

Section 4

Financial Report

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Consolidated Financial Statements

Income Statement

	Note	Year to		Half Year to	
		Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Interest income		29,203	28,543	14,222	14,981
Interest expense		(15,645)	(15,038)	(7,405)	(8,240)
Net interest income		13,558	13,505	6,817	6,741
Other income	3	4,373	5,596	1,945	2,428
Operating expenses	4	(9,827)	(9,910)	(5,236)	(4,591)
Credit impairment charge	8	(927)	(791)	(473)	(454)
Profit before income tax		7,177	8,400	3,053	4,124
Income tax expense	5	(2,087)	(2,455)	(868)	(1,219)
Net profit for the period from continuing operations		5,090	5,945	2,185	2,905
Net loss after tax for the period from discontinued operations	14	(289)	(388)	(79)	(210)
Net profit for the period		4,801	5,557	2,106	2,695
Profit attributable to non-controlling interests		3	3	2	1
Net profit attributable to owners of NAB		4,798	5,554	2,104	2,694
		cents	cents	cents	cents
Basic earnings per share		168.6	201.3	73.0	95.9
Diluted earnings per share		164.4	194.0	71.8	92.1
Basic earnings per share from continuing operations		178.9	215.6	75.8	103.5
Diluted earnings per share from continuing operations		173.9	207.2	74.4	99.1

Consolidated Financial Statements (continued)

Statement of Comprehensive Income

	Note	Year to		Half Year to	
		Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Net profit for the period from continuing operations		5,090	5,945	2,185	2,905
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		-	7	-	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		167	66	47	120
Revaluation of land and buildings		(2)	-	(2)	-
Currency adjustments on translation of other contributed equity		-	41	-	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains		15	19	8	7
Tax on items transferred directly to equity		(50)	(18)	(21)	(29)
Total items that will not be reclassified to profit or loss		130	115	32	98
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		284	(26)	193	91
Cost of hedging reserve		(260)	(76)	(71)	(189)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		110	15	(225)	335
Transfer to the income statement on disposal of foreign operations		(38)	(62)	(38)	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		37	(88)	(2)	39
Gains from sale transferred to the income statement		(2)	(9)	(1)	(1)
Change in loss allowance on debt instruments		-	5	1	(1)
Tax on items transferred directly to equity		(37)	38	(38)	1
Total items that will be reclassified subsequently to profit or loss		94	(203)	(181)	275
Other comprehensive income for the period, net of income tax		224	(88)	(149)	373
Total comprehensive income for the period from continuing operations		5,314	5,857	2,036	3,278
Net loss for the period from discontinued operations	14	(289)	(388)	(79)	(210)
Total comprehensive income for the period		5,025	5,469	1,957	3,068
Attributable to non-controlling interests		3	3	2	1
Total comprehensive income attributable to owners of NAB		5,022	5,466	1,955	3,067

Consolidated Financial Statements (continued)

Balance Sheet

	Note	As at		
		30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Assets				
Cash and liquid assets		55,457	54,044	50,188
Due from other banks		32,130	27,418	30,568
Trading instruments		96,828	84,043	78,228
Debt instruments		40,205	42,873	42,056
Other financial assets		7,110	8,827	10,041
Hedging derivatives		4,689	3,055	3,840
Loans and advances		587,749	585,730	567,981
Due from customers on acceptances		2,490	3,096	3,816
Property, plant and equipment		1,117	1,133	1,199
Goodwill and other intangible assets		5,576	5,872	5,787
Deferred tax assets		2,670	2,232	2,083
Other assets ⁽¹⁾		11,103	8,620	10,723
Total assets		847,124	826,943	806,510
Liabilities				
Due to other banks		34,273	36,960	38,192
Trading instruments		34,318	23,287	22,422
Other financial liabilities		33,283	32,973	30,437
Hedging derivatives		4,037	2,985	2,547
Deposits and other borrowings	10	522,085	518,692	503,145
Current tax liabilities		468	229	103
Provisions		3,507	2,568	2,196
Bonds, notes and subordinated debt		143,258	140,699	140,222
Other debt issues		6,482	6,509	6,158
Other liabilities		9,809	7,950	8,376
Total liabilities		791,520	772,852	753,798
Net assets		55,604	54,091	52,712
Equity				
Contributed equity	11	38,707	36,850	35,982
Reserves	11	306	458	46
Retained profits		16,583	16,776	16,673
Total equity (parent entity interest)		55,596	54,084	52,701
Non-controlling interest in controlled entities		8	7	11
Total equity		55,604	54,091	52,712

⁽¹⁾ Includes cash collateral placed with third parties, accrued interest receivable, other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and investments in associates.

Consolidated Financial Statements (continued)

Condensed Cash Flow Statement

	Note	Year to		Half Year to	
		Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Cash flows from operating activities					
Interest received		29,471	28,340	14,533	14,938
Interest paid		(15,992)	(14,778)	(7,878)	(8,114)
Dividends received		28	49	18	10
Income tax paid		(2,251)	(2,634)	(1,066)	(1,185)
Other cash flows from operating activities before changes in operating assets and liabilities		(5,363)	5,222	(1,071)	(4,292)
Changes in operating assets and liabilities		4,517	(25,395)	(127)	4,644
Net cash provided by / (used in) operating activities⁽¹⁾		10,410	(9,196)	4,409	6,001
Cash flows from investing activities					
Movement in debt instruments					
Purchases		(22,567)	(22,018)	(9,428)	(13,139)
Proceeds from disposal and maturity		25,947	22,228	12,957	12,990
Proceeds from / (payments of) divestments and other debt and equity instruments		347	(132)	63	284
Purchase of property, plant, equipment and software		(1,135)	(1,051)	(680)	(455)
Proceeds from sale of property, plant, equipment and software, net of costs		21	19	18	3
Net cash provided by / (used in) investing activities		2,613	(954)	2,930	(317)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		(31,001)	(22,951)	(11,939)	(19,062)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		27,159	32,139	9,844	17,315
Proceeds from issue of ordinary shares, net of costs		1,000	-	1,000	-
Repayments of other contributed equity		(722)	-	-	(722)
Proceeds from other debt issues, net of costs		1,858	-	-	1,858
Repayments of other debt issues		(799)	(41)	(35)	(764)
Dividends and distributions paid (excluding dividend reinvestment plan)		(3,266)	(4,221)	(1,495)	(1,771)
Net cash provided by / (used in) financing activities		(5,771)	4,926	(2,625)	(3,146)
Net increase / (decrease) in cash and cash equivalents		7,252	(5,224)	4,714	2,538
Cash and cash equivalents at beginning of period		37,946	39,800	41,354	37,946
Effects of exchange rate changes on balance of cash held in foreign currencies		1,828	3,370	958	870
Cash and cash equivalents at end of period	12	47,026	37,946	47,026	41,354

⁽¹⁾ The September 2019 full year includes cash outflows related to the Group's discontinued operations, being \$95 million (September 2018: \$33 million) related to the Group's life insurance business and \$nil (September 2018: \$618 million) related to CYBG.

