth).*

(2) *For the year ended 30 September 2009, $311 million has been reclassified in Other assets.*

Notes to the financial statements

38 Average balance sheets and related interest (continued)

Average liabilities and interest expense

	2010			2009		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Average interest-bearing liabilities						
Due to other banks						
Australia	**17,452**	**688**	**3.9%**	17,641	684	3.9%
Europe	**15,861**	**27**	**0.2%**	23,625	402	1.7%
Other International	**5,154**	**80**	**1.6%**	9,958	186	1.9%
On-demand and short-term deposits						
Australia	**87,052**	**2,775**	**3.2%**	85,852	2,313	2.7%
Europe	**29,884**	**147**	**0.5%**	32,359	284	0.9%
Other International	**13,496**	**178**	**1.3%**	12,505	232	1.9%
Certificates of deposit						
Australia	**24,810**	**1,046**	**4.2%**	33,038	1,687	5.1%
Europe	**33,759**	**145**	**0.4%**	32,065	500	1.6%
Other International	**7,393**	**94**	**1.3%**	9,854	287	2.9%
Term deposits						
Australia	**80,960**	**4,147**	**5.1%**	64,928	3,341	5.1%
Europe	**18,190**	**394**	**2.2%**	20,687	721	3.5%
Other International	**27,895**	**851**	**3.1%**	25,470	1,043	4.1%
Other borrowings						
Australia	**8,199**	**318**	**3.9%**	12,417	576	4.6%
Europe	**144**	**1**	**0.7%**	145	5	3.5%
Other International	**13,409**	**53**	**0.4%**	16,630	251	1.5%
Liability on acceptances						
Australia	**15,413**	**1,122**	**7.3%**	17,049	1,200	7.0%
Europe	**9**	**-**	**-**	4	-	-
Bonds, notes and subordinated debt						
Australia [(1)]	**80,266**	**4,570**	**5.7%**	89,453	4,213	4.7%
Europe	**8,217**	**111**	**1.4%**	13,082	413	3.2%
Other International	**7,200**	**255**	**3.5%**	6,929	245	3.5%
Other interest-bearing liabilities						
Australia	**228**	**23**	**n/a**	265	73	n/a
Europe	**39**	**93**	**n/a**	47	27	n/a
Other International	**2,460**	**450**	**n/a**	1,504	351	n/a
Total average interest-bearing liabilities and interest expense by						
Australia	**314,380**	**14,689**	**4.7%**	320,643	14,087	4.4%
Europe	**106,103**	**918**	**0.9%**	122,014	2,352	1.9%
Other International	**77,007**	**1,961**	**2.5%**	82,850	2,595	3.1%
Total average interest-bearing liabilities and interest expense	**497,490**	**17,568**	**3.5%**	525,507	19,034	3.6%
Average non-interest-bearing liabilities						
Deposits not bearing interest						
Australia	**11,909**			9,894		
Europe	**1,889**			1,942		
Other International	**1,452**			1,444		
Life policy liabilities						
Australia	**51,702**			42,950		
Other liabilities	**63,063**			70,459		
Total average non-interest-bearing liabilities	**130,015**			126,689		
Total average liabilities	**627,505**			652,196		

(1) *The movement in the average rate paid on long term borrowings has been affected by the classification of the principal amount of the cross-currency swaps that hedge against the underlying borrowings in Australia. The cross-currency swaps are classified as non-interest earning assets. If the cross-currency swaps were included in bonds, notes and subordinated debt, the average rate would be as follows: 5.4% for the year ended 30 September 2010 and 5.0% for the year ended 30 September 2009.*

38 Average balance sheets and related interest (continued)

Average equity

	2010			2009		
	Average balance $m	**Interest $m**	**Average rate % pa**	Average balance $m	Interest $m	Average rate % pa
Ordinary shares	**17,831**			13,954		
Trust Preferred Securities	**975**			975		
Trust Preferred Securities II	**1,014**			1,014		
National Income Securities	**1,945**			1,945		
National Capital Instruments	**397**			397		
BNZ Income Securities	**380**			380		
BNZ Income Securities 2	**203**			53		
Contributed equity	**22,745**			18,718		
Reserves	**(143)**			31		
Retained profits	**15,940**			17,730		
Parent entity interest	**38,542**			36,479		
Non-controlling interest in controlled entities	**15**			15		
Total average equity	**38,557**			36,494		
Total average liabilities and equity	**666,062**			688,690		

39 Interest rate risk

Fluctuations in interest over time can expose the Group to reduced earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, basis risk and other characteristics of assets and corresponding liabilities. These mismatches are actively managed as part of the overall interest rate risk management framework which is conducted on a regional basis in accordance with Group Treasury and Wholesale Banking policies and guidelines. In managing structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholder wealth.

The following tables represent a breakdown, by repricing dates or contractual maturity, whichever is the earlier, of the Group's assets, liabilities and off-balance sheet items for the last two years at 30 September. Repricing periods or contractual maturities of greater than 12 months indicate an exposure to fixed rate interest rate risk. Repricing periods or contractual maturities of less than 12 months indicate an exposure to variable rate interest rate risk and may also contain fixed rate interest rate risk elements.

Off-balance sheet items include undrawn lending commitments and the notional principal value of derivatives.

39 Interest rate risk (continued)

	Repricing period/contract maturity								
Group - 2010	0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/bearing $m	Total $m
Assets									
Cash and liquid assets	18,011	5,754	-	-	-	-	-	2,307	26,072
Due from other banks	34,726	2,734	-	-	-	-	-	219	37,679
Trading derivatives	-	-	-	-	-	-	-	38,340	38,340
Trading securities	9,084	7,382	1,595	1,408	1,837	262	3,693	560	25,821
Investments - available for sale	8,820	2,271	715	839	277	129	1,371	150	14,572
Investments - held to maturity	10,498	1,440	449	427	529	-	446	-	13,789
Investments relating to life insurance business	1,483	2,026	2,016	1,385	1,371	651	3,623	52,005	64,560
Other financial assets at fair value	21,756	3,418	2,734	2,438	1,902	1,548	3,448	165	37,409
Hedging derivatives	-	-	-	-	-	-	-	3,712	3,712
Loans and advances	286,502	22,900	18,390	9,558	5,474	2,317	9,694	-	354,835
Due from customers on acceptances	49,675	-	-	-	-	-	-	3	49,678
All other assets	-	-	-	-	-	-	-	19,485	19,485
Total assets	440,555	47,925	25,899	16,055	11,390	4,907	22,275	116,946	685,952
Liabilities and equity									
Due to other banks	35,585	743	824	6	-	-	-	454	37,612
Trading derivatives	-	-	-	-	-	-	-	40,587	40,587
Other financial liabilities at fair value	8,010	4,976	1,449	651	1,048	1,411	2,335	7	19,887
Hedging derivatives	-	-	-	-	-	-	-	1,444	1,444
Deposits	263,259	51,491	3,300	1,571	382	1,473	18	17,393	338,887
Other borrowings	12,985	1,360	-	-	-	-	-	-	14,345
Liability on acceptances	12,549	-	-	-	-	-	-	-	12,549
Life policy liabilities	-	-	-	-	-	-	-	54,354	54,354
Bonds, notes and subordinated debt	41,825	6,178	9,562	11,286	5,793	10,375	8,184	-	93,203
Other debt issues	1,834	-	-	-	-	-	668	-	2,502
All other liabilities and equity	-	-	-	-	-	-	-	70,582	70,582
Total liabilities and equity	376,047	64,748	15,135	13,514	7,223	13,259	11,205	184,821	685,952
Off-balance sheet items attracting interest rate sensitivity	(66,447)	26,198	11,739	5,905	5,569	14,380	2,656	-	-
Total interest rate repricing gap	(1,939)	9,375	22,503	8,446	9,736	6,028	13,726	(67,875)	-
Cumulative interest rate repricing gap	(1,939)	7,436	29,939	38,385	48,121	54,149	67,875	-	

39 Interest rate risk (continued)

	Repricing period/contract maturity								
Group - 2009	0 to 3 month(s) $m	3 to 12 months $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Over 5 years $m	Non-interest-earning/ bearing $m	Total $m
Assets									
Cash and liquid assets	18,510	4,844	-	-	-	-	-	2,480	25,834
Due from other banks	29,950	3,163	-	-	-	-	-	152	33,265
Trading derivatives	-	-	-	-	-	-	-	37,030	37,030
Trading securities	22,174	45	-	-	-	-	-	-	22,219
Investments - available for sale	5,767	50	426	515	9	116	1,032	18	7,933
Investments - held to maturity	15,220	438	-	-	227	512	1,132	-	17,529
Investments relating to life insurance business	78	240	2,692	303	343	5,158	2,182	43,258	54,254
Other financial assets at fair value	14,773	3,582	3,001	2,421	1,834	1,820	4,099	-	31,530
Hedging derivatives	-	-	-	-	-	-	-	3,926	3,926
Loans and advances	266,832	26,138	21,231	16,517	6,203	4,543	3,310	-	344,774
Due from customers on acceptances	55,031	-	-	-	-	-	-	4	55,035
All other assets	-	-	-	-	-	-	-	20,791	20,791
Total assets	428,335	38,500	27,350	19,756	8,616	12,149	11,755	107,659	654,120
Liabilities and equity									
Due to other banks	32,087	2,176	-	912	-	-	-	973	36,148
Trading derivatives	-	-	-	-	-	-	-	38,090	38,090
Other financial liabilities at fair value	12,016	5,323	321	1,293	410	1,077	871	-	21,311
Hedging derivatives	-	-	-	-	-	-	-	2,131	2,131
Deposits	254,718	44,041	4,613	1,478	154	364	2	14,309	319,679
Other borrowings	14,596	1,913	-	-	-	-	-	-	16,509
Liability on acceptances	16,887	-	-	-	-	-	-	4	16,891
Life policy liabilities	-	-	-	-	-	-	-	47,314	47,314
Bonds, notes and subordinated debt	47,516	6,455	7,707	9,977	6,399	5,594	7,144	-	90,792
Other debt issues	1,944	-	-	-	-	-	683	-	2,627
All other liabilities and equity	-	-	-	-	-	-	-	62,628	62,628
Total liabilities and equity	379,764	59,908	12,641	13,660	6,963	7,035	8,700	165,449	654,120
Off-balance sheet items attracting interest rate sensitivity	(41,335)	23,010	4,336	2,660	3,651	4,686	2,992	-	-
Total interest rate repricing gap	7,236	1,602	19,045	8,756	5,304	9,800	6,047	(57,790)	-
Cumulative interest rate repricing gap	7,236	8,838	27,883	36,639	41,943	51,743	57,790	-	

40 Notes to the cash flow statement

(a) Reconciliation of net profit attributable to owners of the Company to net cash provided by operating activities

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Net profit attributable to owners of the Company	**4,224**	2,589	**3,550**	4,035
(Deduct)/add non-cash items in the income statement:				
(Increase)/decrease in interest receivable	**(1,090)**	1,008	**(653)**	269
Increase/(decrease) in interest payable	**1,269**	(1,372)	**1,072**	(970)
Decrease in unearned income and deferred net fee income	**(235)**	(510)	**(165)**	(100)
Fair value movements:				
Assets, liabilities and derivatives held at fair value	**123**	407	**(56)**	(859)
Net adjustment to bid/offer valuation	**(15)**	99	**(14)**	99
Increase in personnel provisions	**131**	162	**64**	103
(Decrease)/increase in other operating provisions	**(285)**	54	**(179)**	70
Equity-based compensation recognised in equity or reserves	**213**	244	**213**	244
Superannuation costs - defined benefit pension scheme	**52**	11	**3**	4
Impairment losses on non-financial assets	**7**	19	**42**	31
Impairment losses on financial assets	**3**	52	**-**	57
Charge to provide for doubtful debts	**2,791**	3,815	**1,951**	2,683
Depreciation and amortisation expense	**670**	584	**367**	357
Gain on bargain purchase	**(4)**	-	**-**	-
Movement in life insurance policyholder liabilities	**3,230**	1,099	**-**	-
Unrealised loss on investments relating to life insurance business	**85**	589	**-**	-
Decrease in other assets	**787**	541	**682**	702
Increase/(decrease) in other liabilities	**258**	(607)	**(219)**	(452)
Increase in income tax payable	**328**	545	**133**	474
(Decrease)/increase in deferred tax liabilities	**(17)**	1,087	**(76)**	454
(Increase)/decrease in deferred tax assets	**(46)**	(657)	**39**	(499)
Operating cash flow items not included in profit	**(6,612)**	2,961	**(4,601)**	3,748
Investing or financing cash flows included in profit				
Profit on investments classified as available for sale	**(28)**	(12)	**(13)**	(5)
Loss/(profit) on sale of property, plant, equipment and other assets	**26**	(7)	**28**	8
Net cash provided by operating activities	**5,865**	12,701	**2,168**	10,453

(b) Reconciliation of cash and cash equivalents

Cash and cash equivalents comprise 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) and include cash and liquid assets, amounts due from other banks including securities held under reverse repurchase agreements, and short-term government securities.

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	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Assets				
Cash and liquid assets	**26,072**	25,834	**21,570**	23,437
Treasury and other eligible bills	**157**	1,283	**44**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**34,148**	33,185	**26,624**	26,173
	60,377	60,302	**48,238**	49,610
Liabilities				
Due to other banks	**(34,694)**	(36,148)	**(32,612)**	(31,377)
Total cash and cash equivalents	**25,683**	24,154	**15,626**	18,233

(c) Non-cash financing and investing activities

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
New share issues				
Dividend reinvestment plan	**808**	1,540	**808**	1,540
Bonus share plan	**46**	60	**46**	60
Movement in assets under finance lease	**(14)**	(16)	**(14)**	(16)

40 Notes to the cash flow statement (continued)

(d) Acquisitions of controlled entities and business combinations

The following acquisitions were made during the year to September 2010:

- on 28 June 2010, the Group acquired 100% of the issued share capital of Presima Inc, a manager of listed real estate investment trusts based in Montreal, Canada. The acquisition expands the nabInvest division of MLC & NAB Wealth's direct asset management operations;
- on 4 June 2010, Great Western Bank (GWB) acquired the banking franchise including all deposits and loans of TierOne Bank in Nebraska, United States from the Federal Deposit Insurance Corporation. The acquisition expanded the GWB footprint in the key region of Nebraska;
- on 23 April 2010, GWB acquired all 10 branches of F&M Bank. The acquisition establishes a strong foothold for GWB's operations in the Midwest states of the United States and provides the opportunity to leverage existing financial stability and expand, particularly in the areas of consumer, business and agricultural banking. No goodwill was recorded as part of this transaction and a gain on bargain purchase has been reflected within other income in the income statement;
- on 4 November 2009, the Group acquired 100% of the issued share capital of Hong Kong based investment advisory firm Calibre Asset Management Ltd as its first expansion into the Asian asset management industry to increase its offering to customers;
- on 1 November 2009, National Wealth Management Holdings Limited acquired 80.1% of Goldman Sachs JBWere's (GSJBW) private wealth management business in Australia and New Zealand which has subsequently been rebranded as JBWere. The alliance incorporates a strategic distribution relationship which enables GSJBW to distribute certain products to JBWere on an exclusive or preferred basis and creates a highly competitive expanded offering for their clients. The acquisition enhances the Group's service offering in delivering advice and wealth solutions to high net worth clients. The JBWere acquisition agreement contains a put and call option whereby the Group will acquire, or GSJBW will sell to the Group, the remaining 19.9% of JBWere for an agreed consideration of $20 million. The fair value of this option has been assessed as $16 million as at acquisition date. The option can be exercised by either GSJBW (put option) or the Group (call option) after a minimum 3 year period from the acquisition date. The option will result in the Group acquiring the remaining 19.9% of JBWere from GSJBW by the exercise of either the put or the call option by the relevant party. Accordingly, for accounting purposes, the Group controls and consolidates 100% of JBWere's assets, liabilities and profits from 1 November 2009. The acquisition agreement also contains provision for contingent cash consideration of up to $80 million to be payable to GSJBW based on the net revenue performance of JBWere over each of the 3 years following the acquisition date. The fair value of this contingent consideration has been assessed as nil as at acquisition date. As at 30 September 2010 there has been no change in the recognised amount of the contingent consideration;
- on 30 October 2009, the Group acquired 100% of the issued share capital of mortgage management business, Challenger Mortgage Management Holdings Pty Ltd. The acquisition enhances the Group's organic growth possibilities as it provides additional distribution and capability in Australian mortgages and increases the Group's presence in the broker distribution segment. The name of the company has subsequently been changed to Advantedge Financial Services Holdings Pty Ltd (Advantedge). As part of the transaction, on 4 November 2009 the Group also acquired a select portfolio of $4.5 billion residential mortgage loans; and
- on 1 October 2009, the Group acquired 100% of the issued share capital of life insurance and investment management business, Aviva Australia Holdings Limited. The acquisition enhances the Group's offering in key wealth segments including insurance and investment platforms, adding scale, efficiency and new capabilities to the operations. The name of the company has subsequently been changed to MLC Wealth Management Limited (MLC Wealth).

With the exception of the acquisition of F&M Bank, goodwill arose in all acquisitions as they included a premium for the intrinsic value in the expanded distribution networks and capabilities which resulted in an expanded offering to customers. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred or licensed or exchanged, either individually or together.

With the exception of the goodwill arising from the acquisition of TierOne Bank, none of the goodwill is expected to be deductible for tax purposes.

Accounting for the acquisitions of Presima Inc, TierOne Bank and F&M Bank have only been provisionally determined as at 30 September 2010.

Since their respective acquisition dates, the acquired businesses have contributed the following to net operating income and net profit to the Group:

- MLC Wealth: net operating income of $254 million and net profit of $128 million;
- JBWere: net operating income of $125 million and net loss of $19 million;
- Advantedge: net operating income of $149 million and net profit of $53 million; and
- TierOne Bank: net operating income of $48 million and net profit of $11 million.

The net operating income and net profit contributed by the other acquired businesses for the period from acquisition to 30 September 2010 is immaterial.

As the acquisitions of MLC Wealth, JBWere, Advantedge and Calibre occurred near the beginning of the reporting period there would have been no material difference to the amounts above had the acquisitions occurred on 1 October 2009.

If the remaining acquisitions had been effected at 1 October 2009, the net operating income and net profit of the Group for the year ended 30 September 2010 is estimated to have been $111 million and $23 million higher respectively.

During the year to 30 September 2009 GWB acquired $662 million of assets and assumed $686 million of liabilities associated with Colorado based bank branches of First Community Bank and Wachovia for nil consideration. The assets acquired consisted of $194 million of cash and cash equivalents and $468 million of other assets.

40 Notes to the cash flow statement (continued)

	Group 2010 $m	Group 2009 $m
Consideration transferred		
Cash paid	**6,016**	-
Deferred cash consideration	**21**	-
Total consideration transferred	**6,037**	-

	Group 2010 $m	Group 2009 $m
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and liquid assets	**859**	194
Due from other banks	**163**	-
Trading derivatives	**3**	-
Investments - available for sale	**287**	-
Investments relating to life insurance business	**4,553**	-
Loans and advances	**6,615**	434
Property, plant and equipment	**20**	26
Other intangible assets	**552**	8
Deferred tax assets	**50**	-
Other assets	**491**	-
Deposits and other borrowings	**(3,385)**	(679)
Life policy liabilities	**(3,784)**	-
Current tax liabilities	**(12)**	-
Provisions	**(66)**	-
External unitholders' liability	**(434)**	-
Deferred tax liabilities	**(146)**	-
Other liabilities	**(164)**	(7)
Net identifiable assets and liabilities	**5,602**	(24)
Goodwill on acquisition	**439**	24
Gain on bargain purchase	**(4)**	-
Total purchase consideration	**6,037**	-
Less Deferred consideration	**(21)**	-
Less: Cash and cash equivalents acquired		
Cash and liquid assets	**(859)**	(194)
Due from other banks	**(163)**	-
Net cash outflow/(inflow)	**4,994**	(194)

Notes to the financial statements

40 Notes to the cash flow statement (continued)

Details of the acquisitions for the year to 30 September 2010 were as follows:

	Group						
	Advantedge 2010 $m	JBWere 2010 $m	MLC Wealth 2010 $m	TierOne Bank 2010 $m	F&M Bank 2010 $m	Other businesses 2010 $m	Total 2010 $m
Consideration transferred							
Cash paid	4,888	84	902	106	34	2	6,016
Deferred cash consideration	-	16	-	-	-	5	21
Total consideration transferred	4,888	100	902	106	34	7	6,037

	Group						
	Advantedge 2010 $m	JBWere 2010 $m	MLC Wealth 2010 $m	TierOne Bank 2010 $m	F&M Bank 2010 $m	Other businesses 2010 $m	Total 2010 $m
Recognised amounts of identifiable assets acquired and liabilities assumed							
Cash and liquid assets	20	-	300	530	7	2	859
Due from other banks	-	-	-	-	163	-	163
Trading derivatives	-	-	3	-	-	-	3
Investments - available for sale	-	-	18	97	172	-	287
Investments relating to life insurance business	-	-	4,553	-	-	-	4,553
Loans and advances[1]	4,517	-	5	1,974	119	-	6,615
Property, plant and equipment	2	-	7	1	10	-	20
Other intangible assets	124	46	323	54	5	-	552
Deferred tax assets	3	-	47	-	-	-	50
Other assets	9	-	130	341	10	1	491
Deposits and other borrowings	-	-	-	(2,941)	(444)	-	(3,385)
Life policy liabilities	-	-	(3,784)	-	-	-	(3,784)
Current tax liabilities	(1)	-	(11)	-	-	-	(12)
Provisions	(4)	-	(62)	-	-	-	(66)
External unitholders' liability	-	-	(434)	-	-	-	(434)
Deferred tax liabilities	(37)	(14)	(93)	-	(2)	-	(146)
Other liabilities	(24)	-	(113)	(24)	(2)	(1)	(164)
Net identifiable assets and liabilities	4,609	32	889	32	38	2	5,602
Goodwill on acquisition	279	68	13	74	-	5	439
Gain on bargain purchase	-	-	-	-	(4)	-	(4)
Total purchase consideration	4,888	100	902	106	34	7	6,037
Less: Deferred consideration	-	(16)	-	-	-	(5)	(21)
Less: Cash and cash equivalents acquired							
Cash and liquid assets	(20)	-	(300)	(530)	(7)	(2)	(859)
Due from other banks	-	-	-	-	(163)	-	(163)
Net cash outflow/(inflow)	4,868	84	602	(424)	(136)	-	4,994

[1] At the date of the respective acquisitions, loans and advances acquired had gross contractual amounts receivable of $4,526 million for Advantedge, $6 million for MLC Wealth, $2,223 million for TierOne Bank and $119 million for F&M Bank. At the date of the respective acquisitions, the best estimate of the contractual cash flows not expected to be collected was $9 million for Advantedge, $1 million for MLC Wealth and $2 million for F&M Bank. At the date of the TierOne Bank acquisition, the best estimate of the contractual cash flows not expected to be collected was $249 million, in respect of which an indemnification asset was recognised and included in other assets for $209 million in relation to the loss sharing agreement entered into with the Federal Deposit Insurance Corporation as part of the acquisition.

