

Financial Report

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Consolidated Financial Statements

Income Statement ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 17 \$m	Sep 16 \$m	Sep 17 \$m	Mar 17 \$m
Interest income		27,403	27,629	14,052	13,351
Interest expense		(14,221)	(14,699)	(7,267)	(6,954)
Net interest income		13,182	12,930	6,785	6,397
Other income	3	4,842	5,192	2,600	2,242
Operating expenses	4	(8,539)	(8,331)	(4,283)	(4,256)
Charge to provide for bad and doubtful debts	8	(824)	(813)	(425)	(399)
Profit before income tax		8,661	8,978	4,677	3,984
Income tax expense	5	(2,480)	(2,553)	(1,354)	(1,126)
Net profit for the period from continuing operations		6,181	6,425	3,323	2,858
Net loss after tax for the period from discontinued operations	14	(893)	(6,068)	(581)	(312)
Net profit for the period		5,288	357	2,742	2,546
Profit attributable to non-controlling interests		3	5	2	1
Net profit attributable to owners of NAB		5,285	352	2,740	2,545
		cents	cents	cents	cents
Basic earnings per share		194.7	8.8	100.8	93.9
Diluted earnings per share		189.1	15.5	97.7	91.7
		cents	cents	cents	cents
Basic earnings per share from continuing operations		228.2	242.4	122.5	105.6
Diluted earnings per share from continuing operations		220.1	232.7	117.9	102.6

⁽¹⁾ Information is presented on a continuing operations basis.

Statement of Comprehensive Income ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 17 \$m	Sep 16 \$m	Sep 17 \$m	Mar 17 \$m
Net profit for the period from continuing operations		6,181	6,425	3,323	2,858
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	11	11	(113)	(56)	67
Revaluation of land and buildings		1	(1)	1	-
Currency adjustments on translation of other contributed equity		4	(183)	31	(27)
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation (losses) / gains		(1)	(51)	2	(3)
Tax on items transferred directly to equity		31	23	21	10
Total items that will not be reclassified to profit or loss		46	(325)	(1)	47
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges:					
(Losses) / gains on cash flow hedging instruments		(115)	38	14	(129)
Losses / (gains) transferred to the income statement		1	(6)	(6)	7
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		(273)	249	58	(331)
Transfer to the income statement on disposal of foreign operations		(10)	-	(10)	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		25	14	(47)	72
Gains from sale transferred to the income statement		(3)	(16)	(1)	(2)
Change in loss allowance on debt instruments at fair value through other comprehensive income		(1)	4	(2)	1
Tax on items transferred directly to equity		17	22	8	9
Total items that will be reclassified subsequently to profit or loss		(359)	305	14	(373)
Other comprehensive income for the period, net of income tax		(313)	(20)	13	(326)
Total comprehensive income for the period from continuing operations		5,868	6,405	3,336	2,532
Net loss for the period from discontinued operations	14	(893)	(6,068)	(581)	(312)
Other comprehensive income for the period from discontinued operations, net of income tax		-	979	-	-
Total comprehensive income for the period		4,975	1,316	2,755	2,220
Attributable to owners of NAB		4,972	1,311	2,753	2,219
Attributable to non-controlling interests		3	5	2	1

⁽¹⁾ Information is presented on a continuing operations basis.

Balance Sheet

	Note	As at		
		30 Sep 17 \$m	31 Mar 17 \$m	30 Sep 16 \$m
Assets				
Cash and liquid assets		43,826	40,373	30,630
Due from other banks		37,066	53,725	45,236
Trading derivatives ⁽¹⁾		29,137	33,176	43,146
Trading securities		50,954	48,501	45,971
Debt instruments at fair value through other comprehensive income		42,131	43,499	40,689
Other financial assets at fair value		16,058	18,520	21,496
Hedging derivatives ⁽¹⁾		3,892	5,625	6,741
Loans and advances		540,125	520,954	510,045
Due from customers on acceptances		6,786	8,548	12,205
Current tax assets		-	133	-
Property, plant and equipment		1,315	1,337	1,423
Goodwill and other intangible assets		5,601	5,393	5,302
Deferred tax assets		1,988	1,711	1,925
Other assets ^{(1) (2) (3)}		9,446	7,825	11,901
Total assets		788,325	789,320	776,710
Liabilities				
Due to other banks		36,683	47,618	43,903
Trading derivatives ⁽¹⁾		27,187	33,988	41,559
Other financial liabilities at fair value		29,631	28,161	33,224
Hedging derivatives ⁽¹⁾		1,674	3,479	3,402
Deposits and other borrowings	10	500,604	487,252	459,714
Current tax liabilities		230	-	297
Provisions		1,961	1,381	1,432
Bonds, notes and subordinated debt		124,871	124,027	127,942
Other debt issues		6,187	6,205	6,248
Other liabilities ^{(1) (4)}		7,980	6,353	7,674
Total liabilities		737,008	738,464	725,395
Net assets		51,317	50,856	51,315
Equity				
Contributed equity	11	34,627	34,341	34,285
Reserves	11	237	170	629
Retained profits	11	16,442	16,334	16,378
Total equity (parent entity interest)		51,306	50,845	51,292
Non-controlling interest in controlled entities		11	11	23
Total equity		51,317	50,856	51,315

⁽¹⁾ The prior period comparative information has been restated to reflect a change in presentation of interest accrual on certain derivative assets and derivative liabilities, which is now presented within derivative assets and derivative liabilities (previously included in other assets and other liabilities).

⁽²⁾ The prior period comparative information has been restated following a reclassification of investments relating to life insurance business into other assets.

⁽³⁾ 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.

⁽⁴⁾ Includes cash collateral received from third parties, payables and accrued expenses and accrued interest payable.

Condensed Cash Flow Statement

	Note	Year to		Half Year to	
		Sep 17 \$m	Sep 16 \$m	Sep 17 \$m	Mar 17 \$m
Cash flows from operating activities					
Interest received		27,176	28,338	13,938	13,238
Interest paid		(14,315)	(15,592)	(7,270)	(7,045)
Dividends received		36	21	29	7
Income tax paid		(2,544)	(3,148)	(1,234)	(1,310)
Other cash flows from operating activities before changes in operating assets and liabilities		(6,639)	(8,205)	(4,862)	(1,777)
Changes in operating assets and liabilities arising from cash flow movements ⁽¹⁾		9,503	13,046	(6,169)	15,672
Net cash provided by / (used in) operating activities ⁽²⁾		13,217	14,460	(5,568)	18,785
Net cash (used in) / provided by investing activities ⁽³⁾		(313)	(9,970)	1,284	(1,597)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt ⁽¹⁾		(32,426)	(29,543)	(15,058)	(17,368)
Proceeds from issue of bonds, notes and subordinated debt, net of costs ⁽¹⁾		37,318	43,521	17,963	19,355
Repayments of other contributed equity		(400)	-	-	(400)
Proceeds from other debt issues, net of costs		-	111	-	-
Repayment of other debt issues		(73)	-	(33)	(40)
Dividends and distributions paid (excluding dividend reinvestment plan)		(4,750)	(4,593)	(2,397)	(2,353)
Net cash (used in) / provided by financing activities		(331)	9,496	475	(806)
Net increase / (decrease) in cash and cash equivalents		12,573	13,986	(3,809)	16,382
Cash and cash equivalents at beginning of period		27,960	20,528	43,917	27,960
Effects of exchange rate changes on balance of cash held in foreign currencies		(733)	(6,554)	(308)	(425)
Cash and cash equivalents at end of period	12	39,800	27,960	39,800	43,917

⁽¹⁾ Comparative information has been restated to reflect the reclassification of cash flows relating to bonds, notes and subordinate debt at fair value from changes in operating assets and liabilities arising from cash flow movements, to repayment of and proceeds from bonds, notes and subordinate debt.