Consolidated Financial Statements (continued)

Statement of Changes in Equity

Group - Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	34,627	237	16,442	51,306	11	51,317
Net profit for the year from continuing operations	-	-	5,942	5,942	3	5,945
Net loss for the year from discontinued operations	-	-	(388)	(388)	-	(388)
Other comprehensive income for the year from continuing operations	-	(143)	55	(88)	-	(88)
Total comprehensive income for the year	-	(143)	5,609	5,466	3	5,469
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,182	-	-	1,182	-	1,182
Transfer from / (to) retained profits	-	(21)	21	-	-	-
Transfer from equity-based compensation reserve	173	(173)	-	-	-	-
Equity-based compensation	-	146	-	146	-	146
Dividends paid	-	-	(5,299)	(5,299)	(4)	(5,303)
Distributions on other equity instruments	-	-	(100)	(100)	-	(100)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	1	1
Balance at 30 September 2018	35,982	46	16,673	52,701	11	52,712
Net profit for the year from continuing operations	-	-	5,087	5,087	3	5,090
Net loss for the year from discontinued operations	-	-	(289)	(289)	-	(289)
Other comprehensive income for the year from continuing operations	-	114	110	224	-	224
Total comprehensive income for the year	-	114	4,908	5,022	3	5,025
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	2,803	-	-	2,803	-	2,803
Conversion of preference shares	750	-	-	750	-	750
Transfer from / (to) retained profits	-	(99)	99	-	-	-
Transfer from equity-based compensation reserve	147	(147)	-	-	-	-
Equity-based compensation	-	105	-	105	-	105
Dividends paid	-	-	(4,983)	(4,983)	(4)	(4,987)
Distributions on other equity instruments	-	-	(83)	(83)	-	(83)
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	(719)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	(2)	(2)
Balance at 30 September 2019	38,707	306	16,583	55,596	8	55,604

⁽¹⁾ Refer to Note 11 Contributed equity and reserves.⁽²⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.

Consolidated Financial Statements (continued)

Statement of Changes in Equity

Group - Half Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2018	35,982	46	16,673	52,701	11	52,712
Net profit for the period from continuing operations	-	-	2,904	2,904	1	2,905
Net loss for the period from discontinued operations	-	-	(210)	(210)	-	(210)
Other comprehensive income for the period from continuing operations	-	290	83	373	-	373
Total comprehensive income for the period	-	290	2,777	3,067	1	3,068
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	957	-	-	957	-	957
Conversion of preference shares	750	-	-	750	-	750
Transfer from / (to) retained profits	-	(83)	83	-	-	-
Transfer from equity-based compensation reserve	136	(136)	-	-	-	-
Equity-based compensation	-	54	-	54	-	54
Dividends paid	-	-	(2,674)	(2,674)	(2)	(2,676)
Distributions on other equity instruments	-	-	(52)	(52)	-	(52)
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	(719)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	(3)	(3)
Balance at 31 March 2019	36,850	458	16,776	54,084	7	54,091
Net profit for the period from continuing operations	-	-	2,183	2,183	2	2,185
Net loss for the period from discontinued operations	-	-	(79)	(79)	-	(79)
Other comprehensive income for the period from continuing operations	-	(176)	27	(149)	-	(149)
Total comprehensive income for the period	-	(176)	2,131	1,955	2	1,957
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,846	-	-	1,846	-	1,846
Transfer from / (to) retained profits	-	(16)	16	-	-	-
Transfer from equity-based compensation reserve	11	(11)	-	-	-	-
Equity-based compensation	-	51	-	51	-	51
Dividends paid	-	-	(2,309)	(2,309)	(2)	(2,311)
Distributions on other equity instruments	-	-	(31)	(31)	-	(31)
Changes in ownership interests ⁽²⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	1	1
Balance at 30 September 2019	38,707	306	16,583	55,596	8	55,604

⁽¹⁾ Refer to Note 11 Contributed equity and reserves.

⁽²⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This preliminary financial report (the report) for the September 2019 full year has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules and policies of the Australian Accounting Standards Board (AASB), but does not contain all disclosures of the type normally found within the Group's 2019 Annual Financial Report and is not designed or intended to be a suitable substitute.

This report should be read in conjunction with the Group's 2018 Annual Financial Report, the 31 March 2019 half year results, any public announcements made during the year and when released, the Group's 2019 Annual Financial Report.

Accounting policies

The accounting policies applied in this report are consistent with those applied in the Group's 2018 Annual Financial Report except for the adoption of AASB 15 *Revenue from Contracts with Customers*. AASB 15 supersedes AASB 111 *Construction Contracts* and AASB 118 *Revenue*, including related interpretations, and it applies to all revenue from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group adopted AASB 15 using the modified retrospective method, which recognises the cumulative effect of adoption through opening retained earnings on 1 October 2018. No material changes arose from the adoption of AASB 15.

There were no other substantial amendments to Australian Accounting Standards adopted during the period that have a material impact on the Group.

Discontinued operations are excluded from the results of the continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Critical accounting assumptions and estimates

The preparation of this report requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. No significant changes in the areas of estimates, judgements and assumptions have occurred in the September 2019 full year reporting period compared to those applied in the 2018 Annual Financial Report.

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

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

Notes to the Consolidated Financial Statements (continued)

2. Segment Information

The Group's business consists of the following reportable segments: Business and Private Banking; Consumer Banking and Wealth; Corporate and Institutional Banking; and New Zealand Banking. In addition, information on Corporate Functions and Other is included in this note to reconcile to Group information.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's major Australian bank peers with similar business portfolios. Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for items the Group considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2019 full year has been adjusted for distributions, fair value and hedge ineffectiveness, amortisation of acquired intangible assets and MLC Wealth divestment separation costs. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement.

Major customers

No single customer contributes revenue greater than 10% of the Group's revenues.

Reportable segments

Segment information	Year ended 30 September 2019					Total
	Business and Private Banking	Consumer Banking and Wealth	Corporate and Institutional Banking	New Zealand Banking	Corporate Functions and Other ⁽¹⁾	
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income ⁽²⁾	5,634	3,918	1,827	1,828	335	13,542
Other operating income ⁽²⁾	1,037	1,389	1,539	571	(857)	3,679
Net operating income	6,671	5,307	3,366	2,399	(522)	17,221
Operating expenses ⁽²⁾	(2,265)	(3,051)	(1,281)	(911)	(1,505)	(9,013)
Underlying profit / (loss)	4,406	2,256	2,085	1,488	(2,027)	8,208
Credit impairment charge	(336)	(314)	(70)	(103)	(96)	(919)
Cash earnings / (deficit) before tax and distributions	4,070	1,942	2,015	1,385	(2,123)	7,289
Income tax (expense) / benefit	(1,230)	(576)	(507)	(388)	592	(2,109)
Cash earnings / (deficit) before distributions	2,840	1,366	1,508	997	(1,531)	5,180
Distributions	-	-	-	-	(83)	(83)
Cash earnings / (deficit)	2,840	1,366	1,508	997	(1,614)	5,097
Fair value and hedge ineffectiveness	(3)	-	(23)	12	(9)	(23)
Other non-cash earnings items	-	(19)	-	-	32	13
Net profit / (loss) for the year from continuing operations	2,837	1,347	1,485	1,009	(1,591)	5,087
Net loss attributable to discontinued operations	-	-	-	-	(289)	(289)
Net profit / (loss) attributable to the owners of NAB	2,837	1,347	1,485	1,009	(1,880)	4,798
Reportable segment assets	200,799	230,916	295,042	84,307	36,060	847,124