41 Particulars in relation to controlled entities

The following table presents the material controlled entities of the Group. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated/formed in
National Australia Bank Limited		Australia
National Equities Limited (1)	100	Australia
National Americas Holdings LLC	100	United States
Great Western Bancorporation Inc	100	United States
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
BNZ Investments Limited	100	New Zealand
BNZ Branch Properties Limited	100	New Zealand
National Australia Group Europe Limited	100	England
Clydesdale Bank PLC	100	Scotland
National Australia Group Europe Investments Limited	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Lifetime Company Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
National Wealth Management International Holdings Limited	100	Australia
National Corporate Investment Services Limited	100	Australia
National Australia Trustees Limited	100	Australia
National Australia Group Services Limited	100	Australia
NBA Properties Limited (1)	100	Australia
National Australia Corporate Services Limited (1)	100	Australia
ARDB Limited (1)	100	Australia
National Australia Finance (Asia) Limited	100	Hong Kong

(1) *These controlled entities and Australian Banks' Export Re-Finance Corporation Limited, C.B.C. Holdings Limited, C.B.C. Properties Limited, NBA Leasing Pty Limited, NBA Properties (Qld) Limited and NBA Properties (Vic) Limited have entered into a deed of cross guarantee (refer to Note 42(c) for details) with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. 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 the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report.*

Section 323D(3) of the *Corporations Act* 2001 (Cth) requires the Company to ensure that its controlled entities have the same financial year as the Company. Pursuant to ASIC instrument 06/480 dated 5 June 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

In addition, pursuant to ASIC instrument 09-00818 dated 30 September 2009, the Company is relieved from this requirement in respect of certain securitisation special purpose entities ("customer trusts") to which the Group provides liquidity facilities and which are consolidated by the Company. Each customer trust prepares annual and half-year financial reports in accordance with its constitution. The relief is granted until September 2012.

42 Contingent liabilities and credit commitments

The following table shows the level of the Group's contingent liabilities for the last two years as at 30 September:

	Group		Company	
	Notional amount		Notional amount	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Contingent liabilities				
Guarantees	**4,346**	4,006	**6,177**	6,005
Standby letters of credit	**1,875**	2,239	**1,875**	2,239
Documentary letters of credit	**604**	724	**270**	335
Performance-related contingencies	**3,405**	4,109	**2,805**	2,679
Total contingent liabilities (1)	**10,230**	11,078	**11,127**	11,258

(1) *The maximum potential amount of future payments is reduced by any amounts that may be recovered under the recourse provisions.*

	Group		Company	
	Notional amount		Notional amount	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Credit-related commitments				
Underwriting facilities	**1**	10	**1**	10
Binding credit commitments (1)	**110,296**	110,554	**82,901**	82,440
Total credit-related commitments	**110,297**	110,564	**82,902**	82,450

(1) *Includes the notional amount and the credit equivalent for credit derivatives where the Group has sold credit protection.*

Geographical concentrations of credit-related commitments

The following table shows the level of geographical concentrations of credit-related commitments for the last two years as at 30 September:

	Group	
	2010	2009
	$m	$m
Australia	**77,408**	76,301
Europe	**19,801**	19,944
New Zealand	**9,757**	10,698
United States	**2,929**	3,371
Asia	**402**	250
Total	**110,297**	110,564

Investment commitments contracted for as at the reporting date are set out below:

	Group	
	2010	2009
	$m	$m
Investment commitments		
Statutory funds (1)	**1,351**	1,598
Total investment commitments	**1,351**	1,598

(1) *In the normal course of business of the Group's life insurance business statutory funds, various types of investment contracts are entered into that give rise to contingent or future obligations.*

Other commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Information technology and telecommunication services				
Due within one year	**74**	91	**12**	24
Due after one year but not later than five years	**86**	127	**3**	15
Total information technology and telecommunication services	**160**	218	**15**	39
Operational, property and support services				
Due within one year	**143**	121	**86**	48
Due after one year but not later than five years	**204**	176	**131**	106
Due after five years	**7**	-	**7**	-
Total operational, property and support services	**354**	297	**224**	154

Assets pledged

Assets are pledged as collateral predominantly under repurchase agreements with other banks. The assets pledged by the Group are strictly for the purposes 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.

42 Contingent liabilities and credit commitments (continued)

	Group		Company	
	2010	2009	**2010**	2009
	$m	$m	**$m**	$m
Available for sale investments	**896**	484	**-**	-
Assets at fair value through profit or loss	**13,631**	11,656	**13,170**	11,328
Total assets pledged	**14,527**	12,140	**13,170**	11,328

(a) 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. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets.

(i) Guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- bank guarantees - a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- standby letters of credit - an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- documentary letters of credit - a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- performance-related contingencies - a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

Fees in relation to guarantees are collected over the life of the contract. Revenue is recognised on an accruals basis.

(ii) Clearing and settlement obligations

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

(iii) Inter-bank deposit agreement

The Company is a party to an inter-bank deposit agreement between the four major Australian banks. Each participant, including the Company, has a maximum commitment to provide a deposit of an amount of up to $2,000 million, for a period of 30 days, to any other participant experiencing liquidity problems. Repayment of the deposit by the recipient bank may be by cash or by transfer of mortgages securing eligible housing loans to the value of the deposit. The agreement is certified by APRA as an industry support contract under section 11CB of the *Banking Act* 1959 (Cth).

(iv) Legal proceedings

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

The Group does not consider that the outcome of any proceedings, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

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

(v) Contingent liability - exchangeable capital units capital raising

The Australian Taxation Office (ATO) has disallowed various deductions made by the Group in relation to exchangeable capital units (ExCaps) for the tax years 1997 to 2003. As at 30 September 2010, the maximum aggregate contingent exposure for the 1997 to 2003 tax years is approximately $486 million, being $309 million primary tax and $177 million interest and penalties (after tax). The Group has paid approximately $309 million of that exposure to the ATO in accordance with ATO practice on disputed assessments which was recognised in tax expense during 2009.

The Group did not claim tax deductions on outgoings in relation to the ExCaps after 1 October 2003 whilst the tax treatment was in dispute, and the ExCaps were redeemed during the 2007 year.

The Group disputes the ATO's tax treatment of the ExCaps and has appealed.

42 Contingent liabilities and credit commitments (continued)

(vi) Contingent liability - investigation of potential class actions

In April 2009, Maurice Blackburn Lawyers (an Australian law firm) announced that it was investigating a potential class action against the Group for alleged non-disclosures relating to the Group's exposure to Asset Backed Securities Collateralised Debt Obligations. The Group has received no detailed information from Maurice Blackburn Lawyers as to the nature of the possible claim. No proceeding has been initiated. If it is, it will be vigorously defended.

On 12 May 2010, Maurice Blackburn Lawyers announced that it was investigating a potential class action against all major Australian banks, including NAB, in relation to the payment of exception fees. On 22 September 2010, proceedings were issued against Australia and New Zealand Banking Group Ltd. The Group has received no detailed information from Maurice Blackburn Lawyers as to the nature of the possible claim. No proceeding has been initiated. If it is, it will be vigorously defended.

(vii) Contingent liability - United Kingdom financial services compensation scheme

The UK Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, the FSCS has raised borrowings from the UK Government to cover compensation in relation to protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions. In the interim the FSCS has estimated levies due to 31 March 2011 from the banking industry to support interest payments on the borrowings, and an accrued expense of £5.1 million is presently held for the Group's calculated liability for this period. If the assets of the failed institutions are insufficient to repay the Government loan, additional levies will become payable in future periods.

(viii) Contingent liability - United Kingdom claims for potential mis-selling of payment protection insurance (PPI)

Market-wide issues relating to the Payment Protection Insurance (PPI) claims handling are ongoing. On 8 October 2010 the British Bankers Association (BBA) filed papers with the High Court asking for a review of proposals by the Financial Services Authority contained in new rules that are due to be implemented at the end of this year. On behalf of the industry the BBA alleges that the rules require banks to apply sales standards retrospectively to a period before their introduction. Provision has been made for costs arising from claims received, although at this stage there remains uncertainty surrounding the potential impact.

(b) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements.

Refer to *Note 17* for a description of collateral held as security and other credit enhancements.

(c) Parent entity guarantees and undertakings

Excluded from the Group amounts disclosed above are the following guarantees and undertakings to entities in the Group:

- commercial paper issued by National Australia Funding (Delaware), Inc. totalling $4,606 million (2009: $7,666 million) guaranteed by the Company;
- from time to time, the Company provides letters to the UK Financial Services Authority in relation to its controlled entity Clydesdale Bank PLC. The letters acknowledge that the Company will make up any regulatory capital deficiency in Clydesdale Bank PLC as a result of losses on exposures to certain designated parties. As at 30 September 2010, the only such letter related to facilities provided by Clydesdale Bank PLC to its wholly owned controlled entity Clydesdale Bank Asset Finance Limited;
- the Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer;
- the Company has agreed to provide a guarantee and indemnity with respect to the obligations of NBA Properties (Vic) Limited under the leases and car park licences of the Group's premises at 800 and 808 Bourke Street, Docklands, Melbourne;
- 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 subsidiary of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- the Company has provided a guarantee of the obligations of National Australia Group Services Limited (a wholly owned controlled entity) pursuant to the sale agreement relating to the sale of the Custom Fleet business. The primary ongoing obligations of these companies under the sale agreement relate to warranties and indemnities to the buyers consistent with agreements of this nature; and
- pursuant to ASIC Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities *(refer to Note 41, footnote (1))* from the *Corporations Act* 2001 (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act* 2001 (Cth). If a winding-up occurs under other provisions of the *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.

42 Contingent liabilities and credit commitments (continued)

Closed group

The table below presents consolidated pro forma income statements and balance sheets for the Company and controlled entities which are party to the deed of cross guarantee, after eliminating all transactions between parties to the deed, which is known as a closed group.

	2010 $m	2009 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**4,672**	5,382
Income tax expense	**(1,072)**	(1,524)
Net profit	**3,600**	3,858
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**21,636**	23,529
Due from other banks	**30,102**	26,200
Trading derivatives	**37,561**	36,368
Trading securities	**23,386**	19,210
Investments - available for sale	**8,980**	3,659
Investments - held to maturity	**5,111**	5,201
Other financial assets at fair value	**13,996**	4,343
Hedging derivatives	**2,268**	1,885
Loans and advances	**269,807**	259,665
Due from customers on acceptances	**49,665**	55,031
Current tax assets	**128**	210
Property, plant and equipment	**1,174**	1,074
Investments in controlled entities	**17,674**	15,780
Goodwill and other intangible assets	**547**	520
Deferred tax assets	**1,459**	2,226
Other assets	**54,006**	56,303
Total assets	**537,500**	511,204
Liabilities		
Due to other banks	**34,267**	31,377
Trading derivatives	**38,194**	35,610
Other financial liabilities at fair value	**2,749**	3,671
Hedging derivatives	**811**	1,238
Deposits and other borrowings	**272,833**	251,083
Liability on acceptances	**12,536**	16,887
Provisions	**944**	1,064
Bonds, notes and subordinated debt	**83,559**	78,438
Other debt issues	**1,940**	1,963
Deferred tax liabilities	**45**	597
Other liabilities	**50,960**	52,178
Total liabilities	**498,838**	474,106
Net assets	**38,662**	37,098
Equity		
Contributed equity	**22,260**	21,351
Reserves	**160**	(60)
Retained profits	**16,242**	15,807
Total equity (parent entity interest)	**38,662**	37,098
Total equity	**38,662**	37,098

Notes to the financial statements

43 Financial risk management

Strategy in using financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets including lending to commercial and retail borrowers with a range of credit standings. The Group also seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to both meet all payments that might fall due, and funding business requirements.

The Group also trades in financial instruments where it takes positions in exchange traded and over-the-counter instruments, including derivatives, to manage risk and improve earnings. The Board places limits on the level of exposure that can be taken on traded financial instruments.

(a) Fair value hedges

The Group hedges part of its existing interest rate risk on fixed rate assets and liabilities and foreign currency risk on foreign denominated balances for any potential movement in the fair value. This is undertaken by using interest rate swaps, cross currency interest rate swaps and cross currency swaps. The fair value of these swaps is disclosed in *Note 11*.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable rate assets and liabilities, using 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 currencies other than an entity's functional currency.

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 prior periods (as part of hedge effectiveness assessment).

(c) Hedges of net investments in foreign operations

Borrowings of GBP695 million (2009: GBP723 million) have been designated as a hedge of a net investment in a subsidiary with a GBP functional currency. The hedges have been designated to protect against the Group's exposure to foreign exchange risk on this investment. Any gains or losses on the translation of this borrowing are transferred to equity to offset any gains or losses on translation of the net investment in the subsidiary. For the year ended 30 September 2010, there was no hedge ineffectiveness (2009: nil) recognised in profit or loss on hedges of net investments in foreign operations.

Credit risk

Credit is any transaction that creates an actual or potential obligation for a borrower to pay the Group. Credit risk is the potential that a borrower will fail to meet its obligations to the Group in accordance with agreed terms. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group 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 International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of 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.

(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 can 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 in 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.

43 Financial risk management (continued)

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 the effect of mitigation through use of master netting and collateral agreements. For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Financial assets				
Cash and liquid assets	**22,135**	23,808	**20,749**	22,671
Due from other banks	**37,679**	33,265	**30,102**	26,200
Trading derivatives	**38,340**	37,030	**37,832**	36,587
Trading securities	**25,821**	22,219	**23,386**	19,210
Investments - available for sale	**14,572**	7,933	**8,965**	3,650
Investments - held to maturity	**13,789**	17,529	**5,111**	5,201
Investments relating to life insurance business	**64,560**	54,254	**-**	-
Other financial assets at fair value	**37,409**	31,530	**13,996**	4,343
Hedging derivatives	**3,712**	3,926	**2,268**	1,885
Loans and advances	**361,603**	351,968	**275,088**	265,285
Due from customers on acceptances	**49,678**	55,035	**49,665**	55,031
Due from controlled entities	**-**	-	**49,556**	51,367
Other assets	**5,345**	5,430	**3,886**	3,630
	674,643	643,927	**520,604**	495,060
Contingent liabilities	**10,230**	11,078	**11,127**	11,258
Credit-related commitments	**110,297**	110,564	**82,902**	82,450
	120,527	121,642	**94,029**	93,708
Total credit risk exposure	**795,170**	765,569	**614,633**	588,768

Credit risk

The table below presents an analysis of the credit quality of financial assets other than loans and advances, 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-;
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB-; and
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ or worse.

Refer to *Note 17* for information about the credit quality of loans and advances that are neither past due nor impaired.

	Group							
	2010				2009			
	Due from other banks $m	**Investments - HTM $m**	**Investments - AFS [(1)] $m**	**Acceptances $m**	Due from other banks $m	Investments - HTM $m	Investments - AFS [(1)] $m	Acceptances $m
Senior investment grade	**34,966**	**9,254**	**14,188**	**11,182**	30,400	12,842	6,604	13,772
Investment grade	**2,086**	**3,769**	**231**	**25,490**	1,337	4,164	1,177	28,769
Sub-investment grade	**627**	**766**	**58**	**13,006**	1,528	523	36	12,494
	37,679	**13,789**	**14,477**	**49,678**	33,265	17,529	7,817	55,035

	Company							
	2010				2009			
	Due from other banks $m	**Investments - HTM $m**	**Investments - AFS [(1)] $m**	**Acceptances $m**	Due from other banks $m	Investments - HTM $m	Investments - AFS [(1)] $m	Acceptances $m
Senior investment grade	**27,401**	**3,786**	**8,798**	**11,182**	23,386	4,223	3,535	13,772
Investment grade	**2,074**	**1,325**	**69**	**25,477**	1,286	978	-	28,765
Sub-investment grade	**627**	**-**	**18**	**13,006**	1,528	-	27	12,494
	30,102	**5,111**	**8,885**	**49,665**	26,200	5,201	3,562	55,031

[(1)] *Investments - available for sale excluding equity investments.*

43 Financial risk management (continued)

Risk concentrations

Concentration of risk is managed by client/counterparty, by industry sector and geographical region.

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	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Government and public authorities	**1,090**	858	**998**	1,168	**3**	-	**2,203**	3,172
Agriculture, forestry, fishing and mining	**9,805**	7,061	**12,349**	13,537	**387**	257	**7,665**	6,529
Financial, investment and insurance	**1,338**	1,865	**12,277**	15,171	**221**	355	**9,905**	14,045
Real estate - construction	**800**	429	**3,282**	3,676	**173**	121	**1,606**	1,652
Manufacturing	**2,142**	2,048	**6,418**	7,406	**175**	298	**8,855**	8,181
Instalment loans to individuals and other personal lending (including credit cards)	**699**	401	**14,781**	15,699	**324**	360	**17,820**	18,475
Real estate - mortgage	**-**	-	**224,900**	202,538	**263**	233	**26,934**	26,851
Asset and lease financing	**-**	-	**16,109**	17,350	**308**	272	**781**	772
Commercial property services	**11,062**	9,688	**27,956**	33,697	**580**	577	**9,538**	8,768
Other commercial and industrial	**9,764**	7,217	**42,533**	41,726	**1,840**	1,928	**35,220**	33,197
Total	**36,700**	29,567	**361,603**	351,968	**4,274**	4,401	**120,527**	121,642

	Due from other banks		Investments - HTM		Investments - AFS		Acceptances	
Group	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Government and public authorities	**1,419**	23	**801**	392	**3,056**	1,119	**14**	17
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	41	**5,222**	6,161
Financial, investment and insurance	**36,260**	33,242	**12,345**	13,329	**9,339**	6,604	**1,450**	1,757
Real estate - construction	**-**	-	**-**	-	**-**	-	**513**	691
Manufacturing	**-**	-	**-**	-	**-**	-	**2,614**	3,068
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**97**	132
Real estate - mortgage	**-**	-	**472**	3,091	**2,118**	89	**-**	-
Asset and lease financing	**-**	-	**-**	504	**-**	-	**-**	-
Commercial property services	**-**	-	**171**	213	**31**	68	**26,842**	30,275
Other commercial and industrial	**-**	-	**-**	-	**28**	12	**12,926**	12,934
Total	**37,679**	33,265	**13,789**	17,529	**14,572**	7,933	**49,678**	55,035

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Company	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Government and public authorities	**646**	264	**859**	1,044	**2**	-	**1,043**	1,791
Agriculture, forestry, fishing and mining	**3,400**	894	**7,383**	8,157	**341**	218	**6,097**	5,208
Financial, investment and insurance	**415**	519	**11,987**	13,432	**211**	349	**11,282**	13,456
Real estate - construction	**493**	125	**1,349**	1,620	**133**	88	**1,338**	1,319
Manufacturing	**696**	151	**4,657**	5,630	**133**	267	**6,375**	6,091
Instalment loans to individuals and other personal lending (including credit cards)	**15**	4	**9,092**	8,855	**225**	239	**11,675**	11,561
Real estate - mortgage	**-**	-	**176,229**	158,201	**176**	175	**22,633**	21,791
Asset and lease financing	**-**	-	**13,425**	13,860	**248**	223	**316**	358
Commercial property services	**4,140**	1,014	**17,652**	21,481	**448**	393	**8,034**	7,402
Other commercial and industrial	**4,179**	1,068	**32,455**	33,005	**1,379**	1,519	**25,236**	24,731
Total	**13,984**	4,039	**275,088**	265,285	**3,296**	3,471	**94,029**	93,708

