Annual Financial Report 2011

National Australia Bank

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

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

National Australia Bank Limited (NAB) is publicly listed in Australia and overseas. The 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 and Exchange Commission (SEC) effective 20 September 2007. Accordingly, NAB is not required to include SEC-related disclosures in the Report for either the current or comparative financial years.

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

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 367 647 from within Australia, or +61 3 9415 4299 from outside Australia.

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

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

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Report of the directors

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 2011.

Certain definitions

The Group's fiscal year ends on 30 September. The fiscal year ended 30 September 2011 is referred to as 2011 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 report is contained on pages 168 to 170.

Forward-looking statements

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

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained in *Note 41* 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	
	2011 $m	2010 $m
Net interest income	**13,034**	12,256
Net life insurance income	**360**	813
Other income	**3,449**	3,939
Operating expenses	**(8,365)**	(8,541)
Charge to provide for doubtful debts	**(1,750)**	(2,791)
Profit before income tax expense	**6,728**	5,676
Income tax expense	**(1,508)**	(1,451)
Net profit	**5,220**	4,225
Non-controlling interest in controlled entities	**(1)**	(1)
Net profit attributable to owners of the Company	**5,219**	4,224

Net profit attributable to owners of the Company of $5,219 million in 2011 was $995 million or 23.6% higher compared with 2010. This result was largely driven by stronger performances in Business Banking, Personal Banking and UK Banking, partially offset by moderating results in Wholesale Banking and MLC & NAB Wealth, which were affected by more challenging economic conditions.

Net interest income of $13,034 million was $778 million or 6.3% higher than 2010. The increase was largely driven by repricing in Business Banking for current market conditions and growth in volumes, combined with above system mortgage growth and repricing for market conditions in Personal Banking, and increased earnings from higher levels of capital. This increase was partially offset by rising funding and deposit costs, as average term funding costs increased and competition for deposits remained high.

The Group's net interest margin has remained flat from the September 2010 year. Increases in net interest margin from repricing of the lending portfolio to reflect current market conditions, and from changes in product mix, have been offset by lower deposit margins and higher funding costs, and an increase in lower margin liquid assets.

Net life insurance income decreased by $453 million from $813 million in 2010 to $360 million in 2011. This reflected a shift in business mix towards lower margin wholesale business, weaker equity markets, changes in lapse mix and unfavourable group and lump sum claims experience, partly offset by growth in average funds under management and in force premiums.

Total other income of $3,449 million was $490 million or 12.4% lower than 2010. A difficult market environment, following European sovereign debt concerns, and a sharp deterioration in the overseas economic environment caused a decrease in the income for Wholesale Banking's Fixed Interest, Currencies and Commodities, and Treasury divisions. The reduction was also affected by the hedging recovery in 2010 in the Specialised Group Assets division offsetting a charge in bad and doubtful debts.

Total operating expenses of $8,365 million were $176 million or 2.1% lower than 2010, reflecting disciplined cost management across all lines of business, while continuing to invest in key strategic initiatives.

Report of the directors

The charge to provide for bad and doubtful debts of $1,750 million in 2011 was $1,041 million or 37.3% lower than the charge for 2010. The decline in the charge was mainly due to lower specific provisions across most business divisions. The reduction is also affected by higher charges in Specialised Group Assets in 2010 which in part were hedged, with the recovery reflected in other income.

Income tax expense of $1,508 million is $57 million or 3.9% higher than 2010. A stronger profit before tax for the year was the main driver for this increase, partially offset by a lower income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts.

Dividends

The directors have declared a final dividend of 88 cents per fully paid ordinary share, 100% franked, payable on 19 December 2011. The proposed payment amounts to approximately $1,937 million.

Dividends paid since the end of the previous financial year:

- the final dividend for the year ended 30 September 2010 of 78 cents per fully paid ordinary share, 100% franked, paid on 17 December 2010. The payment amount was $1,667 million; and
- the interim dividend for the year ended 30 September 2011 of 84 cents per fully paid ordinary share, 100% franked, paid on 6 July 2011. The payment amount was $1,823 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	
	2011 $m	2010 $m
Assets		
Cash and liquid assets	**27,093**	26,072
Due from other banks	**47,106**	37,679
Trading derivatives	**48,466**	38,340
Trading securities	**34,628**	25,821
Investments – available for sale	**18,045**	14,572
Investments – held to maturity	**12,787**	13,789
Investments relating to life insurance business	**63,920**	64,560
Other financial assets at fair value	**51,756**	37,409
Loans and advances	**382,369**	354,835
Due from customers on acceptances	**43,017**	49,678
All other assets	**24,570**	23,197
Total assets	**753,757**	685,952
Liabilities		
Due to other banks	**40,162**	37,612
Trading derivatives	**47,889**	40,587
Other financial liabilities at fair value	**23,726**	19,887
Deposits and other borrowings	**402,964**	353,232
Liability on acceptances	**10,633**	12,549
Life policy liabilities	**53,608**	54,354
Bonds, notes and subordinated debt	**99,768**	93,203
Other debt issues	**2,494**	2,502
All other liabilities	**30,325**	33,072
Total liabilities	**711,569**	646,998
Total equity	**42,188**	38,954
Total liabilities and equity	**753,757**	685,952

Total assets at 30 September 2011 increased by $67,805 million or 9.9% to $753,757 million from $685,952 million at 30 September 2010.

Total net loans and advances (including acceptances) increased by $20,873 million or 5.2% to $425,386 million at 30 September 2011 from $404,513 million at 30 September 2010. This increase reflected continuing momentum in housing lending, particularly in Australia, as the competitive pricing strategy delivered growth in market share, partly offset by the growth of other financial assets at fair value as customers migrated to this more favourable product type.

Marketable debt securities (comprising trading securities, investments – available for sale and investments – held to maturity) increased by $11,278 million or 20.8% from 30 September 2010, reflecting the Group's continuing desire to maintain balance sheet flexibility and strength.

Other financial assets at fair value, comprising mainly loans at fair value, increased by $14,347 million or 38.4% from 30 September 2010, as customers migrated from loans and advances (including acceptances), reflecting the popularity of this form of product due to the flexibility in tailoring loans to meet the individual needs of customers.

Trading derivative assets have increased by $10,126 million or 26.4% to $48,466 million at September 2011, reflecting the reduction in interest rate yield following instability in the Euro-zone.

Total liabilities at 30 September 2011 increased by $64,571 million or 10.0% to $711,569 million from $646,998 million at 30 September 2010.

The increase in total liabilities is largely attributable to the increase in deposits and other borrowings, which increased by $49,732 million or 14.1% from 30 September 2010. This increase was the result of a continued focus on increasing retail deposit volumes as a more stable and long-term source of funding to meet business needs.

Trading derivative liabilities have increased by $7,302 million or 18.0% to $47,889 million from 30 September 2010, reflecting the reduction in interest rate yield following instability in the Euro-zone combined with the reclassification of cross-currency swaps from other liabilities.

Total equity at 30 September 2011 increased by $3,234 million or 8.3% from 30 September 2010. This increase reflects the current year earnings, and the issue of shares through the dividend reinvestment plan, partly offset by the payment of dividends.

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: 61

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, from 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia and the United States from 1972 to 1980.

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

Board Committee membership:
- Chairman of the Nomination Committee

Mr Cameron A Clyne BA

Age: 43

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

Independent: No

Skills & Experience: 21 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, the United States, Europe and Asia. He is also a director of Bank of New Zealand, National Australia Group Europe Limited and Clydesdale Bank plc (subsidiaries of the Company). He is Co-Chair of National Australia Bank's Group Diversity Forum, a Member of the Company's Corporate Responsibility Council and Social Responsibility Advisory Council.

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)

Board Committee membership:
- Member of the Information Technology Committee

Mrs Patricia A Cross BSc (Hons), FAICD

Age: 52

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 for 14 years, including 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 Methodist Ladies College, Melbourne (since January 2008)
- Ambassador to the Australian Indigenous Education Foundation (since April 2009)
- Former Director of Murdoch Childrens Research Institute (from August 2005 to May 2011)
- 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: 60

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 National Australia Bank's Indigenous Advisory Group and Chairman of the Group's Litigation Sub-Committee.

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)
- Former Director of Australian Indigenous Minority Supplier Council Limited (from December 2008 to November 2011)

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

Dr Kenneth R Henry AC, BCom, PhD, DB h.c

Age: 53

Term of office: Director since November 2011.

Independent: Yes

Skills & Experience: Over 27 years in public service, serving in senior economic policy advisory positions to the Australian Government. He chaired Australia's Future Tax System Review, known as the Henry Tax Review, which was published in 2010. In June 2011, he was appointed as Special Advisor to the Prime Minister. He is a former member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators, the Defence Procurement Advisory Committee and the Council of Infrastructure Australia.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman, Advisory Council of the SMART Infrastructure Facility, University of Wollongong (since September 2011)
- Member, Sir Roland Wilson Foundation, Australian National University (ANU) (since May 2001)
- Member of the Advisory Board of the Australian Demographic and Social Research Institute (ADSRI), ANU (since June 2008)

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

Mr Mark A Joiner ACA, MBA

Age: 53

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 23 years in commerce, banking and finance. He originally joined National Australia Bank as a member of the Australian Executive Committee in 2006. He was appointed Group Chief Financial Officer in October 2007, from his previous position as Group Executive General Manager, New Business and Development. Prior to joining the Group, he was Chief Financial Officer and Managing Director, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business, based in New York. Before entering banking, he was with strategy consulting firm, Boston Consulting Group for 17 years, working out of various Australian and United States offices. He is Chairman of JBWere Pty Ltd (subsidiary of the Company). He is Co-Chair of National Australia Bank's Group Diversity Forum, Chairman of the Company's Corporate Responsibility Council and a Member of the Group's Capital and Funding Sub-Committee.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Aurora Vineyard Limited (since October 1999)
- Member of the Founders' Board of Flora and Fauna International (since March 2010)

Mr Paul J Rizzo BCom, MBA

Age: 66

Term of office: Director since September 2004.

Independent: Yes

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

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)
- Deputy Chairman of the of the Defence Strategic Reform Advisory Board (since September 2011)
- 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
- Member of the Information Technology Committee

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

Age: 56

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 Board 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. She is a Member of National Australia Bank's Social Responsibility Advisory Council and a Member of the Group's Litigation Sub-Committee.

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 (Director since February 2008 and Chairman since May 2010)
- 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 Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Mr John G Thorn FCA, FAICD

Age: 63

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. A member of the Global Audit Management Group and Australian National Managing Partner until 2003. He is a Member of the Group's Litigation, and Capital and Funding Sub-Committees.

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
- Member of the Information Technology Committee

Mr Geoffrey A Tomlinson BEc

Age: 64

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 Chairman of National Wealth Management Holdings Limited and MLC Wealth Management Limited and Director of MLC Limited, MLC Holdings Limited, MLC Investments Limited, MLC Lifetime Company Limited, 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):
- Former Chairman of Programmed Maintenance Services Limited (from August 1999 to August 2011)
- Former Director of Amcor Limited (from March 1999 to April 2010)

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

Mr John A Waller BCom, FCA

Age: 59

Term of office: Director since February 2009.

Independent: Yes

Skills & Experience: 20 years in professional services with PricewaterhouseCoopers, New Zealand and as a member of the firm's New Zealand Board and leader of its Advisory division. He was also a member of the New Zealand Takeovers Panel until February 2011. In addition to a wealth of valuable corporate and financial experience, he brings to the Board a deep understanding of the New Zealand market 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 Feb 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 & subsidiaries (since November 2010)
- Director of Yealands Wine Group Limited (since November 2011)
- Chairman of Eden Park Trust (since September 2009)
- Former Member of the Auckland Transition Agency (from 2009 to October 2011)
- Former Member of the New Zealand Takeovers Panel (from December 2006 to February 2011)

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

Sir Malcolm Williamson

Age: 72

Term of office: Director since May 2004.

Independent: Yes

Skills & Experience: Over 50 years in the 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)
- Director of Signet Group Limited (Director since November 2005 and Chairman from June 2006 to September 2008)
- Chairman of Friends Life Group plc (formerly Friends Provident Holdings (UK) plc) (Director since November 2009 and Chairman since February 2010)
- Chairman of SAV Credit Limited (since June 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 Friends Provident Group plc (Director from November 2009 and Chairman from February 2010 to July 2011)
- Former Chairman of CDC Group plc (Director from January 2004 to April 2009)
- Former Director of JP Morgan Cazenove Holdings (from April 2005 to January 2010)

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

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

Age: 61

Term of office: Director since March 2010.

Independent: Yes

Skills & Experience: 37 years in international banking and finance. Prior to taking on a strategic investment management role with Bank of China in 2006, he held senior executive roles, having Asia wide regional responsibility, with Bank of America Corporation, National Westminster Bank plc and The Royal Bank of Scotland plc.

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

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

Age: 60

Term of office: Director from October 2004 to August 2011. Group Chief Financial Officer from September 2004 to October 2007 when he was appointed Deputy Group Chief Executive Officer, a position he held until his retirement from office in August 2011.

Independent: No

Skills & Experience: 39 years in banking and finance, including 7 years with Commonwealth Bank of Australia as Group Executive, Institutional and Business Services from 2002 to 2004 and Group Executive, Financial and Risk Management from 1997 to 2002. Formerly partner of Coopers & Lybrand from 1992 to 1997 and 20 years with KPMG including partner from 1982 to 1992. He was Chairman of JBWere Pty Ltd and Great Western Bank, and was a director of Bank of New Zealand (subsidiaries of the Company).

Report of the directors

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 the European Australian Business Council (since August 2007)

Board changes

On 5 October 2011 the Company announced the appointment of Dr Kenneth Henry as a director of the Company effective from 1 November 2011.

Executive Director and Deputy Group Chief Executive Officer, Mr Michael Ullmer, retired from the Board and as a Member of the Group Executive Committee effective from 31 August 2011.

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 fulfil its role.

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

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 as 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 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 changes

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

On 15 March 2011 the Company announced the appointment of Mr David Thorburn to the Group Executive Committee, as Group Executive United Kingdom, effective from 1 July 2011.

Ms Lynne Peacock stepped down as Chief Executive Officer, United Kingdom, effective from 1 July 2011 after eight years with the Group, which included seven years leading the Group's UK business.

Recent market conditions

Global economic growth slowed in 2011. While some slowdown was expected, given the exceptionally high growth rate achieved in 2010, growth in developed economies has still proved disappointing as economic policy shifted away from stimulus towards austerity in several key economies. The deteriorating sovereign debt position in the developed countries has become a major concern hanging over global financial markets and lowering the growth prospects for the big developed economies creating potential funding challenges for financial institutions in wholesale debt markets. By contrast, the biggest emerging economies continued to grow very rapidly in 2011, largely as a result of their expanding internal markets. China and India are now major drivers of global economic growth, contributing almost half of the world total in 2011.

Report of the directors

Domestically the Australian economy has continued to perform well. Current solid rates of economic growth in the big emerging economies should support global commodity prices and keep Australia's terms of trade at high levels by historical standards.

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, including Basel III, strengthen bank capital requirements, and introduce new regulatory requirements on bank liquidity and bank leverage ratios.

Litigation and Disputes

On 22 March 2011, the Group announced that it had resolved the dispute with the Australian Tax Office (ATO) over the tax treatment of the Exchangeable Capital Units (ExCaps) capital raising without any admission of liability. The Group obtained a refund of $142 million in tax.

On 19 May 2011, the Group announced an additional provision relating to the Payment Protection Insurance (PPI) in the UK. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against Clydesdale Bank plc, for what value, and the prospects of mis-selling being established in relation to those claims.

Credit rating

During the year ended 30 September 2011, Moody's Investor Services downgraded:

- the long-term, senior unsecured debt rating of the Company from Aa1 to Aa2;
- the long-term, senior unsecured debt and deposit ratings of Bank of New Zealand from Aa2 to Aa3; and
- the long-term bank deposit and senior debt rating of Clydesdale Bank plc from A1 to A2.

Fitch Ratings also downgraded Clydesdale Bank plc's Long-term Issuer Default Rating (IDR) to 'A+' from 'AA-'.

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 complied 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 in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied 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 2011, the Group continued to implement an energy efficiency program 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 the Group's carbon neutral status.

The Group's Australian vehicle fleet and building related net energy use during the 2011 environmental reporting year was 679,913 gigajoules (GJ), which is approximately 59% of the Group's measured total energy use. During the 2011 environmental reporting year, the Group carried out 192 assessments, identifying potential energy savings of 30,300 GJ per annum.

Since the commencement of the Energy Efficiency Opportunities Program, the Group has assessed energy efficiency opportunities in 85% of the Australian building portfolio by energy use, including energy efficiency assessments at the Group's two major data centres, 24 office buildings, and 520 retail stores. In total, since 2006, the Group has identified 783 opportunities, of which 613 are under investigation or have been approved to proceed. If the 613 projects are all implemented, they are expected to result in approximately 265,000 GJ of energy savings per annum. Of the energy efficiency opportunities identified to date, the Group has implemented opportunities equivalent to approximately 223,500 GJ of ongoing savings.

Some of the energy efficiency projects implemented during the 2011 environmental reporting year include:

- the installation and commissioning of a new lighting control system at the Group's Docklands headquarters. This system uses presence detection rather than time clocks to control lighting. It is expected to save 1760 GJ per annum; and
- a Retail Energy Efficiency Program that has continued to drive down energy use across retail stores. Energy efficiency assessments were performed at more than 120 stores in 2011, resulting in estimated savings of 4,800 GJ of energy per annum.

More information about the Group's participation in the Energy Efficiency Opportunities Program 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 was made in July 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 2011 Annual Review and the associated corporate responsibility information available at www.nabgroup.com.

Executive performance options and performance rights

Performance options and performance rights are granted by the Company 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 (AGM) in January 1997, and the performance rights plan at the 2002 AGM. Each performance option or performance right is for one fully paid ordinary share in the Company. (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.

The number and terms of performance options and performance rights granted by the Company during 2011 over ordinary shares under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2011, are shown in the following tables:

Exercise period [(1)]	Exercise price [(2)]	Number held at 30 September 2011	Number exercised from 1 October 2010 to 30 September 2011	Number granted since 1 October 2010
Performance options				
16 January 2007 - 15 January 2012	$29.91	126,250	-	-
16 January 2007 - 15 January 2012	$30.25	4,274,709	-	-
7 February 2010 - 7 August 2012	$39.25	5,863	-	-
7 February 2010 - 7 August 2012	$40.91	229,971	-	-
7 February 2010 - 7 August 2012	$43.43	1,795	-	-
7 February 2011 - 7 August 2012	$39.25	27,396	-	-
7 February 2011 - 7 August 2012	$40.91	3,650,678	-	-
7 February 2011 - 7 August 2012	$43.43	8,381	-	-
14 February 2011 - 14 August 2013	$31.70	449,376	-	-
7 February 2012 - 7 August 2012	$39.25	27,395	-	-
7 February 2012 - 7 August 2012	$40.91	3,649,611	-	-
7 February 2012 - 7 August 2012	$43.43	8,381	-	-
14 February 2012 - 14 August 2013	$31.70	449,374	-	-
16 January 2012 - 16 July 2014	$19.89	350,775	-	-
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 2011	Number exercised from 1 October 2010 to 30 September 2011	Number granted since 1 October 2010
Performance rights				
16 January 2007 - 15 January 2012	-	1,061,085	-	-
7 February 2010 - 7 August 2012	-	18,670	38,308	-
30 May 2010 - 30 November 2010	-	-	74,929	-
1 November 2010 - 1 May 2012	-	1,674	17,651	-
11 November 2010 - 11 May 2011	-	-	78,165	-
16 November 2010 - 16 May 2011	-	-	8,374	-
16 November 2010 - 16 May 2012	-	-	18,695	-
7 February 2011 - 7 August 2012	-	869,480	38,307	-
28 February 2011 - 28 August 2011	-	-	12	-
4 March 2011 - 4 September 2011	-	-	17,451	-
1 November 2011 - 1 May 2012	-	41,190	-	-
10 November 2011 - 10 May 2013	-	35,287	-	35,287
16 November 2011 - 16 May 2012	-	19,929	-	-
1 December 2011 - 1 May 2012	-	1,246	685	1,931
31 December 2011 - 30 June 2012	-	330,069	1,258	-
1 January 2012 - 1 January 2016	-	100,969	-	-
7 February 2012 - 7 August 2012	-	907,486	-	-
9 May 2012 - 9 November 2013	-	3,262	-	3,262
10 November 2012 - 10 May 2013	-	37,273	-	37,273
16 December 2012 - 16 June 2013	-	20,294	139	-
31 December 2012 - 30 June 2013	-	81,575	-	-
9 May 2013 - 9 November 2013	-	3,482	-	3,482
15 June 2013 - 15 December 2013	-	1,166	-	1,166
15 December 2013 - 15 June 2014	-	116,232	-	117,772

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

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

Report of the directors

Performance options and performance rights on issue and number exercised

There are currently 14,391,774 performance options and 3,624,787 performance rights which are exercisable, or may become exercisable in the future under the respective plans.

There were 20,170 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 2010 to the date of this report, there were 5,892,345 performance options expired and 8,685,918 forfeited. During this period there were also 1,140,381 performance rights expired and 2,213,037 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 noted below) and the number of meetings attended by each of the directors of the Company during the year.

	Board meetings		Audit Committee meetings		Risk Committee meetings		Remuneration Committee meetings		Nomination Committee meetings		Directors' meetings of controlled entities (1)		Additional meetings (2)
Directors	A	B	A	B	A	B	A	B	A	B	A	B	A
MA Chaney	13	13	3	3	8	8	3	3	2	2	3	3	-
CA Clyne	13	13	2	2	9	9	9	9	-	-	23	23	4
PA Cross	13	13	2	2	9	9	9	9	2	2	7	7	1
DT Gilbert	13	13	2	2	9	9	9	9	2	2	3	3	5
MA Joiner	13	13	8	8	8	8	-	-	-	-	4	6	6
PJ Rizzo	13	13	8	8	9	9	-	-	2	2	5	5	8
JS Segal	13	13	8	8	9	9	-	-	2	2	3	3	3
JG Thorn	13	13	8	8	9	9	-	-	2	2	5	5	8
GA Tomlinson	13	13	1	1	7	7	8	9	2	2	34	36	1
JA Waller	13	13	8	8	9	9	-	-	2	2	24	24	2
GM Williamson	11	13	2	2	6	9	-	-	1	2	37	37	2
AKT Yuen	13	13	2	2	9	9	9	9	2	2	7	7	-
MJ Ullmer (3)	12	13	2	2	7	7	-	-	-	-	19	19	6

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

B *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.*

(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).*

(3) *Mr Michael Ullmer retired as an Executive Director on 31 August 2011.*

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 Company, 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.

	Fully paid ordinary shares of the Company No.	Performance options over fully paid ordinary shares of the Company [1] No.	Performance rights over fully paid ordinary shares of the Company [1] No.	National Income Securities No.
Directors				
MA Chaney [2]	28,373	-	-	-
CA Clyne	490,097	213,667	115,480	-
PA Cross [2]	18,645	-	-	-
DT Gilbert [2]	16,190	-	-	1,253
KR Henry	-	-	-	-
MA Joiner	448,163	352,678	4,186	-
PJ Rizzo [2]	5,824	-	-	-
JS Segal [2]	14,836	-	-	180
JG Thorn [2]	12,333	-	-	-
GA Tomlinson [2]	40,565	-	-	350
JA Waller	4,000	-	-	-
GM Williamson	9,407	-	-	-
AKT Yuen	5,059	-	-	-
Former director				
MJ Ullmer	315,592	446,439	22,699	841

	Fully paid ordinary shares of the Company No.	Performance options over fully paid ordinary shares of the Company [1] No.	Performance rights over fully paid ordinary shares of the Company [1] No.	National Income Securities No.
Senior executives [3]				
LJ Gray	158,581	44,166	11,042	-
AP Hagger	164,982	-	-	-
MJ Healey	113,978	6,660	1,666	-
JC Healy	352,968	9,225	2,306	-
BF Munro	120,623	27,500	56,698	-
RJ Sawers	161,775	36,900	9,225	-
GR Slater	144,856	81,992	17,502	-
AG Thorburn	50,221	46,125	177,652	-
DJ Thorburn	71,160	96,992	24,248	-
SJ Tucker	113,433	89,575	19,272	-
Former executive				
LM Peacock	267,377	606,440	54,131	-

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

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

(3) *Senior executives in current employment with the Group as at 30 September 2011 where information on shareholdings is disclosed in Note 46 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 2011 were:

Director	Nature of product	Relevant interest (Units)
MA Joiner	PIC Wholesale Horizon 5 Growth 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 at 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 2011. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2011 are as follows:

	Group 2011 $'000
Audit-related regulatory	
Guidance Statements (GS) 007 reports	1,262
APRA reporting	996
Assurance services relating to Basel II	519
Audit of the Group's Australian Financial Services Licenses	313
Regulatory audit, reviews, attestations and assurances for Group entities:	
- Australia	432
- Offshore	153
Total audit-related regulatory	3,675
Audit-related non-regulatory	
Agreed upon procedures on results announcements	79
Other non-regulatory reviews, attestations and assurances for Group entities:	
- Australia	155
- Offshore	16
Total audit-related non-regulatory	250
All other	
Controls reviews and related work	520
Other - Australia	421
Total all other	941
Total non-audit services fees	4,866

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 to non-consolidated Group superannuation plans. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2011 total $2,465 thousand (2010: $2,195 thousand).

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 2011 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 in the *Corporate governance* section. Details of the services provided by Ernst & Young to the Group during 2011 and the fees paid or due and payable for those services are set out in *Note 47* of the *Financial report*. A copy of Ernst & Young's independence declaration is set out on the following page.

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Melbourne VIC 3000 Australia
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Fax: +61 3 8650 7777
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Auditor's Independence Declaration to the Directors of National Australia Bank Limited

In relation to our audit of the financial report of National Australia Bank Limited and the entities it controlled during the year for the financial year ended 30 September 2011, 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

11 November 2011

Report of the directors

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Remuneration report - Contents

This Remuneration report has been audited.

Introduction from the Remuneration Committee

Dear Shareholder,

We are pleased to present our 2011 Remuneration report.

This year the Remuneration Committee has continued to monitor the Group's remuneration framework to better align business performance and shareholder returns.

The Group has performed well through what has been a challenging year for the international and Australian economies. The success of the Group's strategy has delivered improved financial results with the Group's cash earnings increasing by 19.2% to $5.46 billion. Market share, customer satisfaction and employee engagement have also improved in the majority of our businesses.

Our shareholder returns in comparison to peers have gradually improved over the last three to four years, which has resulted in partial vesting of long-term incentives for some executives during the year. This is the first time since 2003 that the long-term incentive program has provided any vesting for executives. The Committee believes that the program is delivering outcomes aligned with the Group's relative shareholder returns against peers. Although there has been some improvement in these returns, there is still more to be achieved.

This year we have continued to focus on how risk outcomes are embedded in the remuneration framework. We reviewed the Group's compliance processes and the impact of breaches on individual remuneration outcomes to ensure that these are appropriate and meaningful, with an increased emphasis on reinforcing the important links between remuneration and risk. We have incorporated a financial and risk assurance process that assists in determining any short-term and long-term incentive outcomes. This process also determines whether any deferred equity should be released.

Meetings were held with regulators in Australia and the United Kingdom during the year to explain our remuneration policies and practices, and to discuss the strategic global agenda of remuneration in financial services. We continue to ensure that the Company meets its regulatory and legislative remuneration requirements in relevant jurisdictions and we have provided additional information in this year's report to meet United Kingdom disclosure requirements. We will continue to meet regularly with regulators to discuss industry trends and our practices.

We encourage our regulators and all of our stakeholders to focus on the link between remuneration and sustainable growth in earnings and returns, rather than limitations on variable pay. We support well structured variable remuneration programs which reflect shareholder return over time.

As Chairman of our Remuneration Committee, I will continue to consider all aspects of the Group's remuneration framework to ensure it meets the expectations of our external stakeholders while continuing to motivate and reward our employees. As always, we welcome your feedback on our progress.

Yours sincerely,

Patricia Cross
Remuneration Committee Chairman

Executive Summary

Overview of the Group's approach to performance and reward

The Group'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 Group's remuneration philosophy is underpinned by principles that:

- link employee rewards to the creation of shareholder value; and
- provide competitive levels of remuneration within the markets in which the Group operates to attract and retain the best talent.

The 2011 Remuneration report reflects a number of developments:

- additional information on the link between the Group's remuneration policies, remuneration outcomes and performance; and
- additional disclosure to meet regulatory requirements impacting the Group's United Kingdom (UK) operations.

The following changes to the Group's performance and reward framework will be implemented for 2012:

- the short-term incentive (STI) and long-term incentive (LTI) programs will have an increasingly rigorous finance and risk attestation process; and
- the Executive LTI program will be delivered in performance rights (previously shares) following feedback from the Group's external stakeholders. Dividends are not payable in relation to performance rights until the performance hurdles are achieved, the performance rights vest and are exercised.

The Group's performance and reward framework drives superior rewards for individuals who have the best relative performance. The framework applies to all employees of the Group, including senior executives. The Group's remuneration structure is based on a Total Reward methodology consisting of:

Fixed remuneration	External benchmarking is undertaken to provide fixed reward that 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 the market range.
Short-term incentives (STI)	STI rewards reflect both individual and business performance for the current year through compliance assessment, individual performance scorecards, behaviour assessment, peer review resulting in a relatively ranked individual performance outcome, linkages to business outcomes and deferral. The Group operates a range of STI arrangements that are designed to meet the particular requirements of specific roles. All STI arrangements incorporate the above components. Generally, employees participate in an STI plan once minimum service criteria are met.
Long-term incentives (LTI)	LTI rewards are provided to senior employees of the Group. They help to drive management decisions focused on the long-term prosperity of the Group through the use of challenging performance hurdles.

More detail on the Group's performance and reward framework is available at www.nabgroup.com.

Remuneration governance

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

The Committee:

- reviews and makes recommendations to the Board on the remuneration strategy for the Group;
- reviews and recommends the total reward policies and total reward packages (including performance measures and targets) for the Group Chief Executive Officer (Group CEO) and executive directors, and approves total reward packages for other senior executives who report directly to the Group CEO;
- considers and endorses the recruitment, retention and termination policies and payments for senior executives;
- reviews and approves fees payable to non-executive directors of controlled entities;
- reviews and approves the remuneration structure applicable to employees in risk, compliance and financial control roles within the Group;
- approves the design and implementation of key variable reward programs (including equity-based arrangements), the methodology for assessing, determining and adjusting incentive outcomes and ensuring that incentive payments are aligned with shareholder outcomes;
- reviews and recommends to the Board the Group's annual *Remuneration report* and ensures that reward arrangements for the Group CEO and other senior executives are disclosed in accordance with governance, accounting and legal requirements;
- supports 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; and
- reviews and recommends to the Board remuneration policies applicable to non-executive directors.

Committee members at 30 September 2011 were Mrs Patricia Cross (Chairman), Mr Daniel Gilbert, Mr Geoff Tomlinson and Mr Anthony Yuen, all independent non-executive directors.

Report of the directors

The Remuneration Committee's approach

The Group operates a global remuneration policy that is reviewed and approved by the Committee at least annually. The Group's current remuneration policy was formally established in March 2010. The Committee initiated a review of the Group's performance and reward framework in 2008 in light of global regulatory changes affecting the financial services sector. PricewaterhouseCoopers were engaged to review the framework and provide recommendations to the Committee. Group representatives from Risk, Finance and People and Culture were involved in the review of the Group's remuneration policy.

The remuneration policy was amended in March 2011 to capture new regulatory requirements affecting the Group's UK operations.

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

***Risk assessment* –** The Group sets and monitors risk through its risk appetite framework.

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

***Determining remuneration outcomes* –** At the end of each year, a formal report is provided to the Committee capturing all risk and financial outcomes and assessing the overall health of the financial result. This information is provided by Group Risk and Finance. A joint meeting of the Committee and the Principal Board Risk Committee is held to review the report's findings. The Committee has discretion to adjust incentive outcomes for the current year and vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the vesting period.

The Committee invites the Chairman of the Board and members of the management team, including the Group Chief Risk Officer, to assist in its deliberations (except concerning their individual remuneration).

External Advisers

The Committee takes specialist remuneration advice from external advisers, as appropriate. Where the Committee engages independent experts, their advice is provided directly to the Committee, independent of management.

Linking remuneration and performance for 2011

The Group's results for the 2011 financial year benefited from continued progress against the Group's strategic priorities and further positive differentiation of the Group from peers.

Among other things, the Group's results demonstrate:

- an increase in cash earnings of 19.2% to $5.46 billion, mainly attributable to good momentum in the Group's banking businesses;
- continued improvement in management of bad and doubtful debts;
- good management of economic risk and market volatility with an increase in the Group's Tier 1 ratio and Return on Equity (ROE);
- that funding and liquidity positions have been maintained;
- subdued economic confidence and volatility in markets; and
- challenging trading conditions in the UK.

Performance related payments for the Group CEO and senior executives for 2011 include:

- a decrease in the average STI amount payable to senior executives reflective of the Group's overall business outcomes while recognising the current economic environment, market conditions and shareholder returns;
- partial vesting of LTI securities granted in 2007 and 2008 with external hurdles due to gradually improving Total Shareholder Return (TSR) performance relative to peers;
- full or partial lapsing of LTI securities granted in 2006, 2007 and 2008 with internal hurdles. These securities did not vest because performance hurdles had not been fully met;
- previously vested LTI securities granted in 2006 with an external hurdle, which had vested in 2009, expired unexercised. Senior executives did not derive any value from them; and
- full lapsing of LTI securities granted in 2003 with external hurdles. These securities did not vest because performance hurdles had not been fully met.

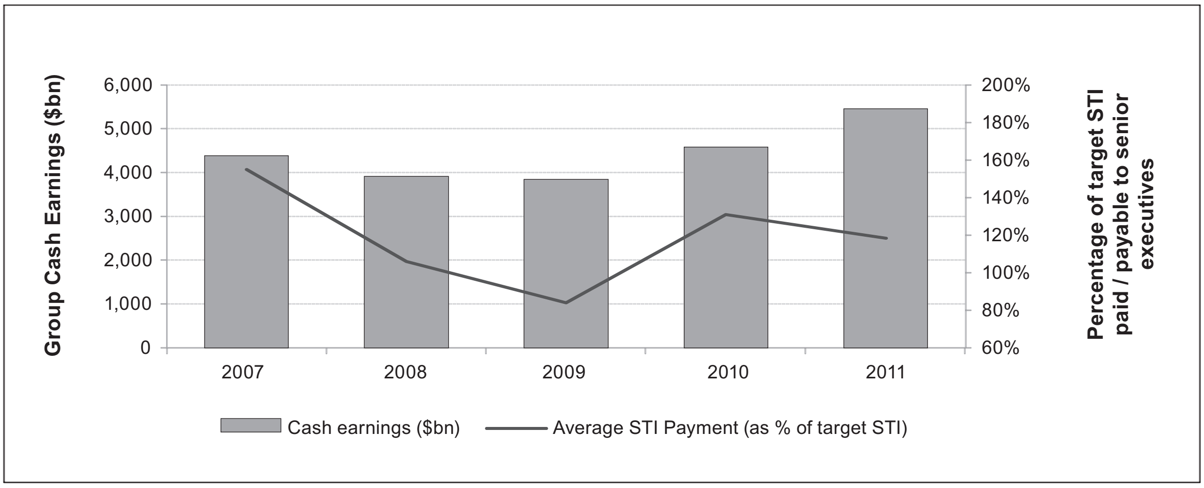
2011 STI Outcomes

A significant component of senior executive STI payments is determined by the Group STI pool result. The Group STI pool is based on the Group's achievement of three performance measures - cash earnings, ROE and Return on Total Allocated Equity (ROTAE). The Board selected these measures to provide a balance between growth and return to adequately capture the Group's key risks.

Cash earnings is a key Non-Generally Accepted Accounting Principles financial measure reflecting the underlying performance of the Group including non-revenue generating businesses. ROE is cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. It allows for risk to the extent that actual equity aligns with target equity and Risk Weighted Assets (RWA). RWA measures the risk exposure of the Group's assets that are used to determine quantitative minimum capital requirements. ROE also measures inorganic growth. ROTAE is measured by the combined divisional RWA and is based on regulatory capital.

The STI pool is adjusted to reflect the Group's management of business risks, the quality of the Group's financial results and any other qualitative factors that the Committee considers has impacted on the overall performance of the Group. Senior executives' actual STI is further adjusted to account for their individual performance outcomes during 2011.

The following graph shows the average of the individual total STI payments (including cash and deferred amounts) as a percentage of each individual's STI, (where 100% is the target) for the senior executives, and its relationship to the Group's cash earnings 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 2011 average in the graph is based on the total STI payable (including deferred components) for each of the 2011 Group Executive Committee members.

2011 LTI Outcomes

During 2011 the Senior Executive February 2007 LTI award partially vested. Half of the amount that vested was delivered in performance rights and the other half in performance options. The performance rights have delivered value to participants because they have no exercise price. The performance options have yet to deliver any value as these vested performance options have an exercise price of $40.91 (meaning they are currently 'out-of-the-money').

The Group Executive Committee February 2008 LTI award also partially vested during 2011. The amount vested was wholly in performance options which have not yet provided any actual value as these vested performance options have an exercise price of $31.70 (meaning they are currently 'out-of-the-money').

The March 2003 and February 2008 LTI awards did not meet performance hurdles and have lapsed during 2011.

Further details on the LTI outcomes are provided in the **Value of previous LTI awards** section on page 23.

Five year Group performance

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

	2011	2010	2009	2008	2007
Basic earnings per share (cents)	233.6	191.8	123.4	262.7	269.0
Cash earnings	$5,460m	$4,581m	$3,841m	$3,916m	$4,386m
Dividends paid per share	$1.62	$1.47	$1.70	$1.92	$1.71
Company share price at start of year	$25.34	$30.76	$24.26	$39.71	$36.70
Company share price at end of year	$22.37	$25.34	$30.76	$24.26	$39.71
Absolute TSR for the year	**(5.7%)**	**(13.3%)**	**34.6%**	**(35.2%)**	**13.0%**

The Group's total performance-based compensation expenditure is 9.3% of Group cash earnings for 2011.