⁽²⁾ The year to 30 September 2017 includes cash outflows related to the Group's discontinued operations, being \$334 million (March 2017: \$64 million) related to CYBG and \$134 million (March 2017: \$78 million) related to Wealth's life insurance business.

⁽³⁾ Net cash provided by / (used in) investing activities includes a \$2,255 million cash inflow (September 2016 \$11,780 million cash outflow) being proceeds from the sale of controlled entities, net of cash disposed. The March 2017 amount (\$2,206 million) includes proceeds from the sale of 80% of Wealth's life insurance business which were accrued at 30 September 2016.

Statement of Changes in Equity

Group – Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits ⁽¹⁾	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2015	34,651	(362)	21,205	55,494	19	55,513
Net profit for the year from continuing operations	-	-	6,420	6,420	5	6,425
Net loss for the year from discontinued operations	-	-	(6,068)	(6,068)	-	(6,068)
Other comprehensive income for the year from continuing operations	-	96	(116)	(20)	-	(20)
Other comprehensive income for the year from discontinued operations	-	955	24	979	-	979
Total comprehensive income for the year	-	1,051	260	1,311	5	1,316
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	596	-	-	596	-	596
Treasury shares adjustment relating to life insurance business ⁽²⁾	1,517	-	-	1,517	-	1,517
Transfer from / (to) retained profits	-	(91)	91	-	-	-
Transfer from equity-based compensation reserve	166	(166)	-	-	-	-
Equity-based compensation	-	203	-	203	-	203
Dividends paid	-	-	(5,060)	(5,060)	(5)	(5,065)
Distributions on other equity instruments	-	-	(124)	(124)	-	(124)
Capital distribution on CYBG demerger	(2,645)	-	-	(2,645)	-	(2,645)
Released on divestment of discontinued operations	-	(6)	6	-	-	-
Changes in ownership interests ⁽³⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	4	4
Balance at 30 September 2016	34,285	629	16,378	51,292	23	51,315
Net profit for the year from continuing operations	-	-	6,178	6,178	3	6,181
Net loss for the year from discontinued operations	-	-	(893)	(893)	-	(893)
Other comprehensive income for the year from continuing operations	-	(356)	43	(313)	-	(313)
Total comprehensive income for the year	-	(356)	5,328	4,972	3	4,975
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	569	-	-	569	-	569
Redemption of National Capital Instruments ⁽⁴⁾	(397)	-	(3)	(400)	-	(400)
Transfer from / (to) retained profits	-	(53)	53	-	-	-
Transfer from equity-based compensation reserve	170	(170)	-	-	-	-
Equity-based compensation	-	187	-	187	-	187
Dividends paid	-	-	(5,216)	(5,216)	(5)	(5,221)
Distributions on other equity instruments	-	-	(98)	(98)	-	(98)
Changes in ownership interests ⁽³⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	(10)	(10)
Balance at 30 September 2017	34,627	237	16,442	51,306	11	51,317

⁽¹⁾ Refer to Note 11 Contributed equity and reserves.⁽²⁾ Relates to shares in NAB previously held by Wealth's life insurance business which are no longer held by a controlled entity of the Group.⁽³⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.⁽⁴⁾ National Capital Instruments were fully redeemed on 4 October 2016.

Statement of Changes in Equity

Group – Half Yearly

	Contributed equity ⁽¹⁾	Reserves ⁽¹⁾	Retained profits ⁽¹⁾	Total	Non- controlling interest in controlled entities	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 1 October 2016	34,285	629	16,378	51,292	23	51,315
Net profit for the period from continuing operations	-	-	2,857	2,857	1	2,858
Net loss for the period from discontinued operations	-	-	(312)	(312)	-	(312)
Other comprehensive income for the period from continuing operations	-	(403)	77	(326)	-	(326)
Total comprehensive income for the period	-	(403)	2,622	2,219	1	2,220
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	294	-	-	294	-	294
Redemption of National Capital Instruments ⁽²⁾	(397)	-	(3)	(400)	-	(400)
Transfer from / (to) retained profits	-	19	(19)	-	-	-
Transfer from equity-based compensation reserve	159	(159)	-	-	-	-
Equity-based compensation	-	84	-	84	-	84
Dividends paid	-	-	(2,595)	(2,595)	(3)	(2,598)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
Changes in ownership interests ⁽³⁾						
Movement of non-controlling interest in controlled entities	-	-	-	-	(10)	(10)
Balance at 31 March 2017	34,341	170	16,334	50,845	11	50,856
Net profit for the period from continuing operations	-	-	3,321	3,321	2	3,323
Net loss for the period from discontinued operations	-	-	(581)	(581)	-	(581)
Other comprehensive income for the period from continuing operations	-	47	(34)	13	-	13
Total comprehensive income for the period	-	47	2,706	2,753	2	2,755
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	275	-	-	275	-	275
Transfer from / (to) retained profits	-	(72)	72	-	-	-
Transfer from equity-based compensation reserve	11	(11)	-	-	-	-
Equity-based compensation	-	103	-	103	-	103
Dividends paid	-	-	(2,621)	(2,621)	(2)	(2,623)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
Balance at 30 September 2017	34,627	237	16,442	51,306	11	51,317

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

⁽²⁾ National Capital Instruments were fully redeemed on 4 October 2016.

⁽³⁾ Changes in ownership interests in controlled entities that does not result in a loss of control.

Notes to the Consolidated Financial Statements

1. Principal Accounting Policies

The preliminary financial report for the year ended 30 September 2017 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules.

This report does not, and cannot be expected to, contain all disclosures of the type normally found within an annual financial report and it is not designed or intended to be a suitable substitute for the 2017 Annual Financial Report.

This report should be read in conjunction with the annual financial report for the year ended 30 September 2016, the 31 March 2017 half year results, any public announcements made by the Group during the year and when released, the 2017 Annual Financial Report.

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

a) Critical accounting assumptions and estimates

The preparation of this report requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of liabilities. Areas where assumptions are significant and are based on best estimates include:

- Impairment charges on loans and advances.
- Fair value of financial assets and liabilities.
- Assessment of goodwill for impairment and allocation to cash generating units.
- Provisions other than loan impairment.
- Provisions for conduct related matters including obligations to CYBG related to UK conduct risk under the terms of the Conduct Indemnity Deed.