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

Reportable segments (continued)

Segment information	Year ended 30 September 2018					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽²⁾	1,068	1,541	1,451	520	(70)	4,510
Net operating income	6,607	5,505	3,333	2,218	314	17,977
Operating expenses ⁽²⁾	(2,230)	(3,046)	(1,297)	(869)	(1,550)	(8,992)
Underlying profit / (loss)	4,377	2,459	2,036	1,349	(1,236)	8,985
Credit impairment (charge) / write-back	(207)	(271)	43	(70)	(274)	(779)
Cash earnings / (deficit) before tax and distributions	4,170	2,188	2,079	1,279	(1,510)	8,206
Income tax (expense) / benefit	(1,259)	(649)	(538)	(357)	399	(2,404)
Cash earnings / (deficit) before distributions	2,911	1,539	1,541	922	(1,111)	5,802
Distributions	-	-	-	-	(100)	(100)
Cash earnings / (deficit)	2,911	1,539	1,541	922	(1,211)	5,702
Fair value and hedge ineffectiveness	(6)	27	13	(2)	150	182
Other non-cash earnings items	-	(30)	-	-	88	58
Net profit / (loss) for the year from continuing operations	2,905	1,536	1,554	920	(973)	5,942
Net loss attributable to discontinued operations	-	-	-	-	(388)	(388)
Net profit / (loss) attributable to the owners of NAB	2,905	1,536	1,554	920	(1,361)	5,554
Reportable segment assets	199,750	228,705	263,752	79,130	35,173	806,510

Segment information	Half Year ended 30 September 2019					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income ⁽²⁾	2,826	2,018	893	908	163	6,808
Other operating income ⁽²⁾	516	681	735	302	(695)	1,539
Net operating income	3,342	2,699	1,628	1,210	(532)	8,347
Operating expenses ⁽²⁾	(1,150)	(1,521)	(632)	(461)	(1,074)	(4,838)
Underlying profit / (loss)	2,192	1,178	996	749	(1,606)	3,509
Credit impairment charge	(217)	(141)	(27)	(62)	(23)	(470)
Cash earnings / (deficit) before tax and distributions	1,975	1,037	969	687	(1,629)	3,039
Income tax (expense) / benefit	(597)	(309)	(242)	(193)	476	(865)
Cash earnings / (deficit) before distributions	1,378	728	727	494	(1,153)	2,174
Distributions	-	-	-	-	(31)	(31)
Cash earnings / (deficit)	1,378	728	727	494	(1,184)	2,143
Fair value and hedge ineffectiveness	(2)	(3)	24	5	22	46
Other non-cash earnings items	-	(6)	-	-	-	(6)
Net profit / (loss) for the year from continuing operations	1,376	719	751	499	(1,162)	2,183
Net loss attributable to discontinued operations	-	-	-	-	(79)	(79)
Net profit / (loss) attributable to the owners of NAB	1,376	719	751	499	(1,241)	2,104
Reportable segment assets	200,799	230,916	295,042	84,307	36,060	847,124

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

Reportable segments (continued)

Segment information	Half Year ended 31 March 2019					Total \$m
	Business and Private Banking \$m	Consumer Banking and Wealth \$m	Corporate and Institutional Banking \$m	New Zealand Banking \$m	Corporate Functions and Other ⁽¹⁾ \$m	
Net interest income ⁽²⁾	2,808	1,900	934	920	172	6,734
Other operating income ⁽²⁾	521	708	804	269	(162)	2,140
Net operating income	3,329	2,608	1,738	1,189	10	8,874
Operating expenses ⁽²⁾	(1,115)	(1,530)	(649)	(450)	(431)	(4,175)
Underlying profit / (loss)	2,214	1,078	1,089	739	(421)	4,699
Credit impairment charge	(119)	(173)	(43)	(41)	(73)	(449)
Cash earnings / (deficit) before tax and distributions	2,095	905	1,046	698	(494)	4,250
Income tax (expense) / benefit	(633)	(267)	(265)	(195)	116	(1,244)
Cash earnings / (deficit) before distributions	1,462	638	781	503	(378)	3,006
Distributions	-	-	-	-	(52)	(52)
Cash earnings / (deficit)	1,462	638	781	503	(430)	2,954
Fair value and hedge ineffectiveness	(1)	3	(47)	7	(31)	(69)
Other non-cash earnings items	-	(13)	-	-	32	19
Net profit / (loss) for the year from continuing operations	1,461	628	734	510	(429)	2,904
Net loss attributable to discontinued operations	-	-	-	-	(210)	(210)
Net profit / (loss) attributable to the owners of NAB	1,461	628	734	510	(639)	2,694
Reportable segment assets	201,486	232,527	273,049	84,945	34,936	826,943

⁽¹⁾ Corporate Functions and Other includes Group Eliminations.

⁽²⁾ Includes large notable items. Refer to Section 2 Large notable items for further information.

Notes to the Consolidated Financial Statements (continued)

3. Other Income

	Year to		Half Year to	
	Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Gains less losses on financial instruments at fair value				
Trading instruments	2,320	743	1,113	1,207
Hedge ineffectiveness ⁽¹⁾	103	557	108	(5)
Financial instruments designated at fair value	(983)	225	(456)	(527)
Total gains less losses on financial instruments at fair value	1,440	1,525	765	675
Other operating income				
Dividend revenue	26	38	16	10
Banking fees	1,064	1,008	528	536
Money transfer fees	551	573	269	282
Fees and commissions ⁽²⁾	839	1,916	147	692
Investment management fees	297	312	151	146
Other income	156	224	69	87
Total other operating income	2,933	4,071	1,180	1,753
Total other income	4,373	5,596	1,945	2,428

Customer-related remediation

In the September 2019 full year, the Group recognised charges for customer-related remediation matters of \$1,135 million (\$249 million in the September 2018 full year) as a reduction in fees and commissions. This related to:

- refunds and compensation to customers impacted by issues in the Wealth business, including adviser service fees charged by NAB Financial Planning and NAB Advice Partnerships, combined with the Wealth advice review
- banking-related matters, including matters where customers were incorrectly charged fees on certain fee-exempt transactions.

Customer-related remediation of \$833 million was recognised in the September 2019 half year (\$302 million in the March 2019 half year) as a reduction in fees and commissions.

⁽¹⁾ Represents hedge ineffectiveness of designated hedging relationships.

⁽²⁾ Includes customer-related remediation.