	2011	2010	2009	2008	2007
Performance-based compensation [(1)]	$506m	$699m	$643m	$573m	$681m
Cash earnings	$5,460m	$4,581m	$3,841m	$3,916m	$4,386m
Performance-based compensation as a % of cash earnings	**9.3%**	**15.3%**	**16.7%**	**14.6%**	**15.5%**

[(1)] *Determined in line with AASB 2 "Share-based Payments" (AASB 2) and reflects a reversal for the lapsing of LTI awards during 2011 that have not met internal performance conditions.*

Overview of actual senior executive remuneration

The following table summarises the actual remuneration executives received, including cash paid and the value of equity that vested during the year. Additionally, equity that has lapsed during the year without providing any value to the executive is shown. The information is different to that provided in the **Statutory remuneration data table** on page 26 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 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) $	Termination Payments (5) $	Remuneration actually earned for 2011 (6) $	Equity lapsed during the year to 30 Sep 2011 (7) $
Executive directors							
CA Clyne	2,835,502	2,025,000	357,105	87,850	-	**5,305,457**	(941,782)
MA Joiner	1,239,725	750,000	253,152	25,180	-	**2,268,057**	(1,257,105)
Other senior executives							
LJ Gray	932,897	562,500	131,978	482,243	-	**2,109,618**	(409,737)
AP Hagger	737,696	437,899	51,419	897,350	-	**2,124,364**	-
MJ Healey	543,072	405,000	101,970	8,101	-	**1,058,143**	(296,411)
JC Healy	1,121,108	687,500	154,256	11,186	-	**1,974,050**	(116,356)
BF Munro	795,341	500,000	131,978	-	-	**1,427,319**	(379,903)
RJ Sawers	932,425	562,500	164,539	44,743	-	**1,704,207**	(546,021)
GR Slater	928,083	400,000	150,811	75,762	-	**1,554,656**	(685,356)
AG Thorburn	1,007,247	637,500	175,393	55,928	-	**1,876,068**	(785,973)
DJ Thorburn (8)	197,042	25,328	64,552	75,762	-	**362,684**	(871,315)
SJ Tucker	988,495	500,000	146,103	78,300	-	**1,712,898**	(1,012,429)
Former executives							
LM Peacock (9)	1,443,412	717,641	87,597	2,105,825	743,388	**5,097,863**	(2,181,104)
MJ Ullmer (9)	1,157,038	1,432,098	275,132	1,256,052	1,246,344	**5,366,664**	(1,631,566)
Other named executive							
PL Thodey	2,224,543	160,821	57,415	71,478	-	**2,514,257**	(1,389,932)

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

(2) *The cash component reflects 20% of the STI received for Mr D Thorburn and Mr Thodey and 50% of the STI received for all other executives in respect of the 2011 year. For Mr D Thorburn and Mr Thodey a further 20% of the STI is provided as Retention equity restricted for six months. The remaining portion of the STI for 2011 is deferred in equity as detailed in the Statutory remuneration data table.*

(3) *Deferred STI amounts from the 2009 STI program fully vested in November 2010. The value is calculated using the closing share price of Company shares on the vesting date.*

(4) *Equity-based programs from prior years (other than the deferred STI equity referred to in (3)) that have vested during the 2011 year. The value was calculated using the closing share price of Company shares on the vesting date (less any applicable exercise price). This includes LTI. Any securities where the exercise price is greater than the share price on the day of vesting are valued at zero.*

(5) *Termination payments are in respect of the applicable notice period, pursuant to contractual entitlements and subject to law.*

(6) *Total value of remuneration received during the 2011 year. This is the total of the previous columns.*

(7) *Includes LTI securities that have been forfeited or 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 are valued at zero.*

(8) *Mr D Thorburn joined the Group Executive Committee on 1 July 2011. The amounts referred to in (3), (4) and (7) reflect the annual value of this equity. All other amounts are pro-rated for the portion of the year that Mr D Thorburn was a senior executive.*

(9) *Ms Peacock left the Group on 1 July 2011 and Mr Ullmer left the Group on 31 August 2011.*

Specific comments in regard to payments for former executives and other senior executives are provided below:

Ms Lynne Peacock (former Group Executive United Kingdom) left the Group on 1 July 2011, having been employed by the Group since 1 September 2003. On termination, she received a termination benefit paid under her contract entered into in May 2003, as varied in August 2004 and January 2005. Payment of a pro-rated STI award based on her performance and Group results for 2011 will be paid in December 2011 in the usual course. Shares, performance options and performance rights were retained in accordance with the associated terms and conditions and remain subject to the relevant performance hurdles and restriction periods. Further, the Board allowed the release of some shares. These arrangements are in line with the Group's policy and practice in such circumstances.

Mr Michael Ullmer (former Deputy Group CEO and Executive Director) left the Group on 31 August 2011, having been employed by the Group since 1 September 2004. On termination, he received a termination benefit paid under his contract entered into in August 2004, as varied in December 2007. Payment of a pro-rated STI award based on his performance and Group results for 2011 will be paid in December 2011 in the usual course. Shares, performance options and performance rights were retained in accordance with the associated terms and conditions and remain subject to the relevant performance hurdles and restriction periods. Further, the Board allowed the release of some shares. These arrangements are in line with the Group's policy and practice in such circumstances.

Mr Bruce Munro's target reward mix has been changed for 2012 based on regulator feedback and to align with the Group's risk management principles to provide a greater proportion of fixed and a lesser proportion of performance-based reward. At target, the new target reward mix will result in 50% fixed remuneration, 25% short-term incentive and 25% long-term incentive. For 2011, Mr Munro's target reward mix was 35% fixed remuneration, 35% short-term incentive and 30% long-term incentive.

Mr Andrew Hagger joined the Group Executive Committee on 1 October 2010 in the role of Group Executive, Corporate Affairs and Marketing. His role has expanded from 1 October 2011 to include responsibility for the Group's People function. The Committee endorsed an increase to Mr Hagger's remuneration, effective 1 October 2011, recognising the increased accountabilities of his role.

The Committee has maintained current remuneration levels for the Group CEO and all other senior executives for 2012 in line with its Charter. The Committee considered the current economic environment, current remuneration trends and market conditions, regulator feedback on remuneration, the focus on cost management across the Group and the prudent approach being taken across the Group for minimal remuneration increases in reaching this decision. The Board endorsed this decision for the Group CEO and Executive Director, Finance.

Statutory disclosure for senior executives

Remuneration policy for senior executives

The following section describes the remuneration policy for senior executives and how the remuneration of each senior executive is determined by the performance of the Group and the individual. These individuals are Key Management Personnel (KMP) for the 2011 financial year as defined in the **Table of key terms** on page 41 and listed in the **Remuneration outcomes table** on the previous page.

Total Reward framework

The Group's remuneration policy uses a range of components to focus senior executives on achieving the Group's strategy and business objectives. The Group's overall philosophy is to adopt, where possible, a Total Reward methodology, which links remuneration directly to the performance and behaviour of an individual, and the Group's results, and provides competitive levels of remuneration to attract and retain the best talent.

The Total Reward framework is designed to:
- reward those who deliver the highest relative performance through the Group's annual short-term incentive program;
- attract, recognise, motivate and retain high performers;
- provide competitive, fair and consistent rewards, benefits and conditions within an integrated global strategy; and
- align the interests of senior executives and shareholders through ownership of Company shares and securities.

In setting an individual's target Total Reward the Board considers:
- market data from comparable roles in the Australian Stock Exchange (ASX) 25 financial services firms or ASX 50 companies where the first peer group does not provide sufficient data. The peer group chosen contains the Company's major competitors and is large enough to provide meaningful market data information;
- comparable roles at the Group's direct competitors in Australia and overseas where appropriate;
- individual and Group performance over the last year;
- internal relativities; and
- general remuneration market environment and trends.

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 Committee (such as the size of the STI pool) based on the Group's financial and risk 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 Group's performance management framework is briefly described in the **Executive summary** on page 17 and is set out in detail at www.nabgroup.com.

The performance management framework for senior executives includes:
- meeting the compliance requirements expected for their role;
- setting corporate key performance measures as part of the Group's strategy development process, which cascade to scorecard measures for each senior executive;
- assessment of Enterprise Behaviours (as described in the **Table of key terms**) expected from each senior executive; and
- a peer review process where the Group CEO compares and calibrates the performance of his collective Group reports.

Each scorecard has four key business drivers. For 2011 these were:
- financial and risk management (e.g. ROE; adherence to 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 program 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, generally set 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 incentive

STI targets and performance measures for the Group CEO are determined by the Committee. The Group CEO determines the targets and measures for the other senior executives. The 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 **Target reward mix** table on page 22), 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 in the **Table of key terms**).

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

Long-term incentive

LTI rewards help to drive management decisions focused on the long-term prosperity of the Group through the use of challenging performance hurdles. The hurdles are measured over a minimum three year period, and combine internal and external performance measures.

An LTI award is set for each individual within a target range (shown in the **Target reward mix** table) with reference to both external and internal relativities. An individual must pass threshold performance requirements and the Compliance Gateway to be eligible for any award of LTI. Continued LTI awards are therefore not guaranteed.

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

Target Reward mix

An appropriate Target Reward mix is determined with 'at risk' rewards increasing with the level of responsibility and the influence of the employee's role. Target Reward includes fixed remuneration, STI and LTI and the typical Target Reward mix for the 2011 year is:

Target Reward mix for 2011	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 programs. The actual reward mix for 2011 for each senior executive is shown in the **Performance related remuneration table** on page 28.

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 CEO against his scorecard of key performance measures and demonstration of Enterprise Behaviours. The Group CEO 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. The Committee considers and determines the remuneration for senior executives following advice from the Group CEO.

The Group CEO and senior executives receive an overall performance outcome reflecting their scorecard performance and demonstration of the Enterprise Behaviours relative to peers. Scorecard performance is assessed on a scale of 5 to 1, with 5 being exemplary compared to peers and 1 being unsatisfactory. Enterprise Behaviours are assessed using the following ratings: A - role models; B - demonstrates; C - partially demonstrates; or D - rarely demonstrates.

An individual STI multiple of between 0 and 2 (for exceptional individual performance) is awarded based on the individual's overall performance outcome.

Only the most outstanding performers may receive an individual STI multiple of 2 times their STI target. An employee would receive an individual STI multiple of 0 if their performance and/or behaviours are below expectations. The total STI reward paid to all employees is limited to the size of the funded STI pool. The STI pool is generally 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	0.75	1	1.25	1.5	2

The impact of business performance on STI rewards

The Group's annual business plan and the STI pool measures and targets are approved by the Board. At the end of the performance period, the 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 2011, the performance of the Group for the purposes of calculating the STI pool is determined by a mix of growth in cash earnings, ROE and ROTAE. The combination of these measures correlates closely with TSR, and therefore to the creation of value for shareholders. 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.

STI Risk adjustment

STI reward outcomes can be adjusted for risk at a number of levels:

- ***Individual scorecards –*** executives will have specific risk related measures relevant to their role included in their scorecard. Their performance against these measures is captured through the executive's individual STI multiple.
- ***Compliance Gateway –*** executives who do not pass the compliance expectations of their role will have their STI reduced in part or in full depending on the severity of the breach.
- ***STI pool measures –*** the financial measures used to determine the STI pool capture a number of material risks.
- ***Risk adjustment of business outcomes –*** the Committee may adjust the financial outcomes upon which STI rewards are determined based on a qualitative overlay that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

The business STI multiples can range from 0 up to 1.3 for exceptional business performance.

STI deferral and vesting

Members of the Group Executive Committee and other senior executives (who have not left the Group) will have half (60% for UK senior executives) of their 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 grant, and the remaining half for 24 months. In the UK the period of deferral may be extended to 36 months to meet minimum regulatory deferral and vesting requirements for individual executives.

The remainder of the STI reward will be provided in the form of cash, except for UK senior executives who will receive half in the form of Company shares, restricted from trading for six months and subject to forfeiture if the executive fails the Compliance Gateway, and the other half provided in the form of cash.

The Board may determine that the deferred equity-based portions are fully or partially forfeited if the rewards are later considered to be inappropriate given individual or business performance.

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

STI awards for senior executives for 2011

The graph on page 19 shows the average STI payment (including cash and deferred components) for senior executives for 2011. The **Performance related remuneration table** provides further details on the STI payments and the form and timing of payment.

LTI rewards

The impact of individual performance on LTI rewards

LTI rewards are determined annually based on market relativity within the **Target Reward mix** as described on the previous page.

The impact of business performance on LTI rewards

LTI programs reward both internal and external performance. The internal component of the hurdle tracks the Group's financial performance against key measures within the Group's business plan (such as cash earnings and ROE) approved by the Board. The external component of the hurdle compares the Company's TSR over a three to five year period (depending on the grant) against that of the Company's competitors.

LTI awards for senior executives for 2011

The **Performance related remuneration table** shows the LTI value which will be granted for 2011 (in the column headed: **'**LTI opportunity for 2011').

Delivery and deferral of LTI rewards

For 2011, the whole of the value of LTI rewards for senior executives will be provided in the form of performance rights. The LTI performance rights are restricted for three years and cannot be exercised during this period. The terms and lapsing conditions of the performance rights are set out in the **Table of key terms**, and include lapsing if the performance hurdles are not met, as described below.

In the UK, a further six month retention period will apply to the whole of any vested LTI performance rights. During the retention period the LTI performance rights are restricted from trading and cannot be exercised during this period. The LTI performance rights are subject to forfeiture if the Senior executive fails the Compliance Gateway during the retention period.

Performance hurdles for 2011 LTI award

The performance hurdles for 2011 combine both external and internal measures, assessed over a three year performance period from 1 October 2011 to 30 September 2014.

The hurdle in respect of half of the grant value (tranche 1) is the Company's TSR performance relative to Top Financial Services companies (which can be found at www.nabgroup.com) for the 2012, 2013 and 2014 financial years. Vesting will be determined on a straight line scale from 50% of tranche 1 performance rights vesting at median (50th percentile) TSR performance up to 100% of tranche 1 performance rights vesting at 75th percentile TSR performance.

The hurdle in respect of the remaining half of the grant value (tranche 2) has two components:

- Group cash earnings must be at least 90% of business plan, measured cumulatively, over the 2012, 2013 and 2014 financial years; and
- Group ROE must also be at least 90% of business plan for the same financial years, measured cumulatively.

If both the cash earnings and ROE thresholds are met, then the level of achievement compared to business plan will determine vesting as follows:

- 25% of tranche 2 performance rights will vest if both cash earnings and ROE are 90% of business plan;
- between 25% and 100% of tranche 2 performance rights will vest if both cash earnings and ROE are greater than 90% but less than 100% of business plan. The actual number will depend on a matrix of cash earnings and ROE achievement against business plan. For example, an ROE outcome of 95% and a cash earnings outcome of 95% will result in 49% of tranche 2 performance rights vesting; and
- 100% of tranche 2 performance rights will vest if both cash earnings and ROE are equal to or greater than 100% of business plan.

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

LTI Risk adjustment

The Committee considers the Group's management of business risks, shareholder expectations and the quality of the financial results and adjusts the LTI financial outcomes to reflect these elements.

Value of previous LTI awards

The LTI performance hurdles are designed to deliver rewards to employees consistent with returns to shareholders when compared to returns delivered by the Group's competitors. A full description of the LTI instruments which are currently held by senior executives, and the relevant hurdles, is set out in the **Summary of LTI** on page 33.

The remuneration data shown in the **Statutory remuneration data table** includes the accounting value of the LTI awards that each individual holds.

During 2011, the LTI awarded to some senior executives in February 2007 has partially vested for tranches 1 and 2. Half of the amount that vested was delivered in performance rights and the other half in performance options. The performance rights have delivered value to participants because they have no exercise price, however, the performance options have yet to deliver any value as these vested performance options have an exercise price of $40.91 (meaning they are currently 'out-of-the-money').

The LTI awarded to Group Executive Committee members in February 2008 partially vested during 2011. The amount vested was wholly provided in performance options which have not yet provided any value as they have an exercise price of $31.70 (meaning they are currently 'out-of-the-money').

The result for both these awards reflects the improved relative TSR performance of the Group over the performance periods of these awards. As detailed in the **Summary of LTI**, both these awards vested at the 51st percentile with progressive vesting to the 75th percentile. The Top Financials Services peer group hurdle has been achieved resulting in 42.8% vesting for tranche 1 and 2 of the February 2007 LTI award. The remaining 57.2% of tranche 1 has lapsed, unvested, and the remaining tranche 2 portion will be tested for the last time in February 2012. Tranche 1 of the 2008 LTI award resulted in 40.2% vesting. The remaining portion of tranche 1 and tranche 2 will be tested in February 2012.

No other LTI awards have delivered any value to current senior executives during 2011 (other than dividends paid on any 2008, 2009 and 2010 LTI shares).

Previous awards 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 year'). This is due to the performance hurdles not being achieved, preventing vesting of many grants. During 2011, the March 2003 and February 2008 LTI were fully lapsed. During 2009 there was vesting of some performance options for employees from the February 2006 LTI grant. However, no value was delivered from this grant (and no performance options were exercised) as these performance options had an exercise price of $34.53 (meaning they have been 'out-of-the-money' since they vested). These performance options expired on 6 August 2011.

Full details of all equity granted, vested and lapsed during 2011 for each KMP is provided in the **Value of shares, performance options and performance rights** table on pages 29-31.

Commencement and retention programs

Commencement awards for senior executives are only entered into with approval of the Group CEO and with the oversight of the 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 satisfactory evidence. The awards are primarily provided in the form of shares, performance options or 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 Group's Remuneration Policy does not provide for discretionary sign-on bonuses to any employees.

The Group 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. No retention awards were provided to senior executives during 2011.

Guaranteed incentives

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

UK retention

From 2011, UK based senior executives will have a further retention period applying to a minimum of 40% of any 'at risk' reward after the initial performance conditions have been met. This includes STI and LTI rewards provided in the form of cash and Company equity. The portion of 'at risk' reward subject to retention will be provided as Company equity and restricted from trading for six months. No further performance conditions apply to the retention equity however the equity will be forfeited if the executive fails the Compliance Gateway during the retention period.

Report of the directors

Senior Executive Remuneration

This section of the *Remuneration report* details information for executive Key Management Personnel (KMP) and named executives, of both the Company and of the Group during the 2011 financial year. Senior executives describes both current and other executive KMP and other named executives.

Current executive KMP on 30 September 2011

Members of the Group Executive Committee on 30 September 2011 (current executive KMP) were:

- Mr Cameron Clyne, and Mr Mark Joiner, executive directors, who were also executive KMP for the year to 30 September 2010;
- Mr Andrew Hagger who joined the Group Executive Committee and is an executive KMP from 1 October 2010;
- Mr David Thorburn who joined the Group Executive Committee and is an executive KMP from 1 July 2011; and
- other senior executives, as listed in the table below who were also executive KMP for the year to 30 September 2010.

Other executive KMP during the year to 30 September 2011

Other members of the Group Executive Committee during the year (other executive KMP) were former employees Mr Michael Ullmer and Ms Lynne Peacock, whose employment with the Group and membership of the Group Executive Committee concluded during the year. Mr Ullmer and Ms Peacock were also executive KMP for the year to 30 September 2010.

Named executives

The five named Company and Group executives (excluding executive directors) who received the highest remuneration for the year (for the purposes of the *Corporations Act* 2001 (Cth)) are Ms Lisa Gray, Mr Joseph Healy, 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 executives and named executives.

Name	Position	Period of the year for which the employee was a KMP (if not the full year)	Term of agreement/ contract and date commenced if during the year	Termination arrangements (1)		
				Notice period (weeks)		Termination payment (2)
				Employee	Company	
Senior executives for the year ended 30 September 2011						
Executive directors						
CA Clyne	Group Chief Executive Officer		No fixed term	52	52	2,700,000
MA Joiner	Executive Director, Finance		No fixed term	13	52	1,200,000
Other senior executives						
LJ Gray	Group Executive, Personal Banking		No fixed term	13	26	409,091
AP Hagger	Group Executive, Corporate Affairs and Marketing		No fixed term	13	26	363,636
MJ Healey	Group Executive, Governance		No fixed term	8	26	245,455
JC Healy	Group Executive, Business Banking		No fixed term	26	52	1,000,000
BF Munro	Group Chief Risk Officer		No fixed term	13	52	1,200,000
RJ Sawers	Group Executive, Wholesale Banking		No fixed term	26	52	818,182
GR Slater	Group Executive, Group Business Services		No fixed term	13	65	1,000,000
AG Thorburn	Group Executive, New Zealand, Asia and the United States		No fixed term	13	52	850,000
DJ Thorburn	Group Executive, United Kingdom	From 1 July 2011	No fixed term	13	26	313,005
SJ Tucker	Group Executive, MLC and NAB Wealth		No fixed term	13	26	454,545
Former executives						
LM Peacock	Group Executive, United Kingdom	To 1 July 2011	No fixed term	13	52	n/a
MJ Ullmer	Deputy Group Chief Executive Officer, Executive Director	To 31 August 2011	No fixed term	13	52	n/a
Other named executive						
PL Thodey	Executive General Manager, Specialised Group Assets		No fixed term	26	52	804,105

(1) *Employment may be terminated by either the senior executive or the Company giving the applicable notice.*

(2) *Calculated as the Company notice period multiplied by either the current Total Employment Compensation (TEC) or Total Remuneration Package (TRP) as defined in the Table of key terms. These are paid, subject to law, if 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. The amount shown is the termination payment payable, based on the KMP's current TEC or TRP if the Company were to give notice. The value does not include any value for equity holdings which may be retained, or other statutory payments that would be payable on termination.*

Report of the directors

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

Full year remuneration data is included in a separate table for the other named executives, who are not executive KMP's, and are the most highly remunerated for the year.

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 for the year ended 30 September 2011										
Executive directors										
CA Clyne	**2011**	**2,711,636**	**2,025,000**	**73,416**	**27,482**	**22,968**	**3,470,823**	**344,652**	**-**	**8,675,977**
	2010	2,674,937	1,916,397	-	16,634	-	2,034,912	1,082,748	-	7,725,628
MA Joiner	**2011**	**1,150,331**	**750,000**	**19,428**	**61,827**	**8,139**	**2,031,026**	**403,484**	**-**	**4,424,235**
	2010	1,253,502	825,000	-	38,452	-	2,338,756	569,827	-	5,025,537
Other senior executives										
LJ Gray (8)	**2011**	**863,141**	**562,500**	**22,946**	**35,532**	**11,278**	**1,060,418**	**(160,961)**	**-**	**2,394,854**
	2010	784,623	467,500	3,551	33,456	-	843,015	100,806	-	2,232,951
AP Hagger	**2011**	**694,100**	**437,899**	**22,230**	**17,235**	**4,131**	**887,831**	**49,033**	**-**	**2,112,459**
MJ Healey	**2011**	**502,152**	**405,000**	**877**	**36,380**	**3,663**	**589,595**	**43,345**	**-**	**1,581,012**
	2010	549,050	371,250	-	16,432	-	632,810	39,783	-	1,609,325
JC Healy (8)	**2011**	**1,074,723**	**687,500**	**21,565**	**17,359**	**7,461**	**1,221,389**	**78,207**	**-**	**3,108,204**
	2010	985,496	825,000	-	16,592	-	1,002,872	20,956	-	2,850,916
BF Munro	**2011**	**749,826**	**500,000**	**21,438**	**17,272**	**6,805**	**781,661**	**153,198**	**-**	**2,230,200**
	2010	772,636	412,500	24,046	16,505	-	439,891	501,637	-	2,167,215
RJ Sawers	**2011**	**876,350**	**562,500**	**14,524**	**34,743**	**6,808**	**676,470**	**107,198**	**-**	**2,278,593**
	2010	769,027	584,375	7,525	131,404	-	835,835	115,488	-	2,443,654
GR Slater	**2011**	**733,431**	**400,000**	**166,936**	**17,259**	**10,457**	**750,382**	**132,336**	**-**	**2,210,801**
	2010	743,133	660,000	107,037	21,301	13,333	1,015,154	174,633	-	2,734,591
AG Thorburn (8)	**2011**	**926,302**	**637,500**	**30,904**	**50,041**	**-**	**(362,181)**	**1,338,556**	**-**	**2,621,122**
	2010	1,042,900	550,000	58,350	50,035	-	215,316	1,029,122	-	2,945,723
DJ Thorburn										
For prorated period	**2011**	**150,483**	**25,328**	**31,558**	**15,001**	**-**	**135,649**	**45,266**	**-**	**403,285**
SJ Tucker	**2011**	**862,150**	**500,000**	**157**	**111,750**	**14,438**	**611,336**	**156,700**	**-**	**2,256,531**
	2010	778,401	584,375	-	91,020	14,167	817,091	222,562	-	2,507,616
Former executives										
LM Peacock (8) (9)										
For part year	**2011**	**593,371**	**717,641**	**709,918**	**140,123**	**-**	**1,472,977**	**856,895**	**743,388**	**5,234,313**
	2010	833,864	345,395	188,245	190,438	-	2,372,705	842,479	-	4,773,126
MJ Ullmer (10)										
For part year	**2011**	**1,086,747**	**1,432,098**	**20,056**	**32,869**	**17,366**	**2,148,741**	**786,635**	**1,246,344**	**6,770,856**
	2010	1,311,044	985,158	4,190	34,946	-	1,521,860	726,627	-	4,583,825
Total KMP (11)	**2011**	**12,974,743**	**9,642,966**	**1,155,953**	**614,873**	**113,514**	**15,476,117**	**4,334,544**	**1,989,732**	**46,302,442**
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

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 (4) $	Other long-term benefits (5) $	Shares (6) $	Options and rights (7) $	Termination benefits $	Total $
2011 named executive										
PL Thodey (8)(12)	**2011**	**1,819,472**	**160,821**	**405,071**	**-**	**-**	**(108,287)**	**735,323**	**-**	**3,012,400**
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 (12)	2010	1,472,797	458,007	183,675	-	-	387,524	898,060	-	3,400,063

Report of the directors

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

(2) *The cash component of the STI received in respect of 2011 scheduled to be paid on 31 October 2011 in NZ, 20 November 2011 in the UK and 23 November 2011 in Australia. The amount reflects 20% of the STI to be provided to Mr D Thorburn and Mr Thodey and 50% of the STI to be provided to all other executives.*

(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 $539,135 (2010: $150,686) for Ms Peacock, approximately $21,523 for Mr D Thorburn, $nil (2010: $54,478) for Mr Hooper and approximately $306,222 for Mr Thodey in relation to UK National Insurance Contributions. As a foreign national, UK National Insurance Contributions did not apply for Mr Thodey during 2010.*

(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 NZ but such payments may be made as part of fixed remuneration. For Mr Tucker and Mr D Thorburn who are members of a defined benefit superannuation plan, the amount included for remuneration purposes is the annual benefit received 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. For 2010, long service leave entitlements were not recognised under the Company's scheme until the 10th year of service. From 2011, the long service leave entitlements are recognised as accruing on an annual basis subject to an actuarial calculation.*

(6) *The amount included in remuneration each year for share rewards is the grant date fair value, amortised straight line over the vesting period. Refer to the Fair value basis used to determine equity remuneration section for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2011 include portions of shares allocated under employee programs as follows:*

• 2008, 2009, 2010 and 2011 Deferred STI shares allocated each November, or after the respective AGM for Executive Directors. The 2008 allocation was in respect of above target performance in 2008 and vested in November 2009. The 2009, 2010 and 2011 allocations are Deferred STI shares with half of each grant vesting 12 months after the date of allocation and the remaining half 24 months after the date of allocation. Tranche 1 of the 2009 Deferred STI shares vested in November 2010. Forfeiture conditions apply during the deferral period. Mr D Thorburn's 2011 Deferred STI will have each half of the grant restricted for a further six months after the end of the deferral period.

• 2011 UK Retention equity, restricted for 6 months, allocated to Mr D Thorburn and Mr Thodey in respect of 20% of their 2011 STI scheduled to be allocated on 9 November 2011.

• The 2007 LTI shares allocated in February 2008 did not meet the performance hurdles and were 100% lapsed on 9 March 2011. The amount includes a reversal for the full grant date fair value of this allocation in line with AASB 2. This is providing a negative value for Mr A Thorburn in 2011.

• 2008, 2009 and 2010 LTI shares allocated in December 2008, December 2009 and December 2010, or after the respective AGM for Executive Directors, may vest after assessment of the performance hurdle in December 2011, December 2012 and December 2013 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.

• The 2007, 2008, 2009, 2010 and 2011 General Employee Offer grants shares to senior executives located in NZ and in the UK at the relevant offer times. The UK shares for 2011 (with a value of $1,000) expense on allocation in the UK in accordance with AASB 2. The 2010 UK General Employee Offer shares have vested during the 2011 year. In NZ the shares vest after a three-year restriction period (with forfeiture conditions, including on resignation).

• Commencement shares allocated to Mr Hagger in May 2008 following the commencement of his employment with the Group, and with ongoing restrictions and forfeiture conditions (34,781 shares vested on 27 February 2011).

• Retention shares with ongoing restrictions and forfeiture conditions, allocated to Mr Ullmer in February 2007 following approval by shareholders at the Company's 2007 AGM (24,444 shares vested in January 2011), to Mr Thodey in June 2007 (19,036 shares vested on 1 March 2010), to Ms Peacock in September 2007 (50,000 shares vested on 1 March 2010 and 33,352 shares vested on 1 August 2010) and November 2008 (50,000 shares vested on 1 March 2011), to Mr Joiner in September 2007 (18,300 vested on 1 May 2011) and in August 2008 (100,000 shares vested on 30 September 2011). In December 2008, 3,000 shares were allocated under this program 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 allocated to Mr Munro. In March 2010, 18,924 shares were allocated to Ms Gray (2,993 vested on 1 October 2010, 2,993 vested on 1 April 2011 and 12,938 vested on 1 July 2011).

• Motivation & Retention program shares allocated in April 2008 vested in May 2010. 2,170 shares vested to Ms Gray; 7,220 shares vested to Mr Hagger, Ms Healey, Mr Healy, Mr Sawers, Mr Slater, Mr A Thorburn and Mr Tucker; and 18,040 shares to Mr Hooper, Mr Joiner and Ms Peacock.

Details of the above programs are described in the section: Remuneration policy for senior executives and in the Table of key terms. For rewards allocated for the year to 30 September 2011, 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 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. Amounts shown for 2010 and 2011 include portions of performance options and performance rights allocated under employee programs as shown below. Terms and conditions of all grants are included in the section: Summary of LTI.*

• Performance rights granted to the Group CEO in June 2009, following approval at the December 2008 AGM (grant date 18 December 2008).

• Performance rights granted to Mr Thodey and Mr A Thorburn (granted each November) as NZ based participants, in lieu of 2009, 2010 and 2011 Deferred STI shares. Except for Mr Thodey's 2011 grant, the performance rights are granted with half of each grant restricted for 12 months after the date of grant and the remaining half 24 months after the date of grant. For Mr Thodey's 2011 grant one third of the performance rights are restricted for 12 months, one third for 24 months and one third for 36 months. Forfeiture conditions apply during the restriction period. Mr Thodey will have a further six month retention period applied to each portion of his 2011 performance rights.

• Performance options granted in January 2009 as part of the Group's LTI program, and previous grants under the LTI program, of performance options and performance rights in February 2006 and 2007 to relevant senior executives at the time. The 2006 and 2007 LTI granted to Ms Gray had internal hurdles which were only partially achieved. The remainder of these performance rights and performance options have lapsed during 2011 resulting in a reversal at the grant date fair value of this grant in line with AASB 2 contributing to the negative result for Ms Gray. The 2007 LTI granted to Mr Munro had internal hurdles which were only partially achieved. The remainder of these rights and options have lapsed during 2011 resulting in a reversal at the grant date fair value of this grant in line with AASB 2.

• Performance rights granted to Mr Munro (in December 2008) as an Asia based participant and Mr A Thorburn (in December 2008, March 2010, December 2010) and Mr Thodey (in February 2008, December 2008, 2009 and 2010) as New Zealand based participants, in lieu of the LTI shares.

• Performance rights granted to Mr Clyne, Mr Munro and Mr Thodey in May 2008 in lieu of the Motivation & Retention program shares as described above vested in May 2010.

• Commencement performance options and performance rights were granted 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 Group, and to Mr Joiner in August 2007 following his appointment to a Group Executive Committee position.

• LTI performance rights to be granted in December 2011, or after the AGM for Executive Directors, under the Group's LTI program.

(8) *Ms Gray, Mr Healy, Ms Peacock, Mr Thodey and Mr A Thorburn were each one of the five named Company and Group executives, who received the highest remuneration in 2011.*

(9) *On cessation of employment, Ms Peacock received a termination benefit under her contract entered into in May 2003, as varied in August 2004 and January 2005. Payment of a pro-rated STI award based on her performance and Group results for 2011 will be paid in December 2011 in the usual course. Shares, performance options and performance rights were retained in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. Further, the Board allowed the release and retention of some shares. These arrangements are in line with the Group's policy and practice in such circumstances. Under AASB 2, the value of retained equity has been fully accounted for on cessation.*

(10) *On cessation of employment, Mr Ullmer received a termination benefit under his contract entered into in August 2004, as varied in December 2007. Payment of a pro-rated STI award based on his performance and Group results for 2011 will be paid in December 2011 in the usual course. Shares, performance options and performance rights were retained in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. Further, the Board allowed the release and retention of some shares. These arrangements are in line with the Group's policy and practice in such circumstances. Under AASB 2, the value of retained equity has been fully accounted for on cessation.*

(11) *The 2011 Total for KMP includes only the amounts related to the periods that each senior executive acted as KMP of the Company and Group during the year, for all of the individuals in the table. The 2010 Total for KMP are full year figures for all 12 senior executives who were KMP in that year.*

(12) *Mr Thodey's 2011 'Shares' and 'Options and Rights' include a reduction in respect of the 2010 Deferred STI shares and an equivalent increase for 2010 STI performance rights. This change does not impact his 2010 Total reported number.*

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 Group performance) [(1)] %	Cash STI at risk %	Shares at risk %	Options and rights at risk %	Total %	Actual STI as % of STI Target %	LTI opportunity for 2011 [(2)] $
Senior executives for the year ended 30 September 2011							
Executive directors							
CA Clyne	33	23	40	4	100	150	2,700,000
MA Joiner	28	17	46	9	100	125	1,020,000
Other senior executives							
LJ Gray	39	24	44	(7)	100	125	765,000
AP Hagger	35	21	42	2	100	125	680,000
MJ Healey	34	26	37	3	100	150	459,000
JC Healy	36	22	39	3	100	125	935,000
BF Munro	36	22	35	7	100	125	600,000
RJ Sawers	41	25	29	5	100	125	765,000
GR Slater	42	18	34	6	100	100	680,000
AG Thorburn [(3)]	39	24	(14)	51	100	150	722,500
DJ Thorburn	49	6	34	11	100	80	532,109
SJ Tucker	44	22	27	7	100	100	850,000
Former executives							
LM Peacock	32	16	33	19	100	100	-
MJ Ullmer	21	26	39	14	100	100	-
Other named executive							
PL Thodey [(4)]	74	5	(4)	25	100	100	-

(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 2011 LTI will be granted in December 2011 (subject to any relevant shareholder approval).*

(3) *The negative 'Shares at risk' outcome for Mr A Thorburn is a result of the treatment of the 2007 LTI forfeiture reversal under AASB 2.*

(4) *The negative 'Shares at risk' outcome for Mr Thodey reflects a reduction in respect of 2010 Deferred STI shares and an equivalent increase for 2010 performance rights impacting the 2011 mix between 'Shares at risk' and 'Options and rights at risk'.*

STI potential outcomes

STI is provided in a mix of cash, deferred equity and retention equity. The deferred equity is granted as Company shares or performance rights for jurisdictional reasons. They may lapse on cessation of employment (in some circumstances), or if the Board determines that performance has not been sustained. The retention equity is granted as Company shares or performance rights for jurisdictional reasons. They will be forfeited if the executive fails the Compliance Gateway. The range of final STI outcomes in respect of 2011 is between:

- the minimum amount of STI for 2011 (if the deferred equity-based portions are later forfeited), which is the amount shown in the column: 'Cash STI' in the **Remuneration outcomes table**; and
- the maximum amount of STI provided to current senior executives, which is twice (five times for UK senior executives who have a greater deferred portion) the amount shown in the column: 'Cash STI' on the **Remuneration outcomes table** if the Deferred STI equity and retention equity are released in full.

No Deferred STI awards were lapsed or forfeited during 2011.

LTI potential outcomes

LTI is granted as LTI performance rights from 2011. They may lapse on cessation of employment (in some circumstances), if performance hurdles are not achieved and as a result they do not vest, or if the Board exercises its discretion. Potential outcomes for the LTI are:

- the minimum deferred value for LTI is zero if performance hurdles are not met;
- the maximum deferred value of the LTI is the anticipated fair value of the equity to be granted in December 2011 as shown in the column: 'LTI opportunity for 2011' in the table above if the performance hurdles are fully met; and
- the actual value of the LTI is dependent on the level of performance achieved by the Group over the next three years and the value of the Company's shares at the time of vesting.