As a result of the organisational restructure effective from 1 August 2016, new cash generating units were identified from 1 October 2016 and goodwill was allocated to the newly identified cash generating units for assessment of impairment. No other significant changes in assumptions have occurred in this financial reporting year from those applied in the 2016 Annual Financial Report.

b) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

c) Rounding of amounts

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

2. Segment Information ⁽¹⁾

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 Australian peers with similar business portfolios. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards. Cash earnings represents the net profit attributable to owners of NAB from continuing operations, adjusted for certain non-cash items and distributions.

Following the implementation of the organisational restructure effective from 1 August 2016, the Group's business now consists of the following reportable segments: Consumer Banking and Wealth; Business and Private Banking; Corporate and Institutional Banking; and NZ Banking. In addition, information on Corporate Functions and Other is included in this note to reconcile to Group information.

Major Customers

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

Reportable Segments

Segment Information	Year ended 30 September 2017			
	Cash Earnings	Net interest income	Total other income	Total assets ⁽¹⁾
	\$m	\$m	\$m	\$m
Consumer Banking and Wealth	1,633	3,884	1,597	217,567
Business and Private Banking	2,841	5,257	1,062	192,848
Corporate and Institutional Banking	1,535	1,972	1,368	259,297
NZ Banking	882	1,586	530	76,055
Corporate Functions and Other ⁽²⁾	(249)	467	198	97,981
Eliminations	-	-	(26)	(55,423)
Total	6,642	13,166	4,729	788,325

⁽¹⁾ Balances have not been restated to exclude discontinued operations.

⁽²⁾ Balance reflects Nautilus Insurance premiums booked and eliminated all within Corporate Functions and Other.

Segment Information	Year ended 30 September 2016			
	Cash Earnings	Net interest income	Total other income	Total assets ⁽¹⁾
	\$m	\$m	\$m	\$m
Consumer Banking and Wealth	1,565	3,709	1,659	206,016
Business and Private Banking	2,673	4,955	1,048	187,200
Corporate and Institutional Banking	1,367	1,919	1,427	257,303
NZ Banking	804	1,496	533	73,916
Corporate Functions and Other ⁽²⁾	74	851	(113)	103,265
Eliminations ⁽³⁾	-	-	(51)	(50,990)
Total	6,483	12,930	4,503	776,710

⁽¹⁾ Balances have not been restated to exclude discontinued operations.

⁽²⁾ Total assets for Corporate Functions and Other has been restated to reflect a change in presentation of interest accrual on certain derivatives.

⁽³⁾ Balance includes Nautilus Insurance premiums which are booked to the Customer Segments and eliminated at the Group Level.

Segment Information	Half Year ended 30 September 2017			
	Cash Earnings	Net interest income	Total other income	Total assets ⁽¹⁾
	\$m	\$m	\$m	\$m
Consumer Banking and Wealth	869	2,009	780	217,567
Business and Private Banking	1,473	2,693	536	192,848
Corporate and Institutional Banking	744	1,019	607	259,297
NZ Banking	453	810	266	76,055
Corporate Functions and Other ⁽²⁾	(191)	242	70	97,981
Eliminations	-	-	(6)	(55,423)
Total	3,348	6,773	2,253	788,325

⁽¹⁾ Balances have not been restated to exclude discontinued operations.

⁽²⁾ Balance reflects Nautilus Insurance premiums booked and eliminated all within Corporate Functions and Other.

⁽¹⁾ Information is presented on a continuing operations basis.

2. Segment Information (continued) ⁽¹⁾

Reportable Segments (continued)

Segment Information	Half Year ended 31 March 2017			
	Cash Earnings	Net interest income	Total other income	Total assets ⁽¹⁾
	\$m	\$m	\$m	\$m
Consumer Banking and Wealth	764	1,875	817	211,347
Business and Private Banking	1,368	2,564	526	189,819
Corporate and Institutional Banking	791	953	761	258,172
NZ Banking	429	776	264	72,880
Corporate Functions and Other ⁽²⁾	(58)	225	128	108,582
Eliminations ⁽³⁾	-	-	(20)	(51,480)
Total	3,294	6,393	2,476	789,320

⁽¹⁾ Balances have not been restated to exclude discontinued operations.

⁽²⁾ Total assets for Corporate Functions and Other has been restated to reflect a change in presentation of interest accrual on certain derivatives.

⁽³⁾ Balance includes Nautilus Insurance premiums which are booked to the Customer Segments and eliminated at the Group Level.

Reconciliations between reportable segment information and statutory results

Reconciliation of cash earnings to Net profit attributable to owners of NAB	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Cash earnings ⁽¹⁾	6,642	6,483	3,348	3,294
Non-cash earnings items (after tax):				
Distributions	98	124	49	49
Treasury shares	-	61	-	-
Fair value and hedge ineffectiveness	(500)	(126)	(47)	(453)
Life insurance 20% share of profit ⁽²⁾	-	(39)	-	-
Amortisation of acquired intangible assets	(62)	(83)	(29)	(33)
Net loss from discontinued operations	(893)	(6,068)	(581)	(312)
Net profit attributable to owners of NAB	5,285	352	2,740	2,545

⁽¹⁾ Includes eliminations and distributions.

⁽²⁾ Included in statutory profit from 1 October 2016 onward.

Reconciliation of net interest income	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Net interest income on a cash earnings basis	13,166	12,930	6,773	6,393
Wealth net adjustment ⁽¹⁾	37	-	21	16
Fair value and hedge ineffectiveness	(21)	-	(9)	(12)
Net interest income on a statutory basis	13,182	12,930	6,785	6,397

⁽¹⁾ The Wealth net adjustment represents a reallocation of the income statement of the Wealth business prepared on a cash earnings basis into the appropriate statutory income lines.

Reconciliation of other income	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Other income on a cash earning basis	4,729	4,503	2,253	2,476
Wealth net adjustment ⁽¹⁾	817	801	388	429
Treasury shares	-	68	-	-
Fair value and hedge ineffectiveness	(692)	(141)	(35)	(657)
Life insurance 20% share of profit ⁽²⁾	-	(39)	-	-
Amortisation of acquired intangible assets	(12)	-	(6)	(6)
Other income on a statutory basis	4,842	5,192	2,600	2,242

⁽¹⁾ The Wealth net adjustment represents a reallocation of the income statement of the Wealth business prepared on a cash earnings basis into the appropriate statutory income lines.

⁽²⁾ Included in statutory profit from 1 October 2016 onward.

⁽¹⁾ Information is presented on a continuing operations basis.