43 Financial risk management (continued)

Company	Due from other banks 2010 $m	2009 $m	Investments - HTM 2010 $m	2009 $m	Investments - AFS 2010 $m	2009 $m	Acceptances 2010 $m	2009 $m
Government and public authorities	**85**	13	**801**	392	**3,025**	1,069	**14**	17
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**5,222**	6,161
Financial, investment and insurance	**30,017**	26,187	**4,139**	4,596	**3,796**	2,431	**1,450**	1,757
Real estate - construction	**-**	-	**-**	-	**-**	-	**513**	691
Manufacturing	**-**	-	**-**	-	**-**	-	**2,601**	3,065
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**97**	132
Real estate - mortgage	**-**	-	**-**	-	**2,118**	89	**-**	-
Commercial property services	**-**	-	**171**	213	**3**	60	**26,842**	30,275
Other commercial and industrial	**-**	-	**-**	-	**23**	1	**12,926**	12,933
Total	**30,102**	26,200	**5,111**	5,201	**8,965**	3,650	**49,665**	55,031

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia 2010 $m	2009 $m	Europe 2010 $m	2009 $m	New Zealand 2010 $m	2009 $m	Other 2010 $m	2009 $m
Assets								
Cash and liquid assets	**5,866**	3,141	**15,779**	18,379	**236**	217	**4,192**	4,097
Due from other banks	**14,779**	10,770	**20,052**	20,552	**1,944**	1,398	**903**	545
Trading derivatives	**17,983**	16,449	**14,893**	14,700	**3,143**	3,637	**2,321**	2,244
Trading securities	**21,356**	16,104	**1,986**	3,032	**2,381**	2,918	**98**	165
Investments - available for sale	**2,634**	417	**6,884**	3,908	**183**	277	**4,871**	3,331
Investments - held to maturity	**3,665**	4,801	**5,797**	7,896	**1,143**	1,475	**3,184**	3,357
Investments relating to life insurance business	**64,515**	54,215	**-**	-	**45**	39	**-**	-
Other financial assets at fair value	**14,083**	4,886	**8,236**	10,084	**14,920**	16,560	**169**	-
Hedging derivatives	**2,030**	1,730	**1,425**	1,881	**257**	315	**-**	-
Loans and advances	**266,097**	244,992	**52,311**	61,521	**27,518**	29,402	**8,909**	8,859
Due from customers on acceptances	**49,665**	55,031	**13**	4	**-**	-	**-**	-
Total financial assets	**462,673**	412,536	**127,376**	141,957	**51,770**	56,238	**24,647**	22,598

Company	Australia 2010 $m	2009 $m	Europe 2010 $m	2009 $m	Other 2010 $m	2009 $m
Assets						
Cash and liquid assets	**3,190**	1,346	**14,261**	18,095	**4,119**	3,996
Due from other banks	**14,778**	10,769	**14,691**	15,053	**633**	378
Trading derivatives	**19,260**	17,694	**16,156**	16,492	**2,416**	2,401
Trading securities	**21,356**	16,092	**1,986**	3,032	**44**	86
Investments - available for sale	**2,445**	295	**3,161**	1,098	**3,359**	2,257
Investments - held to maturity	**109**	-	**3,208**	3,715	**1,723**	1,486
Other financial assets at fair value	**13,996**	4,343	**-**	-	**-**	-
Hedging derivatives	**2,020**	1,723	**247**	162	**-**	-
Loans and advances	**259,707**	244,864	**7,811**	11,549	**2,290**	3,252
Due from customers on acceptances	**49,665**	55,031	**-**	-	**-**	-
Total financial assets	**386,526**	352,157	**61,521**	69,196	**14,584**	13,856

Market risk

Traded Market Risk arises from the trading activities of the Group, which are principally carried out by Wholesale Banking (WB) Global Markets. The Group engages in trading activities primarily to support client sales businesses, but also to profit in the short term from differences in market factors such interest rates, foreign exchange rates, commodity prices, equity prices and credit spreads.

Market risk - Trading

Traded Market Risk is the potential for losses to arise from trading activities undertaken by the Group as a result of adverse movement in market prices. 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 Wholesale Banking Traded Market Risk Policy.

Notes to the financial statements

43 Financial risk management (continued)

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 and commodity prices. 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 two years of historical pricing shifts. The pricing data is rolled monthly so as to have the most recent two year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than 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; and
- VaR measure does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via backtesting for reasonableness and continued relevance of the model assumptions.

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]	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Group	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Value at risk at a 99% confidence level								
Foreign exchange risk	**3**	1	**4**	4	**1**	1	**10**	9
Interest rate risk	**7**	6	**8**	9	**5**	5	**14**	15
Volatility risk	**1**	1	**1**	3	**1**	1	**2**	6
Commodities risk	**-**	-	**1**	-	**-**	-	**2**	-
Credit risk	**5**	6	**8**	8	**5**	4	**10**	16
Inflation risk	**1**	-	**-**	-	**-**	-	**1**	-
Diversification benefit	**(6)**	(6)	**(9)**	(11)	**n/a**	n/a	**n/a**	n/a
Total value at risk for physical and derivative positions [2]	**11**	8	**13**	13	**8**	7	**18**	20

	As at 30 September		Average value during reporting period		Minimum value during reporting period [1]		Maximum value during reporting period [1]	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Company	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Value at risk at a 99% confidence level								
Foreign exchange risk	**2**	1	**4**	3	**1**	1	**9**	8
Interest rate risk	**7**	5	**8**	8	**4**	5	**14**	12
Volatility risk	**1**	1	**1**	3	**1**	-	**2**	6
Commodities risk	**-**	-	**1**	-	**-**	-	**2**	-
Credit risk	**4**	6	**7**	7	**4**	4	**9**	14
Inflation risk	**1**	-	**-**	-	**-**	-	**1**	-
Diversification benefit	**(5)**	(7)	**(9)**	(10)	**n/a**	n/a	**n/a**	n/a
Total value at risk for physical and derivative positions [2]	**10**	6	**12**	11	**7**	7	**17**	16

[1] *Value at risk 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.*

[2] *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.*

43 Financial risk management (continued)

Market risk - Non-trading / Banking positions

Interest rate risk in the banking book (IRRBB)
IRRBB, introduced as part of Basel II, is measured, monitored, and managed on a regional basis from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the Group IRRBB policy. Risk measurement techniques include: 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 Group Non-Traded Market Risk);
- Rate changes are proportional rather than absolute;
- Investment term for capital is modelled with an established benchmark term of between one and five years; and
- Investment term for core “Non Bearing Interest” (non-interest rate bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

Model parameters and assumptions are reviewed and updated on at least an annual basis by Group Non-Traded Market Risk, in consultation with Group Treasury. Material changes require the approval of the Group/Regional Asset and Liability Committee and are advised to the local regulatory authorities.

Value at risk and earnings at risk for the IRRBB
The following tables show the Group and Company aggregate VaR for the IRRBB:

	2010			
Group	As at 30 September **$m**	Average value **$m**	Minimum value **$m**	Maximum value **$m**
Value at risk				
Australian region	**120**	**87**	**50**	**131**
UK region	**64**	**44**	**22**	**73**
New Zealand region	**47**	**35**	**14**	**50**
Other	**12**	**15**	**9**	**21**
Earnings at risk				
Australian region	**33**	**47**	**20**	**97**
UK region	**11**	**11**	**5**	**18**
New Zealand region	**5**	**4**	**2**	**7**
Other	**7**	**4**	**1**	**7**

	2009			
Group	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australian region	99	87	51	151
UK region	5	16	5	31
New Zealand region	66	50	27	75
Other	5	12	3	24
Earnings at risk				
Australian region	59	32	17	59
UK region	25	15	6	28
New Zealand region	2	3	2	5
Other	1	2	1	4

43 Financial risk management (continued)

Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
	2010			
Value at risk				
Australian region	**120**	**87**	**50**	**131**
Earnings at risk				
Australian region	**33**	**47**	**20**	**97**

Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
	2009			
Value at risk				
Australian region	99	87	51	151
Earnings at risk				
Australian region	59	32	17	59

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will require the Group to sell positions at a value which is below their underlying worth, or may result in the inability to exit from the positions. The liquidity of a derivative, or an entire market, can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants. In order to counter such risk, the Group concentrates its derivative activity in highly liquid markets.

The Group manages liquidity and funding risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets, maintenance of a prudent funding strategy and diversification of its funding base. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.

Contracted 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 include both principal and associated future interest payments.

Group	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2010				
Due to other banks	7,605	-	27,427	1,055	1,924	-	-	38,011
Other financial liabilities at fair value (1)	568	-	6,030	4,546	6,670	3,014	78	20,906
Deposits	147,346	-	129,268	58,639	8,015	86	-	343,354
Other borrowings	463	-	10,618	2,800	6	464	-	14,351
Liability on acceptances	-	-	11,428	1,231	-	-	-	12,659
Life investment contract liabilities (2)	-	-	51	138	141	59	52,237	52,626
Bonds, notes and subordinated debt	-	-	3,600	17,805	70,933	11,894	-	104,232
Other debt issues (3)	-	-	-	-	-	-	2,502	2,502
External unitholders' liability	-	-	-	-	-	-	10,241	10,241
Other financial liabilities (1)	-	-	-	-	-	-	10,961	10,961
Hedging derivatives								
- contractual amounts payable	-	-	3,435	9,972	39,504	12,481	-	65,392
- contractual amounts receivable	-	-	(2,582)	(8,598)	(34,718)	(10,988)	-	(56,886)
Total cash flow payable	155,982	-	189,275	87,588	92,475	17,010	76,019	618,349

43 Financial risk management (continued)

Group	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2009				
Due to other banks	6,037	24	22,029	5,830	2,391	-	-	36,311
Other financial liabilities at fair value (1)	412	-	6,850	5,381	6,273	3,189	62	22,167
Deposits	137,598	-	122,651	52,270	9,473	84	-	322,076
Other borrowings	549	-	11,128	2,165	1,731	963	-	16,536
Liability on acceptances	-	-	15,950	1,086	-	-	-	17,036
Life investment contract liabilities (2)	-	-	68	82	126	54	45,345	45,675
Bonds, notes and subordinated debt	-	-	6,748	13,990	68,868	9,934	1,295	100,835
Other debt issues (3)	-	-	-	-	-	-	2,627	2,627
External unitholders' liability	-	-	-	-	-	-	7,458	7,458
Other financial liabilities (1)	-	-	-	-	-	-	7,321	7,321
Hedging derivatives								
- contractual amounts payable	-	-	2,594	9,144	16,366	1,611	-	29,715
- contractual amounts receivable	-	-	(2,170)	(6,932)	(13,233)	(1,379)	-	(23,714)
Total cash flow payable	144,596	24	185,848	83,016	91,995	14,456	64,108	584,043

Company	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2010				
Due to other banks	7,232	-	25,687	617	1,068	-	-	34,604
Other financial liabilities at fair value (1)	-	-	14	113	1,297	1,274	68	2,766
Deposits	106,280	-	113,879	44,638	2,795	-	-	267,592
Other borrowings	89	-	7,170	1,641	-	-	-	8,900
Liability on acceptances	-	-	11,415	1,231	-	-	-	12,646
Bonds, notes and subordinated debt	-	-	3,477	16,803	63,519	10,744	-	94,543
Other debt issues (3)	-	-	-	-	-	-	1,940	1,940
Other financial liabilities (1)	-	-	-	-	-	-	8,680	8,680
Hedging derivatives								
- contractual amounts payable	-	-	3,204	9,508	38,961	12,477	-	64,150
- contractual amounts receivable	-	-	(2,499)	(8,414)	(34,494)	(10,986)	-	(56,393)
Total cash flow payable	113,601	-	162,347	66,137	73,146	13,509	10,688	439,428

Company	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2009				
Due to other banks	5,624	-	20,064	4,585	1,133	-	-	31,406
Other financial liabilities at fair value (1)	2	-	22	149	1,095	2,350	62	3,680
Deposits	97,983	-	102,988	39,739	5,639	-	-	246,349
Other borrowings	318	-	4,358	209	1,695	-	-	6,580
Liability on acceptances	-	-	15,946	1,086	-	-	-	17,032
Bonds, notes and subordinated debt	-	-	6,154	12,928	58,723	8,605	1,272	87,682
Other debt issues (3)	-	-	-	-	-	-	1,963	1,963
Other financial liabilities (1)	-	-	-	-	-	-	5,054	5,054
Hedging derivatives								
- contractual amounts payable	-	-	2,247	8,029	15,076	1,594	-	26,946
- contractual amounts receivable	-	-	(2,062)	(6,270)	(12,601)	(1,382)	-	(22,315)
Total cash flow payable	103,927	-	149,717	60,455	70,760	11,167	8,351	404,377

(1) *Some other financial liabilities at fair value and other financial liabilities have not been allocated by contractual maturity because they are typically held for varying periods of time.*

(2) *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 annuities, have contractual maturities. Life investment contract liabilities disclosed as "no specific maturity" includes $51,767 million (2009: $45,345 million) relating to investment-linked contracts.*

(3) *Certain debt issues have no dated maturity (refer to Note 31 for further details). Therefore, the face value of these issues are disclosed as "no specific maturity". The next interest cash flows payable under these floating rate financial liabilities are $6 million monthly, $2 million quarterly and $26 million semi-annually (2009: $5 million monthly, $3 million quarterly, and $29 million semi-annually) for the Group, and $6 million monthly, and $26 million semi-annually (2009: $5 million monthly and $29 million semi-annually) for the Company.*

43 Financial risk management (continued)

The table below shows the contractual expiry of contingent liabilities, credit-related commitments and investment commitments. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

For liquidity risk purposes however, the full notional amount of contingent liabilities, credit-related commitments and investment commitments could be payable on demand.

			2010			
Group	On-demand $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Contingent liabilities	2,285	1,496	2,698	2,221	1,530	10,230
Credit-related commitments and investment commitments	18,456	16,298	35,850	29,450	11,594	111,648
	20,741	17,794	38,548	31,671	13,124	121,878

			2009			
Group	On-demand $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Contingent liabilities	2,020	1,846	2,910	2,522	1,780	11,078
Credit-related commitments and investment commitments	24,226	14,322	31,808	29,505	12,301	112,162
	26,246	16,168	34,718	32,027	14,081	123,240

			2010			
Company	On-demand $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Contingent liabilities	1,809	1,400	3,879	2,110	1,929	11,127
Credit-related commitments and investment commitments	10,353	10,745	29,016	24,467	8,321	82,902
	12,162	12,145	32,895	26,577	10,250	94,029

			2009			
Company	On-demand $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	Total $m
Contingent liabilities	1,410	1,765	3,935	1,966	2,182	11,258
Credit-related commitments and investment commitments	10,124	11,121	28,353	24,328	8,524	82,450
	11,534	12,886	32,288	26,294	10,706	93,708

43 Financial risk management (continued)

Contractual maturity of assets and liabilities on a discounted basis

The following tables show an analysis of contractual maturities at balance date of assets and liabilities on a discounted basis.

	2010							
Group	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Assets								
Cash and liquid assets	26,072	-	-	-	-	-	-	26,072
Due from other banks	30,196	82	3,967	3,434	-	-	-	37,679
Trading derivatives (1)	-	-	-	-	-	-	38,340	38,340
Trading securities	-	-	9,084	7,382	5,102	3,693	560	25,821
Investments - available for sale	-	-	3,494	3,604	5,551	1,764	159	14,572
Investments - held to maturity	-	-	2,232	2,112	2,702	6,743	-	13,789
Investments relating to life insurance business	-	-	1,494	1,822	5,737	3,539	51,968	64,560
Other financial assets at fair value	144	-	8,195	5,009	16,294	7,570	197	37,409
Loans and advances	5,291	15,407	18,678	42,178	57,576	208,278	7,427	354,835
Due from customers on acceptances	-	-	48,447	1,231	-	-	-	49,678
All other assets	-	-	-	-	-	-	23,197	23,197
Total assets	61,703	15,489	95,591	66,772	92,962	231,587	121,848	685,952
Liabilities								
Due to other banks	7,605	-	27,088	1,020	1,899	-	-	37,612
Trading derivatives (1)	-	-	-	-	-	-	40,587	40,587
Other financial liabilities at fair value	568	-	5,790	4,308	6,340	2,803	78	19,887
Deposits	147,343	-	126,088	58,134	7,236	86	-	338,887
Other borrowings	462	-	10,614	2,799	6	464	-	14,345
Liability on acceptances	-	-	11,318	1,231	-	-	-	12,549
Life insurance contract liabilities (2)	-	-	-	-	-	-	1,763	1,763
Life investment contract liabilities (3)	-	-	51	135	127	41	52,237	52,591
Bonds, notes and subordinated debt	-	-	2,766	15,967	64,242	10,228	-	93,203
Other debt issues	-	-	-	-	-	-	2,502	2,502
All other liabilities	-	-	-	-	-	-	33,072	33,072
Total liabilities	155,978	-	183,715	83,594	79,850	13,622	130,239	646,998
Net (liabilities)/assets	(94,275)	15,489	(88,124)	(16,822)	13,112	217,965	(8,391)	38,954

	2009							
Group	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Assets								
Cash and liquid assets	25,834	-	-	-	-	-	-	25,834
Due from other banks	16,210	109	13,490	3,456	-	-	-	33,265
Trading derivatives (1)	-	-	-	-	-	-	37,030	37,030
Trading securities	-	-	22,219	-	-	-	-	22,219
Investments - available for sale	-	-	2,265	103	4,354	1,043	168	7,933
Investments - held to maturity	-	-	4,051	524	3,789	9,165	-	17,529
Investments relating to life insurance business	-	-	16	162	8,506	2,534	43,036	54,254
Other financial assets at fair value	444	-	10,478	4,323	10,877	5,356	52	31,530
Loans and advances	6,532	16,196	17,814	45,093	69,224	189,915	-	344,774
Due from customers on acceptances	-	-	53,797	1,238	-	-	-	55,035
All other assets	-	-	-	-	-	-	24,717	24,717
Total assets	49,020	16,305	124,130	54,899	96,750	208,013	105,003	654,120
Liabilities								
Due to other banks	6,454	24	25,214	2,136	2,320	-	-	36,148
Trading derivatives (1)	-	-	-	-	-	-	38,090	38,090
Other financial liabilities at fair value	419	-	6,704	4,944	6,192	2,986	66	21,311
Deposits	138,225	-	120,491	51,629	9,252	82	-	319,679
Other borrowings	569	-	11,078	2,174	1,724	964	-	16,509
Liability on acceptances	-	-	15,653	1,238	-	-	-	16,891
Life insurance contract liabilities (2)	-	-	-	-	-	-	1,669	1,669
Life investment contract liabilities (3)	-	-	68	81	115	36	45,345	45,645
Bonds, notes and subordinated debt	-	-	5,950	12,238	61,081	10,582	941	90,792
Other debt issues	-	-	-	-	-	-	2,627	2,627
All other liabilities	-	-	-	-	-	-	26,924	26,924
Total liabilities	145,667	24	185,158	74,440	80,684	14,650	115,662	616,285
Net (liabilities)/assets	(96,647)	16,281	(61,028)	(19,541)	16,066	193,363	(10,659)	37,835

Notes to the financial statements

43 Financial risk management (continued)

Company	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2010				
Assets								
Cash and liquid assets	21,570	-	-	-	-	-	-	21,570
Due from other banks	23,361	1	3,306	3,434	-	-	-	30,102
Trading derivatives [1]	-	-	-	-	-	-	37,832	37,832
Trading securities	-	-	6,649	7,382	5,102	3,693	560	23,386
Investments - available for sale	-	-	3,465	3,598	1,425	442	35	8,965
Investments - held to maturity	-	-	1,563	1,881	1,667	-	-	5,111
Other financial assets at fair value	-	-	585	2,203	7,557	3,460	191	13,996
Loans and advances	5,290	7,673	16,931	34,679	47,431	152,286	5,517	269,807
Due from customers on acceptances	-	-	48,434	1,231	-	-	-	49,665
All other assets	-	-	-	-	-	-	77,195	77,195
Total assets	50,221	7,674	80,933	54,408	63,182	159,881	121,330	537,629
Liabilities								
Due to other banks	7,162	-	25,449	616	1,040	-	-	34,267
Trading derivatives [1]	-	-	-	-	-	-	38,473	38,473
Other financial liabilities at fair value	-	-	14	101	1,296	1,271	67	2,749
Deposits	106,275	-	110,841	44,233	2,590	-	-	263,939
Other borrowings	88	-	7,166	1,640	-	-	-	8,894
Liability on acceptances	-	-	11,305	1,231	-	-	-	12,536
Bonds, notes and subordinated debt	-	-	2,679	14,962	56,830	9,088	-	83,559
Other debt issues	-	-	-	-	-	-	1,940	1,940
All other liabilities	-	-	-	-	-	-	52,745	52,745
Total liabilities	113,525	-	157,454	62,783	61,756	10,359	93,225	499,102
Net (liabilities)/assets	(63,304)	7,674	(76,521)	(8,375)	1,426	149,522	28,105	38,527

Company	At call $m	Overdrafts $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2009				
Assets								
Cash and liquid assets	23,437	-	-	-	-	-	-	23,437
Due from other banks	10,126	8	12,610	3,456	-	-	-	26,200
Trading derivatives [1]	-	-	-	-	-	-	36,587	36,587
Trading securities	-	-	19,210	-	-	-	-	19,210
Investments - available for sale	-	-	2,257	53	1,244	-	96	3,650
Investments - held to maturity	-	-	2,823	478	1,900	-	-	5,201
Other financial assets at fair value	-	-	371	534	2,380	1,058	-	4,343
Loans and advances	6,532	7,039	15,216	35,161	57,864	137,853	-	259,665
Due from customers on acceptances	-	-	53,793	1,238	-	-	-	55,031
All other assets	-	-	-	-	-	-	77,977	77,977
Total assets	40,095	7,047	106,280	40,920	63,388	138,911	114,660	511,301
Liabilities								
Due to other banks	5,624	-	23,605	1,000	1,148	-	-	31,377
Trading derivatives [1]	-	-	-	-	-	-	35,887	35,887
Other financial liabilities at fair value	-	-	-	51	1,045	2,513	62	3,671
Deposits	98,283	-	102,077	38,967	5,194	-	-	244,521
Other borrowings	340	-	4,310	222	1,690	-	-	6,562
Liability on acceptances	-	-	15,649	1,238	-	-	-	16,887
Bonds, notes and subordinated debt	-	-	5,463	11,324	51,380	9,330	941	78,438
Other debt issues	-	-	-	-	-	-	1,963	1,963
All other liabilities	-	-	-	-	-	-	55,067	55,067
Total liabilities	104,247	-	151,104	52,802	60,457	11,843	93,920	474,373
Net (liabilities)/assets	(64,152)	7,047	(44,824)	(11,882)	2,931	127,068	20,740	36,928

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for various periods of time.*

(2) *Life insurance contract liabilities do not have a fixed maturity date. Based on the Group's assumptions as to likely withdrawals and claim patterns $795 million (2009: $601 million) is estimated to be settled within 12 months from the balance sheet date.*

(3) *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, have contractual maturities. Life investment contract liabilities disclosed as "no specific maturity" include investment-linked contracts of $51,767 million (2009: $45,345 million).*

Notes to the financial statements

44 Fair value of financial instruments

Fair value of financial instruments, including those carried at amortised cost

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Below is a comparison of the carrying amounts, as reported on the balance sheet, and fair values of all financial assets and liabilities.