Report of the directors

Value of shares, performance options and performance rights

The following table shows 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 2011. The performance options and performance rights are rights to acquire Company ordinary shares, subject to certain conditions being met, under the National Australia Bank Executive Share Option Plan No. 2 and the National Australia Bank Performance 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 **Summary of LTI** section. LTI 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 for the year ended 30 September 2011									
Executive directors									
CA Clyne	Options	42,500	6/02/2006	(42,500)	-	-	(145,138)	-	(145,138)
	Rights	10,625	6/02/2006	(10,625)	-	-	(185,567)	-	(185,567)
	Options	65,000	7/02/2007	(25,545)	13,910	-	(105,245)	58,839	(46,406)
	Rights	16,250	7/02/2007	(6,386)	3,478	-	(127,209)	68,395	(58,814)
	Shares	26	18/12/2007	-	26	-	-	992	992
	Options	47,238	14/02/2008	-	9,495	-	-	34,657	34,657
	Rights	19,565	28/02/2008	(19,565)	-	-	(512,212)	-	(512,212)
	Shares	14,411	31/12/2009	-	14,411	-	-	406,246	406,246
	Shares	211,874	23/12/2010	-	-	4,416,353	-	-	4,416,353
MA Joiner	Options	133,333	31/10/2006	(133,333)	-	-	(502,665)	-	(502,665)
	Rights	33,333	31/10/2006	(33,333)	-	-	(626,662)	-	(626,662)
	Options	18,750	3/08/2007	(7,368)	4,014	-	(18,715)	10,798	(7,917)
	Rights	4,688	3/08/2007	(1,842)	1,004	-	(25,788)	14,277	(11,511)
	Options	50,000	28/08/2007	(19,650)	10,700	-	(66,221)	37,825	(28,396)
	Options	40,107	14/02/2008	-	8,062	-	-	29,426	29,426
	Shares	14,196	28/02/2008	(14,196)	-	-	(450,013)	-	(450,013)
	Shares	10,216	31/12/2009	-	10,216	-	-	287,989	287,989
	Shares	88,158	23/12/2010	-	-	1,844,970	-	-	1,844,970
Other senior executives									
LJ Gray	Options	35,000	21/03/2003	(35,000)	-	-	(157,850)	-	(157,850)
	Rights	8,750	21/03/2003	(8,750)	-	-	(192,675)	-	(192,675)
	Options	17,750	6/02/2006	(17,750)	-	-	(66,562)	-	(66,562)
	Rights	2,958	6/02/2006	(2,958)	-	-	(82,099)	-	(82,099)
	Options	9,584	7/02/2007	(9,584)	-	-	(50,699)	-	(50,699)
	Rights	2,396	7/02/2007	(2,396)	-	-	(85,465)	-	(85,465)
	Shares	2,240	28/02/2008	(2,240)	-	-	(71,008)	-	(71,008)
	Shares	5,326	16/11/2009	-	5,326	-	-	154,028	154,028
	Shares	18,924	4/03/2010	-	18,924	-	-	679,303	679,303
	Shares	18,030	10/11/2010	-	-	467,518	-	-	467,518
	Shares	39,210	15/12/2010	-	-	722,485	-	-	722,485
AP Hagger	Shares	34,781	30/05/2008	-	34,781	-	-	1,132,817	1,132,817
	Shares	2,075	16/11/2009	-	2,075	-	-	60,009	60,009
	Shares	18,577	10/11/2010	-	-	481,702	-	-	481,702
	Shares	32,319	15/12/2010	-	-	595,512	-	-	595,512
MJ Healey	Options	18,333	3/05/2006	(18,333)	-	-	(69,482)	-	(69,482)
	Rights	4,583	3/05/2006	(4,583)	-	-	(85,795)	-	(85,795)
	Options	6,017	7/02/2007	(2,365)	1,288	-	(9,744)	5,448	(4,296)
	Rights	1,505	7/02/2007	(591)	323	-	(11,773)	6,352	(5,421)
	Shares	6,310	28/02/2008	(6,310)	-	-	(200,027)	-	(200,027)
	Shares	4,115	16/11/2009	-	4,115	-	-	119,006	119,006
	Shares	14,318	10/11/2010	-	-	371,266	-	-	371,266
	Shares	24,909	15/12/2010	-	-	458,973	-	-	458,973
JC Healy	Options	8,334	28/08/2007	(3,275)	1,784	-	(9,923)	5,682	(4,241)
	Rights	2,084	28/08/2007	(819)	446	-	(12,907)	7,100	(5,807)
	Shares	3,628	28/02/2008	(3,628)	-	-	(115,008)	-	(115,008)
	Shares	6,225	16/11/2009	-	6,225	-	-	180,027	180,027
	Shares	31,817	10/11/2010	-	-	825,015	-	-	825,015
	Shares	46,129	15/12/2010	-	-	849,975	-	-	849,975

		Granted [1] No.	Grant date	Lapsed [2] No.	Vested [3] No.	Granted $	Lapsed $	Vested $	Total $
BF Munro	Options	35,833	6/02/2006	(35,833)	-	-	(122,370)	-	(122,370)
	Rights	8,958	6/02/2006	(8,958)	-	-	(156,451)	-	(156,451)
	Options	13,750	7/02/2007	(13,750)	-	-	(72,738)	-	(72,738)
	Rights	3,438	7/02/2007	(3,438)	-	-	(122,633)	-	(122,633)
	Rights	2,621	30/05/2008	(2,621)	-	-	(71,029)	-	(71,029)
	Shares	5,326	16/11/2009	-	5,326	-	-	154,028	154,028
	Shares	15,909	10/11/2010	-	-	412,520	-	-	412,520
	Shares	34,596	15/12/2010	-	-	637,466	-	-	637,466
RJ Sawers	Options	20,833	6/02/2006	(20,833)	-	-	(71,145)	-	(71,145)
	Rights	5,208	6/02/2006	(5,208)	-	-	(90,958)	-	(90,958)
	Options	33,334	7/02/2007	(13,100)	7,134	-	(53,972)	30,177	(23,795)
	Rights	8,334	7/02/2007	(3,275)	1,784	-	(65,238)	35,082	(30,156)
	Shares	12,619	28/02/2008	(12,619)	-	-	(400,022)	-	(400,022)
	Shares	6,640	16/11/2009	-	6,640	-	-	192,029	192,029
	Shares	22,537	10/11/2010	-	-	584,384	-	-	584,384
	Shares	39,210	15/12/2010	-	-	722,485	-	-	722,485
GR Slater	Options	12,500	21/03/2003	(12,500)	-	-	(56,375)	-	(56,375)
	Rights	3,125	21/03/2003	(3,125)	-	-	(68,813)	-	(68,813)
	Shares	26	18/12/2007	-	26	-	-	992	992
	Options	19,166	6/02/2006	(19,166)	-	-	(65,452)	-	(65,452)
	Rights	4,792	6/02/2006	(4,792)	-	-	(83,692)	-	(83,692)
	Options	56,000	7/02/2007	(22,008)	11,984	-	(90,673)	50,692	(39,981)
	Rights	14,000	7/02/2007	(5,502)	2,996	-	(109,600)	58,916	(50,684)
	Shares	13,250	28/02/2008	(13,250)	-	-	(420,025)	-	(420,025)
	Shares	6,086	16/11/2009	-	6,086	-	-	176,007	176,007
	Shares	25,454	10/11/2010	-	-	660,022	-	-	660,022
	Shares	36,903	15/12/2010	-	-	679,975	-	-	679,975
AG Thorburn	Options	53,166	6/02/2006	(53,166)	-	-	(181,562)	-	(181,562)
	Rights	13,292	6/02/2006	(13,292)	-	-	(232,145)	-	(232,145)
	Options	41,667	7/02/2007	(16,375)	8,918	-	(67,465)	37,723	(29,742)
	Rights	10,417	7/02/2007	(4,094)	2,230	-	(81,552)	43,853	(37,699)
	Shares	13,250	28/02/2008	(13,250)	-	-	(420,025)	-	(420,025)
	Rights	7,078	16/11/2009	-	7,078	-	-	189,195	189,195
	Rights	23,045	10/11/2010	-	-	550,017	-	-	550,017
	Rights	36,071	15/12/2010	-	-	516,087	-	-	516,087
DJ Thorburn	Options	35,000	21/03/2003	(35,000)	-	-	(157,850)	-	(157,850)
	Rights	8,750	21/03/2003	(8,750)	-	-	(192,675)	-	(192,675)
	Shares	26	18/12/2007	-	26	-	-	992	992
	Options	5,333	6/02/2006	(5,333)	-	-	(18,212)	-	(18,212)
	Rights	1,333	6/02/2006	(1,333)	-	-	(23,282)	-	(23,282)
	Options	56,000	7/02/2007	(22,008)	11,984	-	(90,673)	50,692	(39,981)
	Rights	14,000	7/02/2007	(5,502)	2,996	-	(109,600)	58,916	(50,684)
	Shares	46	17/12/2010	-	-	1,096	-	-	1,096
	Shares	18,311	28/02/2008	(18,311)	-	-	(580,459)	-	(580,459)
	Shares	2,605	16/11/2009	-	2,605	-	-	75,337	75,337
	Shares	15,350	10/11/2010	-	-	398,026	-	-	398,026
	Shares	9,205	15/12/2010	-	-	169,614	-	-	169,614
SJ Tucker	Options	30,000	21/03/2003	(30,000)	-	-	(135,300)	-	(135,300)
	Rights	7,500	21/03/2003	(7,500)	-	-	(165,150)	-	(165,150)
	Options	53,166	6/02/2006	(53,166)	-	-	(181,562)	-	(181,562)
	Rights	13,292	6/02/2006	(13,292)	-	-	(232,145)	-	(232,145)
	Options	58,334	7/02/2007	(22,925)	12,484	-	(94,451)	52,807	(41,644)
	Rights	14,584	7/02/2007	(5,731)	3,122	-	(114,162)	61,394	(52,768)
	Shares	13,250	28/02/2008	(13,250)	-	-	(420,025)	-	(420,025)
	Shares	5,896	16/11/2009	-	5,896	-	-	170,512	170,512
	Shares	22,537	10/11/2010	-	-	584,384	-	-	584,384
	Shares	39,210	15/12/2010	-	-	722,485	-	-	722,485
Former executives									
LM Peacock	Options	50,000	30/10/2003	(50,000)	-	-	(219,500)	-	(219,500)
	Rights	12,500	30/10/2003	(12,500)	-	-	(282,375)	-	(282,375)
	Options	130,488	6/02/2006	(130,488)	-	-	(445,617)	-	(445,617)
	Rights	32,622	6/02/2006	(32,622)	-	-	(569,743)	-	(569,743)
	Options	130,488	7/02/2007	(51,281)	27,926	-	(211,278)	118,127	(93,151)
	Rights	32,622	7/02/2007	(12,820)	6,982	-	(255,374)	137,301	(118,073)
	Options	57,217	14/02/2008	-	11,501	-	-	41,979	41,979
	Shares	19,606	28/02/2008	(19,606)	-	-	(621,510)	-	(621,510)
	Shares	50,000	11/11/2008	-	50,000	-	-	1,262,000	1,262,000
	Shares	26	18/12/2007	-	26	-	-	992	992
	Shares	52	19/12/2008	-	52	-	-	998	998
	Shares	36,397	31/12/2008	(9,099)	27,298	-	(179,796)	539,408	359,612
	Shares	3,535	16/11/2009	-	3,535	-	-	102,232	102,232
	Shares	28	11/12/2009	-	28	-	-	786	786
	Shares	12,322	10/11/2010	-	-	319,509	-	-	319,509
	Shares	42,177	15/12/2010	-	-	777,154	-	-	777,154
	Shares	46	17/12/2010	-	46	1,096	-	1,096	2,192

		Granted (1) No.	Grant date	Lapsed (2) No.	Vested (3) No.	Granted $	Lapsed $	Vested $	Total $
MJ Ullmer	Options	106,000	22/02/2006	(106,000)	-	-	(318,530)	-	(318,530)
	Rights	26,500	22/02/2006	(26,500)	-	-	(447,188)	-	(447,188)
	Options	101,676	7/02/2007	(39,958)	21,760	-	(156,635)	87,802	(68,833)
	Rights	25,420	7/02/2007	(9,990)	5,440	-	(194,106)	104,421	(89,685)
	Shares	24,444	7/02/2007	-	24,444	-	-	1,000,004	1,000,004
	Options	57,041	14/02/2008	-	11,466	-	-	50,106	50,106
	Shares	20,190	28/02/2008	(20,190)	-	-	(640,023)	-	(640,023)
	Shares	31,422	16/01/2009	(7,855)	23,567	-	(156,236)	468,748	312,512
	Shares	11,103	31/12/2009	-	11,103	-	-	312,994	312,994
	Shares	91,915	23/12/2010	-	-	1,923,597	-	-	1,923,597
Other named executive									
PL Thodey	Options	87,500	21/03/2003	(87,500)	-	-	(394,625)	-	(394,625)
	Rights	21,875	21/03/2003	(21,875)	-	-	(481,688)	-	(481,688)
	Options	44,746	20/02/2006	(44,746)	-	-	(152,808)	-	(152,808)
	Rights	11,186	20/02/2006	(11,186)	-	-	(195,363)	-	(195,363)
	Options	53,262	7/02/2007	(20,931)	11,400	-	(86,236)	48,222	(38,014)
	Rights	13,316	7/02/2007	(5,233)	2,850	-	(104,241)	56,045	(48,196)
	Options	40,107	14/02/2008	-	8,062	-	-	29,426	29,426
	Rights	16,612	28/02/2008	(16,612)	-	-	(434,902)	-	(434,902)
	Shares	2,317	16/11/2009	-	2,317	-	-	67,008	67,008
	Rights	18,920	10/11/2010	-	-	451,565	-	-	451,565
	Rights	16,708	15/12/2010	-	-	239,048	-	-	239,048

(1) The following securities have been granted during 2011:

• Deferred STI share allocations in November 2010 (in respect of the 2010 performance year) and December 2010 for the Executive Directors as approved by shareholders at the December 2010 AGM.

• LTI share allocations in December 2010 (in respect of the 2010 performance year) for the Executive Directors as approved by shareholders at the December 2010 AGM.

• 2010 General Employee Share Offer granted to Ms Peacock and Mr D Thorburn in December 2010.

(2) The following securities have lapsed during 2011:

• LTI performance options and performance rights granted in March 2003 which lapsed in March 2011.

• LTI Commencement options and rights granted to Ms Healey in May 2006 which lapsed in March 2011. They did not vest under the internal business performance hurdles (which were measured over the performance years 2008 to 2010).

• LTI shares allocated in February 2008 which lapsed on 18 February 2011. They did not vest under the internal business performance hurdles (which were measured over the performance years 2008 to 2010).

• Partial lapsing of Tranche 1 Commencement options and rights granted to Mr Healy in August 2007. They partially vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2007 to 7 February 2011).

• Partial lapsing of Tranche 1 Commencement options and rights granted to Mr Joiner in August 2007. They partially vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2007 to 7 February 2011). Full lapsing of Tranche 2 and 3 Commencement options and rights granted to Mr Joiner in October 2006. They did not vest under the relative TSR performance hurdle (which was measured over the period from 6 February 2006 to 6 February 2011).

• Partial lapsing of LTI Tranche 1 Executive performance rights and options granted in February 2007 which lapsed on 9 March 2011. They partially vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2007 to 7 February 2011).

• LTI Tranche 1 performance rights and options granted in February 2007 which lapsed on 9 March 2011. They did not vest under the internal regional business performance hurdle (which was measured over the performance years 2007 to 2010).

• LTI Tranche 2 and 3 Executive performance rights and options granted in February 2006 lapsed on 9 March 2011. They did not vest under the relative TSR performance hurdle (which was measured over the period from 6 February 2006 to 6 February 2011).

• LTI Tranche 2 and 3 performance rights and options granted in February 2006 which lapsed on 9 March 2011. They did not vest under the internal regional business performance hurdle (which was measured over the performance years 2006 to 2010).

• LTI performance rights and options granted in March 2003 which lapsed on the Expiry Date of 20 March 2011. They did not vest under the relative TSR performance hurdle (which was measured over the period from 21 March 2003 to 20 December 2010).

• LTI shares allocated in December 2008 to Ms Peacock and Mr Ullmer partially lapsed on cessation of their employment. The Board lapsed these shares in line with the Group's policy and practice in such circumstances.

(3) The following securities have vested during 2011:

• Vesting of Recognition shares allocated to Mr Ullmer in February 2007.

• 2009 Tranche 1 STI program shares allocated in November 2009, and for executive directors as approved by shareholders at the December 2010 AGM, vested in November 2010.

• Partial vesting of Tranche 1 and Tranche 2 Commencement options and rights granted to Mr Healy and Mr Joiner in August 2007. They partially vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2007 to 7 February 2011).

• Vesting of Tranche 2 Commencement shares to Mr Hagger allocated in May 2008.

• Vesting of recognition shares in March 2011 to Ms Peacock (allocated in November 2008) and vesting in October 2010, April and July 2011 (allocated in March 2010) to Ms Gray.

• Partial vesting of LTI Tranche 1 Group Executive performance options granted in February 2008. They partially vested under the relative TSR performance hurdle (which was measured over the period from 14 February 2008 to 14 February 2011).

• Partial vesting of LTI Tranche 1 and Tranche 2 Executive performance rights and options granted in February 2007. They partially vested under the relative TSR performance hurdle (which was measured over the period from 7 February 2007 to 7 February 2011).

• LTI shares allocated in December 2008 to Ms Peacock and Mr Ullmer partially vested on cessation of their employment. The Board allowed the release and retention of these shares in line with the Group's policy and practice in such circumstances.

• Vesting of the December 2007 UK General Employee Share Offer for Ms Peacock, Mr Slater and Mr D Thorburn and December 2007 NZ General Employee Offer to Mr Clyne. Vesting of the December 2008, 2009, 2010 UK General Employee Share Offer to Ms Peacock on cessation of employment.

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 taken into consideration in valuing the securities. For further details, refer to *Note 1(ss)* in the *Financial report*.

Fair value of securities granted to senior executives

The fair value per share and performance right (at grant) are set out below for grants provided to senior executives during 2011. No performance options have been granted during the year. Shares and performance rights granted during 2011 have a zero exercise price.

		Shares		**Performance rights**		
Type of allocation	Grant date	Fair value $	Restriction period end	Fair value $	Exercise period From	Exercise period To [4]
Deferred STI [1]	10 November 2010	$25.93	10 November 2011	$24.54	10 November 2011	10 May 2013
Deferred STI [1]	10 November 2010	$25.93	10 November 2012	$23.23	10 November 2012	10 May 2013
Long Term Incentive [2]	15 December 2010	$15.02	15 December 2013	$11.15	15 December 2013	15 June 2014
Long Term Incentive [2]	15 December 2010	$23.83	15 December 2013	$19.96	15 December 2013	15 June 2014
UK General Employee Shares	17 December 2010	$23.83	17 December 2013			
Deferred STI [3]	23 December 2010	$25.15	10 November 2011			
Deferred STI [3]	23 December 2010	$25.15	10 November 2012			
Long Term Incentive [3]	23 December 2010	$15.02	15 December 2013			
Long Term Incentive [3]	23 December 2010	$23.83	15 December 2013			

(1) Due to jurisdictional reasons, 2010 STI performance rights were granted to Mr A Thorburn and Mr P Thodey, who are based in NZ, instead of the 2010 STI deferred shares granted to other senior executives.

(2) Due to jurisdictional reasons, 2010 LTI performance rights were granted to Mr A Thorburn and Mr P Thodey, who are based in NZ, instead of the 2010 LTI shares granted to other senior executives.

(3) Deferred STI and LTI allocations (in respect of the 2010 performance year) for the Executive Directors, as approved by shareholders at the December 2010 AGM.

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

Summary of LTI

The LTI program 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.**

This section details the terms and conditions of LTI awards held by senior executives during 2011. 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 award 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

From 2003 to 2007, performance options were provided for approximately half of the grant value, with the remainder provided in performance rights to enable delivery of rewards where the Group had performed well against the performance hurdles but market conditions were adverse (i.e. if the exercise price exceeded the Company's share price and the performance options were 'out-of-the-money').

For 2008, performance options were continued for half of the grant value, only for members of the Group Executive Committee (at the time of each allocation - excluding the Group CEO), with the remainder in shares (or performance rights in Asia and NZ due to jurisdictional reasons). Other employees received the whole of any LTI reward in shares (or performance rights in Asia and NZ).

For 2009 and 2010, LTI rewards have been provided as 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 ordinary Company shares traded on the ASX in the week up to and including the day of allocation. On occasion, for intervening grants made in relation to a previous grant, the price at the previous date may be used. There is no exercise price for performance rights.

Basis for allocation of LTI securities

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.

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 the 2010 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 performance 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 upon achievement of the related performance hurdle (and have no expiry date).

Restriction period

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

Performance hurdles

LTI allocated prior to 2006 has a TSR performance hurdle measured relative to peer companies.

In 2006 and 2007, 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 performance options is based on cash earnings results against the business plan for the Group or for the relevant regional business (once a ROE threshold has been met). Vesting of the performance rights is based on Earnings Per Share (EPS) for the Company relative to peer companies.
- 2007: Vesting of both the performance options and performance 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 cash earnings.

In 2008 the relative TSR hurdle was confined to the performance options allocated to the Group Executive Committee. The hurdle on their LTI shares (or performance rights), and on the LTI shares (or performance 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 cash earnings threshold has been met).

During 2009, the 2006, 2007 and 2008 performance hurdles moved to being measured at Group level rather than regional level. The move to Group testing is a result of the restructuring that took place in early 2009.

In 2009 and 2010, the same performance hurdles applied to all participants of the executive LTI (approximately 100 positions). Half the allocation has a TSR performance hurdle for the performance period and the other half has a performance hurdle based on Group cash earnings and ROE with a TSR overlay.

The 2011 performance hurdles are described on page 23.

Reasons for the performance hurdles

The performance hurdles are chosen to support the Group's longer-term business strategy. 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 cash earnings/ROE hurdle provides a link to business results.

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 to September 2009 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 Financial Services.

From September 2009, the TSR performance for the Company is compared with that of the Top Financial Services.

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 peer group helps to reduce volatility and lessens the impact of changes to the peer group (due to de-listings). The Top Financial Services peer group was introduced to allow performance to be specifically measured against comparable organisations as well as to a broader selection of financial industry organisations.

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, while 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/cash earnings hurdle for the LTI shares (or performance 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

From 2003 to September 2004, each TSR comparison is averaged over a 30-day period to guard against short-term spikes in the share price. Performance is tested daily, during the performance period (for practical reasons tests are run quarterly).

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 performance options have the same three tranche progressive testing as above. The shares (or performance rights) are tested only once, measuring cash earnings and ROE prior to the 3rd anniversary of grant, compared with business plan over three financial years.

Vesting schedule

For grants from 2002 to September 2004, there is no vesting if the Company is ranked below the 50th percentile of the peer group and 50% to 98% progressive vesting for the 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.

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 to 2008, 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 performance rights is the same as for the 2006 TSR hurdle above. Under the cash earnings/ROE 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/cash earnings 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.
- From 2009, TSR vesting at median performance to 100% vesting at 75th percentile performance. Under the Group cash earnings/ ROE hurdle, Group cash earnings must achieve business plan over the three year performance period. Where TSR performance is in the top quartile Group cash earnings must achieve at least 90% of business plan. If Group cash earnings 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 performance options and performance rights plans were altered to allow shares issued upon exercise of performance options or performance rights to be either issued as new shares or purchased on market. Previously only new shares could be issued.

Lapsing and forfeiture

Performance Options and Performance Rights: Performance options and performance rights lapse if not exercised on or before their expiry date (as described above). If a senior executive is dismissed or resigns the Board may exercise its discretion to lapse all unvested performance options and performance rights immediately. All vested performance options and performance 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 performance options and performance rights will be retained until the original expiry date. Unvested performance options and performance 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, are retained subject to the relevant performance hurdle and restriction periods.

Conditions for retaining securities

In the majority of cases, performance options and performance 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.

June 2009 allocation to Mr Cameron Clyne

Form of Securities: Half of the value of the allocation was provided in the form of performance rights, and the remainder in shares.

Restriction Period: For the performance rights, no performance testing is conducted until 1 January 2012 and for the shares until 30 September 2012.

Performance Hurdles:

- Performance rights: Vesting is based on TSR performance of the Company compared with that of the Top Financial Services 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 Group's performance against Group ROE as projected in the Group's business plans (once a cash earnings threshold has been achieved) for the periods 1 January 2009 to 30 September 2010, 1 October 2010 to September 2011 and 1 October 2011 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 non-executive directors

The table below shows the individuals who were both non-executive directors and KMP of the Company and Group during 2011.

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	Director

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 can elect to take part of their remuneration as additional Company superannuation contributions. Non-executive directors are not paid any performance or incentive payments.

Non-executive directors must hold at least 2,000 fully paid ordinary shares in the Company within two months of appointment. (Details of non-executive director shareholdings in the Company are set out in *Note 46* of the *Financial report*.)

Changes for 2011

During 2011 the Board:
- increased the fee for the Remuneration Committee Chairman from $45,000 to $50,000 from 1 October 2010 to reflect the increased responsibilities of this role; and
- established an Information Technology Committee on 1 April 2011 to provide governance and oversight of significant technology programs.

The Board reviewed all fees in June 2011 and determined not to increase fees paid to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board Committees. The next review is scheduled for March 2012.

The total fees paid by the Company 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 2010 and 2011 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.

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 as set out in the *Corporate governance* section.

Report of the directors

Non-executive director fees

The total fees paid by the Company to non-executive members of the Board, including fees paid for their involvement on (a) the Board; (b) Board Committees; and (c) Boards of controlled entities, are kept within the total pool approved by shareholders from time-to-time. The following table sets out details of the components of non-executive directors' remuneration paid in the form of Board and committee fees and other non-monetary benefits.

	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Information Technology Committee [(1)] $	Controlled Entities $	Other $	Total $
MA Chaney	770,000	-	-	-	-	-	-	770,000
PA Cross [(2)]	220,000	-	30,000	50,000	-	45,000	-	345,000
DT Gilbert	220,000	-	-	22,500	15,000	-	-	257,500
PJ Rizzo	220,000	30,000	60,000	-	7,500	-	-	317,500
JS Segal	220,000	30,000	30,000	-	-	-	-	280,000
JG Thorn	220,000	60,000	-	-	7,500	-	-	287,500
GA Tomlinson [(3)]	220,000	-	-	22,500	-	277,500	-	520,000
JA Waller [(4)]	220,000	30,000	30,000	-	-	134,024	-	414,024
GM Williamson [(5)]	220,000	-	30,000	-	-	219,508	61,109	530,617
AKT Yuen [(6)]	220,000	-	30,000	22,500	-	25,000	-	297,500
Total	2,750,000	150,000	210,000	117,500	30,000	701,032	61,109	4,019,641

(1) *The Board approved establishment of an Information Technology Committee from 1 April 2011. Mr Gilbert was appointed Chairman of the Committee and Mr Rizzo and Mr Thorn were appointed as members.*

(2) *Mrs Cross receives a fee in respect of services performed as non-executive director of JBWere Pty Ltd.*

(3) *Mr Tomlinson receives fees in respect of services performed as Chairman of National Wealth Management Holdings Limited, MLC Limited, MLC Investments Limited, MLC Wealth Management Limited, WM Life Australia Ltd and Navigator Australia Ltd (all subsidiaries of the Company).*

(4) *Mr Waller receives fees in respect of services performed as Chairman of Bank of New Zealand, which are paid in NZ dollars.*

(5) *Sir Malcolm Williamson receives fees in respect of services performed as Chairman of National Australia Group Europe Limited and Clydesdale Bank plc, which are paid in GBP. Sir Malcolm Williamson received a non-monetary benefit in relation to UK National Insurance contributions.*

(6) *Mr Yuen receives fees in respect of services performed on the Asia Management Board.*

Board and 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. The Board has decided that the fees paid to non-executive directors on the Board will not increase for 2012.

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	50,000
Member	22,500
Information Technology Committee Fees [(1)]	
Chairman	30,000
Director	15,000

(1) *The Board approved establishment of an Information Technology Committee from 1 April 2011.*

Report of the directors

Non-executive director remuneration

The following table sets out the nature and amount of each element of remuneration of non-executive directors of the Company in relation to services they provided in the 2011 year. No performance options or performance rights are granted to non-executive directors.

		Short-term benefits		Post-employment benefits	Total
Name		Cash salary and fees (1) fixed $	Non-monetary (2) $	Super-annuation (3) fixed $	$
MA Chaney	**2011**	**754,657**	**-**	**15,343**	**770,000**
	2010	755,354	5,636	14,646	775,636
PA Cross	**2011**	**310,459**	**-**	**34,541**	**345,000**
	2010	293,632	-	19,225	312,857
DT Gilbert	**2011**	**211,269**	**-**	**46,231**	**257,500**
	2010	199,540	-	42,960	242,500
PJ Rizzo	**2011**	**267,500**	**-**	**50,000**	**317,500**
	2010	260,000	-	50,000	310,000
JS Segal	**2011**	**264,657**	**-**	**15,343**	**280,000**
	2010	262,229	-	14,646	276,875
JG Thorn	**2011**	**272,157**	**-**	**15,343**	**287,500**
	2010	265,354	-	14,646	280,000
GA Tomlinson	**2011**	**504,657**	**-**	**15,343**	**520,000**
	2010	505,354	-	14,646	520,000
JA Waller	**2011**	**363,880**	**-**	**50,144**	**414,024**
	2010	395,100	-	14,646	409,746
GM Williamson	**2011**	**469,508**	**61,109**	**-**	**530,617**
	2010	515,031	65,216	2,180	582,427
AKT Yuen (4)	**2011**	**291,376**	**-**	**6,124**	**297,500**
	2010	169,704	-	3,837	173,541
Total	**2011**	**3,710,120**	**61,109**	**248,412**	**4,019,641**
Total	2010	3,621,298	70,852	191,432	3,883,582

(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.*

(2) *Sir Malcolm Williamson received a non-monetary benefit in relation to UK National Insurance Contributions.*

(3) *Reflects compulsory Company contributions to superannuation in Australia 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) *Mr Yuen joined the Board as a non-executive director on 1 March 2010.*

Other remuneration disclosures

The following tables reflect the disclosure requirements of the UK regulator, the Financial Services Authority's (FSA), Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) clauses 11.5.18 for the UK businesses.

The following groups of employees have been identified as meeting the FSA's criteria for Remuneration Code Staff (Code Staff):

- Senior Management – including members of the UK Executive Committee and senior management in both the UK Banking and Wholesale Banking UK businesses; and
- Other Code Staff – including non-executive directors of the UK board, non-executive directors of the Principal Board with specific responsibilities in relation to the UK operations, employees performing Significant Influence Functions, employees who have responsibility and accountability that could have a material impact on the business, and employees in key control function roles.

Remuneration policy

The Group operates an enterprise-wide remuneration policy. The remuneration policy and framework described in this report applies to Code Staff. Further information on the Group's Performance and Reward framework is available on the Group's internet website at www.nabgroup.com.

'At risk' reward programs

The majority of Code Staff are covered by the Group's STI plan as described in the **Senior executive remuneration** section on page 25. A small number of Other Code Staff are eligible to participate in STI plans specific to their roles. These plans are designed in line with the Group's Remuneration Policy. Payments under these plans are linked to profit measures specific to the individual's role.

Deferral and retention arrangements

For a number of senior managers, three year deferral applies to the total quantum of variable reward paid with no more than a third of total variable reward vesting in any year. Remaining Code Staff have deferral and retention arrangements applying to any variable reward payment they receive in line with the FSA's requirements. All deferred amounts are provided as Company equity. Deferred amounts may be partially or fully reduced subject to the Committee's review of business performance and risk outcomes during the deferral period or where the employee resigns, is dismissed, or fails the Compliance Gateway.

A further retention period of six months will apply to half of any up-front 2011 STI payments to Code Staff and a further six month retention period will apply to Deferred STI and LTI after performance conditions have been satisfied. The retained amounts will be provided as Company equity. No further performance conditions apply to retention equity, however they will be fully lapsed, if the employee fails the Compliance Gateway during the retention period.

Aggregate 2011 remuneration of Code Staff by operating segment

	Wholesale Banking UK	UK Banking	Group Functions and Other [1]	Total
Number of Code Staff	13	32	20	65
Total remuneration (£m)	5.9	12.2	3.4	21.5

[1] *Includes non-executive directors, risk employees and other Group based employees*

Aggregate 2011 remuneration of Code Staff by remuneration type

	Senior Management	Other Code Staff	Total
Number of Code Staff	22	43	65

	Senior Management £m	Other Code Staff £m	Total £m
Fixed remuneration	7.0	6.0	13.0
Variable remuneration (cash)	1.6	1.3	2.9
Variable remuneration (retained shares)	0.7	0.6	1.3
Deferred remuneration (equity) [1]	3.0	1.3	4.3
Total variable remuneration	5.3	3.2	8.5
Total remuneration	12.3	9.2	21.5

[1] *The Group provides all deferred remuneration in Company equity. The amount shown includes any long-term incentive awards*

2011 Code Staff deferred remuneration

	Senior Management £m	Other Code Staff £m	Total £m
Outstanding - vested	8.5	1.8	10.3
Outstanding - unvested	43.2	12.7	55.9
Awarded during the year	11.0	4.6	15.6
Reduced during the year through performance adjustments	(21.5)	(4.9)	(26.4)
Vested during the year	6.6	4.9	11.5

Report of the directors

Other 2011 disclosures for Code Staff

	Senior Management	Other Code Staff	Total
Total sign-on awards (£m) (1)	-	-	-
Number of beneficiaries	-	-	-
Total commencement awards (£m) (1)	-	-	-
Number of beneficiaries	-	-	-
Total termination payments (£m)	0.9	-	0.9
Number of beneficiaries	3	-	3
Highest award to a single beneficiary (£m)	0.5	-	0.5

(1) *No sign-on bonuses or commencement awards were provided to Code Staff during 2011*

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. The Group Securities Trading Policy has been updated during 2011 consistent with the *Corporations Act* 2001 (Cth) requirements on hedging. 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 adherence to the policy. These measures include imposing employee trading blackout periods prior to each results 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.

Term Used	Description
Cash earnings (CE)	The STI and LTI programs use a measure of cash earnings as defined in the Glossary. For senior executives, this is for the consolidated Group.
Commencement Awards	Buy-out of unvested equity-or performance-based award 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.
Compliance Gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Deferred STI shares	Deferred STI shares are Company ordinary shares, allocated at no charge to the employee, in respect of prior year(s) performance, which provide dividend income to the employee from allocation. The shares are held on 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.
Enterprise Behaviours	Are the foundation of the Group's culture and brand and define how employees relate to one another, work together and interact with customers and communities. They are to: · be authentic and respectful; · work together; and · create value through excellence.
Group Executive Committee	The Group's leadership team, comprising the individuals listed in the Senior executive remuneration section.
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 the Group, directly or indirectly, including any director (whether executive or otherwise) as defined in AASB 124 "Related Party Disclosures".
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long-term performance of the Group. LTI is allocated under the Group's program in the form of LTI shares or performance rights. The LTI program is described in the section: LTI rewards.
LTI performance rights	A performance right is a right to acquire one Company ordinary share. Performance rights are restricted for at least three years and subject to achievement of performance hurdles. Performance rights will lapse if the performance hurdles are not achieved, if the participant fails to meet individual performance standards or the Compliance Gateway, or if the Board exercises its discretion to lapse. If performance rights are retained on cessation of employment, the number of performance rights retained will be based on the elapsed time within the performance period as at the time of cessation.The performance hurdles remain subject to the normal timetable and performance hurdles of the initial grant. No amounts are paid by participants for the grant of performance rights. Performance rights have no exercise price.
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 program	Shares were allocated under the Motivation & Retention program in April 2008, with forfeiture conditions including forfeiture 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 were also forfeited by the participant if they fail to meet individual performance standards or behaviour and compliance quality gates, or if they resigned 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 NZ 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 Australian Securities Exchange over the one week up to and including the grant date of the performance options. The lapsing of performance options is described in the section: Summary of LTI.
Performance rights	A performance right, such as an LTI Performance right (as described above), 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 including awards such as Deferred STI, UK retention and Commencement and other retention programs. The terms and conditions, including lapsing and forfeiture, will vary for each particular grant.

Term Used	Description
Return on equity (ROE)	ROE is calculated as cash earnings 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 programs use ROE performance for the consolidated Group.
Return on Total Allocated Equity (ROTAE)	ROTAE is measured by the combined divisional Risk Weighted Assets (and by capital adequacy for Wealth Management) and is based on regulatory capital.
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 tables.
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 STI rewards section. STI rewards may be allocated in the form of STI shares as described above under Deferred STI shares.
Sign-on bonuses	Discretionary amounts provided to employees on commencement with no linkage to prior employment.
Top 50 Companies	The top 50 companies in the Standard & Poors (S&P)/ASX100 by market capitalisation, excluding the Company determined on or around the effective date of the LTI award. The Top 50 Companies is used as a measure for the LTI performance hurdle.
Top Financial Services	The top financial services companies in the S&P/ASX200 (approximately 12 companies) by market capitalisation, excluding the Company, determined on or around the effective date of the LTI award. The Top Financial Services is used as a measure for the LTI performance hurdle.
Total Business Return (TBR)	Total Business Return (TBR) is a value management tool using the metrics of ROE and cash earnings growth to provide an assessment of relative value creation.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions (where applicable), but does not include STI or LTI. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Group, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions (where applicable).
Total Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Total Shareholder Return (TSR)	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. TSR is used as a measure for the LTI performance hurdle.

Report of the directors

Directors' signatures

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

Michael A Chaney
Chairman

11 November 2011

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 2011 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 in the Corporate governance section of the Group's website at www.nabgroup.com.

The Board's most significant responsibilities are:

Stakeholder interests

- guiding the Group with a view to long-term 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 budgets.

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 with the guidance of the Audit Committee; 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 with the guidance of the Risk Committee.

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. 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 or as required.

Composition of the Board

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

The composition of the Board is driven by the following principles:

- the Board will be of an appropriate size to allow 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 of directors with a broad range of expertise, skills and experience from a diverse range of backgrounds including sufficient skills and experience appropriate to the Group's business.

The Chairman is an independent non-executive director and is not a former executive of the Group. The roles of the Chairman and Group Chief Executive Officer are not exercised by the same individual.

The Company's Constitution provides that the Company is to have not less than five, nor more than 14 directors. At the date of this report, the Board consisted of 13 Directors, comprising:

- 11 independent non-executive directors, including the Chairman; and
- two executive directors being the Managing Director & Group Chief Executive Officer, and the Executive Director, Finance.

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

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

There were two changes to the composition of the Board during the year. Mr Michael Ullmer, Executive Director and Deputy Group Chief Executive Officer, retired from the Board in August 2011 and Dr Kenneth Henry was appointed a director on 1 November 2011.

Corporate governance

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

Chairman

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

The Company'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 positions outside the Company and prior experience can be found in the *Report of the directors*.

The Board considers that none of Mr Chaney's positions held outside the Company (as set out in the *Report of the directors*), interfere with his ability to execute and fulfil 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.

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

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

To assist the Board in determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board. 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 determined that all non-executive directors of the Company are independent. The Company's independent directors (together with the period they have been in office) are identified in the *Report of the directors*.

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.

Tenure

The Board does not consider that term of service on the Board should be considered as a determining factor affecting a director's independence or the ability to act in the best interests of the Company.

Mr Geoff Tomlinson has served on the Board for more than ten years from the date of his first election and is standing for re-election in 2011. Having considered the significant contribution Mr Tomlinson brings to the Board, specifically in relation to the wealth operations of the Group, the Board is satisfied that Mr Tomlinson has retained independence of character and judgement and has not formed associations with management (or others) that might compromise his ability to exercise independent judgement or act in the best interests of the Company.

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 dictate that when a potential conflict of interest arises, the director concerned will not receive copies of the relevant Board papers and will not be present at the Board meeting while such matters are considered. Accordingly, in such circumstances, the director concerned takes no part in discussions and exercises no influence over other members of the Board. If a significant conflict of interest 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 by the Company 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 45* 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 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 50 and 53). 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.

Corporate governance

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

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

Before each Annual General Meeting, the Board assesses the performance of each director due to stand for re-election, and 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 program for new directors. The program includes discussions with executives and management, reading material, tutorials and workshops. These cover the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its management structure, its internal and external audit programs, its Code of Conduct, its Enterprise Behaviours (which provide the foundation of the culture of the Group and its brands) and director's 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 Board Committees. Directors are also expected to attend site visits. The Board aims to meet 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*. Members of the Board also meet with key regulators in various jurisdictions, periodically throughout the year.

Performance of the Board, its committees and individual directors

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

Each director participates in individual interviews with the Chairman. External experts are engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance the overall effectiveness of the Board. When external experts are engaged, the results of the evaluations are compiled to 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.

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 did not utilise an external expert in 2011, but otherwise 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 45* 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 managing 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 directors' shareholdings in the Company are set out in the *Report of the directors* and *Note 46* 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*.

Corporate governance

Board and committee operations

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

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

The Board has adopted charters for each Committee setting out the matters relevant to the composition, responsibilities and administration of each 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 2011 year are set out in the *Report of directors*.

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

	Audit Committee	**Risk Committee**	**Remuneration Committee**	**Nomination Committee**
Members	Mr John Thorn (Chairman) Dr Kenneth Henry Mr Paul Rizzo Ms Jillian Segal Mr John Waller	Mr Paul Rizzo (Chairman) Mrs Patricia Cross Ms Jillian Segal Mr John Waller Sir Malcolm Williamson Mr Anthony Yuen	Mrs Patricia Cross (Chairman) Mr Danny Gilbert Mr Geoff Tomlinson Mr Anthony Yuen	Mr Michael Chaney (Chairman) Mrs Patricia Cross Mr Danny Gilbert Dr Kenneth Henry Mr Paul Rizzo Ms Jillian Segal Mr John Thorn Mr Geoff Tomlinson Mr John Waller Sir Malcolm Williamson Mr Anthony Yuen
Composition	Minimum three All members are non-executive directors One member must also be a member of the Risk Committee	Minimum three All members are non-executive directors One member must also be a member of the Audit Committee	Minimum three All members are non-executive directors	Minimum three All members are 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 performance and reward strategy;
- 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 detailed in the *Remuneration report*); and
  - arrangements for recruiting, retaining and terminating senior executives; and
- support the Board with monitoring the principles and framework required for measuring the compliance, culture and behavioural requirements of the Group.

Nomination Committee

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

Corporate governance

Audit committee

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

- internal control systems;
- compliance with applicable laws and regulations; and
- accounting policies and procedures designed to safeguard company assets and maintain financial disclosure integrity,

in relation to external financial reporting.

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Principles and Recommendations as amended in 2010 (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, ASX Corporate Governance Principles and Recommendations and listing standards.

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

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

The Audit Committee 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 Program'. Refer to page 52 for further information on the 'Whistleblower Protection Program'.

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 2011 of the external auditor and internal auditor, and oversight of the work performed by the auditors throughout the year;
- review of significant accounting, financial reporting and other issues raised by management, and the internal and external auditors;
- review of the performance and independence of the external auditor and internal auditor, together with their assurances that all applicable independence requirements were met;
- holding of separate meetings, without the presence of management, with Internal Audit and key partners from the external auditor, Ernst & Young;
- consideration and recommendations to the Board on significant accounting policies and areas of accounting judgement;
- review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements; and
- regular review of minutes and updates from subsidiary board audit committee meetings.

The Audit Committee met eight times during the 2011 year. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. The Chairs of each main subsidiary board audit committee met during the 2011 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. This meeting is chaired by the Chairman of the Board Audit Committee.

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.

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

Details of 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 47* in the *Financial report*.

Internal audit

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately resourced 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.

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, or permit to serve as a member of a board of directors or similar management or governing body, any current or former partner, principal, shareholder or professional employee of the external auditor or their family members if, in doing so, the external auditor's independence would be impaired or perceived to be impaired.

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

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 in the *Corporate governance* section of the Group's website at www.nabgroup.com.

Activities during the year

At each scheduled meeting, the Risk Committee received a report from the Group Chief Risk Officer 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 presentations 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 the credit environment, asset quality and provisioning;
- approval of the budget and headcount of the Group's risk management function;
- review of the Group's 2011 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
- regular review of minutes and updates from subsidiary board risk committee meetings.

The Risk Committee met nine times during the 2011 year, with senior representatives from the Company's external auditor, Ernst & Young. Internal Audit are invited to attend every scheduled meeting of the Risk Committee throughout the period.

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

The Chairs of each main subsidiary board risk committee met regularly in the 2011 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. This meeting is chaired by the Chairman of the Board Risk Committee.

More comprehensive details in relation to the Group's risk oversight and management of its material business risks are available in the *Summary of the National's Risk processes* section of the Group's website at www.nabgroup.com.

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.

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

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 2011 year.

Access to the Committee

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

Corporate governance

Activities during the year

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

- approval of the 2011 Remuneration report;
- review and determination to the Board of the remuneration package for the Group Chief Executive Officer and other executive directors;
- review and determination of remuneration packages for other senior executives;
- oversight of remuneration arrangements for risk personnel across the Group;
- monitoring global regulatory and legislative reform in relation to remuneration, market trends and stakeholder views on remuneration and reward in the financial services industry;
- meeting with regulators to discuss the Group's remuneration frameworks;
- monitoring executive director terminations across the Group;
- approval of award values for the long-term incentive plan for 2011;
- review and recommendation to the Board the incentives payable to senior executives based on performance and risk criteria structured to increase shareholder value;
- review, approval and determination of vesting outcomes of employee equity plans and allocations, including the long-term incentive program;
- oversight of the Company's compliance framework and management of underperformance and impact on remuneration outcomes; and
- review of remuneration of non-executive directors of subsidiary companies.