3. Other Income ⁽¹⁾

	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Net investment income				
Change in policy liabilities	-	(2,861)	-	-
Movement in external unitholders' liability	-	(1,015)	-	-
Investment revenue ⁽¹⁾	-	4,037	-	-
Fee income ⁽²⁾	-	433	-	-
Total net investment and insurance income	-	594	-	-
Gains less losses on financial instruments at fair value				
Trading securities	(821)	1,275	(47)	(774)
Trading derivatives	2,135	(275)	691	1,444
Assets, liabilities and derivatives designated in hedge relationships ⁽³⁾	(680)	(82)	(123)	(557)
Assets and liabilities designated at fair value	(225)	(187)	(98)	(127)
Other	143	96	66	77
Total gains less losses on financial instruments at fair value	552	827	489	63
Other operating income				
Dividend revenue	27	21	20	7
Gains from sale of investments, loans, property, plant and equipment and other assets	36	52	30	6
Banking fees	943	871	478	465
Money transfer fees	584	596	281	303
Fees and commissions	2,162	1,696	1,078	1,084
Investment management fees	280	255	143	137
Other income ⁽¹⁾	258	280	81	177
Total other operating income	4,290	3,771	2,111	2,179
Total other income	4,842	5,192	2,600	2,242

⁽¹⁾ Includes the impact of movements in life investment contracts to 1 July 2016, being the date on which the Successor Fund Merger occurred and the related investment assets and investment contract liabilities were deconsolidated.

⁽²⁾ Subsequent to the Successor Fund Merger, fee income on the related investment assets and investment contract liabilities is recognised within fees and commissions in Other operating income.

⁽³⁾ Represents hedge ineffectiveness of designated hedging relationships.

⁽¹⁾ Information is presented on a continuing operations basis.

4. Operating Expenses ⁽¹⁾

	Year to		Half Year to	
	Sep 17 \$m	Sep 16 \$m	Sep 17 \$m	Mar 17 \$m
Personnel expenses				
Salaries and related on-costs ⁽¹⁾	3,252	3,344	1,597	1,655
Superannuation costs - defined contribution plans ⁽¹⁾	258	267	127	131
Performance-based compensation:				
Cash ⁽¹⁾	395	445	144	251
Equity-based compensation	187	197	103	84
Total performance-based compensation	582	642	247	335
Other expenses ⁽¹⁾	326	278	170	156
Total personnel expenses	4,418	4,531	2,141	2,277
Occupancy-related expenses				
Operating lease rental expense	442	404	224	218
Other expenses	85	89	42	43
Total occupancy-related expenses	527	493	266	261
General expenses				
Fees and commission expense ⁽¹⁾	611	501	293	318
Depreciation and amortisation of property, plant and equipment	305	274	153	152
Amortisation of intangible assets	429	347	221	208
Advertising and marketing	187	196	102	85
Charge to provide for operational risk event losses	182	48	124	58
Communications, postage and stationery	204	272	118	86
Computer equipment and software	651	621	310	341
Data communication and processing charges	80	89	41	39
Professional fees	503	500	283	220
Loss on disposal of property, plant and equipment and other assets	9	8	5	4
Impairment losses / (reversals) recognised	20	6	20	-
Other expenses	413	445	206	207
Total general expenses	3,594	3,307	1,876	1,718
Total operating expenses	8,539	8,331	4,283	4,256

⁽¹⁾ Comparative information has been restated to accord with changes in presentations made in the current period, reflecting a reallocation of expenses between 'salaries and related on-costs', 'superannuation costs - defined contribution plans', 'performance based compensation - cash', 'other personnel expenses' and 'fees and commission expense'.

⁽¹⁾ Information is presented on a continuing operations basis.

5. Income Tax Expense ⁽¹⁾

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 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Profit before income tax expense	8,661	8,978	4,677	3,984
Prima facie income tax at 30%	2,598	2,693	1,403	1,195
Add / (deduct): Tax effect of amounts not deductible / (assessable):				
Assessable foreign income	7	4	4	3
Foreign tax rate differences	(43)	(36)	(16)	(27)
Foreign branch income not assessable	(78)	(65)	(35)	(43)
(Over) / under provision in prior years	(17)	(26)	(10)	(7)
Offshore banking unit income	(62)	(56)	(30)	(32)
Restatement of deferred tax balances for tax rate changes	1	4	5	(4)
Treasury shares adjustment	-	(14)	-	-
Non-deductible hybrid distributions	70	58	35	35
Losses not tax effected	11	42	11	-
Other	(7)	(51)	(13)	6
Total income tax expense	2,480	2,553	1,354	1,126
Effective tax rate (%)	28.6%	28.4%	29.0%	28.3%

⁽¹⁾ Information is presented on a continuing operations basis.

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Year to			
	Sep 17		Sep 16	
	Amount per share	Total amount	Amount per share	Total amount
	cents	\$m	cents	\$m
Final dividend (in respect of prior year)	99	2,630	99	2,600
Interim dividend (in respect of current year)	99	2,649	99	2,618
Deduct: Bonus shares in lieu of dividend	n/a	(63)	n/a	(57)
Dividends paid by the Company	n/a	5,216	n/a	5,161
Deduct: Dividends on treasury shares ⁽¹⁾	n/a	-	n/a	(101)
Add: Dividends paid to non-controlling interest in controlled entities	n/a	5	n/a	5
Dividends paid by the Group (Before dividend reinvestment plan)	n/a	5,221	n/a	5,065

⁽¹⁾ Includes Treasury Shares held in the Group's investments businesses (consolidated until the Successor Fund Merger on 1 July 2016) and excludes any Treasury Shares held in respect of employee incentive schemes.

Franked dividends declared or paid during the period were fully franked at a tax rate of 30% (2016: 30%).

In the September 2016 full year, the CYBG demerger resulted in the distribution of CYBG shares valued at \$2,645 million to NAB shareholders.

Final dividend

On 2 November 2017, the directors declared the following dividend:

	Amount per share	Franked amount per share	Foreign income per share	Total amount
	cents	%	%	\$m
Final dividend declared in respect of the year ended 30 September 2017	99	100	-	2,659

The record date for determining entitlements to the 2017 final dividend is 10 November 2017. The final dividend has been declared by the directors of NAB and is payable on 13 December 2017. The Group will offer a 1.5% discount on the Dividend Reinvestment Plan, 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 2017 and will be recognised in subsequent financial reports.

	Year to			
	Sep 17		Sep 16	
	Amount per security ⁽¹⁾	Total amount	Amount per security ⁽¹⁾	Total amount
	\$	\$m	\$	\$m
Distributions on other equity instruments				
National Income Securities	3.01	60	3.42	68
Trust Preferred Securities ⁽²⁾	93.99	38	108.50	43
National Capital Instruments ⁽³⁾	-	-	1,594.34	13
Total distributions on other equity instruments		98		124

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

⁽²⁾ \$A equivalent.

⁽³⁾ National Capital Instruments were fully redeemed on 4 October 2016.

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 13 November 2017 at 5pm (Australian Eastern Standard time).

7. Loans and Advances including Acceptances

	As at		
	30 Sep 17 \$m	31 Mar 17 \$m	30 Sep 16 \$m
Housing loans	329,534	320,788	314,557
Other term lending	197,134	189,479	187,695
Asset and lease financing	11,674	11,201	10,949
Overdrafts	5,673	5,833	6,304
Credit card outstandings	7,409	7,545	7,518
Other	6,539	6,181	5,759
Fair value adjustment	397	468	773
Gross loans and advances	558,360	541,495	533,555
Acceptances	6,786	8,548	12,205
Gross loans and advances including acceptances	565,146	550,043	545,760
<i>Represented by:</i>			
Loans and advances at fair value ⁽¹⁾	14,596	17,029	19,864
Loans and advances at amortised cost	543,764	524,466	513,691
Acceptances	6,786	8,548	12,205
Gross loans and advances including acceptances	565,146	550,043	545,760
Unearned income and deferred net fee income	(415)	(392)	(532)
Provision for doubtful debts	(3,224)	(3,120)	(3,114)
Net loans and advances including acceptances	561,507	546,531	542,114
Securitised loans and loans supporting covered bonds ⁽²⁾	38,957	38,726	41,002

⁽¹⁾ 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.