The estimated fair values are based on relevant information available for the last two years at 30 September. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. The methodologies and assumptions used in the fair value estimates are described below.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. The difference to fair value is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances.

		2010		2009	
Group	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**26,072**	**26,072**	25,834	25,834
Due from other banks	(a)	**37,679**	**37,679**	33,265	33,265
Trading derivatives	(b)	**38,340**	**38,340**	37,030	37,030
Trading securities	(c)	**25,821**	**25,821**	22,219	22,219
Investments - available for sale	(c)	**14,572**	**14,572**	7,933	7,933
Investments - held to maturity	(c)	**13,789**	**12,441**	17,529	15,231
Investments relating to life insurance business	(d)	**64,560**	**64,560**	54,254	54,254
Other financial assets at fair value	(e)	**37,409**	**37,409**	31,530	31,530
Hedging derivatives	(b)	**3,712**	**3,712**	3,926	3,926
Loans and advances	(f)	**354,835**	**355,109**	344,774	345,382
Due from customers on acceptances	(a)	**49,678**	**49,678**	55,035	55,035
Financial liabilities					
Due to other banks	(a)	**37,612**	**37,612**	36,148	36,148
Trading derivatives	(b)	**40,587**	**40,587**	38,090	38,090
Other financial liabilities at fair value	(e)	**19,887**	**19,887**	21,311	21,311
Hedging derivatives	(b)	**1,444**	**1,444**	2,131	2,131
Deposits and other borrowings	(g)	**353,232**	**353,356**	336,188	337,118
Liability on acceptances	(a)	**12,549**	**12,549**	16,891	16,891
Life policy liabilities	(h)	**54,354**	**54,354**	47,314	47,314
Bonds, notes and subordinated debt	(i)	**93,203**	**93,621**	90,792	91,254
Other debt issues	(i)	**2,502**	**2,788**	2,627	2,627
External unitholders' liability	(d)	**10,241**	**10,241**	7,458	7,458

		2010		2009	
Company	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**21,570**	**21,570**	23,437	23,437
Due from other banks	(a)	**30,102**	**30,102**	26,200	26,200
Trading derivatives	(b)	**37,832**	**37,832**	36,587	36,587
Trading securities	(c)	**23,386**	**23,386**	19,210	19,210
Investments - available for sale	(c)	**8,965**	**8,965**	3,650	3,650
Investments - held to maturity	(c)	**5,111**	**5,117**	5,201	5,252
Other financial assets at fair value	(e)	**13,996**	**13,996**	4,343	4,343
Hedging derivatives	(b)	**2,268**	**2,268**	1,885	1,885
Loans and advances	(f)	**269,807**	**269,798**	259,665	260,017
Due from customers on acceptances	(a)	**49,665**	**49,665**	55,031	55,031
Due from controlled entities	(a)	**49,556**	**49,556**	51,367	51,367
Financial liabilities					
Due to other banks	(a)	**34,267**	**34,267**	31,377	31,377
Trading derivatives	(b)	**38,473**	**38,473**	35,887	35,887
Other financial liabilities at fair value	(e)	**2,749**	**2,749**	3,671	3,671
Hedging derivatives	(b)	**811**	**811**	1,238	1,238
Deposits and other borrowings	(g)	**272,833**	**272,897**	251,083	251,383
Liability on acceptances	(a)	**12,536**	**12,536**	16,887	16,887
Due to controlled entities	(a)	**36,760**	**36,760**	43,106	43,106
Bonds, notes and subordinated debt	(i)	**83,559**	**83,911**	78,438	78,900
Other debt issues	(i)	**1,940**	**2,226**	1,963	1,963

44 Fair value of financial instruments (continued)

The fair value estimates are based on the following methodologies and assumptions:

(a) the carrying amounts of **cash and liquid assets, due from and to other banks, due from customers and liability on acceptances** and **due from and to controlled entities** approximate their fair value as they are short term in nature or reprice frequently;

(b) the fair values of **trading and hedging derivatives**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at balance date, discounted cash flow models or option pricing models as appropriate. The fair value of synthetic collateralised debt obligation (SCDO) risk mitigation derivatives are included;

(c) the fair value of **trading securities**, **available for sale investments** and **held to maturity investments** are based on quoted closing market prices at balance 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 value of the SCDO assets held by securitisation conduits as held to maturity reflects the Group's exposure subsequent to the risk mitigation strategy;

(d) the fair values of **investments relating to life insurance business** and **external unitholders' liability** are based on quoted closing market prices at balance date. Where no quoted market value exists, various valuation methods have been adopted;

(e) the fair value of **other financial assets and liabilities at fair value** are based on quoted market prices and data or valuation techniques based predominantly upon observable market data as appropriate to the nature and type of the underlying instrument;

(f) the fair value of **loans and advances** that reprice within six months of balance date are 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 balance date for similar types of loans and advances, if the loans and advances were performing at balance date. The difference between estimated fair values of loans and advances and carrying value reflects changes in interest rates since loan or advance origination;

(g) with respect to **deposits and other borrowings**, the fair value of non-interest-bearing, at call and variable rate deposits and fixed rate deposits that reprice within six months of balance 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;

(h) **life insurance 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 51* and the carrying amount approximates fair value. In respect of policy liabilities from investment contracts, as the value of these liabilities is closely linked to the value of the assets that back those liabilities, the fair value is largely the same as the fair value of those assets;

(i) the fair values of **bonds, notes and subordinated debt** and **other debt issues** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments; and

(j) **commitments to extend credit, letters of credit, guarantees and warranties and indemnities issued** 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. The fees attaching to these commitments are the same as those currently charged to enter into similar arrangements, and the quantum of fees collected under these arrangements, upon which a fair value calculation would be based, is not material.

Fair value measurements recognised on the balance sheet

The following table provides an analysis of financial instruments that are measured at fair value, using a hierarchy that reflects the significance of inputs used in making the measurements. The level in the fair value hierarchy within which a financial instrument 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 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2 fair value measurements are those derived from 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

44 Fair value of financial instruments (continued)

Group	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m
	Fair value measurement as at 30 September 2010			
Financial assets				
Trading derivatives	304	37,780	256	38,340
Trading securities	7,220	18,601	-	25,821
Investments - available for sale	3,004	11,437	131	14,572
Investments relating to life insurance business	1,344	61,673	1,543	64,560
Other financial assets at fair value	-	37,352	57	37,409
Hedging derivatives	-	3,712	-	3,712
Other assets	-	1,392	-	1,392
Financial liabilities				
Trading derivatives	138	40,445	4	40,587
Other financial liabilities at fair value	436	19,451	-	19,887
Hedging derivatives	-	1,444	-	1,444
Life investment contract liabilities	-	52,591	-	52,591
External unitholders' liability	-	10,241	-	10,241
Other liabilities	-	8,698	-	8,698

Company	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m
	Fair value measurement as at 30 September 2010			
Financial assets				
Trading derivatives	303	37,273	256	37,832
Trading securities	5,593	17,793	-	23,386
Investments - available for sale	19	8,862	84	8,965
Other financial assets at fair value	-	13,996	-	13,996
Hedging derivatives	-	2,268	-	2,268
Other assets	-	1,392	-	1,392
Financial liabilities				
Trading derivatives	138	38,335	-	38,473
Other financial liabilities at fair value	430	2,319	-	2,749
Hedging derivatives	-	811	-	811
Other liabilities	-	8,496	-	8,496

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Group	Trading derivatives $m	Trading securities $m	Investments - available for sale $m	Investments relating to life insurance business $m	Other financial assets at fair value $m	Total $m
			2010			
Balance at beginning of year	302	485	126	1,424	32	2,369
Total gains or losses [(1)]						
In profit or loss	(135)	-	(20)	119	-	(36)
Purchases	-	-	26	-	25	51
Sales	-	(140)	(1)	-	-	(141)
Transfers into Level 3	89	-	-	-	-	89
Transfers out of Level 3	-	(345)	-	-	-	(345)
Balance at end of year	256	-	131	1,543	57	1,987
[(1)] *Total gains or losses related to assets held at the end of the reporting period:*						
- In profit or loss	(135)	-	(20)	119	-	(36)

44 Fair value of financial instruments (continued)

Liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Group	2010 Trading derivatives $m	Total $m
Beginning balance	-	-
Purchases	4	4
Ending balance	4	4

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Company	2010 Trading derivatives $m	Trading securities $m	Investments - available for sale $m	Total $m
Balance at beginning of year	302	485	90	877
Total gains or losses [(1)]				
In profit or loss	(135)	-	(15)	(150)
Purchases	-	-	9	9
Sales	-	(140)	-	(140)
Transfers into Level 3	89	-	-	89
Transfers out of Level 3	-	(345)	-	(345)
Balance at end of year	256	-	84	340
[(1)] *Total gains or losses related to assets held at the end of the reporting period:*				
- In profit or loss	(135)	-	(15)	(150)

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the Company or the Group in the period.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

The most significant exposure to Level 3 fair value measurements for the Group is in respect of private equity investments included in investments relating to life insurance business. Changing one or more of the inputs for measurement of these investments relating to life insurance business to reasonably possible alternative assumptions would result in a change by a similar 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 this, the Group and the Company have limited 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.

45 Operating leases

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Due within one year	**327**	299	**288**	251
Due after one year but not later than five years	**1,049**	949	**891**	810
Due after five years	**1,224**	1,381	**481**	551
Total non-cancellable operating lease commitments	**2,600**	2,629	**1,660**	1,612

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

The total of future minimum sub-lease payments to be received under non-cancellable sub-leases at 30 September 2010 is $26 million (2009: $8 million). During the 2010 year, sub-lease payments received amounted to $16 million (2009: $17 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	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Due within one year	**85**	4	**72**	-
Due after one year but not later than five years	**122**	6	**70**	-
Due after five years	**66**	4	**-**	-
Total non-cancellable operating lease receivables	**273**	14	**142**	-

46 Capital expenditure commitments

	Group		Company	
	2010 $m	2009 $m	**2010 $m**	2009 $m
Land and buildings				
Due within one year	**48**	90	**44**	88
Data processing and other equipment				
Due within one year	**94**	34	**77**	29
Due after one year but not later than five years	**5**	-	**-**	-
Other				
Due within one year	**9**	19	**3**	15
Due after one year but not later than five years	**-**	1	**-**	1
Total capital expenditure commitments	**156**	144	**124**	133

47 Related party disclosures

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services to related parties including the provision of banking facilities, standby financing arrangements, granting loans, 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 include leases of properties or plant and equipment, provision of data processing services, access to intellectual or other intangible property rights, and various administrative services, including accounting, secretarial and legal services. Fees may be charged for these services. 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.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based compensation expense relating to this compensation is recharged from the Company to the employing subsidiaries in the Group. For further details, refer to *Note 37.*

The aggregate of material amounts receivable from or payable to controlled entities and the Company, at balance date, is disclosed in the balance sheet of the Company. Refer to *Note 21* for details of the Company's investment in controlled entities. Refer to *Note 41* for details of controlled entities. The Company has certain guarantees and undertakings with entities in the Group. For further details, refer to *Note 42*.

Loans made to controlled entities 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 net amounts receivable from controlled entities for the last two years as at 30 September were:

	Company	
	2010	2009
	$m	$m
Controlled entities		
Balance at beginning of year	**8,261**	7,794
Net cash flows in amounts due from/to controlled entities	**4,724**	1,306
Provisions for impairment of intercompany loans to securitisation conduits	**(555)**	(52)
Foreign currency translation adjustments	**366**	(787)
Balance at end of year	**12,796**	8,261

Material transactions with controlled entities for the last two years to 30 September included:

	Company	
	2010	2009
	$m	$m
Net interest income	**183**	436
Net operating lease revenue	**19**	15
Net management fees	**84**	64
Dividend revenue	**862**	1,276

Superannuation funds

The following payments were made to superannuation funds sponsored by the Group:

	Group		Company	
	2010	2009	**2010**	2009
Payment from Group/Company to:	**$m**	$m	**$m**	$m
National Australia Bank Group Superannuation Fund A	**183**	173	**183**	173
Clydesdale and Yorkshire Bank Pension Scheme	**162**	67	**3**	3
National Australia Group Defined Contribution Pension Scheme (UK)	**22**	22	**1**	1
National Wealth Management Superannuation Plan	**4**	6		
Bank of New Zealand Officers Provident Association (Division 2)	**9**	-	**-**	-

Transactions between the superannuation funds and Group during the last two years were made on commercial terms and conditions and are considered trivial in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

47 Related party disclosures (continued)

Details of key management personnel (KMP) of the Group

The following persons were KMP of the Company and Group during the year ended 30 September 2010:

Name	Position
CA Clyne	Executive Director, Group Chief Executive Officer
MA Joiner	Executive Director, Finance
MJ Ullmer	Executive Director, Deputy Group Chief Executive Officer
LJ Gray	Group Executive, Personal Banking
MJ Healey	Group Executive, Governance
JC Healy	Group Executive, Business Banking
BF Munro	Group Chief Risk Officer
LM Peacock	Group Executive, United Kingdom
RJ Sawers	Group Executive, Wholesale Banking
GR Slater	Group Executive, Group Business Services
AG Thorburn	Group Executive, New Zealand, Asia and United States
SJ Tucker	Group Executive, MLC & NAB Wealth
MA Chaney	Non-executive Director, Chairman
PA Cross	Non-executive Director
DT Gilbert	Non-executive Director
PJ Rizzo	Non-executive Director
JS Segal	Non-executive Director
JG Thorn	Non-executive Director
GA Tomlinson	Non-executive Director
JA Waller	Non-executive Director
GM Williamson	Non-executive Director
AKT Yuen [(1)]	Non-executive Director

[(1)] *Commenced as KMP on 1 March 2010.*

Details of directors of the Company who held office during the year are set out in the Report of the directors.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended 30 September 2010:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
Company and Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Superannuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2010	**16,119,911**	**8,526,950**	**463,796**	**848,647**	**27,500**	**14,070,217**	**5,426,668**	**-**	**45,483,689**
2009	17,340,468	7,430,736	704,854	1,110,496	51,646	11,228,992	7,805,762	5,123,333	50,796,287

Performance options, performance rights and shareholdings of KMP are set out in *Note 48* and the Remuneration report.

Loans to KMP and their related parties

Loans made to directors of the Company are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions.

Loans to other KMP of the Company and Group may be made on similar terms and conditions generally available to other employees within the Group. Loans to KMP of the Company and Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act* 2001 (Cth).

Loans to KMP of the Company and Group at year end may, in some instances, be an estimate of the 30 September statement balances. Where estimates have been used at the end of 2009, the balance at the beginning of 2010 reflects the actual opening balance and, therefore, may differ from the prior year closing balance. Additionally, the balance as at the end of 2009 does not equal the balance at the beginning of 2010 because of changes to the KMP of the Group and Company between 2009 and 2010. The table below categorises the KMP and their related party loans:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP in Group during year No.
KMP							
2010	**Normal**	**7,309,887**	**421,335**	**-**	**-**	**6,599,065**	**9**
	Employee	**5,570,247**	**315,846**	**-**	**-**	**5,808,049**	**11**
2009	Normal	12,829,011	818,403	-	-	15,374,431	15
	Employee	9,757,478	393,760	-	-	5,780,922	10
Other related parties [(1)]							
2010	**Normal**	**29,764,968**	**1,510,129**	**-**	**-**	**30,359,921**	**10**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2009	Normal	22,752,023	1,910,079	-	-	29,856,894	10
	Employee	-	-	-	-	-	-

[(1)] *Includes related parties of the Company and the Group or their related parties which is their close family members or any entity they or their close family members control, jointly control or significantly influence.*

47 Related party disclosures (continued)

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended 30 September 2010 were:

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year [(1)] $
KMP for the year ended 30 September 2010							
AG Thorburn	Employee	685,887	35,539	-	-	634,644	685,887
	Normal	1,646,703	89,366	-	-	1,528,619	5,553
BF Munro	Employee	165,047	10,317	-	-	172,929	176,749
CA Clyne	Employee	-	-	-	-	-	-
	Normal	3,803,529	234,995	-	-	3,688,948	4,030,167
DT Gilbert [(2)]	Normal	27,089,766	1,368,994	-	-	28,621,272	490,000
GR Slater	Employee	1,688,477	95,174	-	-	1,667,162	1,688,477
	Normal	291,586	4,398	-	-	152,575	291,586
JC Healy	Employee	-	18,656	-	-	367,103	539,451
LJ Gray	Employee	199,037	3,001	-	-	612	612
	Normal	1,936,660	134,184	-	-	2,173,135	2,173,135
MA Joiner	Normal	772,812	18,507	-	-	40,001	772,812
MJ Healey	Employee	461,194	29,227	-	-	461,102	461,806
	Normal	1,500,000	52,687	-	-	-	-
RJ Sawers	Employee	334,827	11,562	-	-	407,126	403,000
	Normal	-	14,990	-	-	320,906	376,053
SJ Tucker	Employee	2,016,924	123,091	-	-	2,501,064	2,525,800

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

(2) *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.*

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year [(1)] $
KMP for the year ended 30 September 2009							
AG Thorburn	Employee	847,222	80,007	-	-	684,159	1,004,850
	Normal	594	77,157	-	-	1,646,509	4,432
BF Munro	Employee	138,651	8,843	-	-	162,368	166,655
CA Clyne [(2)]	Employee	3,579,000	75,438	-	-	-	-
	Normal	3,691	91,318	-	-	3,803,529	3,803,529
DT Gilbert [(3)]	Normal	22,031,015	1,758,389	-	-	27,190,010	799,116
GR Slater	Employee	-	11,931	-	-	1,677,739	1,684,000
	Normal	-	1,218	-	-	290,783	290,783
G Frazis	Normal	8,869,839	480,092	-	-	7,871,697	8,906,322
JA Waller	Normal	10,212	208	-	-	420	104,273
JE Hooper	Employee	26,824	1,259	-	-	255,154	255,154
	Normal	225,640	6,683	-	-	183,686	213,334
JC Healy	Normal	1,077,191	59,838	-	-	-	1,085,930
LJ Gray	Employee	388,120	18,838	-	-	199,037	383,245
	Normal	1,800,952	114,123	-	-	1,936,660	1,800,566
MA Joiner [(2)]	Employee	1,742,934	42,713	-	-	-	1,742,934
	Normal	-	30,421	-	-	766,710	-
MJ Healey	Employee	461,000	26,974	-	-	461,000	461,000
	Normal	1,500,000	107,148	-	-	1,500,000	-
PA Cross	Normal	5,723	1,367	-	-	18,092	178,479
RJ Sawers	Employee	325,000	19,500	-	-	325,000	325,000
SJ Tucker	Employee	2,248,728	108,256	-	-	2,016,466	2,650,374

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

(2) *Effective from the date Mr Clyne and Mr Joiner were appointed directors of the Company, the terms of loans provided are on terms equivalent to those that prevail in arms' length transactions rather than on terms and conditions generally available to employees of the Group.*

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

47 Related party disclosures (continued)

Other financial instrument transactions

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

48 Equity instrument holdings of key management personnel

Equity instrument disclosures relating to key management personnel (KMP)

(i) Terms and conditions of performance options and performance rights grants

Performance options and performance rights granted by the Company to KMP of the Company and Group, including executive directors of the Company, are over ordinary shares under the Company's National Australia Bank Executive Share Option Plan No. 2 (option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right granted to KMP during the year, including fair value, exercise period, exercise price and performance conditions, are detailed in the Remuneration report. The Company is moving to a policy of generally providing performance shares rather than options and rights as long-term incentives.