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses

	Year to		Half Year to	
	Sep 19 \$m	Sep 18 \$m	Sep 19 \$m	Mar 19 \$m
Personnel expenses				
Salaries and related on-costs	3,517	3,345	1,795	1,722
Superannuation costs-defined contribution plans	276	266	140	136
Performance-based compensation	407	622	151	256
Other expenses ⁽¹⁾	282	728	143	139
Total personnel expenses	4,482	4,961	2,229	2,253
Occupancy-related expenses				
Operating lease rental expense	447	451	222	225
Other expenses ⁽¹⁾	98	133	52	46
Total occupancy-related expenses	545	584	274	271
General expenses				
Fees and commission expense	540	612	270	270
Depreciation of property, plant and equipment	297	304	148	149
Amortisation of intangible assets ⁽²⁾	1,115	476	810	305
Advertising and marketing	200	226	104	96
Charge to provide for operational risk event losses ⁽³⁾	591	295	351	240
Communications, postage and stationery	179	206	88	91
Computer equipment and software	728	657	367	361
Data communication and processing charges	80	75	40	40
Professional fees ⁽¹⁾	632	799	336	296
Impairment losses recognised ⁽¹⁾	19	174	19	-
Other expenses ⁽¹⁾	419	541	200	219
Total general expenses	4,800	4,365	2,733	2,067
Total operating expenses	9,827	9,910	5,236	4,591

Customer-related remediation

In the September 2019 full year, the Group recognised costs for customer-related remediation matters of \$364 million (\$111 million in the September 2018 full year) as a charge to provide for operational risk event losses. This includes costs for implementing remediation processes.

In the September 2019 half year, customer-related remediation of \$244 million was recognised (\$120 million in the March 2019 half year) as a charge to provide for operational risk event losses.

Capitalised software policy change

In the September 2019 full year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from \$0.5 million to \$2 million. The impact of this change was an accelerated amortisation charge of \$494 million recognised in the amortisation of intangible assets.

Restructuring

In the September 2018 full year, the Group recognised restructuring-related costs of \$755 million, which comprises \$540 million of personnel, outplacement and project management costs, \$146 million of software write-offs and \$69 million of property rationalisation costs.

The restructuring-related costs are reflected in other operating expenses as:

- \$427 million of personnel expenses
- \$35 million of occupancy-related expenses
- \$146 million of impairment losses recognised
- \$125 million of professional fees
- \$22 million of other expenses.

⁽¹⁾ Includes restructuring-related costs.

⁽²⁾ Includes a change to the application of the software capitalisation policy.

⁽³⁾ Includes customer-related remediation.

Notes to the Consolidated Financial Statements (continued)

5. Income Tax Expense

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

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Profit before income tax	7,177	8,400	3,053	4,124
Prima facie income tax expense at 30%	2,153	2,520	916	1,237
Tax effect of permanent differences				
Assessable foreign income	7	7	5	2
Foreign tax rate differences	(67)	(38)	(39)	(28)
Foreign branch income not assessable	(50)	(61)	(23)	(27)
Over provision in prior years	(1)	(3)	(1)	-
Offshore banking unit income	(53)	(62)	(24)	(29)
Restatement of deferred tax balances for tax rate changes	2	-	1	1
Non-deductible hybrid distributions	73	72	37	36
Losses not tax effected	2	4	2	-
Other	21	16	(6)	27
Total income tax expense	2,087	2,455	868	1,219
Effective tax rate (%)	29.1%	29.2%	28.4%	29.6%

Notes to the Consolidated Financial Statements (continued)

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Year to			
	Sep 19		Sep 18	
	Amount per share	Total amount	Amount per share	Total amount
	cents	\$m	cents	\$m
Dividends on ordinary shares				
Final dividend (in respect of prior year)	99	2,707	99	2,659
Interim dividend (in respect of current year)	83	2,333	99	2,696
Deduct: Bonus shares in lieu of dividend	n/a	(57)	n/a	(56)
Dividends paid by NAB	n/a	4,983	n/a	5,299
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4	n/a	4
Total dividend paid	n/a	4,987	n/a	5,303

Franked dividends paid during the period were fully franked at a tax rate of 30% (2018: 30%).

Final dividend

On 7 November 2019, the directors determined the following dividend:

	Amount per share	Franked amount per share	Total amount
	cents	%	\$m
Final dividend determined in respect of the year ended 30 September 2019	83	100	2,393

The final 2019 ordinary dividend is payable on 12 December 2019. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan (DRP), with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2019 and will be recognised in subsequent financial reports.

NAB has also entered into an agreement to have the DRP on the final dividend partially underwritten up to an amount of \$700 million over and above the expected participation in the DRP.

	Year to			
	Sep 19		Sep 18	
	Amount per security ⁽¹⁾	Total amount	Amount per security ⁽¹⁾	Total amount
	\$	\$m	\$	\$m
Distributions on other equity instruments				
National Income Securities	3.12	62	3.02	60
Trust Preferred Securities ⁽²⁾	50.42	21	99.23	40
Total distributions on other equity instruments		83		100

Trust Preferred Securities (TPS) issued by National Capital Trust I and guaranteed (on a limited basis) by NAB were redeemed on 17 December 2018, their first optional redemption date. The TPS were redeemed for cash at its par value plus accrued distribution.

Dividend and distribution plans

The dividend is paid in cash or as part of a dividend plan. Cash dividends are paid by way of direct credit or cash equivalents. The dividend plans in operation are the Dividend Reinvestment Plan and the Bonus Share Plan (closed to new participants).

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 15 November 2019 at 5pm (Australian Eastern Daylight time).

⁽¹⁾ Amount per security is based on actual dollar value divided by the number of units on issue.

⁽²⁾ \$A equivalent.

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances

	As at		
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Housing loans	343,915	346,292	339,540
Other term lending ⁽¹⁾	222,556	219,307	210,111
Asset and lease financing	12,763	12,633	12,428
Overdrafts ⁽¹⁾	5,820	5,522	5,304
Credit card outstandings	6,774	7,235	7,294
Other	6,703	6,920	6,822
Fair value adjustment	331	308	275
Gross loans and advances	598,862	598,217	581,774
Acceptances	2,490	3,096	3,816
Gross loans and advances including acceptances	601,352	601,313	585,590
<i>Represented by:</i>			
Loans and advances at fair value ⁽²⁾	6,761	8,388	9,845
Loans and advances at amortised cost	592,101	589,829	571,929
Acceptances	2,490	3,096	3,816
Gross loans and advances including acceptances	601,352	601,313	585,590
Unearned income and deferred net fee income	(452)	(368)	(435)
Provision for credit impairment	(3,900)	(3,731)	(3,513)
Net loans and advances including acceptances	597,000	597,214	581,642
Securitised loans and loans supporting covered bonds⁽³⁾	34,711	38,139	33,541

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2019				
Housing loans	303,942	39,901	72	343,915
Other term lending	168,563	37,839	16,154	222,556
Asset and lease financing	12,230	-	533	12,763
Overdrafts	3,249	2,555	16	5,820
Credit card outstandings	5,717	1,057	-	6,774
Other	4,928	461	1,314	6,703
Fair value adjustment	307	24	-	331
Gross loans and advances	498,936	81,837	18,089	598,862
Acceptances	2,490	-	-	2,490
Gross loans and advances including acceptances	501,426	81,837	18,089	601,352
<i>Represented by:</i>				
Loans and advances at fair value	4,868	1,893	-	6,761
Loans and advances at amortised cost	494,068	79,944	18,089	592,101
Acceptances	2,490	-	-	2,490
Gross loans and advances including acceptances	501,426	81,837	18,089	601,352

⁽¹⁾ Comparative information has been restated to align to the presentation in the current period to reflect revised product classifications.