⁽²⁾ Loans supporting securitisation and covered bonds are included within the balance of net loans and advances including acceptances.

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2017				
Housing loans	292,989	34,417	2,128	329,534
Other term lending	151,239	35,552	10,343	197,134
Asset and lease financing	11,214	6	454	11,674
Overdrafts	3,662	1,958	53	5,673
Credit card outstandings	6,365	1,044	-	7,409
Other	4,336	508	1,695	6,539
Fair value adjustment	346	51	-	397
Gross loans and advances	470,151	73,536	14,673	558,360
Acceptances	6,786	-	-	6,786
Gross loans and advances including acceptances	476,937	73,536	14,673	565,146
<i>Represented by:</i>				
Loans and advances at fair value	10,926	3,670	-	14,596
Loans and advances at amortised cost	459,225	69,866	14,673	543,764
Acceptances	6,786	-	-	6,786
Gross loans and advances including acceptances	476,937	73,536	14,673	565,146

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2017				
Housing loans	285,538	33,051	2,199	320,788
Other term lending	146,847	33,968	8,664	189,479
Asset and lease financing	10,740	6	455	11,201
Overdrafts	3,930	1,853	50	5,833
Credit card outstandings	6,473	1,072	-	7,545
Other	4,171	511	1,499	6,181
Fair value adjustment	437	57	(26)	468
Gross loans and advances	458,136	70,518	12,841	541,495
Acceptances	8,548	-	-	8,548
Gross loans and advances including acceptances	466,684	70,518	12,841	550,043
<i>Represented by:</i>				
Loans and advances at fair value	12,599	4,405	25	17,029
Loans and advances at amortised cost	445,537	66,113	12,816	524,466
Acceptances	8,548	-	-	8,548
Gross loans and advances including acceptances	466,684	70,518	12,841	550,043

7. Loans and Advances including Acceptances (continued)

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2016				
Housing loans	278,848	33,431	2,278	314,557
Other term lending	144,044	34,064	9,587	187,695
Asset and lease financing	10,477	3	469	10,949
Overdrafts	4,222	2,081	1	6,304
Credit card outstandings	6,439	1,079	-	7,518
Other	3,997	537	1,225	5,759
Fair value adjustment	685	122	(34)	773
Gross loans and advances	448,712	71,317	13,526	533,555
Acceptances	12,205	-	-	12,205
Gross loans and advances including acceptances	460,917	71,317	13,526	545,760
<i>Represented by:</i>				
Loans and advances at fair value	14,523	5,304	37	19,864
Loans and advances at amortised cost	434,189	66,013	13,489	513,691
Acceptances	12,205	-	-	12,205
Gross loans and advances including acceptances	460,917	71,317	13,526	545,760

8. Provision for doubtful debts on loans at amortised cost

	Year to		Half Year to	
	Sep 17 \$m	Sep 16 \$m	Sep 17 \$m	Mar 17 \$m
New and increased provisions (net of releases)	1,177	1,158	596	581
Write-backs of specific provisions	(242)	(156)	(106)	(136)
Recoveries of specific provisions	(111)	(119)	(65)	(46)
Total charge to the income statement	824	883	425	399
Attributable to:				
Charge to income statement from continuing operations	824	813	425	399
Charge to income statement from discontinuing operations	-	70	-	-

Movement in provisions for doubtful debts - loans and advances at amortised cost

Group – Yearly

	Stage 1	Stage 2	Stage 3		Total \$m
	12-mth expected credit losses (ECL) Collective provision \$m	Lifetime ECL not credit impaired Collective provision \$m	Lifetime ECL credit impaired Collective provision \$m	Lifetime ECL credit impaired Specific provision \$m	
Balance at 1 October 2015	455	1,988	440	637	3,520
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	543	(520)	(23)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(45)	98	(53)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(3)	(76)	79	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(120)	(114)	236	-
New and increased provisions (net of releases)	(518)	526	191	959	1,158
Write-backs of specific provisions	-	-	-	(156)	(156)
Bad debts written-off	-	-	-	(778)	(778)
Derecognised in respect of the group disposal ⁽¹⁾	(85)	(222)	(94)	(174)	(575)
Foreign currency translation and other adjustments	(16)	(17)	(4)	(18)	(55)
Balance at 30 September 2016	329	1,657	422	706	3,114
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	329	(316)	(13)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(44)	123	(79)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(3)	(42)	45	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(135)	(100)	237	-
New and increased provisions (net of releases)	(295)	538	124	810	1,177
Write-backs of specific provisions	-	-	-	(242)	(242)
Bad debts written-off	-	-	-	(849)	(849)
Foreign currency translation and other adjustments	(1)	(6)	4	27	24
Balance at 30 September 2017	313	1,819	403	689	3,224

⁽¹⁾ The September 2016 full year reflects the demerger of CYBG.

8. Provision for doubtful debts on loans at amortised cost (continued)

Movement in provisions for doubtful debts for loans at amortised cost

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 2016	329	1,657	422	706	3,114
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	227	(216)	(11)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(31)	73	(42)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(45)	47	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(121)	(73)	195	-
New and increased provisions (net of releases)	(195)	273	87	416	581
Write-backs of specific provisions	-	-	-	(136)	(136)
Bad debts written-off	-	-	-	(460)	(460)
Foreign currency translation and other adjustments	-	(8)	3	26	21
Balance at 31 March 2017	327	1,613	433	747	3,120
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	231	(218)	(13)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(40)	120	(80)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(42)	44	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(36)	(96)	133	-
New and increased provisions (net of releases)	(201)	380	114	303	596
Write-backs of specific provisions	-	-	-	(106)	(106)
Bad debts written-off	-	-	-	(389)	(389)
Foreign currency translation and other adjustments	(1)	2	1	1	3
Balance at 30 September 2017	313	1,819	403	689	3,224

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 17	31 Mar 17	30 Sep 16
	\$m	\$m	\$m
Summary of total impaired assets			
Gross impaired assets ^{(1) (2)}	1,724	2,393	2,642
Specific provisions for doubtful debts	(691)	(748)	(712)
Net impaired assets	1,033	1,645	1,930

⁽¹⁾ Gross Impaired assets include \$205 million (NZ\$222 million), (March 2017: \$726 million (NZ\$795 million), September 2016: \$785 million (NZ\$823 million)) of NZ Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Gross impaired assets include \$34 million (March 2017: \$119 million, September 2016: \$135 million) of gross impaired other financial assets at fair value.