Performance options holdings

The number of performance options over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance options						
Name	Balance at beginning of year [1]	Granted during year as remuneration	Exercised during year	Other changes during year [2]	Balance at end of year	Vested during year	Vested and exercisable at end of year
KMP for the year ended 30 September 2010							
Executive directors							
CA Clyne	357,962	-	-	(76,250)	281,712	-	-
MA Joiner	579,696	-	-	(66,667)	513,029	-	-
MJ Ullmer	645,397	-	-	(53,000)	592,397	-	-
Other senior executives							
LJ Gray	204,000	-	-	(97,500)	106,500	-	5,917
MJ Healey	36,525	-	-	(9,167)	27,358	-	-
JC Healy	12,500	-	-	-	12,500	-	-
BF Munro	95,000	-	-	(17,917)	77,083	-	-
LM Peacock	1,003,453	-	-	(165,244)	838,209	-	-
RJ Sawers	81,250	-	-	(10,417)	70,833	-	-
GR Slater	215,250	-	-	(79,584)	135,666	-	-
AG Thorburn	242,250	-	-	(126,584)	115,666	-	-
SJ Tucker	357,250	-	-	(161,584)	195,666	-	-

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

(2) *Performance options lapsed or expired during the year.*

Notes to the financial statements

48 Equity instrument holdings of key management personnel (continued)

Name	Performance options						
	Balance at beginning of year [(1)]	Granted during year as remuneration	Exercised during year	Other changes during year [(2)]	Balance at end of year	Vested during year	Vested and exercisable at end of year
KMP for the year ended 30 September 2009							
Executive directors							
CA Clyne	412,962	-	-	(55,000)	357,962	-	-
MA Joiner	423,446	156,250	-	-	579,696	-	-
MJ Ullmer	582,637	162,760	-	(100,000)	645,397	-	-
Other senior executives							
LJ Gray	204,000	-	-	-	204,000	5,917	5,917
MJ Healey	36,525	-	-	-	36,525	-	-
JC Healy	12,500	-	-	-	12,500	-	-
BF Munro	130,000	-	-	(35,000)	95,000	-	-
LM Peacock	813,115	190,338	-	-	1,003,453	-	-
RJ Sawers	81,250	-	-	-	81,250	-	-
GR Slater	225,250	-	-	(10,000)	215,250	-	-
AG Thorburn	242,250	-	-	-	242,250	-	-
SJ Tucker	382,250	-	-	(25,000)	357,250	-	-
Other KMP during the year							
A Fahour	1,093,224	265,625	-	(160,000)	1,198,849	-	-
G Frazis	298,238	121,094	-	(419,332)	-	-	-
MJ Hamar	241,469	-	-	(40,000)	201,469	-	-
JE Hooper	532,772	156,250	-	(20,000)	669,022	-	-
PL Thodey	804,833	121,094	-	(100,000)	825,927	-	-
JM Stewart	1,675,000	-	-	(900,000)	775,000	-	-

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

(2) *Performance options lapsed or expired during the year.*

No performance options were vested and unexercisable at 30 September 2010 (2009: nil).

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

Name	Performance rights						
	Balance at beginning of year [(1)]	Granted during year as remuneration	Exercised during year	Other changes during year [(2)]	Balance at end of year	Vested during year [(3)]	Vested and exercisable at end of year
KMP for the year ended 30 September 2010							
Executive directors							
CA Clyne	194,777	-	-	(19,063)	175,714	20,180	20,180
MA Joiner	57,032	-	-	(16,667)	40,365	-	-
MJ Ullmer	77,879	-	-	(13,250)	64,629	-	-
Other senior executives							
LJ Gray	32,876	-	-	(7,730)	25,146	-	-
MJ Healey	9,132	-	-	(2,292)	6,840	-	-
JC Healy	3,125	-	-	-	3,125	-	-
BF Munro	78,625	-	-	(4,480)	74,145	2,430	2,430
LM Peacock	160,366	-	-	(41,311)	119,055	-	-
RJ Sawers	20,313	-	-	(2,605)	17,708	-	-
GR Slater	47,563	-	-	(13,646)	33,917	-	-
AG Thorburn	113,944	62,932	-	(31,646)	145,230	-	-
SJ Tucker	74,313	-	-	(25,396)	48,917	-	-

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

(2) *Performance rights lapsed or expired during the year.*

(3) *Performance rights allocated in lieu of 2008 Motivation and Retention programme shares due to jurisdictional reasons and paid in May 2010.*

48 Equity instrument holdings of key management personnel (continued)

Name	Performance rights						
	Balance at beginning of year [1]	Granted during year as remuneration	Exercised during year	Other changes during year [2]	Balance at end of year	Vested during year	Vested and exercisable at end of year
KMP for the year ended 30 September 2009							
Executive directors							
CA Clyne	107,558	100,969	-	(13,750)	194,777	-	-
MA Joiner	57,032	-	-	-	57,032	-	-
MJ Ullmer	102,879	-	-	(25,000)	77,879	-	-
Other senior executives							
LJ Gray	32,876	-	-	-	32,876	-	-
MJ Healey	9,132	-	-	-	9,132	-	-
JC Healy	3,125	-	-	-	3,125	-	-
BF Munro	37,552	49,823	-	(8,750)	78,625	-	-
LM Peacock	160,366	-	-	-	160,366	-	-
RJ Sawers	20,313	-	-	-	20,313	-	-
GR Slater	47,563	-	-	-	47,563	-	-
AG Thorburn	60,563	53,381	-	-	113,944	-	-
SJ Tucker	74,313	-	-	-	74,313	-	-
Other KMP during the year							
A Fahour	182,063	-	-	(40,000)	142,063	-	-
G Frazis	67,913	-	-	(67,913)	-	-	-
MJ Hamar	35,970	-	-	(10,000)	25,970	-	-
JE Hooper	80,586	-	-	-	80,586	-	-
PL Thodey	145,420	27,581	-	-	173,001	-	-
JM Stewart	649,750	-	-	(210,000)	439,750	-	-

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

(2) *Performance rights lapsed or expired during the year.*

No performance rights were vested and unexercisable at 30 September 2010 (2009: nil).

(ii) Shareholdings

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

	Balance at beginning of year [1]	Granted during year as remuneration [2]	Received during year on exercise of performance options or rights	Other changes during year	Balance at end of year [3]
KMP for the year ended 30 September 2010					
Executive directors					
CA Clyne	94,996	159,569	-	-	254,565
MA Joiner	299,420	73,777	-	-	373,197
MJ Ullmer	168,456	77,826	-	-	246,282
Other senior executives					
LJ Gray	42,886	60,695	-	-	103,581
MJ Healey	50,939	32,237	-	-	83,176
JC Healy	128,610	45,792	-	38,867	213,269
BF Munro	25,917	41,771	-	-	67,688
LM Peacock	257,910	52,868	-	(26,015)	284,763
RJ Sawers	69,596	48,845	-	-	118,441
GR Slater	86,678	47,737	-	-	134,415
AG Thorburn	82,471	-	-	(19,000)	63,471
SJ Tucker	57,398	46,245	-	(480)	103,163
Non-executive directors					
MA Chaney	28,373	-	-	-	28,373
PA Cross	18,645	-	-	-	18,645
DT Gilbert	19,190	-	-	-	19,190
PJ Rizzo	5,824	-	-	-	5,824
JS Segal	16,986	-	-	-	16,986
JG Thorn	12,333	-	-	-	12,333
GA Tomlinson	39,613	-	-	815	40,428
JA Waller	2,000	-	-	-	2,000
GM Williamson	9,407	-	-	-	9,407
AKT Yuen	2,000	-	-	3,059	5,059

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

(2) *For details regarding the terms and conditions of shares granted as remuneration under NAB employee share plans to KMP during the year, refer to the Remuneration report.*

(3) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company.*

48 Equity instrument holdings of key management personnel (continued)

	Balance at beginning of year [(1)]	Granted during year as remuneration [(2)]	Received during year on exercise of performance options or rights	Other changes during year	Balance at end of year [(3)]
KMP for the year ended 30 September 2009					
Executive directors					
CA Clyne	16,105	78,891	-	-	94,996
MA Joiner	240,528	58,892	-	-	299,420
MJ Ullmer	103,384	52,023	-	13,049	168,456
Other senior executives					
LJ Gray	17,104	25,782	-	-	42,886
MJ Healey	25,804	24,327	-	808	50,939
JC Healy	66,492	61,415	-	703	128,610
BF Munro	22,510	3,407	-	-	25,917
LM Peacock	112,232	145,678	-	-	257,910
RJ Sawers	56,742	12,652	-	202	69,596
GR Slater	43,919	44,759	-	(2,000)	86,678
AG Thorburn	75,933	6,538	-	-	82,471
SJ Tucker	49,661	14,337	-	(6,600)	57,398
Other KMP during the year					
A Fahour	648,208	125,056	-	(770,689)	2,575
G Frazis	115,995	26,297	-	(133,071)	9,221
MJ Hamar	31,714	-	-	(12,814)	18,900
JE Hooper	77,604	30,365	-	-	107,969
PL Thodey	23,106	5,527	-	-	28,633
JM Stewart	144,746	-	-	-	144,746
Non-executive directors					
MA Chaney	24,969	3,404	-	-	28,373
PA Cross	13,617	5,028	-	-	18,645
DT Gilbert	17,044	2,146	-	-	19,190
TK McDonald	3,130	-	-	(3,130)	-
PJ Rizzo	4,452	1,372	-	-	5,824
JS Segal	12,766	4,220	-	-	16,986
JG Thorn	11,094	1,239	-	-	12,333
GA Tomlinson	36,174	3,379	-	60	39,613
JA Waller	-	-	-	2,000	2,000
GM Williamson	9,096	311	-	-	9,407

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

(2) *For details regarding the terms and conditions of shares granted as remuneration under NAB employee share plans to KMP during the year, refer to the Remuneration report.*

(3) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company.*

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

	2010		
	Balance at beginning of year	Changes during year	Balance at end of year
National Income Securities			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180
GA Tomlinson	350	-	350
MJ Ullmer	841	-	841
Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd			
JA Waller	250,000	-	250,000

	2009		
	Balance at beginning of year	Changes during year	Balance at end of year
National Income Securities			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180
GA Tomlinson	350	-	350
MJ Ullmer	-	841	841
Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd			
JA Waller	-	250,000	250,000

49 Remuneration of external auditor

	Group 2010 $'000	Group 2009 $'000	Company 2010 $'000	Company 2009 $'000
Total fees paid or due and payable to Ernst & Young Australia: [1]				
Audit fees				
Audit and review of financial statements	**11,415**	11,166	**6,960**	7,009
Comfort letters	**265**	172	**265**	172
Total audit fees	**11,680**	11,338	**7,225**	7,181
Audit-related fees				
Regulatory	**5,595**	4,190	**2,065**	2,251
Non-regulatory	**713**	881	**288**	673
Total audit-related fees	**6,308**	5,071	**2,353**	2,924
All other fees	**1,812**	4,708	**929**	2,952
Total remuneration of Ernst & Young Australia	**19,800**	21,117	**10,507**	13,057
Amounts paid or due and payable to overseas practices of Ernst & Young: [1]				
Audit fees				
Audit and review of financial statements	**5,681**	6,834	**997**	1,217
Comfort letters	**410**	322	**-**	-
Total audit fees	**6,091**	7,156	**997**	1,217
Audit-related fees				
Regulatory	**1,342**	1,197	**84**	63
Non-regulatory	**695**	71	**670**	-
Total audit-related fees	**2,037**	1,268	**754**	63
All other fees	**191**	171	**-**	-
Total remuneration of overseas practices of Ernst & Young	**8,319**	8,595	**1,751**	1,280
Amounts paid or due and payable to BKD LLP for: [1][2]				
Audit fees				
Audit and review of financial statements of Great Western Bank	**302**	328	**-**	-
Total remuneration of BKD LLP	**302**	328	**-**	-

[1] *Fees exclude goods and services tax, value-added tax or equivalent taxes.*

[2] *BKD LLP were appointed auditor of the Group's US subsidiary, Great Western Bancorporation Inc, on 17 January 2009.*

Audit fees consist of fees for the audit of the annual financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings.

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls. For 2010 and 2009 this included assurance services relating to the Group's Basel II programme and APRA reporting requirements and audits of the Group's Australian Financial Services Licences. For 2010 this included financial statement reviews in relation to acquisition activities.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. For 2010 and 2009 these services include assurance services relating to the Group's credit assessments and procedures in relation to the Group's annual and half-year results announcements. For 2009, this included agreed upon procedures relating to the Group's conduit assets.

For 2010 and 2009, all other fees includes compliance audits/attestations for Wealth Management entities and assessments of the Group's IT transformation programme. For 2010, all other fees included payments totalling nil (2009: $2.73 million) under an indemnity in a receivership agreement pre-dating the appointment of Ernst & Young as the Group's auditor.

A description of the Audit Committee's pre-approval policies and procedures is set out on page 44. Further details of the non-audit services provided by Ernst & Young to the Group during 2010 and the fees paid or due and payable for those services are set out in the Report of the directors.

50 Fiduciary activities

The Group's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. The aggregate amounts of funds concerned, which are not included in the Group's balance sheet, are as follows:

	Group	
	2010 $m	2009 $m
Funds under management	**18,568**	17,407
Funds under trusteeship	**7,093**	7,375
Funds under custody and investment administration	**683,737**	632,238

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

51 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) and MLC Lifetime Company Limited (MLC Lifetime) in Australia and BNZ Life Insurance Limited in New Zealand. The Group acquired the Australian life company Norwich Union Life Australia Limited (NULAL) on 1 October 2009. This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities. Current year disclosures include NULAL while the prior year comparatives do not include NULAL as it was not part of the Group at that time.

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this annual financial report, including compliance with the regulations of the *Life Insurance Act* 1995 (Cth) where appropriate.

(a) Risk management in life insurance business

The management of risks inherent in the life insurance business 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. There are no concentrations of insurance risk.

(b) Details of the solvency position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act* 1995 (Cth), life insurers are required to hold reserves in excess of policy liabilities to meet certain solvency and capital adequacy requirements. These additional reserves are necessary to support the life insurer's capital requirements under its business plan and to provide a cushion against adverse experience in managing long-term risks. In Australia, APRA has issued Prudential Standard LPS 2.04 "Solvency Standard" for determining the level of solvency reserves. This standard prescribes a minimum capital requirement for each statutory fund and the minimum level of assets required to be held in each statutory fund. Capital adequacy is determined in accordance with Prudential Standard LPS 3.04 "Capital Adequacy Standard".

The summarised information provided below has been extracted from the financial statements prepared by each Australian life insurer in the Group for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules. For detailed solvency information on a statutory funds basis, users of this financial report should refer to the financial statements prepared by each life insurer.

	NULAL	MLC		MLC Lifetime	
	2010 $m	**2010 $m**	2009 $m	**2010 $m**	2009 $m
Solvency reserve as at 30 September	**76**	**547**	541	**152**	126
Assets available for solvency as at 30 September	**228**	**862**	828	**337**	254
Coverage of solvency reserve (times)	**3.0**	**1.6**	1.5	**2.2**	2.0

Non-Australian life insurers

The non-Australian life insurers in the Group are not governed by the *Life Insurance Act* 1995 (Cth) as they are foreign-domiciled life insurance companies. Each of these companies is required to meet similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

51 Life insurance business disclosures (continued)

c) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

Policy liabilities have been calculated in accordance with Prudential Standard LPS 1.04 "Valuation of Policy Liabilities" issued by APRA *(*refer to *Note 1(aa))*. This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 for life insurance contracts, and AASB 139 and AASB 118 for life investment contracts.

(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:

	Actuarial method	Profit carrier	
Product type		MLC and MLC Lifetime	NULAL
Investment-linked	Fair value	n/a	n/a
Non-investment-linked			
Traditional business - participating	Projection	Bonuses	Bonuses
Traditional business - non-participating	Projection	Claims	Premiums
Individual term life insurance - regular stepped premiums	Projection	Claims	Premiums
Individual term life insurance - regular level premiums	Projection	Claims	Claims
Individual term life insurance - single premium	Projection	Claims	n/a
Individual disability income insurance	Projection	Claims	Claims
Group insurance	Accumulation	n/a	n/a
Annuity business	Projection	Annuity payments	Annuity payments
Investment account	Accumulation	n/a	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	**2010 (3) % pa**	2009 % pa
Traditional business - participating		
Ordinary (1)	**4.9%**	5.7%
Superannuation (1)	**6.0%**	6.9%
Term life and disability income (excluding claims in payment) insurance	**5.2 - 5.7%**	5.3 - 6.5%
Disability claims in payment	**5.6%**	6.2%
Annuity business (2)	**4.8 - 5.4%**	4.3 - 6.1%

(1) *After tax.*
(2) *After investment expense of 0.2%.*
(3) *Rates shown are based on average duration.*

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by inflation of 2.7% (2009: 2.4%) 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 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 2.7% (2009: 2.3%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *Note 1(gg)*.

51 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 95% of IA 95-97 [(1)]; 100% of ALT 00/02 [(2)] Female: 100% of IA 95-97 [(1)]; 100% of ALT 00/02 [(2)]
Term life insurance	Male: 65 - 72.5% of IA 95-97 [(1)] for non-smokers with adjustments for smokers and initial selection Female: 65 - 75% of IA 95-97 [(1)] for non-smokers with adjustments for smokers and initial selection
Loan cover term life insurance	Male/Female: 80 - 110% of IA 95-97 [(1)] for non-smokers with adjustments for smokers
Disability income insurance	Male: Rates similar to 40 - 125% of incidence and 30 - 105% of termination rates of IAD 89-93 [(3)] Female: Rates similar to 45 - 100% of incidence and 30 - 105% of termination rates of IAD 89-93 [(3)]
Loan cover disability income insurance	Male/Female: Rates similar to 115 - 150% for non-smokers and 145 - 185% for smokers of incidence and 100% of termination rates of IAD 89-93 [(3)]
Annuity business	Male: 61.75% + 0.95% for each year > 75 to max 95% of IM 92 [(4)] for MLC and MLC Lifetime; 72.5% of IM 80 [(5)], with improvements based on W Gratton basis for NULAL Female: 47.5% + 1.5% for each year > 75 to max 100% of IF 92 [(4)] for MLC and MLC Lifetime; 72.5% of IF 80 [(5)], with improvements based on W Gratton basis for NULAL

(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) *ALT 00/02 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 2000 to 2002.*

(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) *IM 92 and IF 92 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1991 to 1994. The tables refer to male and female lives, respectively and incorporate factors which allow for mortality improvements since the date of the investigation (there is no standard Australian annuitant mortality table).*

(5) *IM 80 and IF 80 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1979 to 1982.*

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows:

	NULAL	MLC and MLC Lifetime	
Product type	**2010**	**2010**	2009
Traditional business - participating			
Ordinary	**6%**	**6%**	6%
Superannuation	**7%**	**7%**	7%
Term life insurance	**5 - 17%** [(1)]	**10 - 11%**	10% - 11%
Disability insurance	**7.5 - 14.5%**	**11 - 12%**	11% - 12%
Loan cover term life and disability income insurance	**n/a**	**30 - 32%**	30% - 32%

(1) *Discontinuance rates may vary according to a range of policyholder variables. The above rates generally reflect the weighted average within each range, excepting NULAL where the full range is reflected.*

(viii) Surrender values

Surrender values are based on the provision specified in policy contracts. The surrender value basis for traditional policies typically includes recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Insurance Act* 1995 (Cth).

(ix) Future participating benefits

For participating business, the Group's policy is to set bonus rates such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of business are:

	Ordinary business		Superannuation business	
	2010	2009	**2010**	2009
Bonus rate on sum assured	**0.9%**	1.6%	**1.4%**	2.2%
Bonus rate on existing bonuses	**0.9%**	1.6%	**1.4%**	2.2%

51 Life insurance business disclosures (continued)

(d) Disclosure of assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(e) Effects of changes in actuarial assumptions

	2010		2009	
	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
Assumption category				
Market-related changes to discount rates	**58**	**(6)**	(18)	8
Non-market-related changes to discount rates	**(2)**	**-**	-	-
Inflation rate	**(12)**	**15**	10	(23)
Mortality and morbidity	**-**	**-**	(92)	17
Discontinuance rates	**-**	**-**	(81)	-
Maintenance expenses	**-**	**-**	(17)	-
Other assumptions	**-**	**(2)**	-	-
Total	**44**	**7**	(198)	2

(f) Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as risk discount rate, mortality, morbidity, discontinuances and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The following table illustrates how changes in key assumptions (other than interest rates) would impact the reported profit and policy liabilities of the Group in respect of life insurance business. The Group's exposure to interest rate risk is disclosed in *Note 39*.