⁽²⁾ On the balance sheet, this amount is included within other financial assets at fair value. This amount is included in the product and geographical analysis below.

⁽³⁾ Loans supporting securitisation and covered bonds are included within the balance of net loans and advances including acceptances.

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances (continued)

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
As at 31 March 2019				
Housing loans	306,661	39,539	92	346,292
Other term lending ⁽¹⁾	165,527	38,849	14,931	219,307
Asset and lease financing	12,144	1	488	12,633
Overdrafts ⁽¹⁾	3,134	2,356	32	5,522
Credit card outstandings	6,121	1,114	-	7,235
Other	5,150	472	1,298	6,920
Fair value adjustment	283	26	(1)	308
Gross loans and advances	499,020	82,357	16,840	598,217
Acceptances	3,096	-	-	3,096
Gross loans and advances including acceptances	502,116	82,357	16,840	601,313
<i>Represented by:</i>				
Loans and advances at fair value	6,127	2,261	-	8,388
Loans and advances at amortised cost	492,893	80,096	16,840	589,829
Acceptances	3,096	-	-	3,096
Gross loans and advances including acceptances	502,116	82,357	16,840	601,313

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
As at 30 September 2018				
Housing loans	303,007	36,422	111	339,540
Other term lending ⁽¹⁾	161,855	36,381	11,875	210,111
Asset and lease financing	11,938	4	486	12,428
Overdrafts ⁽¹⁾	3,149	2,124	31	5,304
Credit card outstandings	6,232	1,062	-	7,294
Other	4,789	455	1,578	6,822
Fair value adjustment	250	25	-	275
Gross loans and advances	491,220	76,473	14,081	581,774
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590
<i>Represented by:</i>				
Loans and advances at fair value	7,259	2,586	-	9,845
Loans and advances at amortised cost	483,961	73,887	14,081	571,929
Acceptances	3,816	-	-	3,816
Gross loans and advances including acceptances	495,036	76,473	14,081	585,590

⁽¹⁾ Comparative information has been restated to align to the presentation in the current period to reflect revised product classifications.

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
New and increased provisions (net of collective provision releases)	1,154	1,057	588	566
Write-backs of specific provisions	(170)	(193)	(81)	(89)
Recoveries of specific provisions	(57)	(73)	(34)	(23)
Total charge to the income statement	927	791	473	454

Movement in provision for credit impairment on loans at amortised cost

Group - Yearly

	Stage 1	Stage 2	Stage 3		Total
	12-mth	Lifetime	Lifetime	Lifetime	
	expected	ECL not	ECL credit	ECL credit	
	credit	credit	impaired	impaired	
	losses	impaired	impaired	impaired	
	(ECL)	Collective	Collective	Specific	
	Collective	provision	provision	provision	
	provision	\$m	\$m	\$m	\$m
	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2017	313	1,819	403	689	3,224
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	296	(286)	(10)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(58)	147	(89)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(50)	52	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(34)	(114)	150	-
New and increased provisions (net of collective provision releases)	(225)	530	149	603	1,057
Write-backs of specific provisions	-	-	-	(193)	(193)
Write-offs from specific provisions	-	-	-	(573)	(573)
Foreign currency translation and other adjustments	2	(1)	-	(3)	(2)
Balance at 30 September 2018	324	2,125	391	673	3,513
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	358	(348)	(10)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(48)	104	(56)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(65)	67	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(49)	(106)	157	-
New and increased provisions (net of collective provision releases)	(264)	456	236	726	1,154
Write-backs of specific provisions	-	-	-	(170)	(170)
Write-offs from specific provisions	-	-	-	(600)	(600)
Foreign currency translation and other adjustments	2	4	1	(4)	3
Balance at 30 September 2019	368	2,227	523	782	3,900

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost (continued)

Group - Half Yearly

	Stage 1	Stage 2	Stage 3		Total
	12-mth ECL Collective provision	Lifetime ECL not credit impaired Collective provision	Lifetime ECL credit impaired Collective provision	Lifetime ECL credit impaired Specific provision	
	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2018	324	2,125	391	673	3,513
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	243	(235)	(8)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	87	(50)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(55)	(86)	142	-
New and increased provisions (net of collective provision releases)	(175)	312	159	270	566
Write-backs of specific provisions	-	-	-	(89)	(89)
Write-offs from specific provisions	-	-	-	(281)	(281)
Foreign currency translation and other adjustments	3	16	2	1	22
Balance at 31 March 2019	356	2,192	467	716	3,731
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	257	(250)	(7)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	83	(46)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(33)	(100)	134	-
New and increased provisions (net of collective provision releases)	(205)	305	151	337	588
Write-backs of specific provisions	-	-	-	(81)	(81)
Write-offs from specific provisions	-	-	-	(319)	(319)
Foreign currency translation and other adjustments	(1)	(12)	(1)	(5)	(19)
Balance at 30 September 2019	368	2,227	523	782	3,900

Notes to the Consolidated Financial Statements (continued)

9. Asset Quality

Impaired assets consist of retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with security insufficient to cover principal and interest revenue, non-retail loans which are contractually 90 days past due and / or where there is sufficient doubt about the ultimate collectability of principal and interest, and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired loans when they become 180 days past due (if not written-off).

	As at			
	30 Sep 19	31 Mar 19	30 Sep 18	
	\$m	\$m	\$m	
Summary of total impaired assets				
Impaired assets	1,965	1,540	1,433	
Restructured loans	7	24	88	
Gross impaired assets ⁽¹⁾⁽²⁾	1,972	1,564	1,521	
Specific provisions for credit impairment	(782)	(717)	(675)	
Net impaired assets	1,190	847	846	

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
Movement in gross impaired assets				
Balance at 1 April 2018	1,195	356	58	1,609
New	325	76	-	401
Written-off	(101)	(26)	(9)	(136)
Returned to performing, repaid or no longer impaired	(189)	(150)	(6)	(345)
Foreign currency translation adjustments	-	(9)	1	(8)
Balance at 30 September 2018	1,230	247	44	1,521
New	439	97	-	536
Written-off	(86)	(20)	(1)	(107)
Returned to performing, repaid or no longer impaired	(356)	(36)	(6)	(398)
Foreign currency translation adjustments	-	12	-	12
Balance at 31 March 2019	1,227	300	37	1,564
New	388	419	-	807
Written-off	(130)	(18)	(2)	(150)
Returned to performing, repaid or no longer impaired	(155)	(78)	-	(233)
Foreign currency translation adjustments	-	(15)	(1)	(16)
Gross impaired assets as at 30 September 2019	1,330	608	34	1,972

The 90+ days past due loans below are not classified as impaired assets and therefore are not included in the above summary.