	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
Movement in gross impaired assets				
Balance as at 31 March 2016	1,398	728	48	2,174
New ⁽¹⁾	619	367	60	1,046
Written-off	(187)	(23)	(31)	(241)
Returned to performing, repaid or no longer impaired	(272)	(87)	(10)	(369)
Foreign currency translation adjustments	-	43	(11)	32
Balance as at 30 September 2016	1,558	1,028	56	2,642
New ⁽¹⁾	572	93	25	690
Written-off	(251)	(13)	(18)	(282)
Returned to performing, repaid or no longer impaired	(496)	(124)	(35)	(655)
Foreign currency translation adjustments	(1)	(42)	41	(2)
Balance as at 31 March 2017	1,382	942	69	2,393
New ⁽¹⁾	335	99	18	452
Written-off	(164)	(14)	(8)	(186)
Returned to performing, repaid or no longer impaired	(341)	(606)	(8)	(955)
Foreign currency translation adjustments	1	16	3	20
Gross impaired assets as at 30 September 2017	1,213	437	74	1,724

⁽¹⁾ New gross impaired assets during the September 2017 half year include \$9 million (NZ\$10 million) (March 2017 half year: \$31 million (NZ\$33 million), September 2016 half year: \$300 million (NZ\$319 million)) of NZ Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

The amounts below are not classified as impaired assets and therefore are not included in the above summary.

	As at		
	30 Sep 17	31 Mar 17	30 Sep 16
	\$m	\$m	\$m
90+ days past due loans - by geographic location			
Australia	2,094	2,086	1,806
New Zealand	138	182	165
Other international	13	14	4
90+ days past due loans ⁽¹⁾	2,245	2,282	1,975

⁽¹⁾ Includes \$3 million (March 2017: \$3 million, September 2016: \$nil) of 90+ days past due loans at fair value.

10. Deposits and Other Borrowings

	As at		
	30 Sep 17 \$m	31 Mar 17 \$m	30 Sep 16 \$m
Term deposits	160,884	156,568	158,763
On-demand and short-term deposits	199,449	198,847	190,018
Certificates of deposit	52,255	52,149	46,018
Deposits not bearing interest ⁽¹⁾	47,247	44,138	41,698
Total deposits	459,835	451,702	436,497
Borrowings	21,981	22,415	18,785
Securities sold under agreements to repurchase	23,493	19,543	16,064
Fair value adjustment	5	8	21
Total deposits and other borrowings	505,314	493,668	471,367
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,710	6,416	11,653
Total deposits and other borrowings at amortised cost	500,604	487,252	459,714
Total deposits and other borrowings	505,314	493,668	471,367

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

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2017				
Term deposits	121,766	29,623	9,495	160,884
On-demand and short-term deposits	165,951	17,346	16,152	199,449
Certificates of deposit	38,617	1,246	12,392	52,255
Deposits not bearing interest	42,548	4,682	17	47,247
Total deposits	368,882	52,897	38,056	459,835
Borrowings	19,560	2,232	189	21,981
Securities sold under agreements to repurchase	1,282	-	22,211	23,493
Fair value adjustment	-	5	-	5
Total deposits and other borrowings	389,724	55,134	60,456	505,314
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,710	-	4,710
Total deposits and other borrowings at amortised cost	389,724	50,424	60,456	500,604
Total deposits and other borrowings	389,724	55,134	60,456	505,314

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2017				
Term deposits	117,540	26,695	12,333	156,568
On-demand and short-term deposits	160,606	18,111	20,130	198,847
Certificates of deposit	36,181	1,480	14,488	52,149
Deposits not bearing interest	39,591	4,508	39	44,138
Total deposits	353,918	50,794	46,990	451,702
Borrowings	18,825	3,103	487	22,415
Securities sold under agreements to repurchase	550	-	18,993	19,543
Fair value adjustment	-	8	-	8
Total deposits and other borrowings	373,293	53,905	66,470	493,668
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	6,416	-	6,416
Total deposits and other borrowings at amortised cost	373,293	47,489	66,470	487,252
Total deposits and other borrowings	373,293	53,905	66,470	493,668

10. Deposits and Other Borrowings (continued)

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2016				
Term deposits	120,390	26,430	11,943	158,763
On-demand and short-term deposits	155,818	18,234	15,966	190,018
Certificates of deposit	35,298	2,255	8,465	46,018
Deposits not bearing interest	37,292	4,401	5	41,698
Total deposits	348,798	51,320	36,379	436,497
Borrowings	14,990	3,495	300	18,785
Securities sold under agreements to repurchase	787	-	15,277	16,064
Fair value adjustment	-	21	-	21
Total deposits and other borrowings	364,575	54,836	51,956	471,367
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	11,653	-	11,653
Total deposits and other borrowings at amortised cost	364,575	43,183	51,956	459,714
Total deposits and other borrowings	364,575	54,836	51,956	471,367

11. Contributed Equity and Reserves

	As at		
	30 Sep 17	31 Mar 17	30 Sep 16
	\$m	\$m	\$m
Contributed equity			
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	31,707	31,421	30,968
Other contributed equity			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	975	975	975
National Capital Instruments	-	-	397
Total contributed equity	34,627	34,341	34,285

	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Movement in issued and paid-up ordinary share capital				
Ordinary share capital				
Balance at beginning of period	30,968	31,334	31,421	30,968
Shares issued:				
Dividend reinvestment plan (DRP)	569	596	275	294
Transfer from equity-based compensation reserve	170	166	11	159
Capital distribution on CYBG demerger	-	(2,645)	-	-
Treasury shares sold relating to life insurance business ⁽¹⁾	-	1,517	-	-
Balance at end of period	31,707	30,968	31,707	31,421

⁽¹⁾ Relates to shares in NAB previously held by Wealth's life insurance business which are no longer held by a controlled entity of the Group.

	As at		
	30 Sep 17	31 Mar 17	30 Sep 16
	\$m	\$m	\$m
Reserves			
Foreign currency translation reserve	(338)	(415)	(71)
Asset revaluation reserve	83	83	83
Cash flow hedge reserve	46	40	143
Equity-based compensation reserve	273	157	234
General reserve for credit losses	-	96	75
Debt instruments at fair value through other comprehensive income reserve	89	127	80
Equity instruments at fair value through other comprehensive income reserve	84	82	85
Total reserves	237	170	629

	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
Movement in retained profits				
Balance at beginning of period	16,378	21,205	16,334	16,378
Net profit attributable to owners of NAB from continuing operations	6,178	6,420	3,321	2,857
Net loss attributable to owners of NAB from discontinued operations	(893)	(6,068)	(581)	(312)
Dividends paid	(5,216)	(5,060)	(2,621)	(2,595)
Distributions on other equity instruments	(98)	(124)	(49)	(49)
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	11	(113)	(56)	67
Reclassification of National Capital Instruments transaction costs	(3)	-	-	(3)
Actuarial gains on defined benefit superannuation plans	-	31	-	-
Gains on disposal of interest in subsidiary ⁽¹⁾	-	6	-	-
Transfer from asset revaluation reserve	-	1	-	-
Transfer (to) / from equity-based compensation reserve ⁽²⁾	(22)	7	(24)	2
Transfer from / (to) general reserve for credit losses	75	(11)	96	(21)
Transfer from equity instruments at fair value through other comprehensive income reserve	-	94	-	-
Tax on items taken directly to / (from) equity	32	(10)	22	10
Balance at end of period	16,442	16,378	16,442	16,334

⁽¹⁾ Represents gains from discontinued operations recognised directly in retained profits.

