

Section 5

Financial Report

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Consolidated Financial Statements

Income Statement ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 18	Sep 17	Sep 18	Mar 18
		\$m	\$m	\$m	\$m
Interest income		28,543	27,403	14,450	14,093
Interest expense		(15,038)	(14,221)	(7,711)	(7,327)
Net interest income		13,505	13,182	6,739	6,766
Other income	3	5,596	4,842	2,738	2,858
Operating expenses	4	(9,910)	(8,539)	(4,726)	(5,184)
Credit impairment charge	8	(791)	(824)	(409)	(382)
Profit before income tax		8,400	8,661	4,342	4,058
Income tax expense	5	(2,455)	(2,480)	(1,273)	(1,182)
Net profit for the period from continuing operations		5,945	6,181	3,069	2,876
Net loss after tax for the period from discontinued operations	14	(388)	(893)	(97)	(291)
Net profit for the period		5,557	5,288	2,972	2,585
Profit attributable to non-controlling interests		3	3	1	2
Net profit attributable to owners of NAB		5,554	5,285	2,971	2,583
		cents	cents	cents	cents
Basic earnings per share		201.3	194.7	107.3	93.9
Diluted earnings per share		194.0	189.1	103.4	91.1
Basic earnings per share from continuing operations		215.6	228.2	110.9	104.7
Diluted earnings per share from continuing operations		207.2	220.1	106.6	101.0

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

Statement of Comprehensive Income ⁽¹⁾

	Note	Year to		Half Year to	
		Sep 18 \$m	Sep 17 \$m	Sep 18 \$m	Mar 18 \$m
Net profit for the period from continuing operations		5,945	6,181	3,069	2,876
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		7	-	7	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		66	11	47	19
Revaluation of land and buildings		-	1	-	-
Currency adjustments on translation of other contributed equity		41	4	(5)	46
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		19	(1)	(7)	26
Tax on items transferred directly to equity		(18)	31	(12)	(6)
Total items that will not be reclassified to profit or loss		115	46	30	85
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		(26)	(114)	25	(51)
Cost of hedging reserve		(76)	-	(76)	-
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		15	(273)	(175)	190
Transfer to the income statement on disposal of foreign operations		(62)	(10)	(62)	-
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		(88)	25	(48)	(40)
Gains from sale transferred to the income statement		(9)	(3)	(7)	(2)
Change in loss allowance on debt instruments		5	(1)	-	5
Tax on items transferred directly to equity		38	17	37	1
Total items that will be reclassified subsequently to profit or loss		(203)	(359)	(306)	103
Other comprehensive income for the period, net of income tax		(88)	(313)	(276)	188
Total comprehensive income for the period from continuing operations		5,857	5,868	2,793	3,064
Net loss for the period from discontinued operations	14	(388)	(893)	(97)	(291)
Total comprehensive income for the period		5,469	4,975	2,696	2,773
Attributable to non-controlling interests		3	3	1	2
Total comprehensive income attributable to owners of NAB		5,466	4,972	2,695	2,771

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

Balance Sheet

	Note	As at		
		30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m
Assets				
Cash and liquid assets		50,188	44,232	43,826
Due from other banks		30,568	40,309	37,066
Trading instruments		78,228	77,687	80,091
Debt instruments		42,056	40,969	42,131
Other financial assets		10,041	13,173	16,058
Hedging derivatives		3,840	5,135	3,892
Loans and advances		567,981	550,262	540,125
Due from customers on acceptances		3,816	5,288	6,786
Property, plant and equipment		1,199	1,245	1,315
Goodwill and other intangible assets		5,787	5,607	5,601
Deferred tax assets		2,083	2,070	1,988
Other assets ⁽¹⁾		10,723	10,091	9,446
Total assets		806,510	796,068	788,325
Liabilities				
Due to other banks		38,192	35,914	36,683
Trading instruments		22,422	26,503	27,187
Other financial liabilities		30,437	29,986	29,631
Hedging derivatives		2,547	553	1,674
Deposits and other borrowings	10	503,145	502,690	500,604
Current tax liabilities		103	44	230
Provisions		2,196	2,050	1,961
Bonds, notes and subordinated debt		140,222	132,341	124,871
Other debt issues		6,158	6,159	6,187
Other liabilities		8,376	7,427	7,980
Total liabilities		753,798	743,667	737,008
Net assets		52,712	52,401	51,317
Equity				
Contributed equity	11	35,982	35,702	34,627
Reserves	11	46	331	237
Retained profits		16,673	16,357	16,442
Total equity (parent entity interest)		52,701	52,390	51,306
Non-controlling interest in controlled entities		11	11	11
Total equity		52,712	52,401	51,317

⁽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.