		2010			
		Gross (before reinsurance)		Net (of reinsurance)	
	Change in variable	Profit/(loss) and shareholder's equity $m	Policy liabilities $m	Profit/(loss) and shareholder's equity $m	Policy liabilities $m
Inflation rate	0.5% increase in inflation rate	8	4	8	2
Annuitant mortality	50% increase in rate of mortality improvements	(17)	24	(17)	24
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	(12)	17	(3)	5
Morbidity	10% decrease in disability termination rates	(57)	81	(37)	52
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	1	-	1

		2009			
		Gross (before reinsurance)		Net (of reinsurance)	
	Change in variable	Profit/(loss) and shareholder's equity $m	Policy liabilities $m	Profit/(loss) and shareholder's equity $m	Policy liabilities $m
Inflation rate	0.5% increase in inflation rate	8	-	8	(1)
Annuitant mortality	50% increase in rate of mortality improvements	(2)	3	(2)	3
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(13)	19	(12)	17
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

51 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 risks affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder.	Mortality, morbidity, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium.	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings. Sum assured is specified and is augmented by annual reversionary bonuses.	Mortality, lapse rates, investment earnings

(h) Other life insurance disclosures

	Group	
	2010	2009
	$m	$m
Sources of operating profit		
Life insurance contracts		
Emergence of shareholder planned margins	**193**	168
Experience profit/(loss)	**(41)**	(38)
Life investment contracts		
Fees earned	**141**	85
Investment earnings on shareholder retained profits and capital	**126**	49

	Total life insurance funds	
	2010	2009
	$m	$m
Schedule of expenses		
Outward reinsurance expense	**174**	149
Claims expense	**695**	477
Change in policy liabilities	**1,724**	373
Policy acquisition expense		
Commission	**214**	207
Other	**190**	157
Policy maintenance expense		
Commission	**255**	182
Other	**271**	209
Investment management expense	**35**	37
Total life insurance expenses	**3,558**	1,791

52 Capital adequacy

As an authorised deposit-taking institution (ADI), the National Australia Bank Limited is subject to regulation by APRA under the authority of the *Banking Act* 1959. APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel II Framework.

The Group's capital structure comprises various forms of capital. For regulatory purposes, capital has two base elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at net Tier 1 and net Tier 2 capital. Tier 1 capital is made up of largely what is presented in the financial accounts being shareholders equity. From this a number of elements must be deducted such as goodwill. As such it is sometimes also referred to as core equity. Tier 2 capital is the next group that when combined with Tier 1 capital represents the total capital available to support the Group from a regulatory view against unexpected losses. It generally includes long term subordinated debt and unrealised market gains.

APRA has set minimum ratios that compare the regulatory capital with risk-weighted assets (on and off balance sheet). Australian banks are required to maintain a minimum ratio of total eligible capital base to total risk-weighted assets of 8.0%, of which a minimum of 4.0% must be held in Tier 1 capital. The numerator of the ratio is the Total Capital base. The denominator of the ratio is the total risk-weighted asset exposure (i.e. the sum of all credit, operational, IRRBB and market risk-weighted exposure).

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

Under APRA's Prudential Standards, life insurance and funds management entities activities are deconsolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital with the balance of the investment deducted 50% from Tier 1 and 50% from Tier 2 capital. Additionally any profits from these activities included in the Group's results are excluded from the determination of Tier 1 capital to the extent they have not been remitted to the Company.

In December 2009 the Basel Committee released its proposals for wide ranging regulatory reform of the capital and liquidity framework. After extensive industry consultation the Committee is expected to release fully calibrated standards by the end of 2010. Further comment on the regulatory reform agenda is contained in the supplementary information section.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Principal Board. Target ranges are set by reference to factors such as the risk appetite of the Principal Board, and market, regulatory and rating agencies expectations. The Board approved Tier 1 target has been recalibrated from above 7% to above 8%. A target of above 8% reflects the Group's desire to maintain strong balance sheet settings and is consistent with investor risk appetite and the global regulatory direction. The Group continues to operate at a comfortable buffer to the Board target.

53 Events subsequent to balance date

No matter, item, transaction or event of a material or unusual nature has arisen in the interval between the end of the financial year 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 50 to 151 and the additional disclosures included in the audited pages of the Remuneration report, comply with Australian Accounting Standards and the *Corporations Act* 2001 (Cth);
   (b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of the Company and the Group as at 30 September 2010, and of the performance of the Company and the Group for the year ended 30 September 2010;
   (c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
   (d) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in *Note 1(b)*; and
   (e) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and
2. there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 *(refer to Notes 41 and 42 to the financial statements for further details)*.

Dated this 15th day of November 2010 and signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

Cameron A Clyne
Group Chief Executive Officer

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Independent auditor's report to the members of National Australia Bank Limited

Report on the Financial Report

We have audited the accompanying financial report of National Australia Bank Limited (the Company), which comprises the balance sheet as at 30 September 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled (the Group) at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* (Cth). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001* (Cth). We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the Directors. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1 the financial report of National Australia Bank Limited is in accordance with the *Corporations Act 2001* (Cth), including:

(i) giving a true and fair view of the financial position of the Company and the Group at 30 September 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2 the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 38 of the Report of the Directors for the year ended 30 September 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001* (Cth). Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2010, complies with section 300A of the *Corporations Act 2001* (Cth).

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne

15 November 2010

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the Company as at 31 October 2010

	Number of shares	%
HSBC Custody Nominees	359,630,439	16.86
J P Morgan Nominees Australia Limited	260,185,567	12.20
National Nominees Limited	244,446,877	11.46
Citicorp Nominees Pty Limited	97,543,050	4.57
Cogent Nominees Pty Limited	41,084,898	1.93
National Australia Trustees, SSAP & SSOP Control A/Cs	26,107,907	1.22
J P Morgan Nominees Australia Limited, Cash Income A/C	21,042,955	0.99
AMP Group	19,841,838	0.93
RBC Dexia Investor Services Australia Nominees Pty Limited, PIPOOLED A/C	14,053,969	0.66
Citicorp Nominees Pty Limited, CFS WSLE Geared SHR Fund A/C	13,358,640	0.63
Queensland Investment Corporation	10,539,458	0.49
Australian Reward Investment Alliance	9,524,955	0.45
Australia Foundation Investment Company Limited	8,723,569	0.41
UBS Wealth Management Australia Nominees Pty Limited	7,566,268	0.35
Cogent Nominees Pty Limited, SMP A/C	7,551,689	0.35
RBC Dexia Investor Services Australia Nominees Pty Limited, BKCust A/C	5,676,329	0.27
Perpetual Trustee Aust Group	5,529,902	0.26
RBC Dexia Investor Services Australia Nominees Pty Limited, MLCI A/C	5,468,251	0.26
Argo Investments Limited	4,982,301	0.23
UBS Nominees Pty Limited	4,444,692	0.21
	1,167,303,554	54.73

Substantial shareholders

As at 31 October 2010, BlackRock Investment Management (Australia) Limited and its associated entities were substantial holders in the Company, holding 106,924,753 fully paid ordinary shares.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 - 1,000	289,268	60.9	114,787,095	5.4
1,001 - 5,000	153,881	32.3	330,743,404	15.5
5,001 - 10,000	20,599	4.3	141,942,799	6.7
10,001 - 100,000	11,598	2.4	237,590,288	11.1
100,001 and over	405	0.1	1,308,318,881	61.3
	475,751	100.0	2,133,382,467	100.0
Less than marketable parcel of $500	13,422		116,155	

Voting rights

Each ordinary shareholder present at a general meeting (whether is 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 share.

Shareholder information

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2010

	Number of securities	%
J P Morgan Nominees Australia Limited	1,135,483	5.68
RBC Dexia Investor Services Australia Nominees Pty Limited, MLCI A/C	510,447	2.55
HSBC Custody Nominees	394,789	1.97
National Nominees Limited	351,998	1.76
Daytree Pty Ltd, The ARJO Investment A/C	328,250	1.64
UBS Wealth Management Australia Nominees Pty Limited	266,763	1.33
Daytree Pty Ltd, ARJO Investment A/C	225,050	1.13
Questor Financial Services Limited, TPS RF A/C	201,164	1.01
M F Custodians Limited	190,742	0.95
Citicorp Nominees Pty Limited	117,192	0.59
Netwealth Investments Limited, Wrap Services A/C	102,981	0.51
UBS Nominees Pty Limited, TP00014 10 A/C	100,576	0.50
Australian Executor Trustees Limited, No 1 A/C	91,488	0.46
J P Morgan Nominees Australia Limited, Cash Income A/C	83,187	0.42
Peninsula Harbour Pty Ltd, Peninsula Harbour Unit A/C	76,740	0.38
Custodial Services Limited, Beneficiaries Holdings A/C	74,476	0.37
Private Nominees Limited	62,843	0.31
RBC Dexia Investor Services Australia Nominees Pty Limited, NMSMT A/C	57,974	0.29
Dudley Pines Pty Ltd	57,816	0.29
Kingsby Pty Ltd, Bialystock & Bloom S/F A/C	54,260	0.27
	4,484,219	22.41

Distribution of NIS holdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 - 1,000	35,766	93.5	8,042,540	40.2
1,001 - 5,000	2,205	5.8	4,394,601	22.0
5,001 - 10,000	142	0.4	1,006,561	5.0
10,001 - 100,000	123	0.3	2,630,863	13.2
100,001 and over	12	0.0	3,925,435	19.6
	38,248	100.0	20,000,000	100.0
Less than marketable parcel of $500	38		147	

Voting rights

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Shareholder information

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

Group Chief Executive Officer
Mr Cameron A Clyne
BA

Deputy Group Chief Executive Officer
Mr Michael J Ullmer
BSc (Maths) (Hons), FCA, SF Fin

Executive Director, Finance
Mr Mark A Joiner
ACA, MBA

Registered office

Level 4, (UB4440)
800 Bourke Street
Docklands Victoria 3008
Australia
Local call: 1300 367 647

Auditor

Ernst & Young
8 Exhibition Street
Melbourne Victoria 3000
Australia
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777

Group Company Secretary

Ms Michaela Healey
LLB, FCIS

Shareholders' centre website

The Group's website at **www.nabgroup.com** has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' centre information line

There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (within 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).

Principal share register

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Australia

Postal address:
GPO Box 2333
Melbourne Victoria 3001
Australia

Local call: 1300 367 647
Fax: (03) 9473 2500

Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500
Email: nabservices@computershare.com.au
Website: www.computershare.com.au

UK share register

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom

Tel: (0870) 703 0197
Fax: (0870) 703 6101

United States ADR depositary, Transfer agent and registrar

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
United States

US Toll Free for Domestic calls
Tel: 1-888-BNY-ADRS
Tel: +1 201 680 6825 (outside US)

Email: shrrelations@bnymellon.com
Website: www.bnymellon.com\shareowner

Shareholder information

Official quotation

Fully paid ordinary shares of the Company are quoted on the Australian Securities Exchange.

The Group has also issued:

- National Income Securities which are quoted on the stock market of the Australian Securities Exchange;
- Perpetual non-cumulative shares through BNZ Income Securities Ltd and BNZ Income Securities 2 Ltd which are quoted on the NZDX of the NZX;
- Trust Preferred Securities, National Capital Instruments, National Perpetual Capital Notes, Medium Term Notes, Mortgage Backed Securities and Subordinated Bonds which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities I and II which are quoted on the stock market of the Channel Islands Stock Exchange;
- Undated Subordinated Floating Rate Notes which are quoted on the stock market of the London Stock Exchange;
- Medium Term Notes which are quoted on the Swiss Stock Exchange;
- Mortgage Backed Securities which are quoted on the stock market of the Australian Securities Exchange; and
- Subordinated Bonds which are quoted on the NZDX of the NZX.

Supplementary information - Capital adequacy and regulatory reform

Capital management

The Group's capital management strategy is focussed on adequacy, efficiency and flexibility. The capital adequacy objective focuses on holding capital in excess of the internal risk-based assessments, meeting regulatory requirements, maintaining capital consistent with the Group's target credit rating and ensuring investors' expectations are met.

The Board approved Tier 1 target has been recalibrated from above 7% to above 8%. A target of above 8% reflects the Group's desire to maintain strong balance sheet settings and is consistent with investor risk appetite and the global regulatory direction. The Group continues to operate at a comfortable buffer to the Board target.

The Group remains committed to maintaining the efficiency of the capital base as existing hybrid securities are scheduled for redemption or conversion to equity as the balance sheet grows. Before new hybrid issuance will take place regulatory reform and transitional arrangements require further clarification.

Clydesdale Bank and BNZ, our major banking subsidiaries are adequately capitalised and are in excess of regulatory requirements.

Regulatory Reform

The Group is closely monitoring the regulatory agenda as it evolves and will adjust our balance sheet settings as required, taking into account transition periods. The major elements of reform are the December 2009 Capital and Liquidity proposals released by the Basel Committee on Banking Supervision (BCBS), along with subsequent follow-up consultative documents that have provided additional detail. The fully calibrated and finalised package of capital and liquidity reforms are expected to be delivered by the BCBS by the end of 2010.

The following proposals are expected as baseline components of the capital reforms:

	Core Tier 1	Tier 1	Total Capital
Regulatory Minimum	4.5%	6.0%	8.0%
Capital Conservation Buffer	2.5%	2.5%	2.5%
Total	**7.0%**	**8.5%**	**10.5%**

- The Basel Core Tier 1 minimum has been increased from 2% to 4.5% after adjustments consistent with the expectation for higher levels of better quality capital.
- A capital conservation buffer of 2.5% (comprising of common equity) will be implemented. Discretionary distributions may be restricted below this threshold which will seek to limit discretionary distributions should Core Tier 1 fall below 7%.
- A counter cyclical capital buffer of between 0 and 2.5% designed to reduce capital pro-cyclicality will be implemented when credit growth is deemed to be inappropriately above norms.
- A leverage ratio of 3% will be implemented in 2018 after a period of market observation and calibration.

Major components of liquidity reforms include a Liquidity Coverage Ratio which is targeted for 2015 and a Net Stable Funding Ratio for 2018. These will be introduced after a period of market observation and calibration.

A number of areas of the Basel reform proposals remain unclear and further detail is expected by the end of the year. APRA is expected to release draft prudential standards in the second half of 2011 followed by broad industry consultation.

Other reforms of note include APRA's proposals for Conglomerate Supervision and the review of capital standards for General and Life Insurers. APRA intends to issue a Quantitative Impact Study (QIS) for both proposals which will provide additional information on the expected impact. The results will assist in the finalisation of the standards that are due to be released in 2011 with effect from 2012.

Capital ratios

Capital ratios and risk-weighted assets are set out below:

	Target Ratio [(1)] %	As at 30 Sep 10 %	31 Mar 10 %	30 Sep 09 %	Sep 10 v Sep 09	Sep 10 v Mar 10
Core Tier 1 ratio [(2)]		**6.80**	6.91	6.81	(1 bp)	(11 bps)
Tier 1 ratio	above 8.00%	**8.91**	9.09	8.96	(5 bps)	(18 bps)
Total capital ratio		**11.36**	12.07	11.48	(12 bps)	(71 bps)

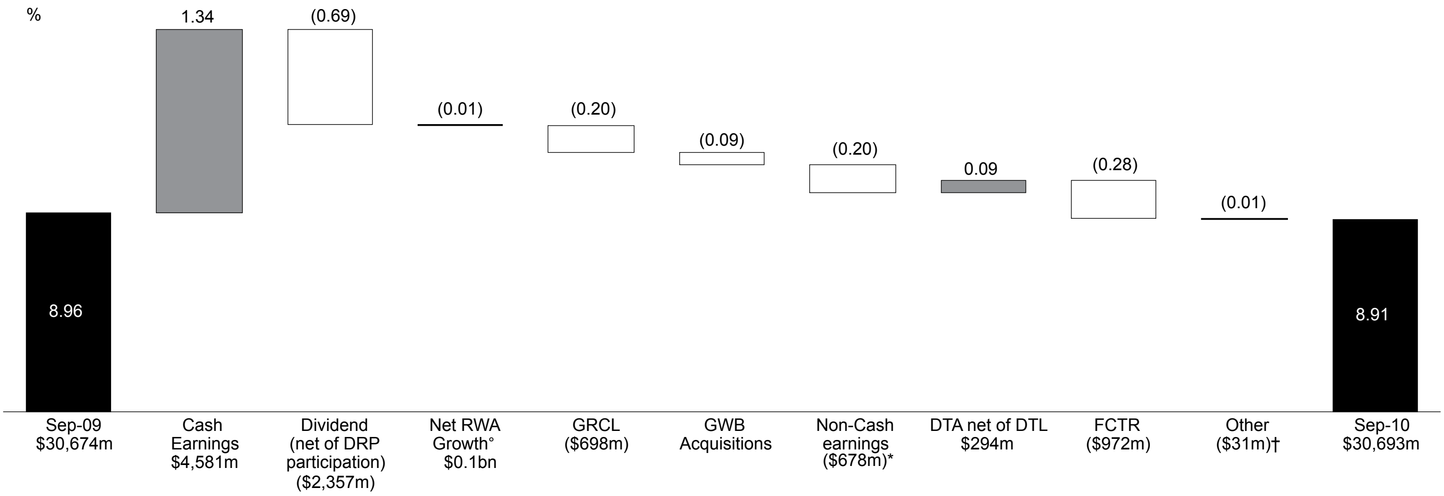
(1) *The Board target Tier 1 ratio has been revised from above 7.00% to above 8.00%.*

(2) *Core Tier 1 ratio equals Total Tier 1 Capital less Tier 1 Hybrids.*

	As at 30 Sep 10 $m	31 Mar 10 $m	30 Sep 09 $m	Sep 10 v Sep 09 %	Sep 10 v Mar 10 %
Risk-weighted assets - credit risk	**312,345**	301,473	311,975	0.1	3.6
Risk-weighted assets - market risk	**3,079**	3,305	3,415	(9.8)	(6.8)
Risk-weighted assets - operational risk	**22,234**	22,402	22,972	(3.2)	(0.7)
Risk-weighted assets - interest rate risk in the banking book	**7,000**	5,653	4,160	68.3	23.8
Total risk-weighted assets	**344,658**	332,833	342,522	0.6	3.6

Supplementary information - Capital adequacy and regulatory reform

Movement in Tier 1 Capital



° Net RWA growth excludes GWB acquisition ($2.0bn).

** Non-cash earnings effect on Tier 1 after adjusting for Distributions and Treasury Shares.*

† Other consists primarily of Wealth Management adjustment and other immaterial movements.

Capital movements during the period

The Group's Tier 1 ratio of 8.91% at September 2010 is consistent with the Group's objective of maintaining a strong capital position.

The key movements in capital were:

- Earnings less dividend net of dividend reinvestment plan participation;
- Implementation of a general reserve for credit losses;
- Unfavourable non cash earnings;
- Improvement in the Group's net deferred tax asset position;
- GWB acquisitions; and
- A decrease in the foreign currency translation reserve driven by the strengthening of the Australian dollar. This represents an offset to the FX impact of RWA movements.

Total RWAs increased by $2.1 billion over the full year due to underlying growth and GWB acquisitions offset by FX impacts.

Tier 1 capital initiatives

On 30 September 2009, the Group issued AUD$500m of stapled securities. The Group amended the terms of the stapled securities on 4 March 2010. The stapled securities are perpetual capital instruments each paying a non-cumulative distribution at a rate of 2.0% over the 30 day bank bill swap rate (BBSW). Subject to APRA approval, the stapled securities will be redeemable at the Group's option on 30 March 2011 or on every monthly distribution payment date thereafter. In the event that the securities are not redeemed, they will convert into a variable number of Company ordinary shares on 30 March 2011, subject to the satisfaction of conversion conditions.

On 24 September 2008, the Group issued AUD$300 million of stapled securities. The Group amended the terms of the stapled securities on 25 August 2010. The stapled securities are perpetual capital instruments each paying a non-cumulative distribution at a rate of 2.0% over the 30-day BBSW. Subject to APRA approval, the Stapled Securities will be redeemable by the Group on the occurrence of various events or on about 24 September 2012, or every monthly distribution thereafter. In the event that the securities are not redeemed, they will convert into a variable number of ordinary shares in the Company on or about 24 September 2012, subject to the satisfaction of conversion conditions.

On 24 September 2008, the Group issued AUD$300 million of Convertible Notes. The Group amended the terms of the Convertible Notes on 25 August 2010. The Convertible Notes pay a non-cumulative distribution at a rate of 2.0% over the 30-day BBSW. On 24 September 2012, subject to APRA approval, the notes will be redeemable by the Group on the occurrence of various events or on about 24 September 2012, or every monthly distribution thereafter. The notes are convertible at the holder's option into a variable number of ordinary shares in the Company from 24 September 2012.

Any conversion will have no impact on the Tier 1 capital ratio but will increase core Tier 1.

Tier 2 capital initiatives

On 3 February 2010, the Group issued EUR1 billion subordinated notes. These notes pay interest annually at 4.625% and mature 10 February 2020.

Dividend and Dividend Reinvestment Plan (DRP)

The 2010 final dividend has been increased by 4 cents on the 2010 interim dividend to 78 cents taking the full year payout to 152 cents fully franked. DRP settings for the final dividend have been adjusted to provide a 1.5% discount with no participation limit. The final DRP estimate has been increased to an amount equal to 35% of the final dividend to reflect assumed DRP participation.

UK defined benefit pension scheme

The Group's UK operations operate a defined benefit pension scheme. During the full year, the scheme's deficit increased to £312 million from £311 million at September 2009. The impact on Tier 1 Capital was negligible. The pension position is affected by three key factors:

- movement in the discount rate used to calculate the liability net present value.
- movement in the long-term inflation assumption.
- movement in the value of the investment portfolio.

Pillar 3 disclosures

Further disclosures with respect to capital adequacy and risk management will be made in the Risk and Capital Report, as required by Australian Prudential Standard APS 330.

Supplementary information - Disclosure on special purpose entities

The following supplementary disclosures are based on Financial Stability Board (FSB) recommendations that were included in a report entitled *Enhancing Market and Institutional Resilience*.

(a) Special Purpose Entities (SPEs)

Controlled entities are those entities, including SPEs, over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Control rather than ownership interest is the sole criterion for determining a parent entity relationship. SPEs require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the SPE.