⁽²⁾ Transfer (to) / from equity-based compensation reserve relates to lapsed options and rights. In addition, the amount for the half year to September 2017 includes an adjustment related to prior period equity-based compensation.

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 17	31 Mar 17	30 Sep 16
	\$m	\$m	\$m
Cash and cash equivalents			
Assets			
Cash and liquid assets	43,826	40,373	30,630
Treasury and other eligible bills	762	358	574
Due from other banks (excluding mandatory deposits with supervisory central banks)	31,703	48,385	37,349
Total cash and cash equivalents assets	76,291	89,116	68,553
Liabilities			
Due to other banks	(36,491)	(45,199)	(40,593)
Total cash and cash equivalents	39,800	43,917	27,960

Included within due from other banks is the cash deposit of \$877 million (£513 million) (March 2017 \$1,055 million (£646 million), September 2016 \$1,175 million (£691 million)) held with The Bank of England in connection with the CYBG demerger, that is required to collateralise NAB's obligations under the Capped Indemnity as agreed with the United Kingdom Prudential Regulation Authority (PRA).

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 17	Sep 16	Sep 17	Mar 17
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	569	596	275	294
New debt issues				
Subordinated medium-term notes reinvestment offer	539	-	-	539

13. Contingent Liabilities

(i) Legal proceedings - general

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

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

(ii) Legal proceedings - specific

Bank Bill Swap Reference Rate

Following an industry-wide review by ASIC into participants in the Bank Bill Swap Reference Rate (BBSW) market, ASIC commenced Federal Court proceedings against NAB on 7 June 2016. ASIC has also commenced similar proceedings against two other major Australian banks. ASIC's allegations against NAB include claims of market manipulation and unconscionable conduct in relation to trading in the BBSW market during the period from June 2010 to December 2012. NAB has agreed a settlement with ASIC (refer to *Note 15 Events subsequent to reporting date*). The settlement is subject to Federal Court approval. The financial impact of this settlement has been reflected in the Group's 2017 full year results.

BBSW 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 concerning BBSW. The complaint named a number of defendants, including NAB, ANZ, CBA and Westpac, and references the proceedings brought by ASIC against NAB, ANZ and Westpac in relation to BBSW. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

NZ fee class action

On 20 August 2014, a representative action was filed against Bank of New Zealand (BNZ) in relation to certain fees. On 8 May 2017, Fair Play on Fees agreed not to continue that representative action. BNZ agreed to make a contribution towards costs incurred in commencing the action. BNZ has not admitted any liability.

(iii) Regulatory compliance investigations - general

Entities within the Group are subject from time to time to regulatory investigations arising from the conduct of their business. This includes regulatory investigations in relation to actual or potential breaches of law or regulations. In addition to situations where the relevant regulatory authority is carrying out the investigation, this includes situations where the Group is carrying out the investigation itself or a third party has been engaged to carry out the investigation.

There are contingent liabilities in respect of regulatory investigations involving entities of the Group. Where appropriate, provisions have been made. The outcome of

such regulatory investigations, including whether enforcement action will be taken or other legal proceedings initiated, is typically uncertain and the aggregate of potential liability in respect thereof cannot be accurately assessed.

(iv) Regulatory compliance investigations - specific

Adviser service fees

ASIC is conducting an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including members of the NAB Group. Under the service arrangements, customers generally pay an adviser service fee in consideration for a range of services provided to the customer. NAB is investigating whether customers who have paid to receive ongoing services have been provided with the agreed services in accordance with the relevant service agreement with a member of the NAB Group. NAB continues to engage with ASIC on the design of the methodology for investigating and assessing this matter; however, agreement with ASIC has not yet been reached due to different views about aspects of NAB's proposed approach. The outcomes of the investigation are uncertain at this time.

Plan Service Fees

Further to ASIC's May 2017 report about its industry-wide investigation into financial advice fees, NAB has finalised refunds to customers who did not have a plan adviser attached to their superannuation account and were incorrectly charged Plan Service Fees. ASIC has requested NAB consider certain circumstances regarding continuity of service where a Plan Service Fee continues to be charged and paid to a plan adviser after a superannuation fund member leaves an employer and a change to the member's superannuation plan occurs as a result. NAB continues to engage with ASIC on this matter. The outcomes of the investigation are uncertain at this time.

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 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 in some cases offered and paid.

The outcomes and total costs associated with this work are uncertain. Plaintiff law firms continue to encourage NAB customers who have suffered losses as a result of financial advice received from NAB advisers to contact them for legal advice. No class actions have been taken against the Group in this regard.

NZ Ministry of Business, Innovation and Employment compliance audit

The Labour Inspectorate of the New Zealand Ministry of

13. Contingent Liabilities (continued)

Business, Innovation and Employment is currently undertaking a program of compliance audits of a number of New Zealand organisations in respect of the New Zealand Holidays Act 2003 (the "Holidays Act"). BNZ requested early participation in this program in May 2016 and received the Labour Inspectorate's final report, which set out its findings regarding BNZ's compliance with the Holidays Act, on 18 January 2017. The findings indicated that BNZ has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. BNZ is reviewing the findings and is working with the Labour Inspectorate to reach an appropriate resolution. At this stage, the final outcome of the audit, including possible remediation, cannot be determined with any certainty.

Anti-Money Laundering and Counter-Terrorist Financing Program Uplift Work

Since July 2016, NAB has been progressing a program of work to uplift and strengthen the Group Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) Program and its implementation. The work involves significant investment in systems, 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 if they are identified.

Where significant AML/CTF compliance issues are identified, they are notified to AUSTRAC or equivalent foreign regulators, and those regulators are typically consulted and updated about progress in investigating and remediating the relevant issues. The Group is currently investigating and remediating a number of identified issues, including certain weaknesses with the implementation of 'Know Your Customer' requirements and systems and process issues that impacted transaction monitoring and reporting for some specific areas.

It is possible that, as the work progresses, further issues may be identified and additional strengthening may be required. The outcomes of the investigation and remediation process for specific issues identified to date, and for any issues identified in the future, are uncertain.

(v) Contractual commitments

Insurance claims

NAB is in the process of making insurance claims in relation to certain conduct-related losses suffered by the Group. The insurance claims are accounted for by NAB as a contingent asset. The outcome of such claims cannot be determined with any certainty at this stage.

Contracts - general

Entities within the Group enter into contractual agreements from time to time, which sometimes involve giving contingent commitments such as warranties, indemnities or guarantees.

There are contingent liabilities in respect of such commitments. Where appropriate, provisions have been

made. The aggregate potential liability in respect thereof cannot be accurately assessed.