The Remuneration Committee met nine times during the 2011 year.

As part of the review process for approval of incentive payments in 2011, the Remuneration Committee held a joint meeting with the Risk Committee to ensure that risk impacts had been taken into the determination of the allocation and calculation of short and long-term incentive payments.

Nomination committee

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

Activities during the year

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

- assessment of the appropriate size and composition of the Board;
- 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.

Other Committees

During the year the Board established three further committees to support the Board in carrying out its responsibilities:

- Information Technology Committee – established to provide oversight of key strategic technology and infrastructure projects impacting the Group's operations. Its members are Mr Gilbert (Chairman), Mr Clyne, Mr Rizzo and Mr Thorn.
- Litigation Sub-Committee – established to monitor significant litigation risks involving the Group. Its members are Mr Gilbert (Chairman), Ms Segal and Mr Thorn.
- Capital & Funding Sub-Committee – established to exercise delegated authority on behalf of Board in relation to the Group's capital and funding activities. Its members are Mr Joiner, Mr Rizzo and Mr Thorn.

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 Andrew Thorburn is the Chairman of Great Western Bank. The chairs of each of the Group's major subsidiary boards (except for Great Western Bank) are members of the Board and this provides a key link between the Board of the Company and its subsidiary entities and enables 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

The Group aims to be open and transparent with all stakeholders, including 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);
- the Annual Review;
- regular trading updates and market/investor briefings;
- letters from the Chairman to inform shareholders of key matters of interest; and
- the Group's website at www.nabgroup.com, where there is a Shareholder Centre and News Centre providing access to Company announcements, media releases, financial reports, previous years' financial results and investor presentations.

The Group employs a range of communication approaches, including direct written communication with shareholders, 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. The Committee may refer matters to other senior executives or the Board, to make an assessment and determination as to disclosure.

Where appropriate the Board will be consulted on the most significant or material disclosures. All members of the 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 Disclosure & External Communications Policy is available in the *Corporate governance* section of the Group's website at www.nabgroup.com.

ASX Corporate Governance Principles and Recommendations

The Company has made an early transition and has complied with the amended ASX Corporate Governance Principles and Recommendations for the 2011 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.

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.

Further information regarding the Company's compliance with the ASX Corporate Governance Principles and Recommendations is set out in a checklist available at www.nabgroup.com.

Corporate responsibility

Values and culture

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.

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.

We ensure our CR approach continues to be relevant by:
- engaging with our stakeholders in each of these commitment areas to inform us of current and emerging material issues, challenging us to develop mutually beneficial solutions and helping us to 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
- integrating CR management and reporting into the Company's governance structures and internal communication to ensure that CR is understood by our Board, Executive Committee and our people.

The NAB Social Responsibility Advisory Council chaired by the Rev Tim Costello, comprises a range of experienced internal and external advisors, who help guide the Company with strategic advice and feedback in relation to the Group's social responsibility strategy and activities. More information on the Council is available in the Corporate responsibility section of the Group's website at www.nabgroup.com.

In 2011, a CR Council was established consisting of the Executive Committee and chaired by the Executive Director, Finance. This Council meets on a quarterly basis. Progress against our annual CR commitments are reported to a senior management committee chaired by the Group Chief Executive Officer on a quarterly basis and an update on our CR strategy is provided to the Board on an annual basis. A Customer Council (chaired by the Group Chief Executive Officer) also meets on a monthly basis to ensure an ongoing focus on customer relations and service.

Corporate responsibility performance

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

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;
- financial advice to customers;
- conflict of interest; and
- disclosure.

The Group's Enterprise 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 Enterprise Behaviours and Code of Conduct are available on the Group's website at www.nabgroup.com.

Corporate governance

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 at www.nabgroup.com. 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 reputation matters. Employees are provided with various avenues for escalation of complaints or concerns, including general and confidential email alert addresses and telephone lines, as well as a comprehensive Whistleblower program.

Whistleblower protection

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

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 regulatory 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 discloses unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) for any person taking reprisals against them.

Restrictions on dealing in securities

Directors, officers and employees are subject to the *Corporations Act* 2001 (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, 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. For more detail, refer to the *Appendix* of the *Remuneration report* on page 41.

Corporate governance

Diversity

The Group recognises that a diverse and inclusive workforce is not only good for our employees, it is 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 Group. The Company is committed to building strong female representation at all levels within the Group, including executive management. The Company makes the following disclosures in relation to the amended ASX Corporate Governance Principles and Recommendations relating to diversity:

Diversity policy (Recommendation 3.2)

The Group Diversity & Inclusion Policy has been available in the *Corporate governance* section of the Group's website at www.nabgroup.com since March 2011.

Measurable objectives and progress (Recommendation 3.3)

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

Measurable objectives	Progress
Increase the number of women in executive management (the top three layers of the organisation [(1)]), from 23% to 33% by 2015.	As at 30 September 2011, 28% of the Group's executive management were women, compared with our starting position of 23% in the 2010 financial year. [(2)]
Increase the proportion of women on Group subsidiary boards from 14% to 30% by 2015.	The Company has actively encouraged women to join Group subsidiary boards during the year. Of the total number of subsidiary directors, the proportion of women has increased from 14% in October 2010 to 20% as at 30 September 2011.
Increase the number of female non-executive directors on the Board of directors of the Company, as vacancies and circumstances allow, with the aim of achieving a representation of at least 30%.	The proportion of female non-executive directors on the Board as at 30 September 2011 was 20%.
Strengthen the talent pipeline by targeting a 50/50 gender balance in the Australian graduate program intake and an even representation of women and men on the Company's core Australian talent development programs from 2011 onwards.	Graduate program (Australia): As at 30 September 2011, 44% of the graduates who have accepted positions in the Company's 2012 graduate program are women, compared with 40% for the 2011 program. Core talent development programs (Australia): For the 2011 financial year, 47% of the Australian talent development program participants, on an aggregated basis across the Company's core talent development programs (Elevate, Ignite and Accelerate), were women, up from 40% in the 2010 financial year.

(1) *Executive management positions (also known as senior executive positions) are those held by Group Executive Committee members, Group Executive Committee members' direct reports, and their direct reports. Note: Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data.*

(2) *As at June 2010.*

Proportion of women employees and Board members (Recommendation 3.4)

Recommendation 3.4 requirement	Disclosure
Proportion of women employees in the whole organisation.	As at 30 September 2011, 57% of the Group's employees were women.
Proportion of women in senior executive positions (executive management positions) within the Group.	As at 30 September 2011, 28% of the senior executive positions within the Group were held by women.
Proportion of women on the Board of the Company.	As at 30 September 2011, 16% of the Company's Board of directors (including executive directors) were women. The Company is committed to ensuring that the composition of its Board continues to be appropriate. The Board Charter clearly states that it should comprise directors with a broad range of skills, experience, and diversity.

Some of the Group's activities and initiatives relating to diversity during the year were as follows:

- ***Diversity Forum:*** the Diversity Forum established in 2010, continued to work to align the Group's diversity strategy with business objectives. The forum is co-chaired by the Group Chief Executive Officer and the Executive Director, Finance, and has senior business representatives as members.
- ***Unconscious bias:*** addressing unconscious bias that may influence decision-making in situations such as recruitment through the Company's 'Consciously Addressing Unconscious Bias' program, which has been rolled out in Australia during the 2011 year.
- ***Women in executive management positions:***
  - requiring that a mix of men and women be short-listed for executive management roles in Australia and that men and women make hiring decisions on interview panels together, where possible; and
  - through a range of programs in Australia including 'Realise' which encourages women to prepare themselves for the transition to senior management and 'Board Ready' which supports women by coaching and educating them in the skills necessary for subsidiary board positions and community partner directorships.
- ***Gender pay equity:*** following the Company's first gender pay equity audit in 2007, the Company is conducting a second audit in partnership with the Financial Sector Union.
- ***Women's networks:*** continuing to develop women's networking opportunities across the Group through 'Connecting Women' in Australia, the BNZ Women's Network in New Zealand and the Women's Networking Group and 'Pearls Program' in the United Kingdom.
- ***Flexible working:*** continuing to encourage flexible working arrangements such as compressed working weeks, salary averaging and flexible leave.
- ***Mature age employees:*** establishing the MyFuture program in Australia, to support mature age employees and their managers to make informed decisions and to plan for the future, and re-launching the Long Service Awards scheme in the United Kingdom.

Please refer to the *Corporate governance* section of the Group website at www.nabgroup.com for additional reporting on the Group's recent activities and initiatives relating to diversity.

Corporate governance

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Financial report

Income statement

For the year ended 30 September	Note	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Interest income	3	**34,270**	29,824	**30,109**	25,502
Interest expense	3	**(21,236)**	(17,568)	**(20,457)**	(16,729)
Net interest income		**13,034**	12,256	**9,652**	8,773
Premium and related revenue		**1,359**	1,294	**-**	-
Investment revenue		**(447)**	2,769	**-**	-
Fee income		**553**	479	**-**	-
Claims expense		**(794)**	(695)	**-**	-
Change in policy liabilities		**475**	(1,724)	**-**	-
Policy acquisition and maintenance expense		**(914)**	(930)	**-**	-
Investment management expense		**(5)**	(35)	**-**	-
Movement in external unitholders' liability		**133**	(345)	**-**	-
Net life insurance income		**360**	813	**-**	-
Gains less losses on financial instruments at fair value	4	**(329)**	122	**133**	232
Other operating income	4	**3,778**	3,817	**2,953**	2,946
Total other income		**3,449**	3,939	**3,086**	3,178
Personnel expenses	5	**(4,563)**	(4,644)	**(3,156)**	(3,079)
Occupancy-related expenses	5	**(599)**	(592)	**(400)**	(353)
General expenses	5	**(3,203)**	(3,305)	**(1,799)**	(1,932)
Total operating expenses		**(8,365)**	(8,541)	**(5,355)**	(5,364)
Charge to provide for doubtful debts	5	**(1,750)**	(2,791)	**(1,178)**	(1,951)
Profit before income tax expense		**6,728**	5,676	**6,205**	4,636
Income tax expense	6	**(1,508)**	(1,451)	**(1,315)**	(1,086)
Net profit for the year		**5,220**	4,225	**4,890**	3,550
Attributable to:					
Owners of the Company		**5,219**	4,224	**4,890**	3,550
Non-controlling interest in controlled entities		**1**	1	**-**	-
Net profit for the year		**5,220**	4,225	**4,890**	3,550
Basic earnings per share (cents)	8	**233.6**	191.8		
Diluted earnings per share (cents)	8	**231.5**	190.6		

Statement of comprehensive income

For the year ended 30 September	Note	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Net profit for the year		**5,220**	4,225	**4,890**	3,550
Other comprehensive income					
Actuarial gains/(losses) on defined benefit superannuation plans	36	**80**	(114)	**5**	4
Cash flow hedges					
Gains on cash flow hedging instruments	35	**221**	424	**215**	309
Losses/(gains) transferred to the income statement	35	**-**	3	**(7)**	(4)
Exchange differences on translation of foreign operations	35	**(171)**	(969)	**(8)**	(32)
Reclassification to the profit or loss on disposal of foreign operations	35	**(2)**	-	**-**	-
Tax on items transferred directly from equity		**(70)**	(92)	**(38)**	(98)
Investments - available for sale					
Revaluation (losses)/gains	35	**(36)**	60	**(67)**	48
(Gains)/losses from sale transferred to the income statement	35	**(20)**	(28)	**2**	(13)
Impairment transferred to the income statement	35	**10**	3	**-**	-
Revaluation of land and buildings	35	**11**	9	**-**	-
Other comprehensive income for the year, net of income tax		**23**	(704)	**102**	214
Total comprehensive income for the year		**5,243**	3,521	**4,992**	3,764
Attributable to:					
Owners of the Company		**5,242**	3,520	**4,992**	3,764
Non-controlling interest in controlled entities		**1**	1	**-**	-
Total comprehensive income for the year		**5,243**	3,521	**4,992**	3,764

Balance sheet

As at 30 September	Note	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Assets					
Cash and liquid assets	9	**27,093**	26,072	**22,532**	21,570
Due from other banks	10	**47,106**	37,679	**36,853**	30,102
Trading derivatives	11	**48,466**	38,340	**47,353**	37,832
Trading securities	12	**34,628**	25,821	**31,513**	23,386
Investments - available for sale	13	**18,045**	14,572	**14,516**	8,965
Investments - held to maturity	14	**12,787**	13,789	**6,249**	5,111
Investments relating to life insurance business	15	**63,920**	64,560	**-**	-
Other financial assets at fair value	16	**51,756**	37,409	**26,765**	13,996
Hedging derivatives	11	**4,108**	3,712	**3,051**	2,268
Loans and advances	17	**382,369**	354,835	**294,171**	269,807
Due from customers on acceptances		**43,017**	49,678	**43,006**	49,665
Current tax assets	23	**-**	222	**-**	128
Property, plant and equipment	20	**1,919**	1,778	**1,069**	982
Due from controlled entities		**-**	-	**53,597**	49,556
Investments in controlled entities	21	**-**	-	**17,176**	17,333
Goodwill and other intangible assets	22	**7,262**	7,077	**760**	547
Deferred tax assets	23	**2,243**	2,026	**1,559**	1,374
Other assets	24	**9,038**	8,382	**5,939**	5,007
Total assets		**753,757**	685,952	**606,109**	537,629
Liabilities					
Due to other banks		**40,162**	37,612	**35,902**	34,267
Trading derivatives	11	**47,889**	40,587	**46,048**	38,473
Other financial liabilities at fair value	25	**23,726**	19,887	**3,444**	2,749
Hedging derivatives	11	**4,550**	1,444	**4,317**	811
Deposits and other borrowings	26	**402,964**	353,232	**317,156**	272,833
Liability on acceptances		**10,633**	12,549	**10,622**	12,536
Life policy liabilities	27	**53,608**	54,354	**-**	-
Current tax liabilities	28	**561**	-	**557**	-
Provisions	29	**1,596**	1,445	**939**	944
Due to controlled entities		**-**	-	**45,653**	36,760
Bonds, notes and subordinated debt	30	**99,768**	93,203	**89,648**	83,559
Other debt issues	31	**2,494**	2,502	**1,939**	1,940
Defined benefit superannuation plan liabilities	32	**295**	522	**-**	-
External unitholders' liability		**9,959**	10,241	**-**	-
Deferred tax liabilities	28	**28**	19	**30**	30
Other liabilities	33	**13,336**	19,401	**8,485**	14,200
Total liabilities		**711,569**	646,998	**564,740**	499,102
Net assets		**42,188**	38,954	**41,369**	38,527
Equity					
Contributed equity	34	**25,274**	23,551	**23,776**	22,260
Reserves	35	**(773)**	(639)	**964**	1,087
Retained profits	36	**17,667**	16,028	**16,629**	15,180
Total equity (parent entity interest)		**42,168**	38,940	**41,369**	38,527
Non-controlling interest in controlled entities		**20**	14	**-**	-
Total equity		**42,188**	38,954	**41,369**	38,527

Cash flow statement

For the year ended 30 September	Note	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Cash flows from operating activities					
Interest received		**33,841**	28,499	**29,395**	24,684
Interest paid		**(20,945)**	(16,299)	**(19,777)**	(15,657)
Dividends received		**18**	16	**1,066**	870
Life insurance					
Premiums and other revenue received		**9,628**	8,859	**-**	-
Investment revenue received		**3,240**	2,376	**-**	-
Policy and other payments		**(8,865)**	(6,275)	**-**	-
Fees and commissions paid		**(498)**	(483)	**-**	-
Net trading revenue received		**1,389**	233	**1,726**	162
Other operating income received		**3,988**	4,679	**2,231**	2,744
Payments to employees and suppliers					
Personnel expenses paid		**(4,389)**	(4,256)	**(3,055)**	(2,807)
Other operating expenses paid		**(3,896)**	(3,654)	**(2,284)**	(2,197)
Net goods and services tax received/(paid)		**24**	(32)	**4**	(40)
Payments for income taxes		**(1,171)**	(1,186)	**(792)**	(990)
Cash flows from operating activities before changes in operating assets and liabilities		**12,364**	12,477	**8,514**	6,769
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		**(63)**	(24)	**(66)**	(19)
Net funds advanced to and receipts from other banks with maturity greater than three months		**2,484**	(516)	**2,320**	(1,779)
Net payments for and receipts from acceptance transactions		**4,759**	1,023	**4,759**	1,023
Net funds advanced to and receipts from customers for loans and advances		**(30,277)**	(14,744)	**(26,227)**	(12,852)
Net acceptance from and repayment of deposits and other borrowings		**52,096**	26,620	**45,981**	26,963
Net movement in life insurance business investments		**15**	(2,141)	**-**	-
Net movement in other life insurance assets and liabilities		**22**	(311)	**-**	-
Net receipts from and payments for transactions in treasury bills and other eligible bills held for trading and not part of cash equivalents		**(114)**	(360)	**375**	(36)
Net payments for and receipts from trading securities transactions		**(11,251)**	(6,138)	**(8,214)**	(4,223)
Net payments for and receipts from trading derivatives		**(5,110)**	1,278	**(4,407)**	1,567
Net funds advanced to and receipts from hedging derivative assets and other financial assets at fair value		**(13,745)**	(7,446)	**(12,509)**	(9,869)
Net receipts from and payments for hedging derivative liabilities and other financial liabilities at fair value		**(30)**	(744)	**629**	(1,293)
Net (increase)/decrease in other assets		**(3,013)**	1,409	**(2,959)**	578
Net increase/(decrease) in other liabilities		**1,028**	(4,518)	**1,001**	(4,661)
Changes in operating assets and liabilities arising from cash flow movements		**(3,199)**	(6,612)	**683**	(4,601)
Net cash provided by operating activities	38(a)	**9,165**	5,865	**9,197**	2,168
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(30,931)**	(19,994)	**(29,895)**	(17,289)
Proceeds from disposal		**3,072**	1,130	**254**	66
Proceeds on maturity		**23,484**	12,743	**23,342**	12,459
Movement in investments - held to maturity					
Purchases		**(24,288)**	(24,466)	**(24,233)**	(24,460)
Proceeds on maturity		**24,119**	27,984	**22,294**	25,507
Net movement in amounts due from controlled entities		**-**	-	**4,791**	(4,724)
Net movement in shares in controlled entities		**-**	-	**142**	(1,915)
Purchase of controlled entities and business combinations, net of cash acquired	38(d)	**(6)**	(4,994)	**-**	-
Proceeds from sale of controlled entities, net of cash disposed	38(e)	**11**	-	**-**	-
Purchase of property, plant, equipment and software		**(1,068)**	(797)	**(744)**	(511)
Proceeds from sale of property, plant, equipment and software, net of costs		**117**	26	**95**	-
Net cash used in investing activities		**(5,490)**	(8,368)	**(3,954)**	(10,867)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(21,905)**	(18,326)	**(20,258)**	(16,284)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**31,582**	27,303	**26,142**	26,800
On market purchase of shares for equity-based compensation		**(33)**	-	**(33)**	-
Dividends and distributions paid (excluding dividend reinvestment plan)		**(2,341)**	(2,500)	**(2,203)**	(2,355)
Net cash provided by financing activities		**7,303**	6,477	**3,648**	8,161
Net increase/(decrease) in cash and cash equivalents		**10,978**	3,974	**8,891**	(538)
Cash and cash equivalents at beginning of year		**25,683**	24,154	**15,626**	18,233
Effects of exchange rate changes on balance of cash held in foreign currencies		**(655)**	(2,445)	**(576)**	(2,069)
Cash and cash equivalents at end of year	38(b)	**36,006**	25,683	**23,941**	15,626

Statement of changes in equity

Group	Contributed equity $m	Reserves (1) $m	Retained profits (2) $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2010						
Balance at 1 October 2009	22,781	(976)	16,010	37,815	20	**37,835**
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 not resulting in loss of control:						
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**
Year to 30 September 2011						
Net profit for the year	-	-	5,219	5,219	1	**5,220**
Other comprehensive income for the year	-	(18)	41	23	-	**23**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,364	-	-	1,364	-	**1,364**
On market purchase of shares for equity-based compensation	(33)	-	-	(33)	-	**(33)**
Transfer from equity-based compensation reserve issued shares	180	(180)	-	-	-	**-**
Transfer from equity-based compensation reserve purchased shares	5	(5)	-	-	-	**-**
Net loss realised on treasury shares	(57)	-	-	(57)	-	**(57)**
Movement in treasury shares relating to life insurance business	264	-	-	264	-	**264**
Transfer (to)/from retained profits	-	(17)	17	-	-	**-**
Equity-based compensation	-	89	-	89	-	**89**
Tax on equity-based compensation	-	(3)	-	(3)	-	**(3)**
Dividends paid	-	-	(3,413)	(3,413)	-	**(3,413)**
Distributions on other equity instruments	-	-	(225)	(225)	-	**(225)**
Changes in ownership interests not resulting in loss of control:						
Movement of non-controlling interest in controlled entities	-	-	-	-	5	**5**
Balance at 30 September 2011	**25,274**	**(773)**	**17,667**	**42,168**	**20**	**42,188**

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

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

Statement of changes in equity

Company	Contributed equity $m	Reserves [1] $m	Retained profits [2] $m	Total $m	Total equity $m
Year to 30 September 2010					
Balance at 1 October 2009	21,351	75	15,502	36,928	**36,928**
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 from/(to) 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**
Year to 30 September 2011					
Net profit for the year	-	-	4,890	4,890	**4,890**
Other comprehensive income for the year	-	94	8	102	**102**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	1,364	-	-	1,364	**1,364**
On market purchase of shares for equity-based compensation	(33)	-	-	(33)	**(33)**
Transfer from equity-based compensation reserve issued shares	180	(180)	-	-	**-**
Transfer from equity-based compensation reserve purchased shares	5	(5)	-	-	**-**
Transfer (to)/from retained profits	-	(118)	118	-	**-**
Equity-based compensation	-	89	-	89	**89**
Tax on equity-based compensation	-	(3)	-	(3)	**(3)**
Dividends paid	-	-	(3,444)	(3,444)	**(3,444)**
Distributions on other equity instruments	-	-	(123)	(123)	**(123)**
Balance at 30 September 2011	**23,776**	**964**	**16,629**	**41,369**	**41,369**

(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 (Group) for the year ended 30 September 2011 was authorised for issue in accordance with a resolution of the directors on 11 November 2011.

(a) Basis of preparation

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

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date (such as the calculation of provisions for doubtful debts, defined benefit obligations 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 2011, except where otherwise stated. Certain key terms used in this report are defined in the glossary.

(b) Statement of compliance

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

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

(c) New and amended Accounting Standards and Interpretations

(i) New and amended Accounting Standards and Interpretations issued and effective

The Group has adopted the following new and amended Accounting Standards and Interpretations which were applicable from 1 October 2010. Adoption of these new and amended Accounting Standards and Interpretations has not had a material impact on the Company or the Group.

- AASB 2009-5 “Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project” which makes 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” which clarifies the accounting treatment for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when the entity does not have an obligation to settle the share-based payment transaction;
- AASB 2009-10 “Amendments to Australian Accounting Standards – Classification of Rights Issues” which clarifies that 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 an entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments;
- AASB 2010-3 “Amendments to Australian Accounting Standards arising from the Annual Improvements Project” which makes amendments to several Accounting Standards arising from the 2010 annual improvements project; and
- AASB Interpretation 19 “Extinguishing Financial Liabilities with Equity Instruments” which clarifies the accounting treatment when the terms of a financial liability are renegotiated and result in an entity issuing equity instruments to extinguish all or part of the financial liability.

(ii) Early adoptions

The Group has not elected to early adopt any new or amended Accounting Standards or Interpretations in the current year.

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

The following issued but not yet effective new and amended Accounting Standards and Interpretations have not been applied in preparing this Financial report and have been identified as those which may impact the Group.

New and amended Accounting Standards and Interpretations applicable and expected to be applied by the Group for the year commencing 1 October 2011 that are not expected to result in significant changes to the Group’s accounting policies:

- Amended AASB 124 “Related Party Disclosures” and AASB 2009-12 “Amendments to Australian Accounting Standards” which clarifies the definition of a related party;
- AASB 2009-14 “Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement“ which removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement for an employee benefit plan;
- AASB 2010-4 “Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project” which makes amendments to several Accounting Standards arising from the 2010 annual improvements project, including amendments to AASB 7 “Financial Instruments: Disclosures”;
- AASB 2011-1 “Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project” and AASB 1054 “Australian Additional Disclosures”. AASB 2011-1 makes amendments to Accounting Standards as part of the first phase of harmonisation of financial reporting requirements between Australia and New Zealand for entities that assert compliance with IFRS. AASB 1054 contains Australia specific disclosure requirements and definitions which have been relocated to a single Accounting Standard; and
- AASB 2010-6 “Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets” which requires disclosures to be made of transfers of financial assets that are not derecognised in their entirety, and financial assets that are derecognised in their entirety but for which an entity retains continuing involvement.

Notes to the financial statements

1 Principal accounting policies (continued)

New and amended Accounting Standards and Interpretations applicable and expected to be applied by the Group for the year commencing 1 October 2012 that are not expected to result in significant changes to the Group's accounting policies:

- AASB 2010-8 "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets" which clarifies that the tax base of investment property measured using the fair value model is based on the premise that the carrying amount will be recovered entirely through sale rather than through use; and
- AASB 2011-9 "Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income" which requires presentation of items of other comprehensive income that will be reclassified to profit or loss in the future separately from those that will never be reclassified to profit or loss.

The potential impact of adopting the following new and amended Accounting Standards and Interpretations applicable and expected to be applied by the Group for the year commencing 1 October 2013 is yet to be assessed:

- AASB 2011-4 "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements" is not available for early adoption and removes the requirements to include individual key management personnel disclosures in the notes to the financial statements, although does not change the *Corporations Act* 2001 (Cth) requirements in respect of the *Remuneration report*;
- AASB 10 "Consolidated Financial Statements" and AASB 2011-7 "Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards" which introduce a new approach to determine which investees should be consolidated;
- Amended AASB 127 "Separate Financial Statements" which carries forward the existing accounting and disclosure requirements for separate financial statements with some minor clarifications;
- AASB 11 "Joint Arrangements" which introduces a revised model for accounting for joint arrangements;
- Amended AASB 128 "Investment in Associates and Joint Ventures" which incorporates limited amendments to the existing accounting and disclosure requirements for investments in associates and joint ventures;
- AASB 12 "Disclosure of Interests in Other Entities" which requires disclosures to be made in respect of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities;
- AASB 13 "Fair Value Measurement" and AASB 2011-8 "Amendments to Australian Accounting Standards arising from AASB 13" which provide a single source of guidance for assets and liabilities measured at fair value; and
- Amended AASB 119 "Employee Benefits" and AASB 2011-10 "Amendments to Australian Accounting Standards arising from AASB 119" which require the return on plan assets for defined benefit superannuation plans recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.

In addition, AASB 9 "Financial Instruments" (December 2010) and AASB 2010-7 "Amendments to Australian Accounting Standards arising from AASB 9" (December 2010) is expected to be applicable and applied by the Group for the year commencing 1 October 2015. AASB 9 addresses the classification and measurement of financial assets and financial liabilities. The changes arising from applying these standards are likely to significantly affect the Group's accounting for its financial assets.

(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 Group. Entities 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 Group is shown as non-controlling interest in controlled entities in the equity section of the consolidated balance sheet.

Statutory funds of the Group's life insurance business are consolidated in the Financial report. The Financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders. In addition, where the Group's life insurance statutory funds have the capacity to control managed investment schemes, the Group consolidates all of the assets, liabilities, revenues and expenses of these managed investment schemes. External interest in the units and results of the managed investment schemes that are controlled by the statutory funds is shown as external unitholders' liability in the liability section of the consolidated balance sheet.

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

(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 operation. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(g) 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

1 Principal accounting policies (continued)

environment in which the entity operates (functional currency). The consolidated Financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Translation to the presentation currency

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 disposed, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

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

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

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analyses, option pricing models and other valuation techniques based on market conditions and risks existing at balance sheet 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 plus directly attributable transaction costs 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 and deposits and other borrowings, as appropriate based upon the counterparty to the transaction. Securities lent to counterparties are also retained in their respective balance sheet categories.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as due from other banks or cash and liquid assets.

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.

(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.

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

(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.

Notes to the financial statements

1 Principal accounting policies (continued)

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 documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis.

(i) Fair value hedges

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

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

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item affects the income statement (e.g. when the forecast hedged variable cash flows are recognised in the income statement).

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

(iii) Net investment hedges

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

(iv) Derivatives that do not qualify for hedge accounting

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

- the derivative is held for the purpose of short-term profit taking; 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 on initial recognition. Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a financial asset is measured at fair value, 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 measured 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 fair value through profit or loss. Restrictions are placed on the use of the designated fair value option and the classification can only be used:

- in respect of an entire contract if a host contract contains one or more embedded derivatives;
- if designating the financial instruments eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis; or

1 Principal accounting policies (continued)

- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment 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 and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until disposal when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated change in fair value in 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 measured at amortised cost using the effective interest method, net of any provision for impairment.

Any sale or reclassification of a more than insignificant amount of held to maturity investments would result in a reclassification of all held to maturity investments as available for sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held to maturity investments to available for sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held to maturity in the financial year of the sale or reclassification and the following two financial years.

(p) Assets relating to life insurance business

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

Assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act* 1995 (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act* 1995 (Cth) are met.

(q) Loans and advances

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

In certain circumstances the Group applies the fair value measurement option to loans and advances. This option is applied to 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 fair value through profit or loss to offset the movements in the fair value of the derivative in the income statement. When this option is applied, the asset is included in other financial assets at fair value.

Where a loan is measured at fair value, a statistical-based calculation is used to estimate expected losses attributable to adverse movements in credit on the assets. This adjustment to the credit quality of the asset is then applied to the carrying value of the loan measured 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 and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

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

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

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

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

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

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

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has

1 Principal accounting policies (continued)

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

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

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

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

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

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

Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives and the remaining expected term of the lease.

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

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

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

(u) Leases

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use an asset if the arrangement conveys the right to control the use an the underlying asset. At inception or upon reassessment of an arrangement, the Group separates payment and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If

1 Principal accounting policies (continued)

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

For finance leases, the net investment in the lease, which comprises of the present value of lease payments including any guaranteed residual value and initial direct costs, is recognised within loans and advances. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax), reflecting a constant periodic rate of return.

For operating leases, assets leased are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(v) 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 assets transferred, liabilities incurred to former owners of the acquiree and equity instruments issued. Acquisition related costs are expensed as incurred.

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

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the carrying amount of 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, or more frequently if there is indication that goodwill may be impaired. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition. Each cash generating unit or group of cash generating units to which goodwill is allocated is the lowest level within the Group at which goodwill is monitored by management. Impairment is assessed by comparing the carrying amount of the cash generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash generating unit or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Software costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

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

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method or the unit of production method 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, finite life intangible assets are stated at cost less amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives which vary from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

Subsequent to acquisition, indefinite life intangible assets are stated at cost less impairment losses, if any. Indefinite life intangible assets are assessed for impairment annually, or more frequently if there is indication that the intangible asset may be impaired.

(x) 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 recognised in other operating income. Valuations are carried out annually by professional valuers.

1 Principal accounting policies (continued)

(y) Due to other banks

Due to other banks includes deposits, repurchase agreements and settlement account balances due to other banks. Amounts due to other banks are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other borrowings. Deposits and other borrowings are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost.

(aa) Life policy liabilities

Life 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 LPS1.04 '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 is only used 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 sheet 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 the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

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

(i) Operational risk events

Provisions for operational risk event losses are raised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues.

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

(ii) Restructuring costs

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

(cc) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. A financial guarantee contract is initially recorded at fair value which is equal to the premium received or receivable, unless there is evidence to the contrary. Subsequently, financial guarantee contracts are measured at the higher of:

- the liability for the estimated amount of the loss payable where it is likely that a loss will be incurred as a result of issuing the contract; and
- the amount initially recognised less, when appropriate, amortisation of the fee 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 employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation, including assumptions regarding staff departures, leave utilisation and future salary increases.

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 balance sheet 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.

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

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

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

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

The Group does not offset plan assets and liabilities arising from different defined benefit plans. Past service costs are recognised immediately in the income statement. Where actuarial gains and losses arise as a result of actual experience, such amounts are fully recognised 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 asset or liability.

(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, 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 program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction.

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

(gg) Income tax

Income tax expense (or benefit) is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it related to items recognised directly in equity, in which case it is recognised in equity. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the 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 are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

1 Principal accounting policies (continued)

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

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

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

Tax consolidation

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

Current tax expense (or benefit) and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (or receivable from) other entities in the tax-consolidated group under the tax funding arrangement. Any difference between the amounts assumed and amounts receivable/payable under the tax funding agreement are recognised by the Company as an equity contribution to or distribution from its subsidiaries.

The members of the tax-consolidated group have entered into a tax funding arrangement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant taxation authority.

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

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

Bonds, notes, subordinated debt and other debt issues are short and long-term debt issues including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues.

Bonds, notes, subordinated debt and other debt issues are generally initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument.

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

Shares in the Company held by certain statutory funds of the Group's life insurance business (which are consolidated in the Financial report) are accounted for as treasury shares. Additionally, shares purchased on market to meet the requirements of employee incentive schemes and held in trust are accounted for as treasury shares.

(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' funds.

(ii) Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

(iii) Foreign currency translation reserve

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

1 Principal accounting policies (continued)

(iv) Cash flow hedge reserve

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

(v) Equity-based compensation reserve

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

Share capital tainting rules contained in Australian tax legislation apply prospectively from 26 May 2006 to discourage companies from distributing profits to shareholders as preferentially taxed capital rather than dividends. The focus of the tax legislation is on the transfer of amounts to a share capital account from another account.

The tainting rules are inconsistent with AASB 2 “Share-based Payment” which allows transfers between equity accounts upon the vesting of employee equity-based payments (i.e. when all conditions have been met by the employee).

During 2009, the Group received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of the Company’s share capital account for tax purposes.

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

(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-distributable reserves.

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

Loan origination fees are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred until the commitment is exercised and are recognised over the life of the loan as an adjustment of yield or, if unexercised, recognised as income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as income over the commitment period.

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

(oo) Life insurance business

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

(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, profit is not recorded at the point of sale. Losses are expensed when identified.

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

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as

1 Principal accounting policies (continued)

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 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 balance sheet date but not received at balance sheet date are included as outstanding premiums receivable. Premiums due after but received before the balance sheet date 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. 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, gains and losses on sale of property, plant and equipment, gains 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 from premiums or policy charges (as appropriate for each policy class). Deferred acquisition costs are amortised over the period that they will be recovered from premiums or policy charges.

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. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

(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;

1 Principal accounting policies (continued)

- 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 a trading derivative is economically offsetting movements in the fair value of a financial asset or liability designated at fair value through profit and loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are recognised within net interest income.

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

Gains less losses on financial assets and liabilities designated at fair value through profit or loss recognises fair value movements (excluding interest) on those items designated as fair value through profit or loss. Interest income and expense on financial assets and liabilities designated at fair value through profit or loss are recognised within net interest income.

(ss) Equity-based compensation

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

The expense for each tranche of shares, performance options or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the services are received (the vesting period), with a corresponding increase in the equity-based compensation reserve.

The grant date fair value of shares is generally determined by reference to the weighted average price of the Company's shares in the week up to, and including, the date on which the shares are granted. Employee share plans are linked to internal performance, market performance and/or service conditions. The fair value of shares with a market performance condition is determined using a Monte Carlo simulation.

The grant date fair value of the performance options and performance rights is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance options or performance rights, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance options or performance rights.

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

2 Segment information

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

The Group's business is organised into 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 Corporate & Business Sales, Fixed Interest, Currencies and Commodities, Global Capital 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 superannuation, 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 of America and Specialised Group Assets comprises non-franchise assets; and
- The Corporate Functions & Other segment includes 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. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain non-cash items, distributions, and significant items.

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

Major customers

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

Reportable segments

For the year ended 30 September 2011	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	5,033	2,826	1,230	1,522	1,015	328	285	123	730	-	13,092
Other operating income	1,006	590	626	448	345	35	81	44	(78)	(81)	3,016
MLC & NAB Wealth net operating income	-	-	-	-	-	1,486	-	-	-	-	1,486
Net operating income	6,039	3,416	1,856	1,970	1,360	1,849	366	167	652	(81)	17,594
Operating expenses	(1,764)	(1,791)	(915)	(1,136)	(572)	(1,128)	(177)	(49)	(523)	81	(7,974)
Underlying profit	4,275	1,625	941	834	788	721	189	118	129	-	9,620
Charge to provide for doubtful debts	(802)	(301)	(21)	(462)	(116)	(18)	(57)	(41)	(4)	-	(1,822)
Cash earnings before tax [(1)]	3,473	1,324	920	372	672	703	132	77	125	-	7,798
Income tax expense	(1,028)	(392)	(259)	(84)	(203)	(199)	(44)	33	34	-	(2,142)
Cash earnings after tax [(1)]	2,445	932	661	288	469	504	88	110	159	-	5,656
Net profit - non-controlling interest	-	-	-	-	-	(1)	-	-	-	-	(1)
Investment earnings on shareholders' retained profits	-	-	-	-	-	30	-	-	-	-	30
Distributions	-	-	-	-	-	-	-	-	-	(225)	(225)
Cash earnings	2,445	932	661	288	469	533	88	110	159	(225)	5,460

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

2 Segment information (continued)

For the 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 [(1)]	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 and 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	Group Total Assets $m
30 September 2011	**195,128**	**140,706**	**241,553**	**76,512**	**46,650**	**92,832**	**8,399**	**9,240**	**30,030**	**(87,293)**	**753,757**
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

Reconciliations between reportable segment information and statutory results are as follows:

The tables below reconcile the information in the business segment tables presented above, which have been prepared on a cash earnings basis, to the relevant statutory information presented in the Financial report. In addition to the sum of the eight reportable segments, the cash earnings basis includes the Corporate Functions & Other segment and intra group eliminations. The MLC & NAB Wealth net adjustment represents a reallocation of the income statement of the MLC & NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income statement lines.