These supplementary disclosures focus on the exposure of the Group through its use of SPEs for various types of programmes (both on and off balance sheet) including:

- Securitisation SPEs;
- Funding programme SPEs; and
- Other SPEs.

(b) Securitisation SPEs

Objectives

The Group engages in securitisation activities for two purposes:

- Securitisation activities for business purposes, including arranging and managing securitisations for third parties (clients) as well as securities arbitrage (funding of purchased assets) activities [(1)], primarily through SPEs that provide funding for single or multiple transactions; and
- Securitisation of its own assets for funding and liquidity purposes, primarily for risk and capital management reasons. These transactions have always been recorded on the balance sheet since the adoption of IFRS as the derecognition criteria is not met.

The first category represents third party asset securitisation SPEs. The Group's participation in these SPEs is discussed below.

Third party asset securitisation SPEs

NAB sponsored securitisation SPEs for client securitisation assets and third party transactions

For these transactions, securitisation structures are established by the Group, comprising one or numerous SPEs to purchase and fund customer assets, including in securitised form. Previously, securitisation structures also included purchasing of rated securities arbitrage assets (purchased assets). Securities arbitrage activities have been discontinued by the Group. Each SPE funds the acquisition of assets or securities backed by the assets by:

- The issuance of debt securities (medium term notes or MTN) directly into the market (term securitisation); or
- The issuance of debt securities (asset backed commercial paper or ABCP) via an issuing entity (ABCP conduit funding). Standby liquidity facilities are typically made available to the ABCP conduits to fund acquired assets in the event that ABCP cannot be rolled or reissued to external investors; or
- The drawdown under funding facilities (securitisation funding facilities and warehouse facilities) provided by the Group directly to the SPE.

Ordinary equity in the securitisation SPE is typically held by a third party.

Most of the transactions in which the Group gains exposure to the securitisation SPEs are transactions funded through its sponsored multi-seller ABCP conduits and by securitisation funding facilities and warehouse facilities provided to the NAB sponsored SPEs established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation. The Group undertakes one or more of the following roles of arranger, manager (through wholly-owned subsidiaries), standby liquidity provider, securitisation funding facility provider, asset liquidity provider, warehouse facility provider, derivative provider and dealer.

The NAB sponsored securitisation SPEs are consolidated in the financial statements.

Non-NAB sponsored securitisation SPEs for third party securitisation assets

For these transactions, securitisation SPEs are established by market participants, other than the Group, to acquire and fund various assets by issuing securities to external investors. The Group's exposures to these SPEs arise from provision of standby liquidity facilities that can be drawn in the event that ABCP cannot be rolled or reissued to external investors and, in some cases, other facilities provided to fund and support acquired assets. These entities are generally not consolidated, with facilities provided by the Group (and drawn) being included in loans and advances.

Securitisation funding and standby liquidity facilities

The Group's securitisation SPE exposures fall into two categories: purchased assets, which were acquired on set investment criteria to seed a new ABCP conduit or achieve critical mass; and client originated assets, which were originated as part of a broader client relationship. Within these categories the SPE exposures are categorised by asset class, resulting in the grouping of the exposures based on common features and risks.

Table 1 summarises the Group's exposures to both NAB sponsored and non-NAB sponsored SPEs via securitisation funding facilities and standby liquidity facilities provided to ABCP conduits. *Table 2* separates those exposures which are managed by Specialised Group Assets (SGA) and Wholesale Banking (WB). Both tables show the facility limits extended by the Group, the amount drawn and available to be drawn under the respective facilities, and related provisions. It also shows the total securities issued by the relevant SPEs including ABCP and MTN, the carrying value of the SPE assets (other than cash), and the associated fair value.

Note: The standby liquidity facilities are only available to fund repayment of outstanding ABCP in cases where it cannot be rolled or reissued to external investors. For these facilities, the unutilised limit over and above the drawn and available amount cannot be accessed to fund additional assets until ABCP is reissued.

Selected comparative information for 31 March 2010 is provided, with further detail available in the 2010 half year results.

(1) Securities arbitrage (funding of purchased assets) activities have been discontinued by the Group and, along with several client originated SPE exposures no longer deemed part of the Group's core activities (largely Northern Hemisphere originated exposures), are being managed separately as part of the Specialised Group Assets division.

Supplementary information - Disclosure on special purpose entities

Table 1 As at 30 September 2010	Group Facilities Limit $m	Drawn & Available [1] $m	Drawn-down $m	Provisions [2] $m	SPE Securities on issue [3] $m	Total asset value [4] $m	Fair value [5] $m
SPE purchased ABS CDOs:							
Senior tranche ABS CDO	233	**233**	233	(109)	-	233	76
Mezzanine tranche ABS CDO	-	**-**	-	-	-	-	2
Total SPE purchased ABS CDOs [6]	233	**233**	233	(109)	-	233	78
SPE other purchased assets:							
Infrastructure (credit wrapped bonds) [7]	260	**260**	260	-	-	260	248
Leveraged loans (CLOs)	1,432	**1,432**	1,432	-	-	1,432	1,284
Commercial property (CMBS)	595	**595**	595	-	-	595	480
Corporates (SCDO) [8]	1,501	**1,501**	1,501	-	-	1,501	1,044
Total SPE other purchased assets	3,788	**3,788**	3,788	-	-	3,788	3,056
NAB client originated assets:							
Auto/Equipment	204	**109**	109	(4)	100	209	203
Credit wrapped bonds	758	**697**	697	-	464	1,161	1,039
Prime residential mortgages	2,651	**2,449**	1,589	-	1,514	3,103	3,103
Non-conforming residential mortgages	393	**370**	370	-	130	500	489
Sub-prime residential mortgages	119	**119**	119	-	-	119	108
Subscription loans	713	**569**	569	-	-	569	569
Commercial property (CMBS)	148	**148**	148	-	119	267	264
NAB CLO	424	**424**	424	-	-	424	424
Credit wrapped ABS	639	**639**	639	-	-	639	337
Other [9]	616	**424**	424	-	11	435	420
Total NAB client originated assets	6,665	**5,948**	5,088	(4)	2,338	7,426	6,956
Represented by:							
NAB sponsored SPEs	4,275	**4,027**	4,027	-	676	4,703	4,237
Non-NAB sponsored SPEs	2,390	**1,921**	1,061	-	1,662	2,723	2,719
Total NAB client originated assets	6,665	**5,948**	5,088	(84)	2,338	7,426	6,956
Total standby liquidity facilities [10]	10,686	**9,969**	9,109	(197)	2,338	11,447	10,090

As at 31 March 2010	Group Facilities Limit $m	Drawn & Available [1] $m	Drawn-down $m	Provisions [2] $m	SPE Securities on issue [3] $m	Total asset value [4] $m	Fair value [5] $m
Total SPE purchased ABS CDOs [6]	248	**248**	248	(114)	-	248	72
Total SPE other purchased assets	4,020	**4,020**	4,020	-	-	4,020	3,223
Total NAB client originated assets	7,640	**6,653**	4,819	(9)	3,701	8,520	7,968
Represented by:							
NAB sponsored SPEs	5,252	**4,952**	3,986	-	1,697	5,683	5,140
Non-NAB sponsored SPEs	2,388	**1,701**	833	-	2,004	2,837	2,828
Total NAB client originated assets	7,640	**6,653**	4,819	(95)	3,701	8,520	7,968
Total standby liquidity facilities [10]	11,908	**10,921**	9,087	(218)	3,701	12,788	11,263

(1) *Drawn and available represents amounts drawn-down under the facility, and amounts currently available to be drawn (for standby liquidity facilities, this is limited to the amounts that maybe required to repay maturing ABCP if it cannot be rolled).*

(2) *Includes both specific and collective provisions. Provisions include exchange rate movements. The provisions disclosed are shown net of any expected recoveries under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). A separate management overlay of $160 million still exists in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and impact of any potential default.*

(3) *Securities on issue exclude amounts drawn under the facilities and include ABCP issued of $860 million of which $349 million is held by the Group and medium term notes of $1,478 million.*

(4) *Comprises total gross non-cash assets before provisions of the SPEs. For non-NAB sponsored SPEs, this only includes that portion of the SPE assets to which the Group is exposed through the securitisation funding facilities or the standby liquidity facilities. The drawn-down amounts on these facilities are recorded on the Group's balance sheet.*

(5) *The estimated fair values are based on relevant information at 30 September 2010 and 31 March 2010 respectively. These estimates involve matters of judgement, as changes in assumptions could have a material impact on the amounts estimated. There are various limitations inherent in this fair value disclosure particularly in the current market where, due to the uncertainty in the market, prices may not represent the underlying value. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices, where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of anticipated discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. In addition, it is the Group's intent to hold its financial instruments to maturity. The difference to fair value represents the significant change in discount rates in the current depressed markets. This is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances. This is consistent with the treatment of assets of the wider Group. The fair value of the SCDOs reflects the Group's exposure subsequent to the purchase of additional protection (refer "Protection purchased to hedge exposure to SPE other purchased assets" for further information). The fair value of infrastructure (credit wrapped bonds), credit wrapped bonds and credit wrapped ABS ascribes minimal value to the protection afforded by insurance policies from financial guarantee (monoline) insurers.*

(6) *SGA has exposure to a portfolio of ABS CDOs that contain exposure to US sub-prime mortgage assets. Provisions in the aggregate of $1,011 million were taken in 2008 to reflect expected losses on this portfolio. While most assets within this portfolio were written off in full, a single asset remains. The specific provision against this asset is approximately 46.8% of its current balance.*

(7) *The total asset value of infrastructure (credit wrapped bonds) purchased by other SPEs is substantially funded by facilities provided by the Group.*

(8) *The limit, drawn and available and drawn amounts includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). During the year $528 million in write-offs were recovered under the risk mitigation strategy.*

(9) *Other exposures include trade receivable and other asset backed securities.*

(10) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $1.0 billion, decrease for exchange rate movements of $0.3 billion and an increase for redraws, limit increases or new transactions of $0.3 billion.*

Supplementary information - Disclosure on special purpose entities

Table 2 shows the SPE exposures, related provisions, carrying value of the SPE assets (other than cash) and the associated fair value by Division.

Table 2 Divisional distribution [(1)]	**Group Facilities Limit $m**	**Drawn & Available $m**	**Drawn-down $m**	**Provisions** [(2)] **$m**	**Securities on issue** [(3)] **$m**	**SPE Total asset value** [(4)] **$m**	**Fair value** [(5)] **$m**
As at 30 September 2010							
Specialised Group Assets managed:							
Senior tranche ABS CDO	233	**233**	233	(109)	-	233	76
Mezzanine tranche ABS CDO	-	**-**	-	-	-	-	2
Leveraged loans (CLOs)	1,432	**1,432**	1,432	-	-	1,432	1,284
Commercial property (CMBS)	647	**647**	647	-	-	647	529
Corporates (SCDO)	1,501	**1,501**	1,501	-	-	1,501	1,044
Infrastructure (credit wrapped bonds)	260	**260**	260	-	-	260	248
Credit wrapped bonds	758	**697**	697	-	-	697	616
Credit wrapped ABS	639	**639**	639	-	-	639	337
Auto/Equipment	95	**-**	-	-	-	-	-
Non-conforming residential mortgages	142	**142**	142	-	-	142	131
Sub-prime residential mortgages	119	**119**	119	-	-	119	108
Subscription loans	713	**569**	569	-	-	569	569
NAB CLO	424	**424**	424	-	-	424	424
Other	36	**36**	36	-	-	36	22
Total Specialised Group Assets [(3)]	6,999	**6,699**	6,699	(109)	-	6,699	5,390
Represented by:							
NAB sponsored SPEs	6,904	**6,699**	6,699	-	-	6,699	5,390
Non-NAB sponsored SPEs	95	**-**	-	-	-	-	-
Total Specialised Group Assets [(2)(3)]	6,999	**6,699**	6,699	(192)	-	6,699	5,390
Wholesale Banking managed:							
Auto/Equipment	109	**109**	109	(4)	100	209	203
Commercial property (CMBS)	96	**96**	96	-	119	215	215
Prime residential mortgages	2,651	**2,449**	1,589	-	1,514	3,103	3,103
Non-conforming residential mortgages	251	**228**	228	-	130	358	358
Credit wrapped bonds [(4)]	-	**-**	-	-	464	464	423
Other	580	**388**	388	-	11	399	398
Total Wholesale Banking [(5)]	3,687	**3,270**	2,410	(4)	2,338	4,748	4,700
Represented by:							
NAB sponsored SPEs	1,392	**1,349**	1,349	-	676	2,025	1,981
Non-NAB sponsored SPEs	2,295	**1,921**	1,061	-	1,662	2,723	2,719
Total Wholesale Banking [(2)(5)]	3,687	**3,270**	2,410	(5)	2,338	4,748	4,700
Total exposure to standby liquidity facilities	10,686	**9,969**	9,109	(197)	2,338	11,447	10,090

As at 31 March 2010	**Group Facilities Limit $m**	**Drawn & Available $m**	**Drawn-down $m**	**Provisions** [(2)] **$m**	**Securities on issue $m**	**SPE Total asset value $m**	**Fair value $m**
Specialised Group Assets managed:							
Represented by:							
NAB sponsored SPEs	7,728	**7,489**	6,523	-	966	7,489	6,011
Non-NAB sponsored SPEs	215	**-**	-	-	-	-	-
Total Specialised Group Assets [(3)]	7,943	**7,489**	6,523	(206)	966	7,489	6,011
Wholesale Banking managed:							
Represented by:							
NAB sponsored SPEs	1,792	**1,731**	1,731	-	731	2,462	2,424
Non-NAB sponsored SPEs	2,173	**1,701**	833	-	2,004	2,837	2,828
Total Wholesale Banking [(5)]	3,965	**3,432**	2,564	(12)	2,735	5,299	5,252
Total exposure to standby liquidity facilities	11,908	**10,921**	9,087	(218)	3,701	12,788	11,263

(1) *Management of underlying exposure i.e. the management of the exposure between Wholesale Banking and Specialised Group Assets.*

(2) *Provisions include both specific and collective provisions. Collective provisions for SGA ($83 million) and Wholesale Banking ($1 million) have been calculated across the portfolio of NAB sponsored and non-NAB sponsored assets. The specific provisions have been allocated against the specific asset classes whilst the collective provisions have been included in the totals.*

(3) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $0.5 billion and a decrease for exchange rate movements of $0.3 billion.*

(4) *A consolidated NAB sponsored SPE issued medium term notes to investors. The investors are exposed to all the risk and NAB only provides a standby letter of credit of $209,000 to fund unexpected expenses. The facility has never been drawn.*

(5) *The movement from 31 March 2010 to 30 September 2010 is comprised of a reduction for repayments and restructured facilities of $0.5 billion and an increase for redraws, limit increases or new transactions of $0.3 billion.*

Supplementary information - Disclosure on special purpose entities

Table 3 shows the total drawn and available securitisation funding and standby liquidity facility of the Group to all securitisation SPEs by geography.

Table 3 Geographic distribution [(1)]	**Australia & New Zealand $m**	**Europe $m**	**United States $m**	**Asia & Other $m**	**Total drawn & available $m**	**Weighted average term to maturity [(2)] years**
As at 30 September 2010						
SPE purchased ABS CDOs:						
Senior tranche ABS CDO	-	-	233	-	**233**	27.1
Total SPE purchased ABS CDOs	-	-	233	-	**233**	27.1
SPE other purchased assets:						
Infrastructure (credit wrapped bonds) [(3)]	150	110	-	-	**260**	1.5
Leveraged loans (CLOs) [(4)]	-	724	706	2	**1,432**	4.4
Commercial property (CMBS) [(5)]	-	595	-	-	**595**	3.0
Corporates (SCDO) [(6)]	53	568	793	87	**1,501**	5.2
Total SPE other purchased assets	203	1,997	1,499	89	**3,788**	4.3
NAB client originated assets:						
Auto/Equipment	109	-	-	-	**109**	1.8
Credit wrapped bonds [(3)]	697	-	-	-	**697**	7.2
Prime residential mortgages	2,449	-	-	-	**2,449**	21.4
Non-conforming residential mortgages	228	142	-	-	**370**	23.1
Sub-prime residential mortgages	-	-	119	-	**119**	24.2
Subscription loans	8	128	356	77	**569**	1.3
Commercial property (CMBS)	96	-	52	-	**148**	2.1
NAB CLO	332	59	21	12	**424**	1.0
Credit wrapped ABS [(3)]	-	-	615	24	**639**	24.6
Other	388	-	36	-	**424**	3.7
Total NAB client originated assets	4,307	329	1,199	113	**5,948**	14.8
Total exposure to standby liquidity facilities	4,510	2,326	2,931	202	**9,969**	10.4
Managed within:						
Wholesale Banking	3,270	-	-	-	**3,270**	18.7
Specialised Group Assets	1,240	2,326	2,931	202	**6,699**	7.3
Total exposure to standby liquidity facilities	4,510	2,326	2,931	202	**9,969**	10.4

As at 31 March 2010	**Australia & New Zealand $m**	**Europe $m**	**United States $m**	**Asia & Other $m**	**Total drawn & available $m**	**Weighted average term to maturity [(2)] years**
Total SPE purchased ABS CDOs	-	-	248	-	**248**	27.5
Total SPE other purchased assets	321	1,982	1,622	95	**4,020**	4.5
Total NAB client originated assets	4,487	464	1,586	116	**6,653**	14.7
Total exposure to standby liquidity facilities	4,808	2,446	3,456	211	**10,921**	10.6

(1) *Location of underlying exposure i.e. the location of the ultimate borrower/reference entity within the portfolios on a look through basis.*

(2) *Reflects the weighted average contractual maturity of the underlying exposure of the SPE on a look through basis.*

(3) *Credit wrapped bonds and ABS are wrapped by financial guarantee (monoline) insurers.*

(4) *Includes nine transactions, in all but one case with exposure to the most senior class of notes, and initial subordination ranging from 27-38%. Reported defaults to date range from 3-15% with modest realised losses on underlying corporate loan collateral. Excess spread available to cover ongoing losses generally exceeds 1% per annum of the current principal balance of each CLO transaction.*

(5) *Includes four UK transactions backed by Greater London and regional properties, with exposure to the most senior bonds, and ratio of relevant note tranche to property value ranging from 60-83%. In general, the properties securing larger loans are let with quality tenants, have low vacancy rates and good lease profiles. The loan vintages are generally 2006 and 2007.*

(6) *Includes six credit linked notes backed by six single tranche corporate credit CDOs (portfolios of credit default swaps) and collateral. The drawn and available amount includes exposures which have been subject to recovery under the risk mitigation strategy (refer "Protection purchased to hedge exposure to SPE other purchased assets"). During the year $528 million in write-offs were recovered under the risk mitigation strategy.*

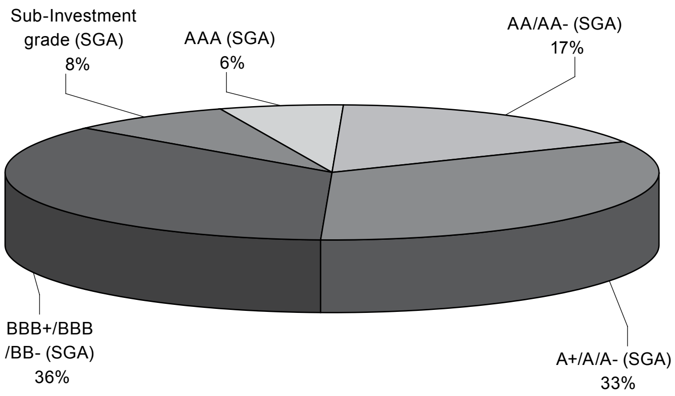
Supplementary information - Disclosure on special purpose entities

Further analysis of facilities

Rating analysis

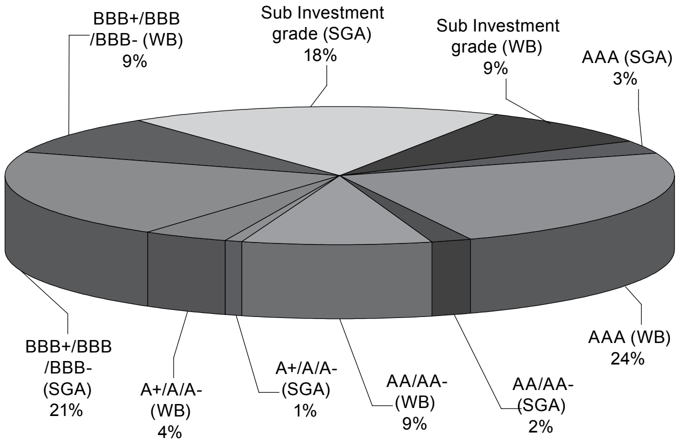
The ABS CDO of $233 million not written off is currently rated CC by S&P and Ca by Moody's.