	As at			
	30 Sep 19	31 Mar 19	30 Sep 18	
	\$m	\$m	\$m	
90+ days past due loans - by geographic location				
Australia	3,457	3,062	2,527	
New Zealand	136	125	104	
Other International	10	19	17	
90+ days past due loans	3,603	3,206	2,648	

⁽¹⁾ September 2018 includes \$2 million (NZ\$3 million) of New Zealand Banking dairy exposures that were assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Gross impaired assets include \$5 million (March 2019: \$7 million, September 2018: \$16 million) of gross impaired other financial assets at fair value.

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings

	As at		
	30 Sep 19 \$m	31 Mar 19 \$m	30 Sep 18 \$m
Term deposits	160,383	172,347	163,166
On-demand and short-term deposits	210,557	197,501	195,040
Certificates of deposit	40,875	43,877	43,962
Deposits not bearing interest ⁽¹⁾	53,672	51,886	50,767
Borrowings	30,092	25,920	27,021
Securities sold under agreements to repurchase	31,362	32,465	27,732
Fair value adjustment	9	7	2
Total deposits and other borrowings	526,950	524,003	507,690
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,865	5,311	4,545
Total deposits and other borrowings at amortised cost	522,085	518,692	503,145
Total deposits and other borrowings	526,950	524,003	507,690

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2019				
Term deposits	122,318	32,386	5,679	160,383
On-demand and short-term deposits	182,234	20,273	8,050	210,557
Certificates of deposit	30,769	1,255	8,851	40,875
Deposits not bearing interest ⁽¹⁾	47,857	5,811	4	53,672
Borrowings	25,902	3,283	907	30,092
Securities sold under agreements to repurchase	1,032	-	30,330	31,362
Fair value adjustment	-	9	-	9
Total deposits and other borrowings	410,112	63,017	53,821	526,950
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,865	-	4,865
Total deposits and other borrowings at amortised cost	410,112	58,152	53,821	522,085
Total deposits and other borrowings	410,112	63,017	53,821	526,950

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2019				
Term deposits	131,647	32,883	7,817	172,347
On-demand and short-term deposits	170,934	20,250	6,317	197,501
Certificates of deposit	33,316	1,561	9,000	43,877
Deposits not bearing interest ⁽¹⁾	46,121	5,758	7	51,886
Borrowings	22,236	3,128	556	25,920
Securities sold under agreements to repurchase	2,689	-	29,776	32,465
Fair value adjustment	-	7	-	7
Total deposits and other borrowings	406,943	63,587	53,473	524,003
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	5,311	-	5,311
Total deposits and other borrowings at amortised cost	406,943	58,276	53,473	518,692
Total deposits and other borrowings	406,943	63,587	53,473	524,003

⁽¹⁾ Deposits not bearing interest include mortgage offset accounts.

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings (continued)

By product and geographic location	Australia \$m	New Zealand \$m	Other International \$m	Total Group \$m
As at 30 September 2018				
Term deposits	124,096	31,002	8,068	163,166
On-demand and short-term deposits	171,446	18,443	5,151	195,040
Certificates of deposit	33,953	1,646	8,363	43,962
Deposits not bearing interest ⁽¹⁾	45,463	5,294	10	50,767
Borrowings	24,322	1,704	995	27,021
Securities sold under agreements to repurchase	1,909	-	25,823	27,732
Fair value adjustment	-	2	-	2
Total deposits and other borrowings	401,189	58,091	48,410	507,690
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,545	-	4,545
Total deposits and other borrowings at amortised cost	401,189	53,546	48,410	503,145
Total deposits and other borrowings	401,189	58,091	48,410	507,690

⁽¹⁾ Deposits not bearing interest include mortgage offset accounts.

Notes to the Consolidated Financial Statements (continued)

11. Contributed Equity and Reserves

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Contributed equity			
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	36,762	34,905	33,062
Other contributed equity			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	-	-	975
Total contributed equity	38,707	36,850	35,982

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
Movement in issued and paid-up ordinary share capital				
Balance at beginning of period	33,062	31,707	34,905	33,062
Shares issued:				
Dividend reinvestment plan	1,803	1,182	846	957
Dividend reinvestment plan underwritten allotments	1,000	-	1,000	-
Conversion of preference shares	750	-	-	750
Transfer from equity-based compensation reserve	147	173	11	136
Balance at end of period	36,762	33,062	36,762	34,905

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Reserves			
Foreign currency translation reserve	20	283	(343)
Asset revaluation reserve	80	82	82
Cash flow hedge reserve	201	74	10
Cost of hedging reserve	(235)	(191)	(53)
Equity-based compensation reserve	190	160	243
Debt instruments at fair value through other comprehensive income reserve	46	47	22
Equity instruments at fair value through other comprehensive income reserve	4	3	85
Total reserves	306	458	46

Notes to the Consolidated Financial Statements (continued)

12. Notes to the Condensed Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash and liquid assets and amounts due from other banks (including reverse repurchase agreements and short-term government securities), net of amounts due to other banks that are readily convertible to known amounts of cash within three months.

Cash and cash equivalents as shown in the condensed cash flow statement is reconciled to the related items on the balance sheet as follows:

	As at		
	30 Sep 19	31 Mar 19	30 Sep 18
	\$m	\$m	\$m
Cash and cash equivalents			
Assets			
Cash and liquid assets	55,457	54,044	50,188
Treasury and other eligible bills	795	1,321	672
Due from other banks (excluding mandatory deposits with supervisory central banks)	23,705	20,153	24,372
Total cash and cash equivalents assets	79,957	75,518	75,232
Liabilities			
Due to other banks	(32,931)	(34,164)	(37,286)
Total cash and cash equivalents	47,026	41,354	37,946

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 19	Sep 18	Sep 19	Mar 19
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	1,803	1,182	846	957
Conversion of convertible preference shares	750	-	-	750

The Group offered a 1.5% discount on the Dividend Reinvestment Plans for dividends paid during the year ended 30 September 2019. For the year ended 30 September 2018, the Group did not offer a discount on the Dividend Reinvestment Plan for the interim dividend.

On 20 March 2019, the Group completed the resale of all convertible preference shares (CPS) issued on 20 March 2013 to a nominated purchaser, in accordance with the resale notice issued on 11 February 2019. Following the resale, \$750 million of CPS were converted into ordinary shares, and the remaining balance of \$764 million CPS was redeemed.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities

(i) General

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:

- actual and potential disputes, claims and legal proceedings
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or Group-specific basis
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by the Group (sometimes with the assistance of third parties)
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

Overall, the number and scale of regulatory investigations, reviews and litigation involving Australian financial institutions has increased significantly over the current and preceding financial year. Some of these investigations and reviews have resulted in customer remediation programs which are expected to continue beyond the 2019 financial year. Some of these investigations and reviews may result in enforcement proceedings.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), which concluded with the issue of the Final Report (the Final Report) on 1 February 2019, has also brought greater focus to a range of culture and compliance matters, including responsible lending, compliance with the Banking Code of Practice and its predecessor codes and appropriate management of issues relating to deceased estates. The Final Report also contained a number of referrals of potential misconduct to the relevant regulatory authorities to consider whether further action should be taken.