	Group	
	2011 $m	2010 $m
Net interest income		
Net interest income for reportable segments	**13,092**	12,288
MLC & NAB Wealth net adjustment	**(58)**	(32)
Net interest income	**13,034**	12,256
Total other income and MLC & NAB Wealth income		
Total other income for reportable segments	**3,016**	2,838
MLC & NAB Wealth net operating income	**1,486**	1,512
Total other operating and MLC & NAB Wealth income [(1)]	**4,502**	4,350
MLC & NAB Wealth net adjustment	**(65)**	190
Treasury shares	**48**	133
Fair value and hedge ineffectiveness	**(338)**	(501)
UK Payment Protection Insurance provision	**(156)**	-
Hedging costs on synthetic collateralised debt obligation (SCDO) assets	**(219)**	-
Investment earnings on shareholders' retained profits (IoRE) discount rate variation	**37**	48
Gains on bargain purchase	**-**	4
Recovery on SCDO risk mitigation trades	**-**	528
Total other income and MLC & NAB Wealth income	**3,809**	4,752

(1) *Includes eliminations and distributions.*

2 Segment information (continued)

	Group	
	2011 **$m**	2010 $m
Operating expenses		
Operating expenses for reportable segments	**7,974**	7,862
MLC & NAB Wealth net adjustment	**51**	29
Efficiency, quality and service initiatives	**-**	339
Litigation expense	**7**	18
Provision for tax on NZ structured finance transactions	**-**	4
Property revaluation	**-**	7
Amortisation of acquired intangible assets	**104**	101
Due diligence, acquisition and integration costs	**229**	181
Total operating expenses	**8,365**	8,541
Charge to provide for doubtful debts		
Charge to provide for doubtful debts for reportable segments	**1,822**	2,263
Fair value and hedge ineffectiveness	**(72)**	-
Recovery on SCDO risk mitigation trades	**-**	528
Charge to provide for doubtful debts	**1,750**	2,791
Income tax expense		
Income tax expense for reportable segments	**2,142**	1,777
Income tax benefit/(expense) on non-cash earnings items:		
MLC & NAB Wealth net adjustment	**(204)**	68
Treasury shares	**9**	27
Fair value and hedge ineffectiveness	**(85)**	(148)
IoRE discount rate variation	**11**	14
UK Payment Protection Insurance provision	**(39)**	-
Hedging costs on SCDO assets	**(92)**	-
Efficiency, quality and service initiatives	**-**	(102)
Litigation expense	**(3)**	(6)
Property revaluation	**-**	(3)
Provision for tax on NZ structured finance transactions	**-**	(132)
MLC reinsurance dispute	**-**	36
Amortisation of acquired intangible assets	**(22)**	(24)
Refund of tax on exchangeable capital units (ExCaps) settlement	**(142)**	-
Due diligence, acquisition and integration costs	**(67)**	(56)
Income tax expense	**1,508**	1,451
Investment earnings on shareholders' retained profits		
Investment earnings on shareholders' retained profits	**30**	61
MLC & NAB Wealth net adjustment	**(30)**	(61)
Total investment earnings on shareholders' retained profits	-	-
Distributions and net profit attributable to non-controlling interest in controlled entities		
Distributions and net profit attributable to non-controlling interest in controlled entities for operating segments	**(226)**	(216)
Distributions	**225**	215
Net profit attributable to non-controlling interest in controlled entities	**(1)**	(1)

2 Segment information (continued)

	Group	
	2011 $m	2010 $m
Cash earnings		
Group cash earnings [(1)]	**5,460**	4,581
Non-cash earnings items (after tax):		
Distributions	**225**	215
Treasury shares	**39**	106
Fair value and hedge ineffectiveness	**(181)**	(353)
IoRE discount rate variation	**26**	34
UK Payment Protection Insurance provision	**(117)**	-
Hedging costs on SCDO assets	**(127)**	-
Efficiency, quality and service initiatives	**-**	(237)
Litigation expense	**(4)**	(12)
Property revaluation	**-**	(4)
Provision for tax on NZ structured finance transactions	**-**	128
MLC reinsurance dispute	**-**	(36)
Refund of tax on exchangeable capital units (ExCaps) settlement	**142**	-
Amortisation of acquired intangible assets	**(82)**	(73)
Due diligence, acquisition and integration costs	**(162)**	(125)
Net profit attributable to owners of the Company	**5,219**	4,224

(1) *Includes eliminations and distributions.*

Total assets		
Total assets for reportable segments	**753,757**	685,952
Total assets	**753,757**	685,952

Geographical information

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

	Group			
	Income		Non-current assets [(1)]	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Australia	**12,679**	12,590	**6,807**	6,976
Europe	**2,148**	2,447	**1,165**	1,162
New Zealand	**1,425**	1,283	**538**	511
United States	**515**	636	**893**	922
Asia	**188**	165	**13**	7
Total before inter-geographic eliminations	**16,955**	17,121	**9,416**	9,578
Elimination of inter-geographic items	**(112)**	(113)	**-**	-
Total	**16,843**	17,008	**9,416**	9,578

(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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Interest income				
Due from other banks	**778**	674	**686**	585
Marketable debt securities	**1,966**	1,335	**1,545**	861
Loans and advances [(1)]	**26,889**	23,140	**21,221**	17,590
Due from customers on acceptances	**3,609**	3,919	**3,609**	3,919
Due from controlled entities	**-**	-	**2,054**	1,807
Other interest income	**1,028**	756	**994**	740
Total interest income	**34,270**	29,824	**30,109**	25,502
Interest expense				
Due to other banks and official institutions	**1,096**	795	**1,021**	725
Deposits and other borrowings [(2)]	**12,332**	10,387	**10,656**	8,618
Liability on acceptances	**906**	1,122	**906**	1,122
Bonds, notes and subordinated debt [(3)]	**6,619**	4,936	**6,073**	4,502
Due to controlled entities	**-**	-	**1,655**	1,624
Other debt issues	**151**	148	**139**	138
Other interest expense	**132**	180	**7**	-
Total interest expense	**21,236**	17,568	**20,457**	16,729
Net interest income	**13,034**	12,256	**9,652**	8,773

(1) *Includes $2,736 million (2010: $1,748 million) of interest income on loans and advances accounted for at fair value for the Group, and $1,577 million (2010: $606 million) for the Company.*

(2) *Includes $179 million (2010: $199 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and $40 million (2010: $44 million) for the Company.*

(3) *Includes $354 million (2010: $255 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $17 million (2010: $2 million) for the Company.*

4 Other income

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Gains less losses on financial instruments at fair value				
Trading securities	**917**	713	**913**	685
Trading derivatives	**(1,026)**	(387)	**(852)**	(218)
Assets, liabilities and derivatives designated in hedge relationships [(1)]	**(109)**	(308)	**(75)**	(348)
Assets and liabilities designated at fair value	**(100)**	92	**149**	99
Impairment of investments - available for sale	**(10)**	(3)	**-**	-
Other	**(1)**	15	**(2)**	14
Total gains less losses on financial instruments at fair value	**(329)**	122	**133**	232
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,054**	862
Other entities	**18**	16	**12**	8
Gains from sale of investments - available for sale	**20**	28	**-**	13
Gains from sales of loans and advances	**-**	3	**-**	3
Gains from sale of property, plant and equipment and other assets	**3**	10	**-**	1
Banking fees	**906**	930	**702**	738
Money transfer fees	**647**	652	**479**	463
Fees and commissions [(2)]	**1,856**	1,733	**372**	438
Investment management fees	**263**	305	**-**	-
Fleet management fees	**23**	22	**23**	22
Rentals received on leased vehicle assets	**19**	19	**8**	8
Revaluation gains on investment properties	**4**	6	**-**	-
Other income	**19**	93	**303**	390
Total other operating income	**3,778**	3,817	**2,953**	2,946

(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) *Included in fees and commissions is $120 million (2010: $99 million) with respect to fee income from trust and other fiduciary activities for the Group, and $112 million (2010: $92 million) for the Company.*

5 Operating expenses

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Personnel expenses				
Salaries and related on-costs	**3,299**	3,089	**2,273**	2,042
Superannuation costs - defined contribution plans	**253**	235	**192**	177
Superannuation costs - defined benefit plans	**44**	52	**3**	3
Performance-based compensation				
Cash	**428**	491	**282**	308
Equity-based compensation	**78**	208	**25**	147
Other expenses	**461**	569	**381**	402
Total personnel expenses	**4,563**	4,644	**3,156**	3,079
Occupancy-related expenses				
Operating lease rental expense	**436**	385	**297**	243
Other expenses	**163**	207	**103**	110
Total occupancy-related expenses	**599**	592	**400**	353
General expenses				
Fee and commission expense	**376**	275	**60**	53
Depreciation and amortisation of property, plant and equipment	**271**	304	**184**	204
Amortisation of intangible assets	**344**	357	**141**	158
Depreciation on leased vehicle assets	**9**	9	**5**	5
Operating lease rental expense	**32**	36	**15**	21
Advertising and marketing	**212**	228	**152**	154
Charge to provide for operational risk event losses	**72**	56	**42**	39
Communications, postage and stationery	**295**	300	**161**	161
Computer equipment and software	**428**	342	**359**	242
Data communication and processing charges	**122**	124	**55**	55
Transport expenses	**78**	71	**57**	57
Professional fees	**475**	460	**231**	206
Travel	**90**	98	**55**	60
Loss on disposal of property, plant and equipment and other assets	**19**	36	**10**	29
Impairment losses recognised	**16**	7	**35**	42
Other expenses	**364**	602	**237**	446
Total general expenses	**3,203**	3,305	**1,799**	1,932
Charge to provide for doubtful debts				
Investments - held to maturity (1)	**27**	555	**27**	555
Loans and advances	**1,723**	2,236	**1,151**	1,396
Total charge to provide for doubtful debts	**1,750**	2,791	**1,178**	1,951

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

6 Income tax expense

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Income tax expense				
Current tax	**1,946**	1,514	**1,508**	1,123
Deferred tax	**(438)**	(63)	**(193)**	(37)
Total income tax expense	**1,508**	1,451	**1,315**	1,086

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

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Profit before income tax expense	**6,728**	5,676	**6,205**	4,636
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**(363)**	(690)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	**6,365**	4,986	**6,205**	4,636
Prima facie income tax at 30%	**1,910**	1,496	**1,862**	1,391
Add/(deduct) tax effect of amounts not deductible/(assessable):				
Assessable foreign income	**9**	8	**5**	5
Foreign tax rate differences	**8**	(15)	**5**	(3)
Depreciation on buildings not deductible	**3**	3	**-**	-
Refund of tax on exchangeable capital units settlement	**(142)**	-	**(142)**	-
Foreign branch income not assessable	**(60)**	(44)	**(60)**	(44)
Over provision in prior years	**(24)**	(52)	**(16)**	(20)
Offshore banking unit income	**(23)**	(14)	**(23)**	(14)
Restatement of deferred tax balances for UK, US and NZ tax changes	**(20)**	5	**(2)**	-
Profit on sale of controlled entities	**(9)**	-	**-**	-
Treasury shares adjustment	**(6)**	(13)	**-**	-
Tax provision for New Zealand structured finance tax case	**-**	(66)	**-**	-
Tax provision for interest on New Zealand structured finance tax case	**-**	(66)	**-**	-
Investment allowance	**-**	(5)	**-**	(5)
Dividend income adjustments	**-**	-	**(264)**	(251)
Other	**(78)**	(37)	**(50)**	27
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	**1,568**	1,200	**1,315**	1,086
Income tax (benefit)/expense attributable to the statutory funds of the life insurance business and their controlled trusts	**(60)**	251	**-**	-
Total income tax expense	**1,508**	1,451	**1,315**	1,086

Taxation of financial arrangements

The new Australian legislation for financial arrangements, Taxation of financial arrangements (TOFA), applied 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 in relation to calculation methodology and transitional application of the legislation for the tax-consolidation group were made on 15 April 2011.

There is no significant impact on the deferred tax and income tax balances for the Group as a result of the new TOFA regime.

7 Dividends and distributions

Dividends recognised by the Company for the year ended 30 September:

	Amount per share cents	Total amount $m	Franked amount per share %
2011			
Final 2010 ordinary	78	1,667	100
Interim 2011 ordinary	84	1,823	100
Deduct: Bonus shares in lieu of dividend	n/a	(46)	n/a
Total dividends paid		3,444	
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	

Franked dividends declared or paid during the year were franked at a tax rate of 30% (2010: 30%).

Final dividend

On 27 October 2011, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final 2011 ordinary	88	1,937	100

The final 2011 ordinary dividend is payable on 19 December 2011. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2011 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2011, 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 $846 million (2010: $669 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $830 million (2010: $713 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.10 per share will be attached to the final 2011 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
National Income Securities	**123**	107	**123**	107
Trust Preferred Securities	**35**	39	**-**	-
Trust Preferred Securities II	**43**	49	**-**	-
National Capital Instruments	**24**	20	**-**	-
Total distributions on other equity instruments	**225**	215	**123**	107

Dividends on preference share capital

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
BNZ Income Securities	**24**	25	**-**	-
BNZ Income Securities 2	**13**	13	**-**	-
Total dividends on preference share capital	**37**	38	**-**	-

8 Earnings per share

	Group			
	2011		2010	
	Basic	**Diluted**	Basic	Diluted
Earnings ($m)				
Net profit attributable to owners of the Company	**5,219**	**5,219**	4,224	4,224
Distributions on other equity instruments	**(262)**	**(262)**	(253)	(253)
Potential dilutive adjustments				
Interest expense on convertible notes (after tax)	**-**	**91**	-	75
Adjusted earnings	**4,957**	**5,048**	3,971	4,046
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,121,905**	**2,121,905**	2,070,897	2,070,897
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**1,348**	-	3,065
Partly paid ordinary shares	**-**	**97**	-	118
Employee share plans	**-**	**8,830**	-	7,116
Convertible notes	**-**	**47,964**	-	41,589
Total weighted average ordinary shares	**2,121,905**	**2,180,144**	2,070,897	2,122,785
Earnings per share (cents)	**233.6**	**231.5**	191.8	190.6

There have been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since 30 September 2011 and before the completion of this Financial report.

9 Cash and liquid assets

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Coins, notes and cash at bank	**4,485**	3,937	**1,113**	821
Securities purchased under agreements to resell	**21,968**	20,491	**21,408**	20,342
Other (including bills receivable and remittances in transit)	**640**	1,644	**11**	407
Total cash and liquid assets	**27,093**	26,072	**22,532**	21,570

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $1,184 million (2010: $1,275 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Cash collateral received on securities borrowed	**925**	215	**-**	-

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 2011 amounts to $41,326 million (2010: $34,890 million) for the Group and $41,326 million (2010: $34,795 million) for the Company, of which $11,655 million (2010: $6,717 million) for the Group and $11,655 million (2010: $6,717 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 obligation 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Central banks and other regulatory authorities	**17,034**	8,206	**7,348**	1,441
Other banks	**30,072**	29,473	**29,505**	28,661
Total due from other banks	**47,106**	37,679	**36,853**	30,102

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

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

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than an entity's functional currency.

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The tables below set out the fair value of both trading and hedging derivatives including notional principal values:

Trading derivative financial instruments

			Group			
	Notional principal 2011 $m	**Fair value assets 2011 $m**	**Fair value liabilities 2011 $m**	Notional principal 2010 $m	Fair value assets 2010 $m	Fair value liabilities 2010 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**445,920**	**9,813**	**8,338**	355,925	7,537	9,348
Cross currency swaps [(1)]	**386,103**	**14,664**	**15,055**	326,291	10,605	10,848
Options/swaptions purchased	**17,056**	**344**	**83**	8,369	201	24
Options/swaptions written	**15,193**	**68**	**273**	5,771	16	207
Total foreign exchange rate-related contracts	**864,272**	**24,889**	**23,749**	696,356	18,359	20,427
Interest rate-related contracts						
Forward rate agreements	**561,300**	**101**	**93**	433,015	156	178
Swaps	**1,390,034**	**21,803**	**22,542**	1,294,015	18,138	18,744
Futures	**917,203**	**94**	**123**	954,229	264	99
Options/swaptions purchased	**37,127**	**331**	**137**	34,374	364	14
Options/swaptions written	**34,533**	**117**	**252**	28,349	71	383
Total interest rate-related contracts	**2,940,197**	**22,446**	**23,147**	2,743,982	18,993	19,418
Credit derivatives	**42,709**	**730**	**589**	30,351	563	336
Commodity derivatives	**2,145**	**140**	**143**	2,025	135	116
Other derivatives	**1,567**	**261**	**261**	3,001	290	290
Total trading derivative financial instruments	**3,850,890**	**48,466**	**47,889**	3,475,715	38,340	40,587

(1) *The 30 September 2011 fair values include derivative assets of $2,519 million and derivative liabilities of $2,970 million attributable to the net principal receivable and payable on cross currency swaps used for risk management purposes. The equivalent 30 September 2010 fair values are presented within 'Other assets' (Note 24) and 'Other liabilities' (Note 33).*

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Group					
	Notional principal 2011 $m	**Fair value assets 2011 $m**	**Fair value liabilities 2011 $m**	Notional principal 2010 $m	Fair value assets 2010 $m	Fair value liabilities 2010 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps [1]	**41,008**	**1,684**	**3,301**	41,652	1,527	100
Total foreign exchange rate-related contracts	**41,008**	**1,684**	**3,301**	41,652	1,527	100
Interest rate-related contracts						
Swaps	**31,890**	**1,041**	**336**	42,610	1,088	494
Total interest rate-related contracts	**31,890**	**1,041**	**336**	42,610	1,088	494
Total derivatives held for hedging - fair value hedges	**72,898**	**2,725**	**3,637**	84,262	2,615	594
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**121,237**	**1,383**	**913**	108,300	1,097	850
Total interest rate-related contracts	**121,237**	**1,383**	**913**	108,300	1,097	850
Total derivatives held for hedging - cash flow hedges	**121,237**	**1,383**	**913**	108,300	1,097	850
Total hedging derivative financial instruments	**194,135**	**4,108**	**4,550**	192,562	3,712	1,444

[1] *The 30 September 2011 fair values include derivative assets of $680 million and derivative liabilities of $3,525 million attributable to the net principal receivable and payable on cross currency swaps used for risk management purposes. The equivalent 30 September 2010 fair values are presented within 'Other assets' (Note 24) and 'Other liabilities' (Note 33).*

Trading derivative financial instruments

	Company					
	Notional principal 2011 $m	**Fair value assets 2011 $m**	**Fair value liabilities 2011 $m**	Notional principal 2010 $m	Fair value assets 2010 $m	Fair value liabilities 2010 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**432,139**	**9,250**	**8,187**	335,543	7,206	8,739
Cross currency swaps [1]	**382,265**	**14,066**	**14,698**	321,880	10,661	10,737
Options/swaptions purchased	**18,388**	**345**	**114**	9,550	196	51
Options/swaptions written	**14,086**	**67**	**243**	5,105	16	175
Total foreign exchange rate-related contracts	**846,878**	**23,728**	**23,242**	672,078	18,079	19,702
Interest rate-related contracts						
Forward rate agreements	**557,729**	**101**	**93**	431,558	155	178
Swaps	**1,308,059**	**21,791**	**21,222**	1,242,632	17,843	17,363
Futures	**899,075**	**94**	**123**	940,144	264	99
Options/swaptions purchased	**38,292**	**380**	**138**	35,824	425	20
Options/swaptions written	**33,695**	**125**	**232**	28,061	81	372
Total interest rate-related contracts	**2,836,850**	**22,491**	**21,808**	2,678,219	18,768	18,032
Credit derivatives	**42,842**	**731**	**593**	30,351	563	336
Commodity derivatives	**2,176**	**140**	**144**	2,035	133	114
Other derivatives	**1,567**	**263**	**261**	3,001	289	289
Total trading derivative financial instruments	**3,730,313**	**47,353**	**46,048**	3,385,684	37,832	38,473

[1] *The 30 September 2011 fair values include derivative assets of $2,519 million and derivative liabilities of $2,970 million attributable to the net principal receivable and payable on cross currency swaps used for risk management purposes. The equivalent 30 September 2010 fair values are presented within 'Other assets' (Note 24) and 'Other liabilities' (Note 33).*

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Company					
	Notional principal 2011 $m	**Fair value assets 2011 $m**	**Fair value liabilities 2011 $m**	Notional principal 2010 $m	Fair value assets 2010 $m	Fair value liabilities 2010 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps [(1)]	**39,145**	**1,135**	**3,301**	38,880	900	95
Total foreign exchange rate-related contracts	**39,145**	**1,135**	**3,301**	38,880	900	95
Interest rate-related contracts						
Swaps	**29,258**	**1,014**	**238**	27,706	890	138
Total interest rate-related contracts	**29,258**	**1,014**	**238**	27,706	890	138
Total derivatives held for hedging - fair value hedges	**68,403**	**2,149**	**3,539**	66,586	1,790	233
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**103,961**	**902**	**778**	81,366	478	578
Total interest rate-related contracts	**103,961**	**902**	**778**	81,366	478	578
Total derivatives held for hedging - cash flow hedges	**103,961**	**902**	**778**	81,366	478	578
Total hedging derivative financial instruments	**172,364**	**3,051**	**4,317**	147,952	2,268	811

(1) *The 30 September 2011 fair values include derivative assets of $680 million and derivative liabilities of $3,525 million attributable to the net principal receivable and payable on cross currency swaps used for risk management purposes. The equivalent 30 September 2010 fair values are presented within 'Other assets' (Note 24) and 'Other liabilities' (Note 33).*

In certain instances, the Group has applied cash flow hedge accounting to hedge highly probable cash flows, which primarily vary with interest rates. These cash flows are expected to occur and impact the income statement in the following periods:

	Group						
As at 30 September 2011	**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	2,443	904	456	308	176	214	4,501
Forecast payable cash flows	1,508	785	441	222	163	310	3,429

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

	Company						
As at 30 September 2011	**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	2,273	793	384	263	157	211	4,081
Forecast payable cash flows	1,211	622	333	156	151	310	2,783

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

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Gains/(losses) arising from fair value hedges				
(Losses)/gains on hedging instruments	**(174)**	21	**10**	515
Gains/(losses) on the hedged items attributable to the hedged risk	**77**	(95)	**(80)**	(575)
Gains/(losses) arising from cash flow hedges				
(Losses)/gains on hedge ineffectiveness	**-**	(3)	**7**	4

12 Trading securities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Government bonds, notes and securities	**8,862**	7,474	**6,673**	5,680
Semi-government bonds, notes and securities	**5,619**	3,907	**5,619**	3,907
Corporate/financial institution bonds, notes and securities	**19,729**	13,847	**18,839**	13,206
Other bonds, notes and securities	**418**	593	**382**	593
Total trading securities	**34,628**	25,821	**31,513**	23,386

13 Investments - available for sale

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Government bonds, notes and securities	**4,729**	8,109	**1,426**	2,910
Semi-government bonds, notes and securities	**2,732**	-	**2,732**	-
Corporate/financial institution bonds, notes and securities	**6,827**	3,909	**6,827**	3,837
Other bonds, notes and securities	**3,757**	2,554	**3,531**	2,218
Total investments - available for sale	**18,045**	14,572	**14,516**	8,965

14 Investments - held to maturity

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Government bonds, notes and securities	**696**	806	**696**	800
Semi-government bonds, notes and securities	**119**	-	**119**	-
Corporate/financial institution bonds, notes and securities	**5,595**	4,773	**5,277**	4,201
Other bonds, notes and securities	**6,581**	8,391	**160**	110
Deduct: Provision for impairment	**(204)**	(181)	**(3)**	-
Total investments - held to maturity	**12,787**	13,789	**6,249**	5,111
Provision for impairment				
Balance at beginning of year	**181**	170	**-**	-
Charge to the income statement	**27**	555	**6**	-
Amounts written off	**(3)**	(528)	**(3)**	-
Foreign currency translation adjustments	**(1)**	(16)	**-**	-
Balance at end of year	**204**	181	**3**	-

15 Investments relating to life insurance business

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Equity security investments				
Direct	**663**	1,859	**-**	-
Indirect	**41,122**	39,631	**-**	-
Total equity security investments	**41,785**	41,490	**-**	-
Debt security investments				
Direct	**2,722**	4,163	**-**	-
Indirect	**16,526**	15,826	**-**	-
Total debt security investments	**19,248**	19,989	**-**	-
Units held in property trusts				
Indirect	**2,887**	3,081	**-**	-
Total units held in property trusts	**2,887**	3,081	**-**	-
Total investments relating to life insurance business	**63,920**	64,560	**-**	-

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.

16 Other financial assets at fair value

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Loans at fair value	**50,472**	36,700	**26,700**	13,984
Securities at fair value	**15**	-	**15**	-
Other financial assets at fair value	**1,269**	709	**50**	12
Total other financial assets at fair value	**51,756**	37,409	**26,765**	13,996

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets at fair value through profit or loss (designated on initial recognition) is $50,472 million (2010: $36,700 million) for the Group and $26,700 million (2010: $13,984 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a $626 million loss (2010: $471 million loss) for the Group and a $208 million loss (2010: $131 million loss) for the Company and the change for the current year is a $272 million loss (2010 $296 million loss) for the Group and a $77 million loss (2010: $107 million loss) for the Company.

17 Loans and advances

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Overdrafts	**15,136**	15,407	**7,918**	7,673
Credit card outstandings	**7,903**	7,427	**6,050**	5,517
Asset and lease financing	**15,307**	16,109	**12,885**	13,425
Housing loans	**253,064**	224,900	**200,349**	176,229
Other term lending	**90,747**	91,118	**66,638**	66,435
Other lending	**6,479**	6,642	**5,323**	5,809
Total gross loans and advances	**388,636**	361,603	**299,163**	275,088
Deduct:				
Unearned income and deferred net fee income	**(2,287)**	(2,494)	**(1,953)**	(1,985)
Provision for doubtful debts [(1)]	**(3,980)**	(4,274)	**(3,039)**	(3,296)
Total net loans and advances	**382,369**	354,835	**294,171**	269,807

(1) *Refer to Note 18 for further details.*

As at 30 September 2011, loans sold or transferred under securitisation programs that do not qualify for derecognition from the balance sheet amounted to $6,394 million (2010: $4,731 million) for the Group and $2,435 (2010: $1,352 million) for the Company. 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, net of derivatives used to manage currency risk associated with this liability is $5,676 million (2010: $4,408 million) for the Group and is $2,492 million (2010: $1,419 million) for the Company.

As at 30 September 2011, $3,170 million (2010: $372 million) of loans have been assigned to certain consolidated bankruptcy remote entities to provide security for covered bonds issued by the Group. The loans have not been derecognised as the Group retains substantially all the risks and rewards of ownership. The face value of issued covered bonds associated with these loans was $2,653 million (2010: $323 million).

Investment in finance lease receivables

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Due within one year	**2,556**	2,870	**1,958**	2,153
Due after one but no later than five years	**3,909**	4,386	**2,900**	3,113
Due after five years	**978**	1,025	**63**	61
Total investment in finance lease receivables	**7,443**	8,281	**4,921**	5,327

Investment in finance lease receivables, net of unearned income

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Due within one year	**2,252**	2,537	**1,656**	1,821
Due after one but no later than five years	**3,536**	3,942	**2,587**	2,781
Due after five years	**937**	997	**59**	56
Total investment in finance lease receivables, net of unearned income	**6,725**	7,476	**4,302**	4,658

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	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Gross loans and advances								
Neither past due nor impaired	**114,622**	115,023	**256,356**	228,453	**84,068**	84,237	**201,917**	177,409
Past due but not impaired	**4,221**	5,320	**7,258**	7,065	**2,995**	3,484	**5,915**	5,890
Impaired	**5,297**	4,942	**882**	800	**3,630**	3,470	**638**	598
Total gross loans and advances	**124,140**	125,285	**264,496**	236,318	**90,693**	91,191	**208,470**	183,897

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	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Senior investment grade	**40,874**	40,875	**221,186**	197,549	**31,157**	32,553	**173,081**	153,909
Investment grade	**44,366**	40,449	**23,833**	19,729	**32,330**	28,925	**20,365**	16,055
Sub-investment grade	**29,382**	33,699	**11,337**	11,175	**20,581**	22,759	**8,471**	7,445
Total loans and advances neither past due nor impaired	**114,622**	115,023	**256,356**	228,453	**84,068**	84,237	**201,917**	177,409

Loans and advances past due but not impaired

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
1 to 7 day(s) past due	**2,329**	2,945	**3,386**	3,362	**1,765**	2,141	**3,100**	3,148
8 to 29 days past due	**483**	642	**1,388**	1,322	**249**	304	**996**	1,016
30 to 59 days past due	**378**	390	**821**	773	**308**	272	**570**	554
60 to 89 days past due	**129**	232	**426**	357	**111**	184	**290**	232
Past due over 90 days	**902**	1,111	**1,237**	1,251	**562**	583	**959**	940
Total loans and advances past due but not impaired	**4,221**	5,320	**7,258**	7,065	**2,995**	3,484	**5,915**	5,890

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 41* for a disclosure of industry and geographic concentrations of assets.

18 Provisions for doubtful debts

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Specific provision for doubtful debts	**1,475**	1,409	**1,093**	1,142
Collective provision for doubtful debts	**2,505**	2,865	**1,946**	2,154
Total provision for doubtful debts	**3,980**	4,274	**3,039**	3,296

2011

Group	**Specific Non-retail $m**	**Specific Retail $m**	**Total Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	1,262	147	1,409	2,865	4,274
Transfer to/(from) specific/collective provision	1,579	476	2,055	(2,055)	-
Bad debts recovered	79	105	184	-	184
Bad debts written off	(1,611)	(561)	(2,172)	-	(2,172)
Charge to income statement [(1)]	-	-	-	1,723	1,723
Foreign currency translation and other adjustments	(2)	1	(1)	(28)	(29)
Balance at end of year	1,307	168	1,475	2,505	3,980

(1) *Excludes $27 million of impairment charges on investments - held to maturity (refer to Note 14).*

2010

Group	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 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 investments - held to maturity (refer to Note 14).*

2011

Company	**Specific Non-retail $m**	**Specific Retail $m**	**Total Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	1,060	82	1,142	2,154	3,296
Transfer to/(from) specific/collective provision	1,026	328	1,354	(1,354)	-
Bad debts recovered	47	45	92	-	92
Bad debts written off	(1,128)	(366)	(1,494)	-	(1,494)
Charge to income statement [(1)]	-	-	-	1,151	1,151
Foreign currency translation and other adjustments	(2)	1	(1)	(5)	(6)
Balance at end of year	1,003	90	1,093	1,946	3,039

(1) *Excludes $21 million of impairment charges on intercompany loans to securitisation conduits, and $6 million of impairment charges on investments - held to maturity (refer to Note 14).*

2010

Company	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 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.*

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	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Gross impaired assets [(1)(2)]	**5,504**	5,248	**882**	800	**3,651**	3,489	**638**	598
Specific provision for doubtful debts [(3)]	**(1,378)**	(1,377)	**(168)**	(147)	**(1,003)**	(1,060)	**(90)**	(82)
Net impaired assets [(4)]	**4,126**	3,871	**714**	653	**2,648**	2,429	**548**	516

(1) *Gross impaired assets include $186 million (2010: $284 million) for the Group and nil (2010: nil) for the Company of gross impaired other financial assets at fair value and $21 million (2010: $22 million) of impaired off-balance sheet credit exposures for the Group and $21 million (2010: $19 million) for the Company.*

(2) *Gross impaired assets include $235 million (2010: $239 million) for the Group and $116 million (2010: $204 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.*

(3) *Specific provision for doubtful debts includes $71 million (2010: $115 million) for the Group and nil (2010: 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 $4,219 million (2010: $4,293 million) for the Group and $2,905 million (2010: $2,748 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Total non-impaired assets past due 90 days or more with adequate security [(1)]	**1,975**	1,953	**1,386**	1,400
Total non-impaired portfolio managed facilities past due 90 to 180 days	**175**	413	**135**	123

(1) *Includes $11 million (2010: $4 million) for the Group and nil (2010: nil) for the Company of non-impaired other financial assets at fair value past due 90 days or more with adequate security.*

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$100 million (2010: US$133 million) of 'Other Real Estate Owned' assets where the Group assumed ownership or foreclosed in settlement of debt. Of this amount, US$83 million (2010: US$111 million) is covered by loss sharing arrangements with the Federal Deposit Insurance Corporation (FDIC), where the FDIC will absorb 80% of any losses arising in recovery of these assets. These real estate assets are included in other assets and are not included in impaired assets.

20 Property, plant and equipment

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Land and buildings [(1)]				
Freehold				
At cost (acquired subsequent to previous valuation date)	**34**	32	**-**	-
At directors' valuation	**244**	241	**15**	15
Leasehold				
At cost (acquired subsequent to previous valuation date)	**5**	5	**-**	-
At directors' valuation	**13**	13	**-**	-
Deduct: Accumulated depreciation on buildings	**(10)**	(6)	**(1)**	-
Total land and buildings	**286**	285	**14**	15
Leasehold improvements				
At cost	**1,439**	1,447	**1,049**	1,072
Deduct: Accumulated amortisation	**(747)**	(734)	**(535)**	(523)
Deduct: Accumulated impairment losses	**(1)**	(2)	**-**	-
Total leasehold improvements	**691**	711	**514**	549
Furniture, fixtures and fittings and other equipment				
At cost	**758**	693	**250**	221
Deduct: Accumulated depreciation and amortisation	**(363)**	(392)	**(108)**	(139)
Deduct: Accumulated impairment losses	**(3)**	(3)	**-**	-
Total furniture, fixtures and fittings and other equipment	**392**	298	**142**	82
Data processing equipment				
At cost	**1,355**	1,277	**1,072**	985
Under finance lease [(2)]	**105**	102	**90**	95
Deduct: Accumulated depreciation and amortisation	**(1,023)**	(1,019)	**(800)**	(786)
Total data processing equipment	**437**	360	**362**	294
Leased assets held as lessor				
At cost	**143**	145	**56**	57
Deduct: Accumulated amortisation	**(30)**	(21)	**(19)**	(15)
Total leased assets held as lessor	**113**	124	**37**	42
Total property, plant and equipment	**1,919**	1,778	**1,069**	982

(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	***169***	*168*	***1***	*1*

(2) Net carrying value of assets under finance lease comprises the following:

Data processing equipment	***55***	*40*	***47***	*39*

20 Property, plant and equipment (continued)

Reconciliations of movements in property, plant and equipment

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Land and buildings				
Balance at beginning of year	**285**	284	**15**	15
Additions from the acquisition of controlled entities and business combinations	**-**	10	**-**	-
Additions	**7**	20	**-**	-
Disposals	**(6)**	(9)	**-**	-
Net amount of revaluation increments to asset revaluation reserve	**11**	9	**-**	-
Depreciation	**(8)**	(8)	**(1)**	-
Impairment losses recognised	**-**	(7)	**-**	-
Foreign currency translation adjustments	**(3)**	(14)	**-**	-
Balance at end of year	**286**	285	**14**	15
Leasehold improvements				
Balance at beginning of year	**711**	675	**549**	503
Additions from the acquisition of controlled entities and business combinations	**-**	4	**-**	-
Additions	**104**	170	**58**	135
Disposals	**(33)**	(18)	**(26)**	(15)
Amortisation	**(87)**	(105)	**(66)**	(74)
Impairment losses recognised	**(1)**	-	**(1)**	-
Foreign currency translation adjustments	**(3)**	(15)	**-**	-
Balance at end of year	**691**	711	**514**	549
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**298**	278	**82**	65
Additions from the acquisition of controlled entities and business combinations	**-**	2	**-**	-
Additions	**151**	90	**83**	33
Disposals	**(10)**	(11)	**(8)**	(2)
Depreciation and amortisation	**(47)**	(47)	**(15)**	(14)
Foreign currency translation adjustments	**-**	(14)	**-**	-
Balance at end of year	**392**	298	**142**	82
Data processing equipment				
Balance at beginning of year	**360**	335	**294**	268
Additions from the acquisition of controlled entities and business combinations	**-**	4	**-**	-
Additions	**266**	175	**230**	144
Disposals	**(58)**	(5)	**(55)**	(2)
Depreciation and amortisation	**(129)**	(144)	**(102)**	(116)
Impairment losses recognised	**(5)**	-	**(5)**	-
Foreign currency translation adjustments	**3**	(5)	**-**	-
Balance at end of year	**437**	360	**362**	294
Leased assets held as lessor				
Balance at beginning of year	**124**	144	**42**	51
Additions	**-**	1	**-**	-
Depreciation	**(9)**	(9)	**(5)**	(5)
Foreign currency translation adjustments	**(2)**	(12)	**-**	(4)
Balance at end of year	**113**	124	**37**	42

21 Investments in controlled entities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
At cost	**-**	-	**17,411**	17,553
Deduct: Provision for diminution in value	**-**	-	**(235)**	(220)
Total investments in controlled entities	**-**	-	**17,176**	17,333

Refer to *Note 39* for further details in relation to controlled entities.

22 Goodwill and other intangible assets

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Goodwill				
At cost	**5,567**	5,546	**-**	-
Total goodwill	**5,567**	5,546	**-**	-
Internally generated software				
At cost	**2,357**	1,930	**1,467**	1,181
Deduct: Accumulated amortisation	**(1,226)**	(1,060)	**(830)**	(747)
Deduct: Accumulated impairment losses	**(33)**	(32)	**-**	-
Total internally generated software	**1,098**	838	**637**	434
Acquired software				
At cost	**550**	503	**418**	379
Deduct: Accumulated amortisation	**(396)**	(343)	**(295)**	(266)
Total acquired software	**154**	160	**123**	113
Other acquired intangible assets (1)				
At cost	**684**	640	**-**	-
Deduct: Accumulated amortisation	**(241)**	(107)	**-**	-
Total other acquired intangible assets	**443**	533	**-**	-
Total goodwill and other intangible assets	**7,262**	7,077	**760**	547

(1) *Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and the value of business and contracts in force.*

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Goodwill				
Balance at beginning of year	**5,546**	5,182	**-**	-
Additions from the acquisition of controlled entities and business combinations	**26**	439	**-**	-
Foreign currency translation adjustments	**(5)**	(75)	**-**	-
Balance at end of year	**5,567**	5,546	**-**	-
Internally generated software				
Balance at beginning of year	**838**	834	**434**	445
Additions from internal development	**481**	247	**326**	110
Disposals and write-offs	**(7)**	(5)	**(5)**	(1)
Amortisation	**(195)**	(204)	**(110)**	(120)
Impairment losses recognised	**(9)**	-	**(8)**	-
Foreign currency translation adjustments	**(10)**	(34)	**-**	-
Balance at end of year	**1,098**	838	**637**	434
Acquired software				
Balance at beginning of year	**160**	100	**113**	75
Additions from the acquisition of controlled entities and business combinations	**-**	44	**-**	-
Additions	**63**	83	**53**	78
Disposals and write-offs	**(11)**	(3)	**(11)**	(2)
Amortisation	**(54)**	(62)	**(31)**	(38)
Impairment losses recognised	**(1)**	-	**(1)**	-
Foreign currency translation adjustments	**(3)**	(2)	**-**	-
Balance at end of year	**154**	160	**123**	113
Other acquired intangible assets				
Balance at beginning of year	**533**	127	**-**	-
Additions	**6**	-	**-**	-
Additions from the acquisition of controlled entities and business combinations	**9**	508	**-**	-
Disposals and write-offs	**(8)**	(1)	**-**	-
Amortisation	**(95)**	(91)	**-**	-
Foreign currency translation adjustments	**(2)**	(10)	**-**	-
Balance at end of year	**443**	533	**-**	-

22 Goodwill and other intangible assets (continued)

Impairment and cash generating units

For the purposes of undertaking impairment testing, cash generating units (CGUs) are identified. CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on three year management approved forecasts which are then extrapolated using a constant growth rate for up to a further seven years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, 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.