Current S&P equivalent ratings - $3.8 billion SPE other purchased assets *(1)*



(1) *Includes internally rated assets mapped to S&P risk grades, taking into account the risk mitigation strategy on the SCDOs. These exposures only exist within SGA.*

Current S&P equivalent ratings - $5.9 billion NAB client originated assets split by business *(1)(2)*



(1) *Includes NAB internally rated assets mapped to S&P risk grades.*

(2) *The current ratings of credit wrapped bonds are based on the BBB+ ratings of the underlying assets.*

Asset quality information relevant to specific exposures

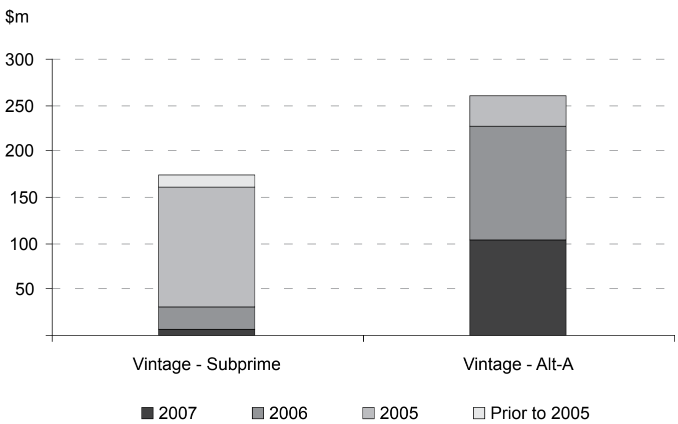
Table 4 shows asset quality and past due analysis of the underlying collateral of NAB client originated assets.

Table 4 **As at 30 September 2010**	**Weighted average current LVR** **%**	**Mortgage insurance coverage** **%**	**Days Past Due** **31-60** **%**	**61-90** **%**	**>90** **%**
Specialised Group Assets managed:					
Auto/Equipment (1)	n/a	n/a	1.85%	0.21%	0.41%
Non-conforming residential mortgages (2)	83.16%	-	4.24%	2.98%	18.51%
Sub-prime residential mortgages (2)	82.46%	51.61%	4.37%	2.46%	11.67%
Wholesale Banking managed:					
Auto/Equipment (1)	n/a	n/a	1.52%	0.65%	1.23%
Prime residential mortgages	70.09%	90.39%	1.08%	0.41%	1.21%
Non-conforming residential mortgages	62.94%	1.88%	1.26%	0.77%	4.07%

(1) *All auto/equipment transactions benefit from various types of credit enhancements including subordination and excess spread.*

(2) *Current mortgage insurance coverage on sub-prime residential mortgages is shown. The >90 days percentage for sub-prime residential mortgages does not include loans in foreclosure or homes foreclosed upon but not liquidated. Total subprime foreclosure represent an additional 22.98% of the current principal balance. Foreclosures and repossessed properties for non-conforming residential mortgages represent 1.82% of the current principal balance which together with >90 days represents 20.33% of the current principal balance.*

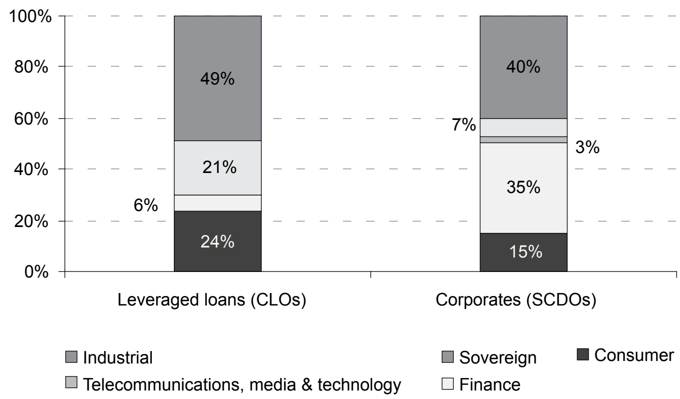
Vintage of sub-prime and Alt-A exposures *(1)(2)*



(1) *US sub-prime exposure of the Group was $175 million as at 30 September 2010. This amount represents $16 million included in ABS CDOs not written off, $119 million of sub-prime residential mortgage backed securities and $40 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.*

(2) *US Alt-A exposure of the Group was $260 million as at 30 September 2010. This amount represents $114 million included in ABS CDOs not written off, and $146 million as part of credit wrapped ABS in the NAB client originated assets. These exposures only exist within SGA.*

Industry splits - SPE other purchased assets *(1)(2)*



(1) *Leveraged loans (CLOs) total $1.4 billion.*

(2) *Corporates (SCDOs) total $1.5 billion.*

Supplementary information - Disclosure on special purpose entities

Securitisation SPE credit exposure to the financial guarantor sector (monoline insurers)

Table 5 summarises the indirect exposures to third party transactions supported by monoline financial guarantees and contingent risk via guaranteed investment contracts (SCDOs). In the event of monoline failure, the benefit of the financial guarantee falls away resulting in exposure to the underlying asset.

Table 5	Exposures to monoline insurers Sep 10 $m	Mar 10 $m
Specialised Group Assets managed:		
Infrastructure (credit wrapped bonds) [(1)]	260	375
Guaranteed investment contracts (provided to SCDOs) [(2)]	271	395
Credit wrapped bonds [(1)]	758	764
Credit wrapped ABS [(3)]	639	712
Other	36	38
Total Specialised Group Assets [(4)]	1,964	2,284

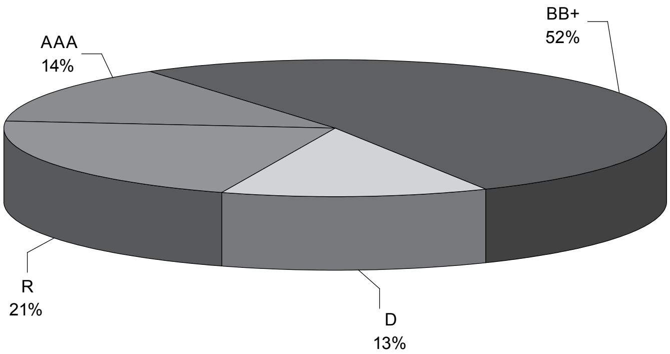
(1) *These bonds includes those issued by well known essential infrastructure and energy borrowers and are themselves high quality investment grade assets.*

(2) *Funds invested by SPEs in two of six SCDOs have been placed in guaranteed investment contracts, which have been guaranteed by monolines resulting in a contingent exposure.*

(3) *Monoline-wrapped portfolio of ABS, some of which have also been individually monoline-wrapped.*

(4) *There are no Wholesale Banking exposures which rely on monoline insurers.*

Current S&P rating of monolines [(1)]



(1) *The D rated monoline provides a guarantee for one of the credit wrapped bonds. The rating of the underlying asset is BBB+. The R rated (regulatory action under an order of rehabilitation or liquidation) monoline provides a guarantee for three of the credit wrapped securities, two of these are rated higher than the monoline provider. The ratings of the two underlying assets are rated between BB+ and BBB+.*

Protection purchased to hedge exposure to SPE other purchased assets

In September 2008 the Group completed a risk mitigation strategy in relation to its exposure to Corporates (SCDO) within its securitisation SPE portfolio. As a result, longdated hedges were entered into with a large, highly reputable, global bank counterparty which strengthened the Group's position and substantially reduced the likelihood of loss arising from the SCDOs. Subordination was improved as a result of risk mitigation activities, and the portfolio is managed to maintain the credit quality of the tranche.

During the year the Group recovered losses of $528 million relating to write downs of the underlying notes as a result of credit events within the portfolio. Consistent with the Group's expectation and the above risk mitigation strategy the Group has recovered all of its losses on the original investment associated with this write down. The recovery under the hedging strategy is recognised within other income in the Income statement.

Further ratings migration and defaults are expected. The exposure is being managed by a dedicated specialised team together with input from an external portfolio manager. Additional modest hedging may be considered from time to time. The SCDOs are currently rated between A- and BB. During the prior year a management overlay of $160 million was taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the deteriorating economic conditions and any potential default. This management overlay remains on the Group's balance sheet.

Other exposures

In addition to securitisation funding facilities and standby liquidity facilities discussed above, there are securitisation SPE exposures arising from warehouse facilities (refer *Table 6*), asset liquidity facilities ($488 million), credit enhancements ($66 million) investments in non-NAB sponsored SPEs ($2,221 million), derivatives ($2 million) and redraw facilities ($17 million).

Derivative transactions include interest rate and currency derivatives provided to securitisation SPEs.

Warehouse facilities are funding facilities provided to SPEs holding client assets until such time as the facility is refinanced by ABCP conduits or the term securitisation market. Typically these facilities are reviewed annually. These facilities are in addition to securitisation funding facilities and standby liquidity facilities.

Table 6 shows the limit and drawn amount under the facility. The undrawn limit is available to fund additional assets.

Table 6 As at 30 September 2010	Limit $m	Drawn-down $m
Specialised Group Assets managed:		
Non-conforming residential mortgages	303	303
Wholesale Banking managed:		
Prime residential mortgages	2,750	1,974
Non-conforming residential mortgages	1,282	1,050
Total warehouse facilities - Wholesale Banking [(1)]	4,032	3,024
Total warehouse facilities	4,335	3,327

As at 31 March 2010	Limit $m	Drawn-down $m
Total warehouse facilities - Specialised Group Assets	321	321
Total warehouse facilities - Wholesale Banking	3,775	2,286
Total warehouse facilities	4,096	2,607

(1) *Of the drawn down amount $1.6 billion (March 2010: $1.3 billion) is via consolidated NAB sponsored SPEs resulting in the recognition of the underlying assets on the balance sheet.*

Table 7 shows available asset quality and past due analysis of underlying collateral of warehouse facilities.

Table 7 As at 30 September 2010	Weighted average current LVR %	Mortgage insurance coverage %	Days Past Due 31-60 %	Days Past Due 61-90 %	Days Past Due > 90 %
Specialised Group Assets managed					
Non-conforming residential mortgages	56.37%	-	6.35%	3.63%	3.64%
Wholesale Banking managed					
Prime residential mortgages [(1)]	67.70%	96.23%	0.16%	0.09%	0.35%
Non-conforming residential mortgages	72.98%	-	1.29%	1.16%	1.12%

(1) *Includes the most senior position in a transaction structured to invest in fully insured non-performing prime mortgages.*

Supplementary information - Disclosure on special purpose entities

Risk Weights for Securitisation Exposure

Table 8 shows the risk weights for securitisation exposures as calculated under the Australian Prudential Standard for Securitisation (APS 120), predominantly using the Standardised Approach and includes conduit exposures (*Table 1*), warehouse facilities (*Table 6*) and other securitisation SPE exposures disclosed in the "Other Exposures" section above. The table separates the risk weights between SGA and Wholesale Banking.

	Sep 10		Mar 10	
Table 8	**Exposure [(1)] $m**	**RWA $m**	**Exposure [(1)] $m**	**RWA $m**
Specialised Group Assets managed:				
≤ 10%	-	-	-	-
> 10% ≤ 25%	1,465	277	1,923	364
> 25% ≤ 35%	206	72	129	45
> 35% ≤ 50%	991	495	988	493
> 50% ≤ 75%	199	141	209	146
> 75% ≤ 100%	2,068	2,068	2,517	2,517
>100% ≤ 650%	2,140	6,872	2,256	7,338
Deductions	126	-	142	-
Total Specialised Group Assets	7,195	9,925	8,164	10,903
Wholesale Banking managed:				
≤ 10%	6,143	444	3,938	280
> 10% ≤ 25%	2,801	389	3,000	449
> 25% ≤ 35%	47	15	81	26
> 35% ≤ 50%	-	-	-	-
> 50% ≤ 75%	179	129	110	82
> 75% ≤ 100%	158	158	286	286
>100% ≤ 650%	10	43	3	16
Deductions	126	-	148	-
Total Wholesale Banking [(2)]	9,464	1,178	7,566	1,139
Total securitisation exposure	16,659	11,103	15,730	12,042

(1) *Refer to Table 9 for further details on how the exposures relate to the other tables within the FSB report.*

(2) *Wholesale Banking includes BNZ exposures of $72 million (March 2010 $145 million). The risk weighted assets for these exposures are $42 million (March 2010 $125 million).*

Securitisation Exposures

Table 9 shows how the various securitisation exposures as disclosed in the FSB reconcile to the above securitisation exposure as calculated under APS 120.

Table 9	**Sep 10 $m**	**Mar 10 $m**
Total group facilities *(Table 1)*	10,686	11,908
Total warehouse facilities *(Table 6)*	4,335	4,096
Total other exposures [(1)]	2,794	996
Less:		
Other banking book exposures [(2)]	(1,043)	(1,147)
Specific provisions *(Table 1)* [(3)]	(113)	(123)
Total securitisation exposures	16,659	15,730

(1) *The other exposures includes asset liquidity facilities $488 million (March 2010 $500 million), redrawn facilities $17 million (March 2010 $17 million), derivative transactions $2 million (March 2010 $9 million), credit enhancements $66 million (March 2010 $70 million) and investments in securitisation debt securities $2,221 million (March 2010 $400 million). The significant increase in investments is within Wholesale Banking.*

(2) *The banking book exposures relate to those exposures which are treated as mortgages from a prudential standard perspective and therefore excluded from the securitisation exposures under APS 120.*

(3) *The specific provisions relate to the ABS CDO and Auto/Equipment asset classes as discussed in Table 1.*

Roles in securitisation

The Group may undertake any of the following roles in its third party asset securitisation activities:

- Arranger (the structurer of securitisation transactions);
- Sponsor (the entity that established the securitisation SPEs and often provides other services. NAB sponsored SPEs are established under Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation legal structures);
- Manager (operator of securitisation SPEs including managing assets and liabilities and providing accounting and administrative services);
- Securitisation funding facility provider (a lender to securitisation SPEs where tenor of the funding extends beyond 1 year and may match the expected redemption date of the underlying security held by the SPE);
- Standby liquidity provider (a provider of liquidity available to repay ABCP if unable to reissue);
- Asset liquidity provider (a provider of liquidity to cover mismatches in cashflow for securitisation structures);
- Warehouse facility provider (a lender to securitisation SPEs pending refinance via issuance of securities);
- Derivative provider;
- Investor in securities issued;
- Letter of credit provider (a provider of credit enhancement to securitisation structures); and
- Dealer (a buyer and seller in the primary and secondary markets of securities).

Accounting Treatment

In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty.

Interest and line fees received are treated as revenue in the period in which they are accrued. Arrangement fees are treated as revenue and recognised as revenue over the life of the securitisation transaction. Most of these facilities fund NAB sponsored securitisation SPEs which are consolidated by the Group. On consolidation the facilities are eliminated and the underlying liabilities and assets, including investments held to maturity in the SPEs, are brought into the Group's balance sheet. Investments – held to maturity are accounted for at amortised cost, net of any provision for impairment.

Supplementary information - Disclosure on special purpose entities

Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

(c) Funding programme SPEs

The Group has established programmes to raise funding from the issue of equity instruments.

Material funding programmes of the Group that use SPEs are as follows:

Table 10	Sep 10 $m	Mar 10 $m
Trust Preferred Securities	975	975
Trust Preferred Securities II	1,014	1,014
National Capital Instruments	397	397
BNZ Income Securities	380	380
BNZ Income Securities 2	203	203

The SPEs used in the above funding programmes are controlled by the Group under Australian Accounting Standards and the International Financial Reporting Standards as issued by the IASB and are recorded on balance sheet as equity items of the Group.

Other funding programmes of the Group do not use SPEs and are recorded in the books of the Company. Further details on funding programmes can be found at www.nabgroup.com.

(d) Other SPEs

The Group is involved in transactions that involve the use of SPEs. All of these SPEs are recorded on the balance sheet.

Table 11	Sep 10 $m	Mar 10 $m
Consolidated SPEs		
Group exposure excluding SGA		
Investments in debt securities	800	856
Investments in property trusts	142	144
Funding transactions	(1,147)	(1,153)
Lease finance	75	78
SGA Exposure		
Lease finance	889	923

The Group invests in debt instruments through various SPEs, mainly in the form of Bonds, Certificates of Deposits and Loans. The assets within the portfolio are subject to the Group's normal credit approval and review processes and all assets continue to perform.

The Group also utilises SPEs to invest in a range of property and other equity related investments as well as a means to access alternate sources of funding.

Lease Financing involves extending finance to clients in order to meet their particular asset financing requirements mainly in the mining, mobile infrastructure and transport industries.

Glossary

Term Used	Brief description
AASB	Australian Accounting Standards Board
ADI	Authorised deposit-taking institution
ADR	American depositary receipt
Alt-A	In the US, residential mortgage loans advanced to borrowers falling just outside prime lending criteria, but without the more significant credit or debt servicing limitations seen in subprime lending.
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Auto/Equipment	Automotive and equipment receivables
Average Assets	Represents the average of assets over the period adjusted for disposed operations.
BBSW	Bank bill swap rate
BNZ	Bank of New Zealand
Cash earnings	Is a non Generally Accepted Accounting Principles (GAAP) key performance measure that excludes certain items within the calculation of net profit attributable to owners of the company. It is also a key performance measure used by the investment community, as well as by those Australian peers of the NAB Group with a similar business portfolio. These specified items are excluded in order to better reflect what NAB considers to be the underlying performance of the NAB Group. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the NAB Group. It does not refer to any amount represented on a cash flow statement. Cash earnings is defined as: Net profit attributable to owners of the Company Adjusted for: Distributions Treasury shares Fair value and hedge ineffectiveness Investment earnings on shareholders' retained profits (IoRE) discount rate variation Efficiency, quality and service initiatives Litigation expense Property revaluation Provision for tax NZ structured finance transactions MLC reinsurance dispute ExCaps taxation assessment Amortisation of acquired intangible assets Due diligence, acquisition and integration costs Net profit/(loss) on sale of controlled entities Significant items
CDO	Collateralised Debt Obligation
CGU	Cash generating unit
CLO	Collateralised Loan Obligation
CMBS	Commercial Mortgage-Backed Securities
Company	National Australia Bank Limited
Distributions	Are operations that will not form part of the continuing Group. These include operations sold and those that have been announced to the market that have yet to reach completion. This may differ from the treatment for statutory accounting purposes but facilities a like-for-like comparison.
EaR	Earnings at risk
ExCaps	Exchangeable capital units

Glossary

Term Used	Brief description
ExCaps taxation treatment	Represents the reduction, in the year ended 30 September 2009, of the carrying value of the $309 million receivable due from the Australian Taxation Office in relation to its exchangeable capital units (ExCaps) to nil. The ATO has disallowed the Group's objections to the ExCaps taxation assessments and the Group intends to appeal.
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.
FDIC	Federal Deposit Insurance Corporation
FSA	UK Financial Services Authority
FSB	Financial Stability Board
FSCS	UK Financial Services Compensation Scheme
Group	National Australia Bank Limited and its controlled entities
GSJBW	Goldman Sachs JBWere
GWB	Great Western Bank
IFRS	International Financial Reporting Standards
Investments - AFS	Investments - available for sale
Investments - HTM	Investments - held to maturity
IoRE	Investment earnings (net of tax) on shareholders retained profits and capital from life businesses, net of capital funding costs (IoRE) is comprised of three items: – investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Act. – interest on insurance VARC (Value of Acquisition Expense Recovery Component) net of reinsurance costs and represents the unwinding of the discount rate. VARC is defined as the current termination value less policy liabilities, and represents the value of acquisition costs recoverable from future premiums. – less the borrowing costs of any capital funding initiatives.
Litigation expense	Represents litigation expenses in relation to non-recurring litigation matters.
MLC Lifetime	MLC Lifetime Company Limited
Monolines	Monoline Insurers (monoline insurance companies) guarantee the timely payment of interest and repayment of principal in case an issuer of the guaranteed instrument defaults. They are so named because they provide service to only one industry.
MoS	Margin on Services
NAB	National Australia Bank Limited
Net interest margin	Net interest income as a percentage of average interest earning assets.
Net profit attributable to owners of the Company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to ordinary shareholders.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group, and is adjusted from net profit to reflect the amount of net profit that is attributable to ordinary shareholders.
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.
Non-retail deposits	Comprises deposits held by Wholesale Banking, Specialised Group Assets, Group Funding and institutional customers in Business Banking, certificates of deposits, securities sold under agreements to repurchase, and borrowings.
NULAL	Norwich Union Life Australia Limited

Term Used	Brief description
NWMSL	National Wealth Management Services Limited
NZ	New Zealand
NZDX	New Zealand Debt Market
NZX	New Zealand Exchange
PPI	Payment protection insurance
Property revaluation	Represents revaluation decrements of land and buildings based on directors' valuations to reflect fair value.
Provision for tax NZ structured finance transactions	Represents the provision established in the year ended 30 September 2009 relating to the amended tax assessments issued by the New Zealand Inland Revenue Department (IRD) regarding certain structured finance transactions undertaken by the business. As a result of settlement with the IRD on 23 December 2009, BNZ released the unused portion of the provision previously made within income tax expense in the Group's results as at 31 March 2010.
Retail deposits	Comprises on-demand and savings deposits, term deposits and non-interest bearing deposits in Personal Banking, Business Banking (excluding institutional customers), UK Banking, NZ Banking, MLC and NAB Wealth, Great Western Bank and Asia Banking.
SCDO	Synthetic Collateralised Debt Obligation
SEC	US Securities and Exchange Commission
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (eg 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.
Sub-prime residential mortgages	In the US, residential mortgage loans advanced to borrowers unable to qualify under traditional lending criteria due to poor credit history or debt payment capacity.
Tier 1 ratio	Tier 1 capital, as defined by APRA, divided by risk weighted assets.
Tier 2 ratio	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' stocks and shares 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	Represents the MLC & NAB Wealth businesses holdings of shares in National Australia Bank Limited. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from share sales are eliminated for statutory reporting purposes.
UK	United Kingdom
US	United States
VaR	Value at risk
Weighted Average Number of Shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share.'

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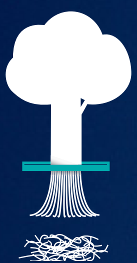

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