There are contingent liabilities in respect of all the above matters. Where appropriate, provisions have been made. The aggregate potential liability of the Group in relation to these matters cannot be accurately assessed.

Further information on some specific contingent liabilities that may impact the Group is set out below.

(ii) Legal proceedings

Bank Bill Swap Reference Rate US class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct relating to the Bank Bill Swap Reference Rate. The complaint named a number of defendants, including NAB and various other Australian and international banks, and refers to earlier proceedings brought by ASIC in relation to the Bank Bill Swap Reference Rate. The relevant ASIC proceedings against NAB were resolved in November 2017 pursuant to a court-approved settlement. The US class action was dismissed against NAB in November 2018 on jurisdictional grounds.

However the plaintiffs were given leave to file a new complaint in April 2019. In May 2019 the defendants, including NAB, filed a motion to dismiss the class action complaint. The Court's determination of those motions is pending. The potential outcome and total costs associated with the US class action remain uncertain.

UK conduct issues – potential action and contingent asset

In May 2019, RGL Management Limited (a claims management company) commenced proceedings against CYBG and NAB on behalf of three customers of CYBG (the First Claim). The First Claim concerns tailored business loans (TBLs) which the customers entered into with CYBG between 2001 and 2012. NAB did not contract with the customers directly. However, NAB employees performed various functions in connection with the sale of the TBLs and calculation of break costs. The claimants allege they were misled about: (1) the cost of breaking fixed interest rate periods; and (2) the composition of fixed interest rates offered under the TBLs. The alleged misconduct is said to give rise to several causes of action, including negligent misstatement, misrepresentation and deceit. NAB and CYBG filed and served their defences to the First Claim on 30 July 2019.

RGL has filed, but not yet served, a further claim in similar terms to the First Claim (the Second Claim). The Second Claim includes a schedule of 146 further claimants. RGL has also been quoted in the press as saying that there are up to 2,000 further potential claimants on behalf of whom it has authority to bring similar claims. The potential outcome and total costs associated with the claims by RGL remain uncertain.

In prior periods the Group suffered losses in relation to certain UK customer-related remediation matters. NAB is in the process of making insurance claims in relation to these losses. Components of the insurance claims are treated by NAB as a contingent asset. The outcome of such claims remains uncertain.

(iii) Regulatory activity, compliance investigations and associated proceedings

Adviser service fees and fee disclosure statements (FDS)

ASIC is conducting an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including entities within the Group. Under the service arrangements, customers generally pay an adviser service fee to receive a review of their financial circumstances together with a range of other services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided. NAB is in the process of identifying impacted customers.

NAB has confirmed with ASIC a review methodology for customers with financial advisers operating in the NAB

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Financial Planning and NAB Advice Partnerships businesses. NAB has made significant progress in confirming a review methodology for customers with financial advisers operating in the JBWere business. NAB is committed to progressing these reviews and, where appropriate, remediating those customers as soon as possible.

NAB Financial Planning has already remediated some customer cohorts. NAB Advice Partnerships and JBWere are identifying the cohorts of potentially impacted customers for review. Provisions for customer compensation have been taken based on current best estimates. However given the early stage of the process, these estimates are subject to considerable uncertainty.

Key variables contributing to uncertainty about customer remediation amounts include 'no evidence' rates and recovery rates from advisers. The total ongoing advice fees received within the period 2009 - 2018 are estimated to be approximately \$1.3 billion for NAB Advice Partnerships and approximately \$650 million for NAB Financial Planning. The potential outcome and total costs associated with the adviser service fees matter remain uncertain.

On 12 October 2018, ASIC announced that it would be conducting an industry-wide review of compliance with requirements for Fee Disclosure Statements and Renewal Notices in the financial advice sector. NAB is assessing its compliance with the FDS regime. NAB has ceased charging ongoing fees for customers of NAB Financial Planning employed advisers resulting from concerns about the accuracy of the Fee Disclosure Statements. Aligned to NAB's adviser service fee remediation program, NAB will refund fees paid from 1 June 2018 for NAB Financial Planning customers up until they entered a new arrangement or the fees were switched off. The potential outcome and total costs associated with this matter remain uncertain.

Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) program uplift and compliance issues

Since July 2016, NAB has been progressing a program of work to uplift and strengthen the Group AML and CTF program and its implementation. The work involves significant investment in systems and personnel, ensuring an effective and efficient control environment and uplifting compliance capability. In addition to a general uplift in capability, the program of work aims to remediate specific compliance issues and weaknesses as they are identified.

When significant AML or CTF compliance issues are identified, they are notified to the Australian Transaction Reports and Analysis Centre (AUSTRAC) or equivalent foreign regulators. NAB has reported a number of compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the implementation of 'Know Your Customer' requirements, other financial crime risks, as well as systems and process

issues that impacted transaction monitoring and reporting in some specific areas. NAB continues to keep AUSTRAC (and where applicable, relevant foreign regulators) informed of its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, such regulators.

As this work progresses, further issues may be identified and additional uplifting and strengthening may be required. The potential outcome and total costs associated with the investigation and remediation process for specific issues identified to date, and for any issues identified in the future, remain uncertain.

Banking matters

A number of investigations into banking-related matters are being carried on across the Group, including matters where customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code, and matters where customers were incorrectly charged certain periodical payment fees. The potential outcome and total costs associated with these matters remain uncertain.

Consumer Credit Insurance (CCI)

In 2017, as part of an industry-wide review, ASIC requested that NAB and other lenders undertake a review of their compliance with ASIC Report 256 Consumer Credit Insurance: A review of sales practices by authorised deposit-taking institutions.

In response to this request, NAB conducted an internal audit on the sale of CCI products. The audit findings identified potential issues with sales of these products across certain NAB channels.

NAB is currently in the process of implementing a remediation program for CCI customers who are potentially impacted. Where customer compensation is able to be reliably estimated, provisions have been taken. There is also an ongoing ASIC investigation into the matter. The outcome and total costs associated with this matter remain uncertain.

On 27 September 2018, plaintiff law firm Slater & Gordon filed a class action in the Federal Court, alleging that NAB and MLC Limited engaged in unconscionable conduct and/or misleading and deceptive conduct in contravention of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) in connection with the sale of a particular CCI product (being NAB Credit Card Cover).

On 13 June 2019 the Federal Court granted leave for the addition of a claim alleging that NAB and MLC Limited engaged in unconscionable conduct in contravention of the ASIC Act in connection with the sale of a second CCI product (being NAB Personal Loan Cover).