The key assumptions used in determining the recoverable amount of CGUs, to which goodwill has been allocated, are as follows:

	Goodwill at cost		Discount rate per annum		Terminal value growth rate per annum	
	2011	2010	**2011**	2010	**2011**	2010
Reportable segment	**$m**	$m	**%**	%	**%**	%
Personal Banking	**279**	279	**10.2**	11.1	**6.8**	5.3
UK Banking	**295**	295	**12.1**	11.1	**4.8**	4.3
NZ Banking	**258**	258	**10.4**	11.2	**5.0**	4.5
MLC & NAB Wealth	**4,027**	4,003	**11.3**	11.5	**3.9**	5.3
Great Western Bank	**708**	711	**10.5**	10.4	**4.5**	4.3

23 Current and deferred tax assets

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Current tax assets	**-**	222	**-**	128
Deferred tax assets	**2,243**	2,026	**1,559**	1,374
Total income tax assets	**2,243**	2,248	**1,559**	1,502
Deferred tax assets				
Life company statutory funds	**628**	369	**-**	-
Specific provision for doubtful debts	**394**	377	**322**	303
Collective provision for doubtful debts	**650**	747	**549**	633
Employee entitlements	**288**	275	**254**	230
Tax losses	**278**	264	**174**	176
Defined benefit superannuation plan liabilities	**77**	147	**-**	-
Other	**432**	892	**420**	541
Total deferred tax assets	**2,747**	3,071	**1,719**	1,883
Set-off of deferred tax assets pursuant to set-off provisions	**(504)**	(1,045)	**(160)**	(509)
Net deferred tax assets	**2,243**	2,026	**1,559**	1,374
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**(72)**	(43)	**(66)**	(51)
Employee entitlements	**12**	(21)	**19**	8
Tax losses	**48**	66	**1**	39
Defined benefit superannuation plan liabilities	**(21)**	-	**-**	-
Other	**(57)**	44	**(101)**	(35)
Total deferred tax asset amounts recognised in the income statement	**(90)**	46	**(147)**	(39)
Deferred tax asset amounts recognised in equity				
Available for sale investment reserve	**3**	-	**6**	-
Cash flow hedge reserve	**(63)**	(60)	**(63)**	(60)
Foreign currency translation reserve	**(9)**	-	**-**	-
Asset revaluation reserve	**-**	1	**-**	-
Equity-based compensation reserve	**(3)**	(4)	**(3)**	(4)
Retained profits	**(59)**	7	**(4)**	(5)
Total deferred tax asset amounts recognised in equity	**(131)**	(56)	**(64)**	(69)
Total deferred tax asset amounts recognised during the year	**(221)**	(10)	**(211)**	(108)

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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Capital gains tax losses	**776**	788	**768**	768
Income tax losses	**3**	3	**-**	-
Temporary differences	**19**	37	**-**	9

24 Other assets

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Accrued interest receivable	**3,815**	3,654	**3,042**	2,407
Prepayments	**166**	185	**92**	90
Receivables [(1)]	**1,325**	1,691	**867**	1,479
Other life insurance assets	**491**	527	**-**	-
Defined benefit superannuation plan assets [(2)]	**16**	17	**16**	13
Investment properties carried at fair value	**147**	157	**-**	-
Other	**3,078**	2,151	**1,922**	1,018
Total other assets	**9,038**	8,382	**5,939**	5,007

(1) *Included within the 30 September 2010 balances are $1,392 million for the Group and the Company with respect to the net principal receivable on hedging and trading cross currency swaps used for risk management purposes. The equivalent 30 September 2011 balances are presented within trading and hedging derivatives.*

(2) *Refer to Note 32 for further details.*

25 Other financial liabilities at fair value

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Deposits and other borrowings				
On-demand and short-term deposits	**247**	453	**-**	-
Certificates of deposit	**1,440**	1,338	**-**	-
Term deposits	**2,432**	2,881	**932**	1,031
Borrowings	**6,346**	5,540	**-**	-
Bonds, notes and subordinated debt	**10,823**	7,730	**811**	12
Securities sold short	**1,583**	1,587	**1,583**	1,587
Other financial liabilities	**855**	358	**118**	119
Total other financial liabilities at fair value	**23,726**	19,887	**3,444**	2,749

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 $63 million (2010: $3 million gain) for the Group and nil (2010: nil) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in credit risk amounts to a gain of $97 million (2010: $34 million gain) for the Group and nil (2010: nil) for the Company. The contractual amount to be paid at maturity of the bonds, notes and subordinated debt is $10,485 million (2010: $7,483 million) for the Group and $759 million (2010: $12 million) for the Company.

26 Deposits and other borrowings

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Deposits				
Deposits not bearing interest	**21,324**	17,393	**16,885**	14,028
On-demand and short-term deposits	**145,700**	133,797	**107,941**	96,530
Certificates of deposit	**75,505**	58,840	**70,084**	53,131
Term deposits	**142,243**	128,857	**113,963**	100,250
Securities sold under agreements to repurchase	**6,379**	4,410	**6,378**	4,410
Borrowings	**11,813**	9,935	**1,905**	4,484
Total deposits and other borrowings	**402,964**	353,232	**317,156**	272,833

27 Life policy liabilities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**8,540**	7,051	**-**	-
Value of future expenses	**2,341**	1,990	**-**	-
Future charges for acquisition costs	**(41)**	(44)	**-**	-
Value of future revenues	**(11,653)**	(10,292)	**-**	-
Total best estimate liabilities for life insurance contracts	**(813)**	(1,295)	**-**	-
Value of future profits				
Value of policyholder bonuses	**232**	279	**-**	-
Value of future shareholder profit margins	**2,504**	2,416	**-**	-
Total value of future profits	**2,736**	2,695	**-**	-
Unvested policyholder benefits	**144**	167	**-**	-
Net policy liabilities for life insurance contracts	**2,067**	1,567	**-**	-
Policy liabilities ceded under reinsurance	**249**	196	**-**	-
Gross policy liabilities for life insurance contracts	**2,316**	1,763	**-**	-
Life investment contracts				
Life investment contract liabilities	**51,292**	52,591	**-**	-
Total life policy liabilities	**53,608**	54,354	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *Note 49*. 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 $1,781 million (2010: $1,464 million) of liabilities that relate to the guaranteed element. In respect of investment contracts, there are $3,601 million (2010: $3,456 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group	
	2011 $m	2010 $m
Life insurance contract policy liabilities		
Balance at beginning of year	**1,763**	1,669
Additions from the acquisition of controlled entities and business combinations	**-**	144
Transfer from life investment liabilities to life insurance liabilities	**453**	-
Increase/(decrease) reflected in the income statement	**100**	(6)
Other	**-**	(44)
Balance at end of year	**2,316**	1,763
Life investment contract liabilities		
Balance at beginning of year	**52,591**	45,645
Additions from the acquisition of controlled entities and business combinations	**-**	3,667
Transfer from life investment liabilities to life insurance liabilities	**(453)**	-
(Decrease)/increase reflected in the income statement	**(522)**	1,746
Premiums recognised in policy liabilities	**6,358**	7,134
Claims recognised in policy liabilities	**(6,682)**	(5,601)
Balance at end of year	**51,292**	52,591
Total gross policy liabilities at end of year	**53,608**	54,354
Liabilities ceded under reinsurance		
Balance at beginning of year	**(196)**	(155)
Additions from the acquisition of controlled entities and business combinations	**-**	(25)
Increase reflected in the income statement	**(53)**	(16)
Balance at end of year [(1)]	**(249)**	(196)
Net policy liabilities at end of year	**53,359**	54,158

(1) *The $249 million (2010: $196 million) reinsurance balance is included within 'Other life insurance assets'.*

28 Current and deferred tax liabilities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Current tax liabilities	**561**	-	**557**	-
Deferred tax liabilities	**28**	19	**30**	30
Total income tax liabilities	**589**	19	**587**	30
Deferred tax liabilities				
Intangible assets	**116**	140	**-**	-
Depreciation	**65**	121	**(95)**	(94)
Lease financing	**53**	80	**53**	80
Life company statutory funds	-	33	**-**	-
Defined benefit superannuation plan assets	**4**	5	**4**	4
Other	**294**	685	**228**	549
Total deferred tax liabilities	**532**	1,064	**190**	539
Set-off of deferred tax liabilities pursuant to set-off provisions	**(504)**	(1,045)	**(160)**	(509)
Net deferred tax liability	**28**	19	**30**	30
Deferred tax liability amounts recognised in the income statement				
Intangible assets	**(21)**	(14)	**-**	-
Depreciation	**(72)**	20	**(19)**	-
Lease financing	**(27)**	(14)	**(27)**	(14)
Life company statutory funds	**(222)**	(22)	**-**	-
Defined benefit superannuation plan assets	**-**	(11)	**-**	-
Other	**(186)**	24	**(294)**	(62)
Total deferred tax liability amounts recognised in the income statement	**(528)**	(17)	**(340)**	(76)
Deferred tax liability amounts recognised in equity				
Available for sale investment reserve	**(14)**	-	**(6)**	(2)
Cash flow hedge reserve	**(19)**	42	**(5)**	27
Asset revaluation reserve	**3**	3	**-**	-
Retained profits	**-**	-	**2**	-
Total deferred tax liability amounts recognised in equity	**(30)**	45	**(9)**	25
Total deferred tax liability amounts recognised during the year	**(558)**	28	**(349)**	(51)

29 Provisions

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Employee entitlements	**1,111**	1,070	**839**	831
Operational risk event losses	**61**	70	**44**	51
Restructuring costs	**28**	14	**26**	12
Other	**396**	291	**30**	50
Total provisions	**1,596**	1,445	**939**	944

Reconciliations of movements in provisions

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Employee entitlements				
Balance at beginning of year	**1,070**	924	**831**	772
Acquisition of controlled entities	**-**	31	**-**	-
Provisions made	**677**	689	**467**	419
Payments out of provisions	**(640)**	(558)	**(459)**	(355)
Provision no longer required and net foreign currency movements	**4**	(16)	**-**	(5)
Balance at end of year	**1,111**	1,070	**839**	831
Operational risk event losses				
Balance at beginning of year	**70**	227	**51**	211
Provisions made	**72**	56	**42**	39
Payments out of provisions	**(82)**	(211)	**(48)**	(199)
Provision no longer required and net foreign currency movements	**1**	(2)	**(1)**	-
Balance at end of year	**61**	70	**44**	51
Restructuring costs				
Balance at beginning of year	**14**	31	**12**	27
Provisions made	**19**	-	**19**	-
Payments out of provisions	**(5)**	(17)	**(5)**	(15)
Balance at end of year	**28**	14	**26**	12
Other (1)				
Balance at beginning of year	**291**	373	**50**	54
Acquisition of controlled entities	**1**	35	**-**	-
Provisions made	**742**	469	**358**	211
Payments out of provisions	**(641)**	(582)	**(379)**	(215)
Provision no longer required and net foreign currency movements	**3**	(4)	**1**	-
Balance at end of year	**396**	291	**30**	50

(1) *Other provisions include provisions for contributions tax on superannuation funds and legal and other business claims (including claims relating to Payment Protection Insurance in the United Kingdom).*

30 Bonds, notes and subordinated debt

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Medium-term notes	**87,672**	79,094	**84,632**	75,391
Other senior notes	**6,385**	4,794	**-**	-
Subordinated medium-term notes	**5,457**	9,045	**5,131**	8,279
Other subordinated notes	**369**	382	**-**	-
Total bonds, notes and subordinated debt	**99,883**	93,315	**89,763**	83,670
Net discounts	**(115)**	(112)	**(115)**	(111)
Total net bonds, notes and subordinated debt	**99,768**	93,203	**89,648**	83,559

Medium-term notes

The Group operates a number of medium-term note programs:

- an aggregate limit of US$25,000 million was maintained under the discontinued Euro medium-term note program of the Company for terms of three months or more. No further issues are envisaged under this program as it has been replaced by the global medium-term note program. Outstanding under this program are $271 million (2010: $297 million) fixed rate notes maturing up to five years with fixed rates between 1.00% - 4.70% (2010: 1.00% - 4.70%);
- under the domestic debt issuance program of the Company, the aggregate issue amount is not limited. Outstanding under this program are $12,022 million (2010: $12,709 million) fixed rate notes maturing up to five years with fixed rates between 4.25% - 8.50% (2010: 4.25% - 8.50%), $700 million of fixed rate notes maturing in 2018 with a fixed rate of 7.25% (2010: nil), $14,267 million (2010: $11,293 million) floating rate notes maturing up to five years and $28 million (2010: $40 million) floating rate notes maturing greater than five years;
- under the global medium-term note program of the Company, Clydesdale Bank plc and BNZ International Funding Limited notes may be issued up to an aggregate amount of US$100,000 million. Outstanding under this program are $27,272 million (2010: $27,254 million) fixed rate notes maturing up to five years with fixed rates between 0.00% - 8.00% (2010: 0.00% - 8.00%), $7,424 million (2010: $5,527 million) fixed rate notes maturing greater than five years with fixed rates between 1.05% - 7.25% (2010: 1.05% - 7.25%), $20,632 million (2010: $18,821 million) floating rate notes maturing up to five years and $107 million (2010: $101 million) floating rate notes maturing greater than five years; and
- the Group has conducted a number of stand-alone medium-term note issues: $2,928 million (2010: $1,715 million) fixed rate notes maturing up to five years with fixed rates between 1.01% - 8.43% (2010: 1.16% - 8.43%), $134 million fixed rate notes (2010: nil) maturing in 2021 with a fixed rate of 2.03%, $1,715 million (2010: $1,337 million) floating rate notes maturing up to five years and $172 million (2010: nil) floating rate notes maturing in 2028.

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). These debt issues totalling $10,485 million (2010: $7,483 million) have been issued predominantly by BNZ International Funding Limited under the global medium-term note program and by BNZ Limited under their domestic debt issuance program, and as covered bonds linked to the BNZ Covered Bond Trust.

Other senior notes

The Group has issued a number of other senior notes under stand-alone issues or programs:

- mortgage backed notes through a series of National RMBS Trusts of $3,184 million (2010: $1,216 million) maturing up to 2042;
- TSL Trust A floating rate notes of $13 million (2010: $20 million) maturing up to 2020;
- under the National Wealth Management Holdings Limited medium-term note program, $302 million (2010: $303 million) fixed rate notes maturing up to 2013 with fixed rates between 6.50% - 7.50% (2010: 6.50% - 7.50%) and $533 million (2010: $500 million) floating rate notes maturing up to five years; and
- Clydesdale RMBS Trust floating rate notes of $2,353 million (2010: $2,755 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 Australian Prudential Regulation Authority for capital adequacy purposes.

30 Bonds, notes and subordinated debt (continued)

Subordinated medium-term notes

Subordinated notes have been issued under the following programs of the Group:

- under the Euro medium-term note program of the Company, nil (2010: $1,054 million fixed rate notes, fixed rates between 4.50% - 5.38%);
- under the domestic debt issuance program of the Company, $300 million (2010: $317 million) fixed rate notes maturing in 2017 with a fixed rate of 7.25% (2010: 7.25%) and $1,200 million (2010: $1,200 million) floating rate notes maturing in 2017 and 2018;
- under the global medium-term note program, $2,963 million (2010: $4,175 million) fixed rate notes maturing between 2016 and 2020 with fixed rates between 4.63% - 7.13% (2010: 4.55% - 7.13%) and $852 million (2010: $2,151 million) floating rate notes maturing in 2016 and 2028; and
- the Group has conducted a number of stand-alone subordinated medium-term note issues: $51 million (2010: $56 million) fixed rate notes maturing up to five years with a fixed rate of 5.47% (2010: 5.47%), $40 million (2010: $40 million) fixed rate notes maturing greater than five years with a fixed rate of 7.50% (2010: 7.50%), and $51 million (2010: $52 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 programs:

- under the National Wealth Management Holdings Limited medium-term note program, $206 million (2010: $210 million) fixed rate notes maturing in 2026 with a fixed rate of 6.75% (2010: 6.75%) and $101 million (2010: $100 million) floating rate notes maturing in 2026;
- Great Western Bank floating rate notes of $57 million (2010: $58 million) maturing between 2033 and 2035; and
- securitisation conduits' floating rate notes of $5 million (2010: $14 million).

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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
AUD	**33,331**	28,339	**29,927**	26,751
USD	**26,697**	23,788	**25,190**	22,349
EUR	**19,577**	21,656	**17,645**	19,385
GBP	**7,768**	8,586	**4,491**	4,240
Other	**12,395**	10,834	**12,395**	10,834
Total bonds, notes and subordinated debt	**99,768**	93,203	**89,648**	83,559

31 Other debt issues

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Perpetual floating rate notes	**472**	475	**472**	475
Stapled Securities	**797**	797	**797**	797
National Capital Instruments	**555**	562	**-**	-
Capital Notes	**670**	668	**670**	668
Total other debt issues	**2,494**	2,502	**1,939**	1,940

Perpetual floating rate notes

On 9 October 1986, the Group issued US$250 million undated subordinated Floating Rate Notes (Floating Rate Notes). Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The Floating Rate Notes are unsecured and have no final maturity. All or some of the Floating Rate Notes may be redeemed at the option of the Company with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million Floating Rate Notes, which were subsequently cancelled by the Group.

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 Convertible 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 Convertible 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 2008 Stapled 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 2008 Stapled 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 and again on 8 March 2011. 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 2009 Stapled Securities are redeemable at the Group’s option on or about 30 November 2012 or every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the 2009 Stapled 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 November 2012.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The Euro NCIs are unsecured and all or some of them may be redeemed at the option of the Group with the prior consent of APRA.

Capital Notes

On 24 September 2009, the Group issued US$600 million hybrid tier 1 Capital Notes (Capital Notes). The Capital Notes are perpetual capital instruments. The Capital Notes initially carry a fixed distribution of 8.0% per annum, payable semi annually in arrears, from and including 24 September 2009, up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the seven year US Treasury benchmark rate of 3.06% per annum (the base rate) plus an initial margin of 4.94% per annum. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the Capital Notes are redeemable at the Group’s option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

32 Defined benefit superannuation plan assets and liabilities

(a) Superannuation plans

The Group maintains several defined benefit superannuation plans in different geographies including some superannuation plans which have defined benefit and defined contribution components. Defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit plans are closed to new members. An asset (surplus) or liability (deficit) in respect of defined benefit plans is recognised on the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the plan's assets. Surpluses and deficits depend on various factors and can vary significantly over time having regard, for example, to movements in investment markets, future salaries and changes in employment patterns.

This note sets out details of defined benefit plans only, and is based on the most recent information available prior to the reporting date.

(b) Balance sheet amounts

The defined benefit net asset and net liability recognised on the balance sheet are comprised of the following:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Net asset on the balance sheet				
Fair value of plan assets	**3,292**	3,046	**3,187**	2,942
Present value of funded obligations	**(3,279)**	(3,031)	**(3,174)**	(2,931)
Net asset before adjustment for contribution tax	**13**	15	**13**	11
Adjustment for contribution tax	**3**	2	**3**	2
Net asset included in other assets on the balance sheet	**16**	17	**16**	13
Net liability on the balance sheet				
Fair value of plan assets	**3,313**	3,292	**-**	-
Present value of partly funded obligations	**(3,608)**	(3,814)	**-**	-
Net liability before adjustment for contribution tax	**(295)**	(522)	**-**	-
Net liability on the balance sheet	**(295)**	(522)	**-**	-

(c) Plan assets by asset category

The fair value of plan assets (for both the net asset and net liability on the balance sheet), by asset category, including the percentage of the total plan assets, as at 30 September is as follows:

	Group				Company			
	2011		2010		**2011**		2010	
	$m	**%**	$m	%	**$m**	**%**	$m	%
Cash	**225**	**3.4**	159	2.5	**202**	**6.3**	77	2.6
Equity instruments	**3,552**	**53.7**	3,442	54.3	**1,873**	**58.8**	1,665	56.6
Debt instruments	**1,867**	**28.3**	1,770	27.9	**319**	**10.0**	400	13.6
Property	**546**	**8.3**	599	9.5	**381**	**12.0**	432	14.7
Other assets	**415**	**6.3**	368	5.8	**412**	**12.9**	368	12.5
Fair value of plan assets	**6,605**	**100.0**	6,338	100.0	**3,187**	**100.0**	2,942	100.0

The fair value of plan assets includes equity instruments issued by the Company with a fair value of nil (2010: nil) and land and buildings occupied by the Group with a fair value of $41 million (2010: $44 million) for the Group and nil (2010: nil) for the Company.

32 Defined benefit superannuation plan assets and liabilities (continued)

(d) Reconciliations

Net asset on the balance sheet	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year	**(3,031)**	(2,758)	**(2,931)**	(2,655)
Current service cost	**(167)**	(152)	**(163)**	(149)
Interest cost	**(223)**	(203)	**(219)**	(199)
Actuarial losses	**(47)**	(64)	**(40)**	(59)
Benefits paid	**311**	243	**300**	231
Member contributions	**(121)**	(100)	**(121)**	(100)
Foreign currency translation adjustments	**(1)**	3	**-**	-
Balance at end of year	**(3,279)**	(3,031)	**(3,174)**	(2,931)
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**3,046**	2,779	**2,942**	2,663
Expected return on plan assets [1]	**227**	208	**218**	200
Actuarial gains	**46**	58	**45**	62
Contributions by Group entities	**205**	187	**200**	183
Benefits paid	**(311)**	(243)	**(300)**	(231)
Member contributions	**121**	100	**121**	100
Plan expenses	**(9)**	(12)	**(9)**	(8)
Contributions tax paid	**(30)**	(28)	**(30)**	(27)
Foreign currency translation adjustments	**(3)**	(3)	**-**	-
Balance at end of year	**3,292**	3,046	**3,187**	2,942

Net liability on the balance sheet	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Reconciliation of the present value of the defined benefit obligation				
Balance at beginning of year	**(3,814)**	(3,918)	**-**	-
Current service cost	**(56)**	(57)	**-**	-
Interest cost	**(183)**	(198)	**-**	-
Actuarial gains/(losses)	**235**	(182)	**-**	-
Benefits paid	**117**	139	**-**	-
Past service cost	**(2)**	(5)	**-**	-
Settlements or curtailments	**-**	2	**-**	-
Foreign currency translation adjustments	**95**	405	**-**	-
Balance at end of year	**(3,608)**	(3,814)	**-**	-
Reconciliation of the fair value of plan assets				
Balance at beginning of year	**3,292**	3,334	**-**	-
Expected return on plan assets [1]	**202**	212	**-**	-
Actuarial (losses)/gains	**(154)**	74	**-**	-
Contributions by Group entities	**171**	162	**-**	-
Benefits paid	**(117)**	(139)	**-**	-
Foreign currency translation adjustments	**(81)**	(351)	**-**	-
Balance at end of year	**3,313**	3,292	**-**	-

(1) *The actual return on plan assets for the Group was $321 million (2010: $552 million), and for the Company was $263 million (2010: $262 million).*

Historic summary	Group 2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Fair value of plan assets	**6,605**	6,338	6,113	7,334	8,049
Present value of plan obligation	**(6,887)**	(6,845)	(6,676)	(6,714)	(7,549)
(Deficit)/surplus	**(282)**	(507)	(563)	620	500
Experience adjustments:					
Plan assets - actuarial (losses)/gains	**(108)**	132	(875)	(1,151)	414
Plan obligations - actuarial gains/(losses)	**188**	(246)	(256)	1,152	45

32 Defined benefit superannuation plan assets and liabilities (continued)

Historic summary	Company 2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Fair value of plan assets	**3,187**	2,942	2,663	3,043	3,287
Present value of plan obligation	**(3,174)**	(2,931)	(2,655)	(3,023)	(3,195)
Surplus	**13**	11	8	20	92
Experience adjustments:					
Plan assets - actuarial gains/(losses)	**45**	62	(652)	(421)	299
Plan obligations - actuarial (losses)/gains	**(40)**	(59)	641	413	(345)

(e) Amounts recognised in the income statement

Amounts recognised in the income statement are as follows:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Current service cost	**223**	209	**163**	149
Interest cost	**406**	401	**219**	199
Expected return on plan assets	**(429)**	(420)	**(218)**	(200)
Plan expenses	**9**	12	**9**	8
Contributions tax expense	**30**	28	**30**	27
Past service cost	**2**	5	**-**	-
Gains on settlements	**-**	(2)	**-**	-
Total defined benefit plan expense	**241**	233	**203**	183

AASB 119 “Employee Benefits” requires that where a superannuation plan has both defined benefit and defined contribution components, the entire plan is treated as defined benefit. The total defined benefit plan expense shown above includes all amounts recognised in the income statement related to the National Australia Bank Group Superannuation Fund A which has both defined benefit and defined contribution components. However, in the income statement the defined benefit expense above is split to reflect separately the component that drives the expense and other elements of the superannuation arrangements. The total defined benefit plan expense shown above is split between superannuation cost - defined benefit plans and superannuation costs - defined contribution plans (*refer to Note 5*) in the income statement.

The total cumulative amount of actuarial losses recognised directly in retained profits for the Group is $611 million (2010: $691 million), and for the Company is $80 million gain (2010: $75 million gain). Actuarial gains and losses are translated at the closing spot rate and have been grossed up for contribution taxes.

(f) Principal actuarial assumptions

The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution during the year beginning after the reporting period for the Group is $391 million (2010: $269 million), and for the Company is $210 million (2010: $196 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 plans. Defined benefit plans are valued every year by independent actuaries for accounting purposes using the projected unit credit method. The latest actuarial valuations were made by applying the following principal actuarial assumptions at 30 September (weighted averages):

	Group		Company	
	2011 %	2010 %	**2011 %**	2010 %
Discount rate (per annum)	**4.9**	4.7	**4.3**	4.3
Expected return on plan assets (per annum)	**6.8**	6.9	**7.5**	7.5
Rate of compensation increase (per annum)	**3.0**	3.5	**3.0**	4.0
Future superannuation increases (per annum)	**2.9**	3.0	**3.0**	3.0

	Group		Company	
Expected future lifetime at the age of 60	**2011 Years**	2010 Years	**2011 Years**	2010 Years
Male retired	**26.3**	25.3	**22.2**	22.2
Female retired	**28.1**	27.2	**25.5**	25.5
Male non-retired	**27.7**	26.3	**22.2**	22.2
Female non-retired	**29.5**	28.1	**25.5**	25.5

33 Other liabilities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Accrued interest payable	**5,253**	4,989	**4,264**	3,586
Payables and accrued expenses	**2,128**	1,552	**1,287**	879
Notes in circulation	**2,130**	2,079	**-**	-
Other life insurance liabilities (1)				
Unsettled investment liabilities	**1**	229	**-**	-
Outstanding policy claims	**111**	101	**-**	-
Other	**224**	107	**-**	-
Other (2)	**3,489**	10,344	**2,934**	9,735
Total other liabilities	**13,336**	19,401	**8,485**	14,200

(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 the 30 September 2010 balance is $8,698 million for the Group and $8,496 million for the Company with respect to the net principle receivable and payable on cross currency swaps used for risk management purposes. The equivalent 30 September 2011 balances are presented within trading and hedging derivatives.*

34 Contributed equity

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**20,360**	18,637	**20,420**	18,904
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	**25,274**	23,551	**23,776**	22,260

[(1)] *Ordinary shares, partly paid to 25 cents have a total value of less than $1 million.*

Reconciliation of movement in contributed equity

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Ordinary share capital				
Balance at beginning of year	**18,637**	17,867	**18,904**	17,995
Shares issued				
Dividend reinvestment plan	**1,364**	808	**1,364**	808
On market purchase of shares for equity-based compensation	**(33)**	-	**(33)**	-
Transfer from equity-based compensation reserve - issued shares	**180**	84	**180**	84
Transfer from equity-based compensation reserve - purchased shares	**5**	17	**5**	17
Net loss realised on treasury shares	**(57)**	(6)	**-**	-
Movement in treasury shares relating to life insurance business	**264**	(133)	**-**	-
Balance at end of year	**20,360**	18,637	**20,420**	18,904

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

	Company 2011 No. '000	Company 2010 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,133,341**	2,095,595
Shares issued		
Dividend reinvestment plan	**57,620**	30,185
Bonus share plan	**1,925**	1,730
Employee share plans	**7,983**	5,536
Executive option plan no. 2	**294**	275
Paying up of partly paid shares	**26**	20
Total ordinary shares, fully paid	**2,201,189**	2,133,341
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**183**	203
Paying up of partly paid shares	**(26)**	(20)
Total ordinary shares, partly paid to 25 cents	**157**	183
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,201,346**	2,133,524
Deduct: Treasury shares	**(48,390)**	(47,232)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,152,956**	2,086,292

34 Contributed equity (continued)

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
Treasury shares				
Balance at beginning of year	**1,289**	1,167	**235**	252
Net loss realised on treasury shares	**57**	6	**-**	-
Movement in treasury shares relating to life insurance business	**(264)**	133	**-**	-
On market purchase for equity-based compensation	**33**	-	**33**	-
Transfer from equity-based compensation reserve - purchased shares	**(5)**	(17)	**(5)**	(17)
Other	**-**	-	**(237)**	-
Balance at end of year	**1,110**	1,289	**26**	235

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $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 Australian Prudential Regulation Authority (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 but 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 Markets (NZDX), and on liquidation of BNZ Income Securities Limited, holders will hold a right to participate in its surplus assets.

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $m
BNZ Income Securities 2				
Balance at beginning of year	**203**	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 but 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 New Zealand Debt Markets (NZDX), and on liquidation of BNZ Income Securities 2 Limited, holders will hold a right to participate in its surplus assets.

	Group 2011 $m	Group 2010 $m	Company 2011 $m	Company 2010 $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.

34 Contributed equity (continued)

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $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 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, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security. 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		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $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 London Interbank Offered Rate (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, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security. 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		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
National Capital Instruments				
Balance at beginning of year	**397**	397	**397**	397
Balance at end of year	**397**	397	**397**	397

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after 30 September 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or at any time after the occurrence of certain regulatory and tax events. In a winding-up of the Company, holders of an Australian NCI will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

35 Reserves

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
General reserve	**1,267**	1,166	**6**	6
Asset revaluation reserve	**76**	68	**8**	8
Foreign currency translation reserve	**(3,667)**	(3,494)	**(220)**	(212)
Cash flow hedge reserve	**355**	182	**38**	(108)
Equity-based compensation reserve	**433**	668	**433**	668
General reserve for credit losses	**716**	698	**716**	698
Available for sale investments reserve	**47**	73	**(17)**	27
Total reserves	**(773)**	(639)	**964**	1,087

Reconciliations of movements in reserves

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
General reserve				
Balance at beginning of year	**1,166**	1,009	**6**	5
Transfer from retained profits	**101**	157	**-**	1
Balance at end of year	**1,267**	1,166	**6**	6
Asset revaluation reserve				
Balance at beginning of year	**68**	76	**8**	14
Revaluation of land and buildings	**11**	9	**-**	-
Transfer to retained profits	**-**	(14)	**-**	(6)
Tax on revaluation adjustments	**(3)**	(3)	**-**	-
Balance at end of year	**76**	68	**8**	8
Foreign currency translation reserve				
Balance at beginning of year	**(3,494)**	(2,525)	**(212)**	(180)
Currency translation adjustments	**(171)**	(969)	**(8)**	(32)
Reclassification to profit or loss on disposal of foreign operations	**(2)**	-	**-**	-
Balance at end of year	**(3,667)**	(3,494)	**(220)**	(212)
Cash flow hedge reserve				
Balance at beginning of year	**182**	(142)	**(108)**	(326)
Gains on cash flow hedging instruments	**221**	424	**215**	309
Losses/(gains) transferred to the income statement	**-**	3	**(7)**	(4)
Tax on cash flow hedging instruments	**(48)**	(103)	**(62)**	(87)
Balance at end of year	**355**	182	**38**	(108)
Equity-based compensation reserve				
Balance at beginning of year	**668**	560	**668**	560
Equity-based compensation	**89**	213	**89**	213
Transfer to contributed equity - issued shares	**(180)**	(84)	**(180)**	(84)
Transfer to contributed equity - purchased shares	**(5)**	(17)	**(5)**	(17)
Transfer of shares, options and rights lapsed to retained profits	**(136)**	-	**(136)**	-
Tax on equity-based compensation	**(3)**	(4)	**(3)**	(4)
Balance at end of year	**433**	668	**433**	668
General reserve for credit losses				
Balance at beginning of year	**698**	-	**698**	-
Transfer from retained profits	**18**	698	**18**	698
Balance at end of year	**716**	698	**716**	698
Available for sale investments reserve				
Balance at beginning of year	**73**	46	**27**	2
Revaluation (losses)/gains	**(36)**	60	**(67)**	48
(Gains)/losses from sale transferred to the income statement	**(20)**	(28)	**2**	(13)
Impairment transferred to the income statement	**10**	3	**-**	-
Tax on available for sale investments	**20**	(8)	**21**	(10)
Balance at end of year	**47**	73	**(17)**	27

36 Retained profits

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Balance at beginning of year	**16,028**	16,010	**15,180**	15,502
Adjustment from adoption of new Accounting Standards	**-**	(19)	**-**	(19)
Actuarial gains/(losses) on defined benefit superannuation plans	**80**	(114)	**5**	4
Tax on items taken directly (from)/to equity	**(39)**	22	**3**	(1)
Net profit attributable to owners of the Company	**5,219**	4,224	**4,890**	3,550
Transfer to general reserve for credit losses	**(18)**	(698)	**(18)**	(698)
Transfer to general reserve	**(101)**	(157)	**-**	(1)
Transfer from asset revaluation reserve	**-**	14	**-**	6
Transfer of shares, options and rights lapsed from equity-based compensation reserve	**136**	-	**136**	-
Dividends paid	**(3,413)**	(3,039)	**(3,444)**	(3,056)
Distributions on other equity instruments	**(225)**	(215)	**(123)**	(107)
Balance at end of year	**17,667**	16,028	**16,629**	15,180

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. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand (NZ) staff share allocation plan, United Kingdom (UK) share incentive plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula used in calculating the fair value 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 the Australian Securities and Investments Commission. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration strategy in rewarding current and future contributions to the Group's performance and strengthening the link between value created for shareholders and rewards for employees.

Under the terms of most offers there is a minimum holding period during which the shares are held on trust (or performance rights cannot be exercised) and cannot be dealt with by the employee. There may be forfeiture conditions particular to each program as described below if the employee leaves during this period.

Short term incentives (STI) may be provided under the Above-Target or STI Deferral programs. Employees become eligible for these shares based on their individual or business performance (or both).

The STI deferral model for employees based in Australia, Asia and the United States (US) as well as for senior management employees in NZ and the UK allows for a proportion of an employee's STI reward to be deferred. The deferred amount is commensurate with the level of risk and responsibility within a role and the length of deferral, 12 or 24 months, aligns with both the level of risk and impact of the role on business performance and results. A threshold is in place whereby deferral only applies to STI deferred amounts of $1,000 or more. For those employees in the UK (excluding senior management), individuals are generally required to take any Above-Target STI in Company shares for awards in excess of $500. The UK Above-Target program ceased in 2010 and going forward all employees now participate in the STI Deferral program.

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 after allocation if the employee resigns or fails to pass the Compliance Gateway during the following financial year or is 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 time frame. 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 their employment is terminated.

General employee shares up to a target 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 on trust restricted from dealing for three years and in Australia and Asia are not subject to forfeiture. In NZ and the US, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years and in the UK these shares are forfeited if an employee is summarily dismissed prior to the end of three years.

Salary sacrifice shares are allocated on a monthly basis to UK employees when they nominate to contribute a portion of their gross salary to receive Company shares.

Long term incentives (LTI) help to drive management decisions focused on the long-term prosperity of the Company through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. A 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 (or their performance rights will lapse) for voluntary cessation of employment, if compliance requirements are not met or if performance hurdles are not met.

All other Group senior employees participate in the Restricted Share Plan where a $4,000 target award is granted based on Group performance and eligibility is based on service and threshold performance and compliance outcomes. An employee forfeits shares for voluntary cessation of employment or failure to meet compliance requirements within the three year restriction period.

Other employee share offers include various other offers made to employees of the Group from time to time. These include MLC Ownership shares which are provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. These shares do not have a restriction period and are forfeited for misconduct.

37 Shares, performance options and performance rights (continued)

Performance options and performance rights are used to provide long-term incentives in recognition of executive potential and talent in the Group. They are also used instead of shares, to provide rewards under the above employee programs to employees in some countries (such as NZ 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 companies, and regional or Group ROE and cash earnings. The measures used depend on the level and impact of the participant's role, the business or region in which they work, and the relevant program. Vesting generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). The performance options and performance rights generally have an expiry date between three and 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.

Performance options are predominantly offered only to key senior executives of the Group and generally lapse after a specified number of days after cessation of employment as determined by the Board.

Details of shares, performance options and performance rights are set out in the following tables:

Employee share plans

	2011		2010	
Employee share plans	**Fully paid ordinary shares granted during the year No.**	**Weighted average grant date fair value $**	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $
Salary sacrifice shares	**88,370**	**24.98**	90,007	26.43
Short-term incentive shares	**4,401,648**	**25.91**	2,629,798	28.86
Commencement and recognition shares	**1,088,108**	**25.50**	2,327,757	25.51
General employee shares	**1,494,402**	**23.83**	885,752	28.07
Long-term incentive shares	**2,156,741**	**20.78**	1,499,387	22.21
Other employee shares	**93,042**	**26.47**	112,707	26.14

The closing market price of the Company's shares at 30 September 2011 was $22.37 (2010: $25.34). The volume weighted average share price during the year ended 30 September 2011 was $24.53 (2010: $26.35).

Performance options and performance rights movements

	Performance options		Performance rights	
	No.	Weighted average exercise price $	No.	Weighted average exercise price $
Equity instruments outstanding as at 30 September 2009	45,599,019	34.84	9,826,529	-
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	-
Granted	-	-	200,173	-
Forfeited	(8,666,821)	37.35	(2,207,625)	-
Exercised	-	-	(293,974)	-
Expired	(5,892,345)	31.56	(1,140,381)	-
Equity instruments outstanding as at 30 September 2011	14,410,871	33.70	3,650,369	-
Equity instruments exercisable as at 30 September 2011	**568,086**	**39.43**	**43,949**	**-**
Equity instruments exercisable as at 30 September 2010	1,123,519	34.53	83,619	-

37 Shares, performance options and performance rights (continued)

Executive share option plan and performance rights outstanding

	2011			2010		
Terms and conditions	**Outstanding at 30 Sep No.**	**Range of exercise prices $**	**Weighted average remaining life Months**	Outstanding at 30 Sep No.	Range of exercise prices $	Weighted average remaining life Months
Performance options						
External hurdle [(1)]	**9,259,611**	**19.89 - 43.43**	**12**	16,870,677	19.89 - 43.43	18
Internal hurdle [(2)]	**5,151,260**	**34.53 - 40.91**	**11**	12,099,360	34.53 - 40.91	19
Performance rights						
External hurdle [(1)]	**1,794,166**	**-**	**10**	3,521,750	-	15
Internal hurdle [(2)]	**1,675,780**	**-**	**11**	3,342,444	-	19
Individual hurdle [(3)]	**180,423**	**-**	**17**	227,982	-	16

(1) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as cash earnings and ROE compared to business plan.*

(3) *Vesting is determined by individual performance or time-based hurdles.*

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance 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(ss)*.

	2011	2010
Weighted average values		
Contractual life (years)	**3.1**	2.7
Risk-free interest rate (per annum)	**5.19%**	4.66%
Expected volatility of share price	**42.00%**	40.00%
Closing share price on grant date	**$24.87**	$27.20
Dividend yield (per annum)	**5.84%**	6.40%
Fair value of performance rights	**$11.15**	$10.44
'No hurdle' value of performance rights	**$22.21**	$24.58
Expected time to vesting (years)	**2.36**	2.01

38 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Net profit attributable to owners of the Company	**5,219**	4,224	**4,890**	3,550
(Deduct)/add non-cash items in the income statement:				
Increase in interest receivable	**(222)**	(1,090)	**(670)**	(653)
Increase in interest payable	**291**	1,269	**680**	1,072
Decrease in unearned income and deferred net fee income	**(207)**	(235)	**(44)**	(165)
Fair value movements:				
Assets, liabilities and derivatives held at fair value	**1,707**	123	**1,591**	(56)
Net adjustment to bid/offer valuation	**1**	(15)	**2**	(14)
Increase in personnel provisions	**37**	131	**8**	64
Increase/(decrease) in other operating provisions	**105**	(285)	**(13)**	(179)
Equity-based compensation recognised in equity or reserves	**89**	213	**89**	213
Superannuation costs - defined benefit superannuation plans	**44**	52	**3**	3
Impairment losses on non-financial assets	**16**	7	**35**	42
Impairment losses on financial assets	**10**	3	**-**	-
Charge to provide for bad and doubtful debts	**1,750**	2,791	**1,178**	1,951
Depreciation and amortisation expense	**624**	670	**330**	367
Gain on bargain purchase	**-**	(4)	**-**	-
Movement in life insurance policyholder liabilities	**(830)**	3,230	**-**	-
Unrealised loss on investments relating to life insurance business	**3,602**	85	**-**	-
Decrease in other assets	**214**	787	**344**	682
(Decrease)/increase in other liabilities	**(408)**	258	**(442)**	(219)
Increase in income tax payable	**775**	328	**716**	133
Decrease in deferred tax liabilities	**(528)**	(17)	**(340)**	(76)
(Increase)/decrease in deferred tax assets	**90**	(46)	**147**	39
Operating cash flow items not included in profit	**(3,199)**	(6,612)	**683**	(4,601)
Investing or financing cash flows included in profit				
Gain on disposal of controlled entities, before income tax	**(11)**	-	**-**	-
Gain on investments classified as available for sale	**(20)**	(28)	**-**	(13)
Loss on disposal of property, plant, equipment and other assets	**16**	26	**10**	28
Net cash provided by operating activities	**9,165**	5,865	**9,197**	2,168

(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	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Assets				
Cash and liquid assets [(1)]	**27,093**	26,072	**22,532**	21,570
Treasury and other eligible bills	**159**	157	**27**	44
Due from other banks (excluding mandatory deposits with supervisory central banks)	**45,241**	34,148	**35,036**	26,624
Total cash and cash equivalent assets	**72,493**	60,377	**57,595**	48,238
Liabilities				
Due to other banks	**(36,487)**	(34,694)	**(33,654)**	(32,612)
Total cash and cash equivalents	**36,006**	25,683	**23,941**	15,626

[(1)] *Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $1,184 million (2010: $1,275 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.*

38 Notes to the cash flow statement (continued)

(c) Non-cash financing and investing activities

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
New share issues				
Dividend reinvestment plan	**1,364**	808	**1,364**	808
Bonus share plan	**46**	46	**46**	46
Movement in assets under finance lease	**15**	(14)	**(6)**	(14)

(d) Acquisitions of controlled entities and business combinations

The following acquisitions were made during the year to September 2011:

- On 31 March 2011, National Australia Bank Limited acquired 100% of the issued share capital of Invia Custodian Pty Limited (Invia), an Australian based custodial services business. As part of the 1 November 2009 JBWere Pty Ltd (JBWere) acquisition, National Wealth Management Holdings Limited acquired the Goldman Sachs private wealth management client base as well as the employees of Invia. The JBWere acquisition did not include the purchase of the Invia legal entity and the Invia acquisition enhances the strategic benefits from the JBWere acquisition; and
- On 30 November 2010, MLC Alliance Holdings Pty Ltd acquired the remaining 51% of the issued share capital of Meritum Financial Group Pty Limited (Meritum), bringing the Group's interest to 100%. Meritum is an Australian based financial planning business and the acquisition enhances the Group's network of financial planning providers. The acquisition agreement contains provision for contingent cash consideration of up to $7 million to be payable based on funds under management performance. The fair value of this contingent consideration has been assessed as $5 million as at the acquisition date.