UK conduct issues and the Conduct Indemnity Deed

As part of the arrangements relating to the CYBG demerger, NAB and CYBG entered into a Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of certain historic conduct liabilities (Capped Indemnity) up to a cap of £1.115 billion (Capped Indemnity Amount). The Capped Indemnity provides CYBG with economic protection against certain costs and liabilities (including financial penalties imposed by a regulator) resulting from conduct issues relating to:

- payment protection insurance (PPI), certain interest rate hedging products (IRHP) and certain fixed rate tailored business loans (FRTBLs); and
- other conduct matters, measured by reference to the following thresholds: (a) claims relating to an industry wide compensation customer redress program entered into as part of a settlement with a regulator exceeding £2.5 million, in aggregate; and (b) all other claims that exceed £5 million, in aggregate, and affect more than 50 customers,

which, in each case, relate to conduct in the period prior to 8 February 2016 (the Demerger Date) whether or not known at the Demerger Date. Such conduct issues include acts, omissions and agreements by or on behalf of CYBG Group with respect to customers which either constitute a breach of or failure to comply with applicable law or regulations, or are determined by CYBG in good faith to be reasonably likely on a balance of probabilities to constitute a breach of or failure to comply with applicable law or regulations. Certain other conduct matters, including matters arising from a review of investment advice sales, have now satisfied the thresholds for inclusion as conduct issues covered by the Capped Indemnity.

It is not expected that payments to CYBG under the Capped Indemnity will be taxable in the hands of CYBG Group, but if tax were to be payable then the Conduct Indemnity Deed contains provisions pursuant to which NAB has agreed to compensate CYBG for any actual tax incurred that would not have been incurred but for the receipt of amounts under the Capped Indemnity.

Claims may be made by CYBG under the Capped Indemnity when it or any member of CYBG Group raises a new provision or increases an existing provision in respect of any such conduct issues. Under a loss sharing arrangement, CYBG will be responsible for 9.7% of the liabilities under any provision for such conduct issues with NAB responsible for the remainder under the Capped Indemnity up to the Capped Indemnity Amount. The Capped Indemnity is perpetual in nature, although NAB has rights in certain circumstances to negotiate arrangements to terminate the Capped Indemnity subject to the approval of the PRA.

For the year ended 30 September 2017, CYBG has made claims under the Capped Indemnity for £171 million, leaving £511 million outstanding as available support

13. Contingent Liabilities (continued)

under the Capped Indemnity (Unutilised Indemnity Amount). In addition, NAB has increased the amount of provisions held for expected future claims under the Conduct Indemnity Deed by £343 million (representing the portion of any increased CYBG provision for which NAB would be responsible under the loss sharing arrangement). If CYBG makes claims under the Conduct Indemnity Deed for this amount, it would reduce the Unutilised Indemnity Amount to £168 million.

The Unutilised Indemnity Amount at any point in time is accounted for by NAB as a contingent liability, with any potential future losses incurred under the indemnity expensed within discontinued operations. The frequency and timing of any potential future losses is presently unknown. The amount of the Capped Indemnity that will be utilised by any potential future losses cannot be determined with any certainty at this stage.

NAB collateralised its obligations under the Capped Indemnity by placing a cash deposit of £1.115 billion with The Bank of England from the Demerger Date. The cash deposit with The Bank of England has been reduced commensurate with the amounts claimed under the Capped Indemnity such that the cash deposit amount is equal to the Unutilised Indemnity Amount (plus accrued interest). The Unutilised Indemnity Amount is treated as a Common Equity Tier 1 (CET1) deduction for NAB.

Except for the Capped Indemnity and the tax provisions set out in the Conduct Indemnity Deed, CYBG has agreed to release NAB from liability for any other conduct-related claims by any member of CYBG Group against NAB.

14. Discontinued Operations

In the previous financial year, the Group executed two major divestments, the demerger and Initial Public Offering (IPO) of CYBG Group and the sale of 80% of Wealth's life insurance business to Nippon Life. Each of these transactions qualified as a discontinued operation.

Life insurance business discontinued operation

NAB has retained a 20% interest in MLC Limited following the sale of 80% of that company to Nippon Life. The retained interest gives NAB significant influence over the business and is accounted for using the equity method in accordance with AASB 128 "Investments in Associates and Joint Ventures". The investment is disclosed within other assets on the Group balance sheet. The full prior period results of the life insurance business are presented within the life insurance business discontinued operation. The Group's share of current period profit associated with the retained investment in the life insurance business is presented within continuing operations.

Further to retaining a direct investment in the life insurance business, the Group has entered into a long term strategic partnership with Nippon Life which includes a 20 year distribution agreement to provide life insurance products through NAB's owned and aligned distribution networks. The distribution agreement is a source of income for the Group in addition to the share of profits associated with the retained investment.

CYBG discontinued operation

The separation of CYBG Group was achieved by a demerger of 75% of CYBG shares to NAB shareholders, with the remaining 25% divested through an IPO to institutional investors (with both transactions referred to as the CYBG demerger). As part of the CYBG demerger, NAB and CYBG entered into the Conduct Indemnity Deed under which NAB agreed, subject to certain limitations, to provide CYBG with a Capped Indemnity in respect of certain historic conduct liabilities (Refer to *Note 13 Contingent liabilities* for further information on the Capped Indemnity). All conduct provisions recognised by NAB under the Conduct Indemnity Deed are presented within the CYBG discontinued operation and Provisions.

Analysis of loss for the year from discontinued operations

The results set out below represent the discontinued operations of Wealth's life insurance business and UK Banking operations as related to the CYBG demerger. Adjustments to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period are classified separately in discontinued operations in the current period. During the September 2017 full year, a net loss of \$904 million before tax (\$893 million after tax) was recognised in discontinued operations. This balance includes a loss of \$853 million relating to the Conduct Indemnity Deed entered into with CYBG. Refer to *Note 13 Contingent liabilities* for further information on the Conduct Indemnity Deed.

Analysis of loss for the year from discontinued operations

	Year to	
	Sep 17	Sep 16
	\$m	\$m
Total discontinued operations		
Net loss from life insurance business discontinued operation	-	(1,123)
Net loss from CYBG discontinued operation	(893)	(4,945)
Net loss from discontinued operations	(893)	(6,068)

15. Events Subsequent to Reporting Date

On 27 October 2017, the Group announced it had agreed a settlement with the Australian Securities and Investments Commission (ASIC) of the Bank Bill Swap Rate (BBSW) legal action. The settlement is subject to Federal Court approval. As part of the settlement the Group has agreed to a \$10 million penalty, and to pay ASIC's costs of \$20 million. The Group will also make a donation of \$20 million to a financial consumer protection fund nominated by ASIC. The financial impact of this settlement has been reflected in the Group's 2017 full year results.

On 2 November 2017, the Group announced an acceleration of its strategic agenda to enhance the customer experience and simplify the bank. A restructuring provision of between \$500 million and \$800 million is expected to be raised in the Group's interim financial report for the first half of the 2018 financial year.

Compliance Statement

The preliminary final report for the year ended 30 September 2017 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.

A handwritten signature in black ink, appearing to read 'Louise Thomson', with a large, stylized flourish at the end.

Louise Thomson
Company Secretary
2 November 2017