The trial is scheduled to commence on 2 December 2019. The potential outcome and total costs associated with this matter remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Contingent tax risk

The tax affairs of the Group are subject to regular reviews by the Australian Taxation Office as well as the Revenue Offices of the various Australian States and Territories. Innovation and Science Australia is currently reviewing various prior year claims made by the Group for research and development tax incentives. Risk reviews and audits are also being undertaken by tax authorities in other jurisdictions in which the Group conducts business, as part of normal tax authority review activity in those countries. NAB continues to respond to any notices and requests for information it receives from relevant tax authorities.

The reviews, notices and requests described above may result in additional tax liabilities (including interest and penalties). Where appropriate, provisions have been made. The potential outcome and total costs associated with these activities remain uncertain.

Life Events cover

In 2013, a new insurance feature was introduced for members in the Plum Superannuation Fund that permitted members to increase their Death and Total and Permanent Disability insurance cover amount if certain "Life Events" occur for them, without having to undergo a medical assessment. Following an internal investigation, it was determined that PFS Nominees Pty Ltd, the trustee of the Plum Superannuation Fund, had failed to disclose this feature to some superannuation fund members (it was disclosed to new members in product disclosure statements, however it was not disclosed to existing members at the time it was introduced). Existing members impacted by this issue have now been informed about the Life Events insurance feature.

NAB has developed a remediation methodology and is re-confirming the impacted members before implementing the remediation. The outcome and total costs associated with this matter remain uncertain, and will depend on whether impacted members actually had an eligible Life Event occur, and made a claim, within the period covered by the remediation.

NAB's introducer payments program

On 23 August 2019, ASIC commenced Federal Court proceedings against NAB in connection with the introducer payments program. ASIC alleges that NAB engaged in credit activities with unlicensed persons in contravention of the *National Consumer Credit Protection Act 2009 (NCCP)*. The potential outcome and total costs associated with these proceedings remain uncertain. The introducer payments program has been the subject of internal reviews, a remediation program and a Royal Commission case study. In March 2019, NAB announced it would end the introducer payments program with effect from 1 October 2019. The potential outcome and total costs associated with this matter remain uncertain.

NZ Ministry of Business, Innovation and Employment compliance audit

The Labour Inspectorate of the New Zealand Ministry of Business, Innovation and Employment (MBIE) has undertaken a program of compliance audits of a number of New Zealand organisations, including BNZ, in respect of the *New Zealand Holidays Act 2003* (Holidays Act). Since 2017, BNZ has worked with MBIE to review its compliance with the Holidays Act, including in respect of annual and public holiday payments to certain employees, and is completing remediation, as agreed with MBIE. In addition, the legislative interpretation of the definition of "discretionary payments" under the Holidays Act is not yet certain and, once it has been definitively determined, any potential implications for BNZ will need to be considered.

Plan service fees (PSF)

The Group has finalised the payment of refunds to customers who were charged PSF, including refunds to customers who did not have a plan adviser attached to their superannuation account and customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product.

On 6 September 2018, ASIC commenced Federal Court proceedings against two Group entities - NULIS Nominees (Australia) Limited (NULIS) and MLC Nominees Pty Ltd (MLCN) - in relation to PSF. ASIC is seeking declarations that a number of provisions of the *Australian Securities and Investments Commission Act 2001* (Cth), *Corporations Act 2001* (Cth) and the *Superannuation Industry (Supervision) Act 1993* (Cth) have been contravened. The potential outcome and total costs associated with this matter remain uncertain.

Royal Commission

The Final Report states that the Commissioner will make two referrals to APRA of the conduct by NULIS and MLCN which may have amounted to misconduct. Both of these referrals relate to conduct of NULIS and MLCN which may have given rise to a potential conflict of interest namely:

- Grandfathered commissions: the Commissioner found that NULIS "may have breached its duty to act in the best interests of the affected members" in relation to the maintenance of grandfathered commissions at the time of the successor fund transfer on 1 July 2016.
- MySuper: the Commissioner found that NULIS might have contravened the 'best interests' covenant set out in section 52(2)(c) of the *Superannuation Industry (Supervision) Act 1993* (Cth) in relation to the speed with which it effected transfers of accrued default amounts to MySuper.

In addition, the Commissioner communicated with ASIC in relation to possible breaches of section 1041G of the *Corporations Act 2001* (Cth) arising from fees for no

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

service conduct. The Commissioner informed ASIC that in his opinion, multiple entities may have breached section 1041G and invited ASIC to consider whether criminal or other legal proceedings should be instituted. The Final Report also identified other potential issues, including breach reporting under section 912D of the *Corporations Act 2001* (Cth). The potential outcome and total costs associated with any proceedings which may arise out of these matters remain uncertain.

Wealth advice review

In October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant financial advice since 2009 to: (a) assess the appropriateness of that advice; and (b) identify whether customers had suffered loss as a result of non-compliant advice that would warrant compensation. These cases are progressing through the Customer Response Initiative review program, with compensation offered and paid in a number of cases. Where customer compensation is able to be reliably estimated, provisions have been taken. The final outcome and total costs associated with this work remain uncertain.

(iv) Contractual commitments*Financial Planning Subsidiaries*

Some financial planning subsidiaries have agreements which allow authorised representatives to sell their client book to those subsidiaries in certain circumstances contingent upon a number of key conditions being met. The agreements provide for the sale at a multiple of ongoing revenue subject to a range of criteria. It is not currently possible to reliably estimate the financial impact of these agreements.

MLC Limited life insurance transaction

In connection with the sale of 80% of MLC Limited (MLCL) to Nippon Life Insurance Company (Nippon Life) in October 2016, NAB gave certain covenants, warranties and indemnities in favour of Nippon Life. The parties also entered into long-term agreements for the distribution of life insurance products and continued use of the MLC brand. In addition, NAB agreed to take certain actions to establish MLCL as a standalone entity, including by providing transitional services as well as support for data migration activities and the development of technology systems.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations

The results set out below relate to the discontinued operations of the Group's life insurance business sale to Nippon Life and the UK Banking operations related to the CYBG demerger which occurred in the 2016 financial year. During the September 2019 full year, a net loss of \$289 million was recognised in discontinued operations relating to customer-related remediation and additional costs associated with the life insurance business sale. Refer to *Note 13 Contingent liabilities* for further information.

Analysis of loss for the full year from discontinued operations

	Year to	
	Sep 19	Sep 18
Total discontinued operations	\$m	\$m
Net loss from life insurance business discontinued operation	(289)	(97)
Net loss from CYBG discontinued operation	-	(291)
Net loss from discontinued operations	(289)	(388)

Notes to the Consolidated Financial Statements (continued)

15. Events Subsequent to Reporting Date

There are no items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2019 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Compliance Statement

The preliminary final report for the year ended 30 September 2019 is prepared:

- In accordance with the ASX Listing Rules.
- In accordance with the recognition and measurement requirements of applicable Australian Accounting Standards.
- Based on the financial statements of the Group, which are in the process of being audited.

This report should be read in conjunction with any announcements to the market made by the Group during the period.



Louise Thomson
Company Secretary
7 November 2019