Goodwill arose on the acquisition of Meritum as the purchase consideration included a premium for the intrinsic value in the expanded distribution network and capabilities, and for expected synergies from combining the business into the Group. None of the goodwill is expected to be deductible for tax purposes.

Since their respective acquisition dates, the acquired entities have not contributed a material amount to the net operating income and net profit of the Group. If the acquisitions had been effected at 1 October 2010, there would not have been a material impact on the net operating income and net profit of the Group for the year ended 30 September 2011.

In December 2010, the provisionally determined accounting for the acquisition of certain assets and liabilities of TierOne Bank was finalised resulting in a $4 million increase in goodwill and an equivalent decrease in other assets relating to the indemnification asset arising from the loss sharing arrangement with the Federal Deposit Insurance Corporation.

38 Notes to the cash flow statement (continued)

	Group 2011 $m	Group 2010 $m
Consideration transferred		
Cash paid	**14**	6,016
Deferred cash consideration	**12**	21
Total consideration transferred	**26**	6,037

	Group 2011 $m	Group 2010 $m
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and liquid assets	**8**	859
Due from other banks	**-**	163
Trading derivatives	**-**	3
Investments - available for sale	**-**	287
Investments relating to life insurance business	**-**	4,553
Loans and advances [(1)]	**-**	6,615
Property, plant and equipment	**-**	20
Other intangible assets	**9**	552
Deferred tax assets	**-**	50
Other assets	**2**	491
Deposits and other borrowings	**-**	(3,385)
Life policy liabilities	**-**	(3,784)
Current tax liabilities	**-**	(12)
Provisions	**(1)**	(66)
External unitholders' liability	**-**	(434)
Deferred tax liabilities	**(3)**	(146)
Other liabilities	**-**	(164)
Net identifiable assets and liabilities	**15**	5,602
Less: Fair value of equity interest in the acquiree held before the acquisition date included in other assets [(2)]	**(11)**	-
Goodwill on acquisition	**22**	439
Gain on bargain purchase	**-**	(4)
Total purchase consideration	**26**	6,037
Less Deferred consideration	**(12)**	(21)
Less: Cash and cash equivalents acquired		
Cash and liquid assets	**(8)**	(859)
Due from other banks	**-**	(163)
Net cash outflow	**6**	4,994

(1) At the date of the respective acquisitions, loans and advances had gross contractual amounts receivable of nil (2010: $6,874 million). At the date of the respective acquisitions, the best estimate of the contractual cash flows not expected to be collected was nil (2010: $261 million). In respect of cash flows not expected to be collected in the prior year, an indemnification asset was recognised and included in other assets of $209 million in relation to the loss sharing agreement entered into with the Federal Deposit Insurance Corporation as part of the TierOne acquisition.

(2) There was nil gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held before the business combination.

(e) Sale of controlled entities

The following entity was sold during the current year:

- On 15 February 2011, the Company disposed of Relationship Services Pty Limited, the holding company of an interest in a joint venture that administers the FlyBuys program.

The contribution to net profit of the Group from entities which were sold during the current year is not material.

Sale of controlled entities	Group 2011 $m	Group 2010 $m
Net assets of controlled entities sold	-	-
Gain on disposal recognised in other operating income	**11**	-
Cash consideration received	**11**	-
Less: Cash and cash equivalents disposed	-	-
Net cash inflow from sale of controlled entities	**11**	-

39 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 of America
Great Western Bancorporation Inc	100	United States of America
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
National Australia Group Europe Limited	100	England
Clydesdale Bank plc	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Lifetime Company Limited	100	Australia
MLC Investments Limited	100	Australia
MLC 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 HK Investments Limited	100	Hong Kong
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 40(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 Australian Securities and Investments Commission (ASIC) instrument 06/480 dated 5 June 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

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.

40 Contingent liabilities and credit commitments

The following tables show details of the notional amount of contingent liabilities and credit-related commitments as at 30 September:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Contingent liabilities				
Guarantees	**4,824**	4,346	**6,690**	6,177
Standby letters of credit	**2,084**	1,875	**2,084**	1,875
Documentary letters of credit	**955**	604	**635**	270
Performance-related contingencies	**4,175**	3,405	**3,546**	2,805
Total contingent liabilities (1)	**12,038**	10,230	**12,955**	11,127

(1) *The maximum potential amount of future payments is reduced by any amounts that may be recovered under recourse provisions.*

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Credit-related commitments				
Underwriting facilities	**61**	1	**61**	1
Binding credit commitments	**114,786**	110,296	**87,410**	82,901
Total credit-related commitments	**114,847**	110,297	**87,471**	82,902

The following table shows the geographical concentrations of credit-related commitments as at 30 September:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Australia	**82,383**	77,408	**82,383**	77,408
Europe (including UK)	**18,640**	19,801	**2,188**	2,824
New Zealand	**10,292**	9,757	**-**	-
United States	**2,527**	2,929	**1,895**	2,268
Asia	**1,005**	402	**1,005**	402
Total	**114,847**	110,297	**87,471**	82,902

Investment commitments

Investment commitments contracted for as at the reporting date are set out below:

	Group	
	2011 $m	2010 $m
Investment commitments		
Statutory funds	**1,373**	1,351
Total investment commitments	**1,373**	1,351

Other commitments

Other commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Information technology and telecommunication services				
Due within one year	**391**	74	**341**	12
Due after one but no later than five years	**1,044**	86	**944**	3
Due after five years	**265**	-	**238**	-
Total information technology and telecommunication services	**1,700**	160	**1,523**	15
Operational, property and support services				
Due within one year	**90**	143	**36**	86
Due after one but no later than five years	**86**	204	**11**	131
Due after five years	**-**	7	**-**	7
Total operational, property and support services	**176**	354	**47**	224

40 Contingent liabilities and credit commitments (continued)

Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. In addition, loans assigned to certain wholly owned entities to provide security for covered bonds issued by the Group are reported in *Note 17*.

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Available for sale investments	**1,659**	896	**-**	-
Financial assets at fair value through profit or loss	**12,325**	13,631	**11,745**	13,170
Total financial assets pledged	**13,984**	14,527	**11,745**	13,170

(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 credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions; 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 guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

(ii) Clearing and settlement obligations

The Company is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer 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 the Australian Prudential Regulation Authority 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.

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

(v) Contingent liability – Class action / Potential class action

On 18 November 2010, Maurice Blackburn Lawyers (an Australian law firm) commenced a class action proceeding against the Group in the Supreme Court of Victoria in relation to its exposure to certain Collateralised Debt Obligations (CDOs) in nabCapital sponsored conduits. The Group announced a provision of $181 million against an approximate US$1.1 billion exposure to the CDOs when it released its half year result to March 2008, and increased its provision by $830 million in July 2008. Maurice Blackburn Lawyers allege that in 2008 the Group contravened certain

40 Contingent liabilities and credit commitments (continued)

misleading and deceptive conduct and continuous disclosure provisions of the *Corporations Act* 2001 (Cth) in relation to its exposure to the CDOs. The loss claimed by class members has not yet been identified in the proceeding. The proceeding is being vigorously defended.

On 12 May 2010, Maurice Blackburn Lawyers announced it was preparing 12 class actions against banks operating in Australia, including the Group, in relation to the payment of exception fees. On 22 September 2010, an exception fee class action was issued against Australia and New Zealand Banking Group Limited. To date an exception fees class action has not been issued by Maurice Blackburn Lawyers against the Group. If an exception fees class action is issued by Maurice Blackburn Lawyers against the Group, it will be vigorously defended.

(vi) Contingent liability - United Kingdom Financial Services Compensation Scheme

The United Kingdom (UK) Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions, claims have been triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits. These borrowings are anticipated to be repaid from the realisation of the assets of the institutions. In the interim, the FSCS has estimated levies due to 31 March 2012 and an accrual 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.

(vii) Claims for potential mis-selling of Payment Protection Insurance

Market wide issues relating to the UK banking industry Payment Protection Insurance (PPI) issue are ongoing. In May 2011, the British Bankers' Association announced that it does not intend to pursue the judicial review process and provisions were announced by some of the largest British banks.

A provision of £102 million is held for this matter. The provision reflects an assessment of future PPI claims based upon estimates, statistical analysis and assumptions in relation to a wide range of uncertain factors, including how many PPI claims will be made against Clydesdale Bank plc, for what value, and the prospects of mis-selling being established in relation to those claims. The final amount required to settle the potential liability is therefore uncertain. The Group continues to keep the matter under review.

(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 guarantee and undertakings

Excluded from the Group amounts disclosed above are the following guarantees and undertakings relating to entities in the Group:

- commercial paper issued by National Australia Funding (Delaware) Inc. totalling $9,216 million (2010: $4,606 million) guaranteed by the Company;
- from time to time, the Company provides letters to the UK Financial Services Authority in relation to 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 2011, the only such letter related to facilities provided by Clydesdale Bank plc to 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, Victoria, Australia;
- the Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that in the event it is proposed that NWMSL no longer continue as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- the Company has provided a guarantee of the obligations of National Australia Group Services Limited 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;
- the Company has guaranteed certain sponsor funding commitments of nabInvest Capital Partners Pty Limited associated with the Group's non-controlling interests in certain fund managers;
- the Company has issued letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries continue to meet their obligations;
- the Company is a participating employer in the Yorkshire and Clydesdale Bank Pension Scheme (the Scheme). On 28 September 2011, Clydesdale Bank plc, the sponsoring employer of the Scheme, and the Company announced they entered into a 60 day period of consultation with members of the Scheme over a package of reforms, including the Company's intention to commence consultation with its staff around withdrawal from future active participation in the Scheme. If these aspects of the reforms are undertaken following the conclusion of the consultation process and agreement with the Trustees, this would trigger a payment by the Company under section 75 of the UK *Pensions Act* 1995, with a corresponding decrease in Clydesdale Bank's defined benefit superannuation liability; and

40 Contingent liabilities and credit commitments (continued)

- pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities *(Note 39, 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.

Closed group

The table below presents the consolidated pro forma income statement and balance sheet 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.

	2011 $m	2010 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**6,159**	4,672
Income tax expense	**(1,306)**	(1,072)
Net profit for the year	**4,853**	3,600
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**22,547**	21,636
Due from other banks	**36,853**	30,102
Trading derivatives	**47,045**	37,561
Trading securities	**31,513**	23,386
Investments - available for sale	**14,533**	8,980
Investments - held to maturity	**6,249**	5,111
Other financial assets at fair value	**26,765**	13,996
Hedging derivatives	**3,051**	2,268
Loans and advances	**294,171**	269,807
Due from customers on acceptances	**43,006**	49,665
Current tax assets	**-**	128
Property, plant and equipment	**1,293**	1,174
Investments in controlled entities	**17,527**	17,674
Goodwill and other intangible assets	**760**	547
Deferred tax assets	**1,647**	1,459
Other assets	**58,966**	54,006
Total assets	**605,926**	537,500
Liabilities		
Due to other banks	**35,902**	34,267
Trading derivatives	**45,749**	38,194
Other financial liabilities at fair value	**3,444**	2,749
Hedging derivatives	**4,317**	811
Deposits and other borrowings	**317,156**	272,833
Liability on acceptances	**10,622**	12,536
Current tax liabilities	**557**	-
Provisions	**939**	944
Bonds, notes and subordinated debt	**89,648**	83,559
Other debt issues	**1,939**	1,940
Deferred tax liabilities	**46**	45
Other liabilities	**54,115**	50,960
Total liabilities	**564,434**	498,838
Net assets	**41,492**	38,662
Equity		
Contributed equity	**23,776**	22,260
Reserves	**760**	160
Retained profits	**16,956**	16,242
Total equity (parent entity interest)	**41,492**	38,662
Total equity	**41,492**	38,662

41 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 for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances, but also off-balance sheet guarantees and other commitments such as letters of credit and performance bonds.

The Group also trades in financial instruments where it takes positions in exchange traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from potential movements in the fair value of fixed rate assets and liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The fair value of these swaps is disclosed in *Note 11*.

(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 currency 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.

(c) Hedges of net investments in foreign operations

Borrowings of GBP675 million (2010: GBP695 million) have been designated as a hedge of a net investment in a foreign operation with a GBP functional currency. The hedges have been designated to protect against the Group's exposure to foreign exchange risk on this investment. Gains or losses on the translation of this borrowing are transferred to equity to the extent that they offset any gains or losses on translation of the net investment in a foreign operation. For the year ended 30 September 2011, there was a gain from hedge ineffectiveness of $5 million (2010: nil) recognised in profit or loss related to this hedge.

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 documentation including 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.

41 Financial risk management (continued)

(c) Credit-related commitments

Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend the facilities. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

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

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 maximum exposure to credit risk equals their carrying amount.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Cash and liquid assets	**22,608**	22,135	**21,419**	20,749
Due from other banks	**47,106**	37,679	**36,853**	30,102
Trading derivatives	**48,466**	38,340	**47,353**	37,832
Trading securities	**34,628**	25,821	**31,513**	23,386
Investments - available for sale	**18,045**	14,572	**14,516**	8,965
Investments - held to maturity	**12,787**	13,789	**6,249**	5,111
Investments relating to life insurance business	**63,920**	64,560	**-**	-
Other financial assets at fair value	**51,756**	37,409	**26,765**	13,996
Hedging derivatives	**4,108**	3,712	**3,051**	2,268
Loans and advances	**388,636**	361,603	**299,163**	275,088
Due from customers on acceptances	**43,017**	49,678	**43,006**	49,665
Due from controlled entities	**-**	-	**53,597**	49,556
Other assets	**6,035**	5,345	**4,272**	3,886
Total	**741,112**	674,643	**587,757**	520,604
Contingent liabilities	**12,038**	10,230	**12,955**	11,127
Credit-related commitments	**114,847**	110,297	**87,471**	82,902
Total	**126,885**	120,527	**100,426**	94,029
Total credit risk exposure	**867,997**	795,170	**688,183**	614,633

Credit risk

The table below represents 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							
	2011				2010			
	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	**42,868**	**9,473**	**17,637**	**8,489**	34,966	9,254	14,188	11,182
Investment grade	**2,917**	**2,603**	**251**	**23,611**	2,086	3,769	231	25,490
Sub-investment grade	**1,321**	**-**	**49**	**10,917**	627	766	58	13,006
Total	**47,106**	**12,076**	**17,937**	**43,017**	37,679	13,789	14,477	49,678

41 Financial risk management (continued)

	Company							
	2011				2010			
	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	**32,631**	**5,444**	**14,286**	**8,485**	27,401	3,786	8,798	11,182
Investment grade	**2,901**	**687**	**127**	**23,604**	2,074	1,325	69	25,477
Sub-investment grade	**1,321**	**-**	**13**	**10,917**	627	-	18	13,006
Total	**36,853**	**6,131**	**14,426**	**43,006**	30,102	5,111	8,885	49,665

(1) *Investments - available for sale excluding equity investments.*

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 (1)	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Government and public authorities	**1,129**	1,090	**861**	998	**3**	3	**2,088**	2,203
Agriculture, forestry, fishing and mining	**13,814**	9,805	**11,070**	12,349	**260**	387	**9,586**	7,665
Financial, investment and insurance	**1,460**	1,338	**14,912**	12,277	**169**	221	**10,415**	9,905
Real estate - construction	**3,175**	800	**6,262**	3,282	**136**	173	**1,640**	1,606
Manufacturing	**2,826**	2,142	**7,491**	6,418	**176**	175	**8,934**	8,855
Instalment loans to individuals and other personal lending (including credit cards)	**832**	699	**14,785**	14,781	**225**	324	**18,067**	17,820
Real estate - mortgage	**-**	-	**253,064**	224,900	**306**	263	**28,220**	26,934
Asset and lease financing	**-**	-	**15,307**	16,109	**150**	308	**732**	781
Commercial property services	**12,203**	11,062	**22,881**	27,956	**727**	580	**9,052**	9,538
Other commercial and industrial	**15,033**	9,764	**42,003**	42,533	**1,828**	1,840	**38,151**	35,220
Total	**50,472**	36,700	**388,636**	361,603	**3,980**	4,274	**126,885**	120,527

	Due from other banks		Investments - HTM		Investments - AFS		Acceptances	
Group	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Government and public authorities	**5,094**	1,419	**815**	801	**4,160**	3,056	**12**	14
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**4,260**	5,222
Financial, investment and insurance	**42,012**	36,260	**11,470**	12,345	**10,373**	9,339	**1,165**	1,450
Real estate - construction	**-**	-	**-**	-	**-**	-	**349**	513
Manufacturing	**-**	-	**-**	-	**-**	-	**2,175**	2,614
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**71**	97
Real estate - mortgage	**-**	-	**385**	472	**3,415**	2,118	**-**	-
Commercial property services	**-**	-	**117**	171	**31**	31	**24,235**	26,842
Other commercial and industrial	**-**	-	**-**	-	**66**	28	**10,750**	12,926
Total	**47,106**	37,679	**12,787**	13,789	**18,045**	14,572	**43,017**	49,678

41 Financial risk management (continued)

Company (1)	Loans at fair value 2011 $m	2010 $m	Loans at amortised cost 2011 $m	2010 $m	Provisions for doubtful debts 2011 $m	2010 $m	Contingent liabilities and credit-related commitments 2011 $m	2010 $m
Government and public authorities	**823**	646	**793**	859	**2**	2	**855**	1,043
Agriculture, forestry, fishing and mining	**6,334**	3,400	**6,332**	7,383	**198**	341	**7,863**	6,097
Financial, investment and insurance	**870**	415	**12,979**	11,987	**159**	211	**11,609**	11,282
Real estate - construction	**410**	493	**1,357**	1,349	**97**	133	**1,419**	1,338
Manufacturing	**1,478**	696	**5,119**	4,657	**132**	133	**6,333**	6,375
Instalment loans to individuals and other personal lending (including credit cards)	**17**	15	**9,436**	9,092	**201**	225	**11,988**	11,675
Real estate - mortgage	**-**	-	**200,349**	176,229	**208**	176	**23,459**	22,633
Asset and lease financing	**-**	-	**12,885**	13,425	**119**	248	**311**	316
Commercial property services	**7,714**	4,140	**17,691**	17,652	**532**	448	**7,346**	8,034
Other commercial and industrial	**9,054**	4,179	**32,222**	32,455	**1,391**	1,379	**29,243**	25,236
Total	**26,700**	13,984	**299,163**	275,088	**3,039**	3,296	**100,426**	94,029

Company	Due from other banks 2011 $m	2010 $m	Investments - HTM 2011 $m	2010 $m	Investments - AFS 2011 $m	2010 $m	Acceptances 2011 $m	2010 $m
Government and public authorities	**5,091**	85	**815**	801	**4,158**	3,025	**12**	14
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**4,260**	5,222
Financial, investment and insurance	**31,762**	30,017	**5,317**	4,139	**6,890**	3,796	**1,165**	1,450
Real estate - construction	**-**	-	**-**	-	**-**	-	**349**	513
Manufacturing	**-**	-	**-**	-	**-**	-	**2,164**	2,601
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**71**	97
Real estate - mortgage	**-**	-	**-**	-	**3,415**	2,118	**-**	-
Commercial property services	**-**	-	**117**	171	**2**	3	**24,235**	26,842
Other commercial and industrial	**-**	-	**-**	-	**51**	23	**10,750**	12,926
Total	**36,853**	30,102	**6,249**	5,111	**14,516**	8,965	**43,006**	49,665

(1) *During the year ended 30 September 2011, for the Group $5,610 million has been reclassified from Commercial Property Services to Real Estate - Construction and $935 million has been reclassified from Commercial Property Services to Financial, Investment and Insurance, due to changes to the Standard Industrial Classification of Economic Activities (SIC) 2007 codes issued by the UK Office for National Statistics. In addition, during the year ended 30 September 2011, certain reclassifications have occurred to better align loan balances with regulatory classifications.*

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia 2011 $m	2010 $m	Europe 2011 $m	2010 $m	New Zealand 2011 $m	2010 $m	Other 2011 $m	2010 $m
Cash and liquid assets	**6,100**	5,866	**15,070**	15,779	**619**	236	**5,304**	4,192
Due from other banks	**19,182**	14,779	**20,263**	20,052	**1,734**	1,944	**5,927**	903
Trading derivatives	**25,590**	17,983	**17,105**	14,893	**3,918**	3,143	**1,853**	2,321
Trading securities	**25,194**	21,356	**6,352**	1,986	**2,993**	2,381	**89**	98
Investments - available for sale	**6,448**	2,634	**4,570**	6,884	**49**	183	**6,978**	4,871
Investments - held to maturity	**2,318**	3,665	**6,038**	5,797	**1,143**	1,143	**3,288**	3,184
Investments relating to life insurance business	**63,867**	64,515	**-**	-	**53**	45	**-**	-
Other financial assets at fair value	**26,735**	14,083	**7,732**	8,236	**16,984**	14,920	**305**	169
Hedging derivatives	**2,820**	2,030	**1,094**	1,425	**194**	257	**-**	-
Loans and advances	**291,847**	266,097	**52,120**	52,311	**28,598**	27,518	**9,804**	8,909
Due from customers on acceptances	**43,006**	49,665	**11**	13	**-**	-	**-**	-
Total	**513,107**	462,673	**130,355**	127,376	**56,285**	51,770	**33,548**	24,647

41 Financial risk management (continued)

Company	Australia 2011 $m	Australia 2010 $m	Europe 2011 $m	Europe 2010 $m	Other 2011 $m	Other 2010 $m
Cash and liquid assets	**3,926**	3,190	**13,342**	14,261	**5,264**	4,119
Due from other banks	**19,180**	14,778	**12,150**	14,691	**5,523**	633
Trading derivatives	**27,092**	19,260	**18,323**	16,156	**1,938**	2,416
Trading securities	**25,123**	21,356	**6,352**	1,986	**38**	44
Investments - available for sale	**6,317**	2,445	**2,787**	3,161	**5,412**	3,359
Investments - held to maturity	**279**	109	**3,942**	3,208	**2,028**	1,723
Other financial assets at fair value	**26,765**	13,996	**-**	-	**-**	-
Hedging derivatives	**2,810**	2,020	**241**	247	**-**	-
Loans and advances	**284,060**	259,707	**6,083**	7,811	**4,028**	2,290
Due from customers on acceptances	**43,006**	49,665	**-**	-	**-**	-
Total	**438,558**	386,526	**63,220**	61,521	**24,231**	14,584

Market risk - Trading

Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Wholesale Banking (WB) Fixed Income, Currencies & Commodities (FICC).

Trading activity represents dealings that encompass both active management of market risk and supporting its client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Traded Market Risk is primarily managed and controlled using Value at Risk (VaR) which is a standard measure used in the industry, and is subject to the disciplines prescribed in the WB Traded Market Risk Policy.

Objectives and limitations of the VaR methodology

VaR is a statistical estimate of the potential loss that could arise from shifts in interest rates, currency exchange rates, option volatility, equity prices, credit spreads, commodity prices and inflation. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using 550 days (approximately two years) of historical pricing shifts. The pricing data is rolled daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests;
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via backtesting for reasonableness and continued relevance of the model assumptions.

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk. Risk limits are applied in these categories separately, and against the total risk position.

41 Financial risk management (continued)

Value at risk for physical and derivative positions

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

Group	As at 30 September		Average value during reporting period		Minimum value during reporting period (1)		Maximum value during reporting period (1)	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**2**	3	**2**	4	**-**	1	**7**	10
Interest rate risk	**5**	7	**7**	8	**4**	5	**15**	14
Volatility risk	**1**	1	**1**	1	**1**	1	**2**	2
Commodities risk	**-**	-	**1**	1	**-**	-	**2**	2
Credit risk	**9**	5	**7**	8	**4**	5	**10**	10
Inflation risk	**-**	1	**1**	-	**-**	-	**1**	1
Diversification benefit	**(9)**	(6)	**(8)**	(9)	**n/a**	n/a	**n/a**	n/a
Total value at risk for physical and derivative positions (1)	**8**	11	**11**	13	**7**	8	**23**	18

Company	As at 30 September		Average value during reporting period		Minimum value during reporting period (1)		Maximum value during reporting period (1)	
	2011 $m	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m	**2011 $m**	2010 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**2**	2	**2**	4	**-**	1	**7**	9
Interest rate risk	**4**	7	**7**	8	**4**	4	**15**	14
Volatility risk	**1**	1	**1**	1	**1**	1	**2**	2
Commodities risk	**-**	-	**1**	1	**-**	-	**2**	2
Credit risk	**9**	4	**7**	7	**4**	4	**10**	9
Inflation risk	**-**	1	**1**	-	**-**	-	**1**	1
Diversification benefit	**(7)**	(5)	**(8)**	(9)	**n/a**	n/a	**n/a**	n/a
Total value at risk for physical and derivative positions (1)	**9**	10	**11**	12	**7**	7	**22**	17

(1) *The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.*

Market risk - Non-trading / Banking positions

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the Group 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 (VaR only);
- 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 Funding. Material changes require the approval of the Group Asset and Liability Committee (GALCO) and are advised to the local regulatory authorities.

41 Financial risk management (continued)

Value at risk and earnings at risk for the IRRBB

The following tables show the Group and Company aggregate VaR and EaR for the IRRBB:

	2011			
Group	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia Region	102	129	99	166
UK Region	88	74	70	88
New Zealand Region	14	31	14	42
Other	41	16	6	41
Earnings at risk				
Australia Region	55	51	6	72
UK Region	22	14	4	22
New Zealand Region	4	5	2	11
Other	11	5	2	11

	2010			
Group	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia 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				
Australia Region	33	47	20	97
UK Region	11	11	5	18
New Zealand Region	5	4	2	7
Other	7	4	1	7

	2011			
Company	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia Region	102	129	99	166
UK Region	22	25	19	28
Earnings at risk				
Australia Region	55	51	6	72

	2010			
Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	120	87	50	131
Earnings at risk				
Australia Region	33	47	20	97

41 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. Liquidity risk arises from the possibility that market conditions prevailing at some point in the future will require the Group to sell positions at a value which is below their underlying worth, or may result in the inability to exit from the positions. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

The Principal Board has the ultimate responsibility to monitor and review the adequacy of the Group's liquidity and funding compliance and management framework. These risks are governed by the Group's funding and liquidity risk policies and managed by Group Funding, and measured and monitored by Group Non-Traded Market Risk. The management and reporting is overseen by GALCO.

Key principles adopted in the Group's approach include:
- monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet cashflow information;
- maintaining a high quality liquid asset portfolio which can be sold in times of market distress and supports intra-day operations;
- operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements;
- maintaining a contingent funding plan that is well documented and aims to cover a variety of liquidity crisis events; and
- requiring the Group and controlled entities to have the ability to meet a range of survival horizon scenarios, including NAB-specific and general liquidity stress scenarios.

Contractual maturity of financial liabilities on an undiscounted basis

The following tables show cash flows associated with non-derivative financial liabilities and hedging derivatives, within relevant maturity groupings based on the earliest date on which the Group and Company may be required to pay.

The balances in the tables will not necessarily agree to amounts presented on the balance sheet as amounts incorporate cash flows on an undiscounted basis and include both principal and associated future interest payments.

Group	**2011** **At call** **$m**	**0 to 3 month(s)** **$m**	**3 to 12 months** **$m**	**1 to 5 year(s)** **$m**	**Over 5 years** **$m**	**No specific maturity** **$m**	**Total** **$m**
Due to other banks	8,374	28,160	3,262	493	-	-	40,289
Other financial liabilities at fair value (1)	928	7,825	5,226	7,370	4,404	178	25,931
Deposits	157,426	159,981	64,403	6,647	87	-	388,544
Other borrowings	1,824	14,543	1,301	246	282	-	18,196
Liability on acceptances	-	10,581	140	-	-	-	10,721
Life investment contract liabilities (2)	-	58	272	245	38	50,707	51,320
Bonds, notes and subordinated debt	-	4,488	17,353	72,173	15,698	-	109,712
Other debt issues (3)	-	-	-	-	-	2,494	2,494
External unitholders' liability (4)	-	-	-	-	-	9,959	9,959
Other financial liabilities (1)	-	-	-	-	-	2,348	2,348
Hedging derivatives							
- contractual amounts payable	-	1,787	11,594	33,982	10,570	-	57,933
- contractual amounts receivable	-	(1,591)	(10,162)	(31,614)	(9,531)	-	(52,898)
Total cash flow payable	168,552	225,832	93,389	89,542	21,548	65,686	664,549

Group	2010 At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Due to other banks	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 (4)	-	-	-	-	-	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

Notes to the financial statements

41 Financial risk management (continued)

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
2011							
Due to other banks	7,214	26,468	2,251	6	-	-	35,939
Other financial liabilities at fair value [(1)]	681	32	110	1,559	811	178	3,371
Deposits	117,532	142,856	50,106	1,587	-	-	312,081
Other borrowings	1,615	6,595	24	50	-	-	8,284
Liability on acceptances	-	10,570	140	-	-	-	10,710
Bonds, notes and subordinated debt	-	2,247	14,590	69,757	12,568	-	99,162
Other debt issues [(3)]	-	-	-	-	-	1,939	1,939
Other financial liabilities [(1)]	-	-	-	-	-	217	217
Hedging derivatives							
- contractual amounts payable	-	1,698	11,389	33,709	10,570	-	57,366
- contractual amounts receivable	-	(1,505)	(9,951)	(31,250)	(9,531)	-	(52,237)
Total cash flow payable	127,042	188,961	68,659	75,418	14,418	2,334	476,832

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
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

(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) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $50,707 million (2010: $51,767 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, have contractual maturities.*

(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, $4 million quarterly and $25 million semi-annually (2010: $6 million monthly, $2 million quarterly, and $26 million semi-annually) for the Group, and $6 million monthly and $25 million semi-annually (2010: $6 million monthly and $26 million semi-annually) for the Company.*

(4) *External unitholders' liability do not have a contractual maturity.*

41 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.

				2011		
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	2,411	2,096	2,930	3,110	1,491	12,038
Credit-related commitments and investment commitments	20,383	14,644	36,671	31,529	12,993	116,220
Total	22,794	16,740	39,601	34,639	14,484	128,258

				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
Total	20,741	17,794	38,548	31,671	13,124	121,878

				2011		
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	1,918	2,014	4,629	3,010	1,384	12,955
Credit-related commitments and investment commitments	10,951	10,906	30,002	26,086	9,526	87,471
Total	12,869	12,920	34,631	29,096	10,910	100,426

				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
Total	12,162	12,145	32,895	26,577	10,250	94,029

41 Financial risk management (continued)

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities at balance date of assets and liabilities. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where we expect as part of normal banking operations that a large proportion of these balances will roll over.

	2011			
Group	**Less than 12 months $m**	**Greater than 12 months $m**	**No specific maturity $m**	**Total $m**
Assets				
Cash and liquid assets	27,093	-	-	27,093
Due from other banks	47,106	-	-	47,106
Trading derivatives (1)	-	-	48,466	48,466
Trading securities	9,139	22,507	2,982	34,628
Investments - available for sale	8,357	9,453	235	18,045
Investments - held to maturity	5,595	7,192	-	12,787
Investments relating to life insurance business	2,206	12,922	48,792	63,920
Other financial assets at fair value	16,725	35,020	11	51,756
Loans and advances	83,218	291,248	7,903	382,369
Due from customers on acceptances	43,017	-	-	43,017
All other assets (2)	-	-	24,570	24,570
Total assets	242,456	378,342	132,959	753,757
Liabilities				
Due to other banks	39,717	445	-	40,162
Trading derivatives (1)	-	-	47,889	47,889
Other financial liabilities at fair value	12,978	10,570	178	23,726
Deposits	378,444	6,328	-	384,772
Other borrowings	17,664	528	-	18,192
Liability on acceptances	10,633	-	-	10,633
Life insurance contract liabilities (3)	-	-	2,316	2,316
Life investment contract liabilities (4)	325	260	50,707	51,292
Bonds, notes and subordinated debt	18,448	81,320	-	99,768
Other debt issues	-	-	2,494	2,494
All other liabilities (2)	-	-	30,325	30,325
Total liabilities	478,209	99,451	133,909	711,569
Net (liabilities)/assets	(235,753)	278,891	(950)	42,188

Notes to the financial statements

41 Financial risk management (continued)

Group	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2010			
Assets				
Cash and liquid assets	26,072	-	-	26,072
Due from other banks	37,679	-	-	37,679
Trading derivatives (1)	-	-	38,340	38,340
Trading securities	16,466	8,795	560	25,821
Investments - available for sale	7,098	7,315	159	14,572
Investments - held to maturity	4,344	9,445	-	13,789
Investments relating to life insurance business	3,316	9,276	51,968	64,560
Other financial assets at fair value	13,348	23,864	197	37,409
Loans and advances	81,554	265,854	7,427	354,835
Due from customers on acceptances	49,678	-	-	49,678
All other assets (2)	-	-	23,197	23,197
Total assets	239,555	324,549	121,848	685,952
Liabilities				
Due to other banks	35,713	1,899	-	37,612
Trading derivatives (1)	-	-	40,587	40,587
Other financial liabilities at fair value	10,666	9,143	78	19,887
Deposits	331,565	7,322	-	338,887
Other borrowings	13,875	470	-	14,345
Liability on acceptances	12,549	-	-	12,549
Life insurance contract liabilities (3)	-	-	1,763	1,763
Life investment contract liabilities (4)	186	168	52,237	52,591
Bonds, notes and subordinated debt	18,733	74,470	-	93,203
Other debt issues	-	-	2,502	2,502
All other liabilities (2)	-	-	33,072	33,072
Total liabilities	423,287	93,472	130,239	646,998
Net (liabilities)/assets	(183,732)	231,077	(8,391)	38,954

Company	**Less than 12 months $m**	**Greater than 12 months $m**	**No specific maturity $m**	**Total $m**
	2011			
Assets				
Cash and liquid assets	22,532	-	-	22,532
Due from other banks	36,853	-	-	36,853
Trading derivatives (1)	-	-	47,353	47,353
Trading securities	6,990	21,543	2,980	31,513
Investments - available for sale	8,108	6,305	103	14,516
Investments - held to maturity	5,277	972	-	6,249
Other financial assets at fair value	5,727	21,038	-	26,765
Loans and advances	67,030	221,091	6,050	294,171
Due from customers on acceptances	43,006	-	-	43,006
All other assets (2)	-	-	83,151	83,151
Total assets	195,523	270,949	139,637	606,109
Liabilities				
Due to other banks	35,896	6	-	35,902
Trading derivatives (1)	-	-	46,048	46,048
Other financial liabilities at fair value	856	2,410	178	3,444
Deposits	307,435	1,438	-	308,873
Other borrowings	8,233	50	-	8,283
Liability on acceptances	10,622	-	-	10,622
Bonds, notes and subordinated debt	13,550	76,098	-	89,648
Other debt issues	-	-	1,939	1,939
All other liabilities (2)	-	-	59,981	59,981
Total liabilities	376,592	80,002	108,146	564,740
Net (liabilities)/assets	(181,069)	190,947	31,491	41,369

41 Financial risk management (continued)

	2010			
Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	21,570	-	-	21,570
Due from other banks	30,102	-	-	30,102
Trading derivatives (1)	-	-	37,832	37,832
Trading securities	14,031	8,795	560	23,386
Investments - available for sale	7,063	1,867	35	8,965
Investments - held to maturity	3,444	1,667	-	5,111
Other financial assets at fair value	2,788	11,017	191	13,996
Loans and advances	64,573	199,717	5,517	269,807
Due from customers on acceptances	49,665	-	-	49,665
All other assets (2)	-	-	77,195	77,195
Total assets	193,236	223,063	121,330	537,629
Liabilities				
Due to other banks	33,227	1,040	-	34,267
Trading derivatives (1)	-	-	38,473	38,473
Other financial liabilities at fair value	115	2,567	67	2,749
Deposits	261,349	2,590	-	263,939
Other borrowings	8,894	-	-	8,894
Liability on acceptances	12,536	-	-	12,536
Bonds, notes and subordinated debt	17,641	65,918	-	83,559
Other debt issues	-	-	1,940	1,940
All other liabilities (2)	-	-	52,745	52,745
Total liabilities	333,762	72,115	93,225	499,102
Net (liabilities)/assets	(140,526)	150,948	28,105	38,527

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

(2) *All other assets and all other liabilities have been disclosed as 'no-specific maturity' as they mainly comprise assets and liabilities which have no contractual maturity.*

(3) *Life insurance contract liabilities do not have a fixed maturity date. Based on the Group's assumptions as to likely withdrawals and claim patterns, $909 million (2010: $795 million) is estimated to be settled within 12 months from the balance sheet date.*

(4) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $50,707 million (2010: $51,767 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, have contractual maturities.*

42 Fair value of financial instruments

Fair value of financial instruments, including those carried at amortised cost

The tables below show a comparison of the carrying amounts, as reported on the balance sheet, and fair values of all financial assets and liabilities.

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. The estimated fair values are based on relevant information available for the last two years at 30 September and involve judgement. The methodologies and assumptions used in the fair value estimates are described in the footnotes to the tables.

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.

		2011		2010	
Group	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**27,093**	**27,093**	26,072	26,072
Due from other banks	(a)	**47,106**	**47,106**	37,679	37,679
Trading derivatives	(b)	**48,466**	**48,466**	38,340	38,340
Trading securities	(c)	**34,628**	**34,628**	25,821	25,821
Investments - available for sale	(c)	**18,045**	**18,045**	14,572	14,572
Investments - held to maturity	(c)	**12,787**	**12,089**	13,789	12,441
Investments relating to life insurance business	(d)	**63,920**	**63,920**	64,560	64,560
Other financial assets at fair value	(e)	**51,756**	**51,756**	37,409	37,409
Hedging derivatives	(b)	**4,108**	**4,108**	3,712	3,712
Loans and advances	(f)	**382,369**	**383,068**	354,835	355,109
Due from customers on acceptances	(a)	**43,017**	**43,017**	49,678	49,678
Other assets	(a)	**6,035**	**6,035**	5,345	5,345
Total financial assets		**739,330**	**739,331**	671,812	670,738
Financial liabilities					
Due to other banks	(a)	**40,162**	**40,162**	37,612	37,612
Trading derivatives	(b)	**47,889**	**47,889**	40,587	40,587
Other financial liabilities at fair value	(e)	**23,726**	**23,726**	19,887	19,887
Hedging derivatives	(b)	**4,550**	**4,550**	1,444	1,444
Deposits and other borrowings	(g)	**402,964**	**403,092**	353,232	353,356
Liability on acceptances	(a)	**10,633**	**10,633**	12,549	12,549
Life policy liabilities	(h)	**53,608**	**53,608**	54,354	54,354
Bonds, notes and subordinated debt	(i)	**99,768**	**99,775**	93,203	93,621
Other debt issues	(i)	**2,494**	**2,494**	2,502	2,788
External unitholders' liability	(d)	**9,959**	**9,959**	10,241	10,241
Other liabilities	(a)	**13,336**	**13,336**	19,401	19,401
Total financial liabilities		**709,089**	**709,224**	645,012	645,840

42 Fair value of financial instruments (continued)

		2011		2010	
Company	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**22,532**	**22,532**	21,570	21,570
Due from other banks	(a)	**36,853**	**36,853**	30,102	30,102
Trading derivatives	(b)	**47,353**	**47,353**	37,832	37,832
Trading securities	(c)	**31,513**	**31,513**	23,386	23,386
Investments - available for sale	(c)	**14,516**	**14,516**	8,965	8,965
Investments - held to maturity	(c)	**6,249**	**6,247**	5,111	5,117
Other financial assets at fair value	(e)	**26,765**	**26,765**	13,996	13,996
Hedging derivatives	(b)	**3,051**	**3,051**	2,268	2,268
Loans and advances	(f)	**294,171**	**294,546**	269,807	269,798
Due from customers on acceptances	(a)	**43,006**	**43,006**	49,665	49,665
Due from controlled entities	(j)	**53,597**	**52,933**	49,556	49,556
Other assets	(a)	**4,272**	**4,272**	3,886	3,886
Total financial assets		**583,878**	**583,587**	516,144	516,141
Financial liabilities					
Due to other banks	(a)	**35,902**	**35,902**	34,267	34,267
Trading derivatives	(b)	**46,048**	**46,048**	38,473	38,473
Other financial liabilities at fair value	(e)	**3,444**	**3,444**	2,749	2,749
Hedging derivatives	(b)	**4,317**	**4,317**	811	811
Deposits and other borrowings	(g)	**317,156**	**317,308**	272,833	272,897
Liability on acceptances	(a)	**10,622**	**10,622**	12,536	12,536
Due to controlled entities	(j)	**45,653**	**45,653**	36,760	36,760
Bonds, notes and subordinated debt	(i)	**89,648**	**89,668**	83,559	83,911
Other debt issues	(i)	**1,939**	**1,939**	1,940	2,226
Other liabilities	(a)	**8,485**	**8,485**	14,200	14,200
Total financial liabilities		**563,214**	**563,386**	498,128	498,830

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 on acceptances, liability on acceptances, other assets** and **other liabilities,** approximate their fair value as they are short-term in nature or are receivable or payable on demand;

b) the fair values of **trading and hedging derivative assets and liabilities,** including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at 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 values of **trading securities, investments-available for sale** and **investments-held to maturity** 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 values of **other financial assets** and **liabilities at fair value** are based on quoted market prices and data or valuation techniques based predominately 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 is assumed to equate to the carrying value. The fair value of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at 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) the fair value of **deposits and other borrowings** that are non-interest-bearing, at call or at a fixed rate that reprice within six months of balance date are 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 policy liabilities** consist of policy liabilities from insurance contracts and policy liabilities from investment contracts. Policy liabilities from insurance contracts are measured predominantly using the projection method using assumptions outlined in *Note 49* and the carrying amount approximates fair value. Policy liabilities from investment contracts are measured at fair value which is based on the value of the assets that back those liabilities; and

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 appropriate credit spreads.

42 Fair value of financial instruments (continued)

j) the fair values of **amounts due from and to controlled entities** approximate their carrying amounts as they are short term in nature or are receivable or payable on demand, except for amounts due from securitisation conduits which are determined on a look through basis. The fair values of the securitisation conduits' underlying assets are determined using the same basis as trading securities as described in footnote (c).

Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items was not calculated as very few of the commitments extending beyond six months would commit the Company or the Group to a predetermined rate of interest and the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements.

Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 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).
- 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).

	Fair value measurement as at 30 September 2011			
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
Financial assets				
Trading derivatives	161	48,187	118	48,466
Trading securities	6,500	28,128	-	34,628
Investments - available for sale	3,032	14,869	144	18,045
Investments relating to life insurance business	1,558	59,762	2,600	63,920
Other financial assets at fair value	-	51,736	20	51,756
Hedging derivatives	-	4,108	-	4,108
Total financial assets measured at fair value	11,251	206,790	2,882	220,923
Financial liabilities				
Trading derivatives	184	47,701	4	47,889
Other financial liabilities at fair value	241	23,485	-	23,726
Hedging derivatives	-	4,550	-	4,550
Life investment contract liabilities	-	51,292	-	51,292
External unitholders' liability	-	9,959	-	9,959
Total financial liabilities measured at fair value	425	136,987	4	137,416

	Fair value measurement as at 30 September 2010			
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
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)	-	1,392	-	1,392
Total financial assets measured at fair value	11,872	171,947	1,987	185,806
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 (1)	-	8,698	-	8,698
Total financial liabilities measured at fair value	574	132,870	4	133,448

(1) *These amounts relate to the net principal receivable and payable on hedging and trading cross currency swaps used for risk management purposes. The equivalent 30 September 2011 balances are presented within trading and hedging derivatives.*

42 Fair value of financial instruments (continued)

	2011			
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**
Financial assets				
Trading derivatives	158	47,077	118	47,353
Trading securities	5,634	25,879	-	31,513
Investments - available for sale	16	14,410	90	14,516
Other financial assets at fair value	-	26,765	-	26,765
Hedging derivatives	-	3,051	-	3,051
Total financial assets measured at fair value	5,808	117,182	208	123,198
Financial liabilities				
Trading derivatives	176	45,872	-	46,048
Other financial liabilities at fair value	239	3,205	-	3,444
Hedging derivatives	-	4,317	-	4,317
Total financial liabilities measured at fair value	415	53,394	-	53,809

	2010			
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
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)]	-	1,392	-	1,392
Total financial assets measured at fair value	5,915	81,584	340	87,839
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 [(1)]	-	8,496	-	8,496
Total financial liabilities measured at fair value	568	49,961	-	50,529

(1) *These amounts relate to the net principal receivable and payable on hedging and trading cross currency swaps used for risk management purposes. The equivalent 30 September 2011 balances are presented within trading and hedging derivatives.*

42 Fair value of financial instruments (continued)

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	2011				
Group	**Trading derivatives $m**	**Investments - available for sale $m**	**Investments relating to life insurance business $m**	**Other financial assets at fair value $m**	**Total $m**
Balance at the beginning of year	256	131	1,543	57	1,987
Total gains/(losses)					
In profit or loss	(35)	(9)	231	16	203
In other comprehensive income	-	2	-	-	2
Purchases and issues	-	11	354	20	385
Sales and settlements	(10)	-	-	(47)	(57)
Transfers into Level 3	37	11	472	-	520
Transfers out of Level 3	(130)	(2)	-	(26)	(158)
Balance at the end of year	118	144	2,600	20	2,882
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:					
- In profit or loss	(35)	(9)	231	-	187
- In other comprehensive income	-	2	-	-	2

	2010					
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
Balance at the beginning of year	302	485	126	1,424	32	2,369
Total gains/(losses)						
In profit or loss	(135)	-	(20)	119	-	(36)
Purchases and issues	-	-	26	-	25	51
Sales and settlements	-	(140)	(1)	-	-	(141)
Transfers into Level 3	89	-	-	-	-	89
Transfers out of Level 3	-	(345)	-	-	-	(345)
Balance at the end of year	256	-	131	1,543	57	1,987
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:						
- In profit or loss	(135)	-	(20)	119	-	(36)

	2011		
Company	**Trading derivatives $m**	**Investments - available for sale $m**	**Total $m**
Balance at the beginning of year	256	84	340
Total gains/(losses)			
In profit or loss	(35)	-	(35)
In other comprehensive income	-	2	2
Purchases and issues	-	4	4
Sales and settlements	(10)	-	(10)
Transfers into Level 3	37	-	37
Transfers out of Level 3	(130)	-	(130)
Balance at the end of year	118	90	208
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	(35)	-	(35)
- In other comprehensive income	-	2	2

42 Fair value of financial instruments (continued)

Company	2010 Trading derivatives $m	Trading securities $m	Investments - available for sale $m	Total $m
Balance at the beginning of year	302	485	90	877
Total gains/(losses)				
In profit or loss	(135)	-	(15)	(150)
Purchases and issues	-	-	9	9
Sales and settlements	-	(140)	-	(140)
Transfers into Level 3	89	-	-	89
Transfers out of Level 3	-	(345)	-	(345)
Balance at the end of year	256	-	84	340
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:				
- In profit or loss	(135)	-	(15)	(150)

Liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Group	**2011 Trading derivatives $m**	2010 Trading derivatives $m
Balance at the beginning of year	**4**	-
Purchases	**-**	4
Balance at the end of year	**4**	4

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy for the Company or the Group in the current or prior period.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Group is in respect of private equity investments included in investments relating to life insurance business. Changing one or more of the inputs for measurement of these investments to reasonably possible alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than 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.

43 Operating leases

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Due within one year	**319**	327	**254**	288
Due after one year but no later than five years	**1,019**	1,049	**746**	891
Due after five years	**1,545**	1,224	**713**	481
Total non-cancellable operating lease commitments	**2,883**	2,600	**1,713**	1,660

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 2011 is $24 million (2010: $26 million) for the Group and $23 million (2010: $26 million) for the Company. During the 2011 year, sub-lease payments received amounted to $16 million (2010: $16 million) for the Group and $9 million (2010: $9 million) for the Company 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	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Due within one year	**68**	85	**55**	72
Due after one year but no later than five years	**129**	122	**85**	70
Due after five years	**61**	66	**25**	-
Total non-cancellable operating lease receivables	**258**	273	**165**	142

44 Capital expenditure commitments

	Group		Company	
	2011 $m	2010 $m	**2011 $m**	2010 $m
Land and buildings				
Due within one year	**56**	48	**56**	44
Due after one year but no later than five years	**104**	-	**104**	-
Data processing and other equipment				
Due within one year	**61**	94	**49**	77
Due after one year but no later than five years	**11**	5	**11**	-
Other				
Due within one year	**27**	9	**25**	3
Total capital expenditure commitments	**259**	156	**245**	124

45 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 and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis with overseas controlled entities and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to 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 39* for details of controlled entities. The Company has certain guarantees and undertakings with entities in the Group. For further details, refer to *Note 40*.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The aggregate amounts receivable from subsidiaries for the last two years to 30 September were:

	Company	
	2011 $m	2010 $m
Balance at beginning of year	**12,796**	8,261
Net cash flows in amounts due from/to controlled entities	**(4,791)**	4,724
Provisions for impairment of intercompany loans to securitisation conduits	**(21)**	(555)
Net foreign currency translation movements & other amounts receivables	**(40)**	366
Balance at end of year	**7,944**	12,796

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2011 $m	2010 $m
Net interest income	**399**	183
Net operating lease revenue	**26**	19
Net management fees	**139**	84
Dividend revenue	**1,054**	862

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
Payment to:	**2011 $m**	2010 $m	**2011 $m**	2010 $m
National Australia Bank Group Superannuation Fund A	**200**	183	**200**	183
Yorkshire and Clydesdale Bank Pension Scheme	**168**	162	**3**	3
National Australia Group Defined Contribution Pension Scheme (UK)	**27**	22	**4**	1
National Wealth Management Superannuation Plan	**5**	4	**-**	-
Bank of New Zealand Offices Provident Association (Division 2)	**8**	9	-	-

Transactions between the Group and superannuation plans sponsored by the Group during the last two years were made on commercial terms and conditions.

45 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 2011:

Name	Position
CA Clyne	Executive Director, Group Chief Executive Officer
MA Joiner	Executive Director, Finance
MJ Ullmer [(1)]	Executive Director, Deputy Group Chief Executive Officer
LJ Gray	Group Executive, Personal Banking
AP Hagger [(2)]	Group Executive, Corporate Affairs & Marketing
MJ Healey	Group Executive, Governance
JC Healy	Group Executive, Business Banking
BF Munro	Group Chief Risk Officer
LM Peacock [(3)]	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
DJ Thorburn [(4)]	Group Executive, United Kingdom
SJ Tucker	Group Executive, MLC and 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	Non-executive director

(1) *Ceased as KMP on 31 August 2011.*
(2) *Commenced as KMP on 1 October 2010.*
(3) *Ceased as KMP on 1 July 2011.*
(4) *Commenced as KMP on 1 July 2011.*

Details of directors of the Company who held office during the year are set out in the *Report of the directors*.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended 30 September:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
Company and Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2011	**16,684,863**	**9,642,966**	**1,217,062**	**863,285**	**113,514**	**15,476,117**	**4,334,544**	**1,989,732**	**50,322,083**
2010	16,119,911	8,526,950	463,796	848,647	27,500	14,070,217	5,426,668	-	45,483,689

Performance options, performance rights and shareholdings of KMP are set out in *Note 46* 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 of 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 2010, the balance at the beginning of 2011 reflects the actual opening balance and, therefore, may differ from the prior year closing balance. Additionally, the balance as at the end of 2010 does not equal the balance at the beginning of 2011 because of changes to the KMP of the Group and Company between 2010 and 2011.

Notes to the financial statements

45 Related party disclosures (continued)

The table below provides details of loans to the KMP and their related parties:

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							
2011	**Normal**	**6,598,745**	**647,524**	**-**	**-**	**12,107,708**	**11**
	Employee	**6,800,763**	**285,340**	**-**	**-**	**5,339,431**	**9**
2010	Normal	7,309,887	421,335	-	-	6,599,065	9
	Employee	5,570,247	315,846	-	-	5,808,049	11
Other related parties [1]							
2011	**Normal**	**30,360,359**	**1,876,939**	**-**	**-**	**37,779,069**	**10**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2010	Normal	29,764,968	1,510,129	-	-	30,359,921	10
	Employee	-	-	-	-	-	-

[1] *Includes related parties of the Company and the Group or the KMP's related parties which includes their close family members or any entity they or their close family members control, jointly control or significantly influence.*

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended 30 September 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 2011							
Executive directors							
CA Clyne	Normal	3,688,948	224,449	-	-	3,798,120	3,872,947
MA Joiner	Normal	40,001	28,217	-	-	1,549,059	1,641,798
Other senior executives							
LJ Gray	Employee	612	-	-	-	932	5,851
	Normal	2,173,135	148,439	-	-	2,264,499	2,356,970
MJ Healey	Employee	461,102	-	-	-	-	1,825
	Normal	438	15,351	-	-	465,445	461,000
JC Healy	Employee	367,103	2,652	-	-	-	367,103
	Normal	-	205,770	-	-	3,501,493	3,527,228
BF Munro	Employee	172,929	11,227	-	-	214,612	214,612
RJ Sawers	Employee	3,535	-	-	-	7,390	11,020
	Normal	724,176	32,724	-	-	469,361	570,860
GR Slater	Employee	1,667,162	73,403	-	-	1,118,756	1,667,162
	Normal	152,575	1,921	-	-	-	152,575
AG Thorburn	Employee	634,644	35,761	-	-	621,709	682,059
	Normal	1,528,619	87,143	-	-	1,576,676	29,778
DJ Thorburn	Employee	992,612	18,103	-	-	885,289	959,793
SJ Tucker	Employee	2,501,064	144,194	-	-	2,490,743	2,501,064
Non-executive director							
DT Gilbert [2]	Normal	28,621,272	1,780,080	-	-	36,244,887	650,000

[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.*

45 Related party disclosures (continued)

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							
Executive directors							
CA Clyne	Employee	-	-	-	-	-	-
	Normal	3,803,529	234,995	-	-	3,688,948	4,030,167
MA Joiner	Normal	772,812	18,507	-	-	40,001	772,812
Other senior executives							
LJ Gray	Employee	199,037	3,001	-	-	612	612
	Normal	1,936,660	134,184	-	-	2,173,135	2,173,135
MJ Healey	Employee	461,194	29,227	-	-	461,102	461,806
	Normal	1,500,000	52,687	-	-	-	-
JC Healy	Employee	-	18,656	-	-	367,103	539,451
BF Munro	Employee	165,047	10,317	-	-	172,929	176,749
RJ Sawers	Employee	334,827	11,562	-	-	407,126	403,000
	Normal	-	14,990	-	-	320,906	376,053
GR Slater	Employee	1,688,477	95,174	-	-	1,667,162	1,688,477
	Normal	291,586	4,398	-	-	152,575	291,586
AG Thorburn	Employee	685,887	35,539	-	-	634,644	685,887
	Normal	1,646,703	89,366	-	-	1,528,619	5,553
SJ Tucker	Employee	2,016,924	123,091	-	-	2,501,064	2,525,800
Non-executive director							
DT Gilbert [(2)]	Normal	27,089,766	1,368,994	-	-	28,621,272	490,000

(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.*

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.

46 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 has moved to a policy of providing performance rights as long-term incentives from 2011.

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)] No.**	**Granted during year as remuneration No.**	**Exercised during year No.**	**Lapsed or expired during year No.**	**Balance at end of year No.**	**Vested during year No.**	**Vested and exercisable at end of year No.**
KMP for the year ended 30 September 2011							
Executive directors							
CA Clyne	281,712	-	-	(68,045)	213,667	23,405	23,405
MA Joiner	513,029	-	-	(160,351)	352,678	22,776	22,776
Other senior executives							
LJ Gray	106,500	-	-	(62,334)	44,166	-	-
AP Hagger	-	-	-	-	-	-	-
MJ Healey	27,358	-	-	(20,698)	6,660	1,288	1,288
JC Healy	12,500	-	-	(3,275)	9,225	1,784	1,784
BF Munro	77,083	-	-	(49,583)	27,500	-	-
RJ Sawers	70,833	-	-	(33,933)	36,900	7,134	7,134
GR Slater	135,666	-	-	(53,674)	81,992	11,984	11,984
AG Thorburn	115,666	-	-	(69,541)	46,125	8,918	8,918
DJ Thorburn	159,333	-	-	(62,341)	96,992	11,984	11,984
SJ Tucker	195,666	-	-	(106,091)	89,575	12,484	12,484
Former executives							
LM Peacock	838,209	-	-	(231,769)	606,440	39,427	39,427
MJ Ullmer	592,397	-	-	(145,958)	446,439	33,226	33,226

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

	Performance options						
Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
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.*

No performance options were vested and unexercisable at 30 September 2011 (2010: nil).

46 Equity instrument holdings of key management personnel (continued)

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

Name	Performance rights						
	Balance at beginning of year [(1)] No.	**Granted during year as remuneration No.**	**Exercised during year No.**	**Lapsed or expired during year No.**	**Balance at end of year No.**	**Vested during year [(2)] No.**	**Vested and exercisable at end of year No.**
KMP for the year ended 30 September 2011							
Executive directors							
CA Clyne	175,714	-	(23,658)	(36,576)	115,480	3,478	-
MA Joiner	40,365	-	(1,004)	(35,175)	4,186	1,004	-
Other senior executives							
LJ Gray	25,146	-	-	(14,104)	11,042	-	-
AP Hagger	-	-	-	-	-	-	-
MJ Healey	6,840	-	-	(5,174)	1,666	323	323
JC Healy	3,125	-	-	(819)	2,306	446	446
BF Munro	74,145	-	(2,430)	(15,017)	56,698	-	-
RJ Sawers	17,708	-	-	(8,483)	9,225	1,784	1,784
GR Slater	33,917	-	(2,996)	(13,419)	17,502	2,996	-
AG Thorburn	145,230	59,116	(9,308)	(17,386)	177,652	9,308	-
DJ Thorburn	39,833	-	-	(15,585)	24,248	2,996	2,996
SJ Tucker	48,917	-	(3,122)	(26,523)	19,272	3,122	-
Former executives							
LM Peacock	119,055	-	(6,982)	(57,942)	54,131	6,982	-
MJ Ullmer	64,629	-	(5,440)	(36,490)	22,699	5,440	-

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

(2) *For details of performance rights that have vested during the year, refer to the Remuneration report.*

Name	Performance rights						
	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year [(2)] No.	Vested and exercisable at end of year No.
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 allocated in lieu of 2008 Motivation and Retention program shares due to jurisdictional reasons and paid in May 2010.*

No performance rights were vested and unexercisable at 30 September 2011 (2010: nil).

46 Equity instrument holdings of key management personnel (continued)

(ii) Shareholdings

The numbers of shares in the Company held (directly and nominally) 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:

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration [(2)] No.	Received during year on exercise of performance options or rights No.	Other changes during year No.	Balance at end of year [(3)] No.
KMP for the year ended 30 September 2011					
Executive directors					
CA Clyne	254,565	211,874	23,658	-	490,097
MA Joiner	373,197	88,158	1,004	(14,196)	448,163
Other senior executives					
LJ Gray	103,581	57,240	-	(2,240)	158,581
AP Hagger	114,086	50,896	-	-	164,982
MJ Healey	83,176	39,227	-	(8,425)	113,978
JC Healy	213,269	77,946	-	61,753	352,968
BF Munro	67,688	50,505	2,430	-	120,623
RJ Sawers	118,441	61,747	-	(18,413)	161,775
GR Slater	134,415	62,357	2,996	(54,912)	144,856
AG Thorburn	63,471	-	9,308	(22,558)	50,221
DJ Thorburn	64,860	24,601	-	(18,301)	71,160
SJ Tucker	103,163	61,747	3,122	(54,599)	113,433
Former executives					
LM Peacock	284,763	54,545	6,982	(78,913)	267,377
MJ Ullmer	246,282	91,915	5,440	(28,045)	315,592
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	40,428	-	-	964	41,392
JA Waller	2,000	-	-	2,000	4,000
GM Williamson	9,407	-	-	-	9,407
AKT Yuen	5,059	-	-	-	5,059

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

(2) *For details regarding the terms and conditions of shares granted as remuneration under 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.*

46 Equity instrument holdings of key management personnel (continued)

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration [(2)] No.	Received during year on exercise of performance options or rights No.	Other changes during year No.	Balance at end of year [(3)] No.
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 held prior to individuals becoming KMP.*

(2) *For details regarding the terms and conditions of shares granted as remuneration under 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.*

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

Name	**2011** Balance at beginning of year No.	**2011** Changes during year No.	**2011** Balance at end of year No.
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

Name	2010 Balance at beginning of year No.	2010 Changes during year No.	2010 Balance at end of year No.
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

47 Remuneration of external auditor

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Amounts paid or due and payable to Ernst & Young Australia: (1)				
Audit fees				
Audit and review of financial statements	**11,178**	11,415	**6,966**	6,960
Comfort letters	**330**	265	**330**	265
Total audit fees	**11,508**	11,680	**7,296**	7,225
Audit-related fees				
Regulatory	**3,522**	5,595	**1,862**	2,065
Non-regulatory	**234**	713	**192**	288
Total audit-related fees	**3,756**	6,308	**2,054**	2,353
All other fees	**941**	1,812	**641**	929
Total remuneration of Ernst & Young Australia	**16,205**	19,800	**9,991**	10,507
Amounts paid or due and payable to overseas practices of Ernst & Young: (1)				
Audit fees				
Audit and review of financial statements	**6,226**	5,681	**1,032**	997
Comfort letters	**19**	410	**-**	-
Total audit fees	**6,245**	6,091	**1,032**	997
Audit-related fees				
Regulatory	**153**	1,342	**58**	84
Non-regulatory	**16**	695	**-**	670
Total audit-related fees	**169**	2,037	**58**	754
All other fees	**-**	191	**-**	-
Total remuneration of overseas practices of Ernst & Young	**6,414**	8,319	**1,090**	1,751
Amounts paid or due and payable to BKD LLP: (1) (2)				
Audit fees				
Audit and review of financial statements of Great Western Bank	**-**	302	**-**	-
Total remuneration of BKD LLP	**-**	302	**-**	-

(1) *Amounts exclude goods and services tax, value-added tax or equivalent taxes.*

(2) *BKD LLP were the auditor of the Group's US subsidiary, Great Western Bancorporation Inc, from 17 January 2009 until 26 July 2011. Ernst & Young were appointed the auditor of Great Western Bancorporation Inc on 26 July 2011.*

Audit fees consist of fees for the audit of the annual consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings.

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls.

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.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Further details of the non-audit services provided by Ernst & Young to the Group during 2011 and the fees paid or due and payable for those services are set out in the *Report of the directors*.

48 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	
	2011 $m	2010 $m
Funds under management	**18,035**	18,568
Funds under trusteeship	**6,440**	7,093
Funds under custody and investment administration	**676,077**	683,737

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

49 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 on 1 October 2009 and subsequently renamed it as WM Life Australia Limited (WMLAL). WMLAL life insurance business was amalgamated with the life insurance business in MLC under Part 9 of the *Life Insurance Act* 1995 (Cth) on 2 October 2010. WMLAL ceased to operate as a registered life insurance company in June 2011.

This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities. Current year disclosures present MLC life insurance business post-amalgamation while prior year comparatives include WMLAL as a separate entity in the Group.

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this Financial report, including compliance with the regulations of the *Life Insurance Act* 1995 (Cth) where appropriate.

(a) Risk management in life insurance business

The management of risks inherent in the life insurance business 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, Australian Prudential Regulation Authority (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.

	MLC		MLC Lifetime		WMLAL
	2011 $m	2010 $m	**2011 $m**	2010 $m	2010 $m
Solvency reserve as at 30 September	**617**	547	**175**	152	76
Assets available for solvency as at 30 September	**1,089**	862	**404**	337	228
Coverage of solvency reserve (times)	**1.8**	1.6	**2.3**	2.2	3.0

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.

(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 " Life insurance contracts", and AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 118 "Revenue" for life investment contracts.

49 Life insurance business disclosures (continued)

(ii) Types of business and profit carriers

The methods used, and in the case of life insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	Actuarial method	Profit carrier
Investment-linked	Fair value	n/a
Non-investment-linked		
Traditional business - participating	Projection	Bonuses
Traditional business - non-participating	Projection	Premiums
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Group insurance	Accumulation	n/a
Annuity business	Projection	Annuity payments
Term deposits	Accumulation	n/a
Fixed rate options	Accumulation	n/a
Investment account	Accumulation	n/a

(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. Rates shown are based on average duration.

Discount rates	2011 %	2010 %
Traditional business - participating		
Ordinary [1]	**4.4**	4.9
Superannuation [1]	**5.4**	6.0
Term life and disability income (excluding claims in payment) insurance	**4.3 - 5.2**	5.2 - 5.7
Disability claims in payment	**4.9**	5.6
Annuity business [2]	**4.1 - 5.0**	4.8 - 5.4

(1) *After tax.*

(2) *After investment expense of 0.20%.*

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by inflation of 2.6% (2010: 2.7%) 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 2.6% (2010: 2.7%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *Note 1(gg)*.

49 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by various bodies as indicated below, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 75% of IA 95-97[1] ; 100% of ALT 00/02 [2] Female: 85% of IA 95-97 [1] ; 100% of ALT 00/02 [2]
Term life insurance	Male/Female : 69 - 95% 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 30-100% of termination rates of IAD 89-93 [3] Female: Rates similar to 45-100% of incidence and 30-100% 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 maximum 95% of IM 92 [4] Female: 45.125% + 1.425% for each year > 75 to maximum 95% of IF 92 [4]

(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 Australian Government Actuary based on Australian population 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).*

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows. Discontinuance rates may vary according to a range of policyholder variables. Rates shown generally reflect the weighted average within each range.

Product type	**2011 %**	2010 %
Traditional business - participating		
Ordinary	**6**	6
Superannuation	**7**	7
Term life insurance	**10-11**	10-11
Disability insurance	**11-12**	11-12
Loan cover term life and disability income insurance	**30-32**	30-32

(viii) Surrender values

Surrender values are based on the terms specified in policy contracts. The surrender value basis for traditional policies typically allows for 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, bonus rates are set such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of business are:

	Ordinary business		Superannuation business	
	2011 %	2010 %	**2011 %**	2010 %
Bonus rate on sum assured	**0.8**	0.9	**1.3**	1.4
Bonus rate on existing bonuses	**0.8**	0.9	**1.3**	1.4

49 Life insurance business disclosures (continued)

(d) Actuarial assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(e) Effects of changes in actuarial assumptions - Australian life insurers

	2011		2010	
Assumption category	**Increase/ (decrease) in future profit margins $m**	**Increase/ (decrease) in net policy liabilities $m**	Increase/ (decrease) in future profit margins $m	Increase/ (decrease) in net policy liabilities $m
Market-related changes to discount rates	**36**	**23**	58	(6)
Non-market-related changes to discount rates	**-**	**-**	(2)	-
Inflation rate	**-**	**(2)**	(12)	15
Mortality and morbidity	**(164)**	**(5)**	-	-
Discontinuance rates	**(36)**	**-**	-	-
Maintenance expenses	**(26)**	**-**	-	-
Other assumptions	**147**	**-**	-	(2)
Total	**(43)**	**16**	44	7

(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.

		2011			
		Gross (before reinsurance)		**Net (of reinsurance)**	
Variable	**Change in variable**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**
Inflation rate	0.5% increase in inflation rate	(7)	33	(7)	31
Annuitant mortality	50% increase in rate of mortality improvements	(20)	28	(20)	28
Mortality	10% increase in mortality rates	-	1	-	1
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(31)	45	(25)	36
Discontinuance rates	10% increase in discontinuance rates	-	1	-	1
Maintenance expenses	10% increase in maintenance expenses	(1)	2	(1)	2

		2010			
		Gross (before reinsurance)		Net (of reinsurance)	
Variable	Change in variable	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m
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

49 Life insurance business disclosures (continued)

(g) Terms and conditions of insurance contracts

The key terms and conditions of 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	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	
Sources of operating profit	**2011 $m**	2010 $m
Life insurance contracts		
Emergence of shareholder planned margins	**182**	193
Experience profit/(loss)	**18**	(41)
Reversal of capitalised losses recognised	**(5)**	-
Life investment contracts		
Fees earned	**128**	141
Investment earnings on shareholder retained profits and capital	**104**	126

	Total life insurance funds	
Schedule of expenses	**2011 $m**	2010 $m
Outward reinsurance expense	**199**	174
Claims expense	**794**	695
Change in policy liabilities	**(475)**	1,724
Policy acquisition expense		
Commission	**222**	214
Other	**184**	190
Policy maintenance expense		
Commission	**262**	255
Other	**246**	271
Investment management expense	**5**	35
Total life insurance expenses	**1,437**	3,558

50 Capital adequacy

As an authorised deposit-taking institution (ADI), the National Australia Bank Limited is subject to regulation by Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act* 1959 (Cth). APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel 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 statements being shareholders equity. From this a number of elements must be deducted such as goodwill. 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. Tier 2 capital generally includes long-term subordinated debt.

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, Interest Rate Risk in the Banking Book (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 2010 the Basel Committee released its finalised standards for wide ranging regulatory reform of the capital and liquidity framework. In response to the Basel Committee's framework, in September 2011, APRA released its discussion paper outlining its proposed approach to implementing the Basel III capital reforms in Australia. Following industry response submissions due in early December 2011, APRA will then issue draft prudential standards and reporting requirements for consultation in early 2012 with implementation of the Basel III capital requirements from 1 January 2013.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Principal Board (Board). Target ranges are set by reference to factors such as the risk appetite of the Board, and market, regulatory and rating agencies expectations. The Board approved Tier 1 target is 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.

51 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 55 to 160 and the additional disclosures included in the audited pages of the Remuneration report, comply with Accounting Standards in Australia, International Financial Reporting Standards as stated in *Note 1(b)* to the financial statements, and the *Corporations Act* 2001 (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of the Company and the Group as at 30 September 2011, and of the performance of the Company and the Group for the year ended 30 September 2011;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and

2 there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 (refer to *Notes 39* and *40* to the financial statements for further details).

Dated this 11th day of November 2011 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, which comprises the balance sheet as at 30 September 2011, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled (the Group) at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the Directors.

Opinion

In our opinion:

a. the financial report of National Australia Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of the Company and the Group as at 30 September 2011 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 42 of the Report of the Directors for the year ended 30 September 2011. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

AJ (Tony) Johnson
Partner
Melbourne

11 November 2011

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2011

	Number of shares	%
HSBC Custody Nominees	372,654,323	16.93
JP Morgan Nominees Australia Limited	283,166,053	12.86
National Nominees Limited	265,654,166	12.07
Citicorp Nominees Pty Limited	83,754,842	3.80
Citicorp Nominees Pty Limited, Colonial First State Inv A/C	39,413,847	1.79
Cogent Nominees Pty Limited	35,776,771	1.63
National Australia Trustees	27,920,876	1.27
AMP Group	22,115,670	1.00
JP Morgan Nominees Australia Limited, Cash Income A/C	16,900,845	0.77
Queensland Investment Corporation	14,614,511	0.66
Australia Foundation Investment Company Limited	9,342,065	0.42
RBC Dexia Investor Services Australia Nominees Pty Limited, PIPOOLED A/C	9,170,000	0.42
UBS Wealth Management Australia Nominees Pty Limited	8,832,780	0.40
Cogent Nominees Pty Limited, SMP A/C	8,307,938	0.38
Perpetual Trustee Aust Group	6,319,255	0.29
Australian Reward Investment Alliance	5,539,313	0.25
Argo Investments Limited	5,156,609	0.23
Navigator Australia Limited, Navigator Pers Plan Sett A/c	4,496,034	0.20
Milton Corporation Limited	4,328,688	0.20
Tasman Asset Management Limited, Tyndall Australian Share Whole	4,221,244	0.19
Total	1,227,685,830	55.76

Substantial shareholders

As at 31 October 2011 there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	286,722	60.2	113,520,637	5.2
1,001 – 5,000	155,809	32.7	338,522,240	15.4
5,001 – 10,000	21,411	4.5	147,905,073	6.7
10,001 – 100,000	12,054	2.5	245,260,486	11.1
100,001 and over	391	0.1	1,356,000,286	61.6
Total	476,387	100.0	2,201,208,722	100.0
Less than marketable parcel of $500	14,174		120,764	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Shareholder information

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2011

	Number of securities	%
JP Morgan Nominees Australia Limited	890,910	4.45
Bow Lane Nominees Pty Limited	607,560	3.04
HSBC Custody Nominees (Australia) Limited	423,077	2.12
National Nominees Limited	340,223	1.70
UBS Wealth Management Australia Nominees Pty Limited	323,082	1.62
Navigator Australia Limited, Navigator Pers Plan Sett A/C	322,909	1.61
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	258,845	1.29
Questor Financial Services Limited, TPS RF A/C	206,860	1.03
M F Custodians Limited	186,857	0.93
UBS Nominees Pty Limited, TP00014 10 A/C	95,988	0.48
Netwealth Investments Limited, Wrap Services A/C	94,614	0.47
Perpetual Trustee Company Limited	90,717	0.45
Australian Executor Trustees Limited, No 1 A/C	79,616	0.40
Peninsula Harbour Pty Limited, Peninsula Harbour Unit A/C	76,740	0.38
RBC Dexia Investor Services Australia Nominees Pty Limited, GSENIP A/C	72,986	0.36
Citicorp Nominees Pty Limited	70,943	0.35
Custodial Services Limited, Beneficiaries Holdings A/C	65,112	0.33
JP Morgan Nominees Australia Limited, Cash Income A/C	58,368	0.29
Dudley Pines Pty Limited	57,816	0.29
Cogent Nominees Pty Limited	55,182	0.28
Total	4,378,405	21.87

Distribution of NIS holdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	35,561	93.2	8,242,270	41.2
1,001 – 5,000	2,313	6.1	4,591,473	23.0
5,001 – 10,000	151	0.4	1,073,409	5.4
10,001 – 100,000	105	0.3	2,532,525	12.6
100,001 and over	9	0.0	3,560,323	17.8
Total	38,139	100.0	20,000,000	100.0
Less than marketable parcel of $500	39		164	

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, FCID

Group Chief Executive Officer
Mr Cameron A Clyne
BA

Executive Director, Finance
Mr Mark A Joiner
ACA, MBA

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Auditor
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Company Secretary
Ms Michaela J Healey
LLB, FCIS

Shareholders' centre website
The Group's website at www.nabgroup.com has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' centre information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details
These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

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Shareholder information

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:

- National Income Securities and mortgage backed securities which are quoted on the ASX;
- subordinated bonds and perpetual shares through BNZ Income Securities Limited and BNZ Income Securities 2 Limited which are quoted on the NZDX of the New Zealand Exchange;
- Trust Preferred Securities, National Capital Instruments, Perpetual Capital Notes, medium-term notes, mortgage backed securities, subordinated bonds and covered bonds which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities, medium-term notes and subordinated notes which are quoted on the Channel Islands Stock Exchange;
- undated subordinated floating rate notes, mortgage backed securities and covered bonds which are quoted on the London Stock Exchange; and
- medium-term notes which are quoted on the Swiss Stock Exchange.

Glossary

Term Used	Description
AASB	Australian Accounting Standards Board.
ADI	Authorised deposit-taking institution.
ADR	American depositary receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited.
ATO	Australian Taxation Office.
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 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 Group. Many of the adjustments below are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflects the performance of the business segment as it is managed. It does not refer to, or in any way purport to represent the cash flows, funding or liquidity position of the 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 IoRE discount rate variation UK Payment Protection Insurance provision Hedging costs on SCDO assets Efficiency, quality and service initiatives (EQS) Litigation expense Property revaluation Provision for tax NZ structured finance transactions MLC reinsurance dispute Refund of tax on exchangeable capital units (ExCaps) settlement Amortisation of acquired intangible assets Due diligence, acquisition and integration costs Net profit/(loss) on sale of controlled entities Significant items
CDO	Collateralised Debt Obligations.
CGU	Cash generating unit.
Company	National Australia Bank Limited.
Conduit	Special purpose entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
Disposed operations	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 facilitates a like-for-like comparison.
Distributions	Payments to holders of other equity instruments issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments. Distributions are subtracted from net profit to reflect the amount that is attributable to ordinary shareholders.
EaR	Earnings at risk.
Efficiency, quality and services initiatives	Represent those costs that the Group accelerated in response to the economic downturn to bring forward efficiency gains that would otherwise have been realised in subsequent periods.
ExCaps	Exchangeable capital units.
ExCaps taxation assessment	Represents the reduction, in the year ended 30 September 2009, of the carrying value of the $309 million receivable due from the ATO in relation to its exchangeable capital units (ExCaps) to nil. The ATO disallowed the Group's objections to the ExCaps taxation assessments. Subsequently the Group settled and obtained a refund of $142 million previously paid to the Australian Taxation office in relation to the ExCaps assessment.
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	United Kingdom Financial Services Authority.
FSCS	UK Financial Services Compensation Scheme.
GAAP	Generally Accepted Accounting Principles.

Glossary

Term Used	Description
Group	National Australia Bank Limited and its controlled entities.
GWB	Great Western Bank.
IFRS	International Financial Reporting Standards.
Impaired Assets	Consist of: - retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; - non retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
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 Insurance Act* 1995 (Cth). - interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting. - less the borrowing costs of any capital funding initiatives.
IoRE discount rate variation	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk free discount rate.
IRD	NZ Inland Revenue Department.
IRRBB	Interest rate risk in the banking book.
ISDA	International Swaps and Derivatives Association.
MLC	MLC Limited.
MLC Lifetime	MLC Lifetime Company Limited.
MoS	Margin on Services.
NAB	National Australia Bank Limited.
NCI	National Capital Instrument.
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 owners.
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 owners.
NIS	National Income Securities.
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 and other borrowings	Comprises deposits held by Wholesale Banking and Specialised Group Assets, certificates of deposits, securities sold under agreements to repurchase, and borrowings.
NWMSL	National Wealth Management Services Limited.
NZ	New Zealand.
NZDX	New Zealand Debt Market.
NZX	New Zealand Exchange Limited.
PPI	Payment protection insurance.
Property revaluation	Represents revaluation increments and 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.
Risk weighted assets	On and off balance sheet assets of the Bank are allocated a risk weighting based on the amount of capital required to support the asset. Under Basel II the Group calculates risk weighted assets for credit risk, market risk, operational risk and interest rate risk in the banking book.
SCDO	Synthetic Collateralised Debt Obligation.
SEC	United States 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.

Glossary

Term Used	Description
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
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	Shares in National Australia Bank Limited held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from share sales from shares held by the Group's life insurance business are eliminated for statutory reporting purposes.
UK	United Kingdom.
US	United States of America.
VaR	Value at risk.
Weighted Average Number of Shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share'.
WMLAL	WM Life Australia Limited.

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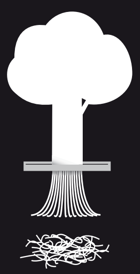
The full Paper Impact Statement can be viewed at:
www.nabgroup.com/cr

Taking action with climate friendly
climatefriendly.com/disclosure



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