Condensed Cash Flow Statement

	Note	Year to		Half Year to	
		Sep 18 \$m	Sep 17 \$m	Sep 18 \$m	Mar 18 \$m
Cash flows from operating activities					
Interest received		28,340	27,176	14,481	13,859
Interest paid		(14,778)	(14,315)	(7,492)	(7,286)
Dividends received		49	36	34	15
Income tax paid		(2,634)	(2,544)	(1,183)	(1,451)
Other cash flows from operating activities before changes in operating assets and liabilities		5,222	(6,639)	6,357	(1,135)
Changes in operating assets and liabilities		(25,395)	9,503	(20,294)	(5,101)
Net cash provided by / (used in) operating activities⁽¹⁾		(9,196)	13,217	(8,097)	(1,099)
Net cash provided by / (used in) investing activities⁽²⁾		(954)	(313)	(1,861)	907
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		(22,951)	(32,426)	(10,004)	(12,947)
Proceeds from issue of bonds, notes and subordinated debt		32,139	37,318	16,039	16,100
Repayments of other contributed equity		-	(400)	-	-
Repayment of other debt issues		(41)	(73)	(7)	(34)
Dividends and distributions paid (excluding dividend reinvestment plan)		(4,221)	(4,750)	(2,452)	(1,769)
Net cash provided by / (used in) financing activities		4,926	(331)	3,576	1,350
Net increase / (decrease) in cash and cash equivalents		(5,224)	12,573	(6,382)	1,158
Cash and cash equivalents at beginning of period		39,800	27,960	43,062	39,800
Effects of exchange rate changes on balance of cash held in foreign currencies		3,370	(733)	1,266	2,104
Cash and cash equivalents at end of period	12	37,946	39,800	37,946	43,062

⁽¹⁾ The year to 30 September 2018 includes cash outflows related to the Group's discontinued operations, being \$618 million (March 2018: \$618 million; September 2017: \$270 million) related to CYBG and \$33 million (March 2018: \$33 million; September 2017: \$56 million) related to the Group's life insurance business.

⁽²⁾ Net cash provided by / (used in) investing activities includes a \$342 million cash outflow (March 2018: \$342 million cash outflow; September 2017: \$49 million cash inflow) from the sale of controlled entities or businesses.

Statement of Changes in Equity

Group - Yearly

	Contributed equity ⁽¹⁾ \$m	Reserves ⁽²⁾ \$m	Retained profits \$m	Total \$m	Non- controlling interest in controlled entities \$m	Total equity \$m
Balance at 1 October 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 ⁽²⁾	(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
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 ⁽³⁾						
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

⁽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.

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 2017	34,627	237	16,442	51,306	11	51,317
Net profit for the period from continuing operations	-	-	2,874	2,874	2	2,876
Net loss for the period from discontinued operations	-	-	(291)	(291)	-	(291)
Other comprehensive income for the period from continuing operations	-	174	14	188	-	188
Total comprehensive income for the period	-	174	2,597	2,771	2	2,773
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	914	-	-	914	-	914
Transfer from / (to) retained profits	-	1	(1)	-	-	-
Transfer from equity-based compensation reserve	161	(161)	-	-	-	-
Equity-based compensation	-	80	-	80	-	80
Dividends paid	-	-	(2,632)	(2,632)	(2)	(2,634)
Distributions on other equity instruments	-	-	(49)	(49)	-	(49)
Balance at 31 March 2018	35,702	331	16,357	52,390	11	52,401
Net profit for the period from continuing operations	-	-	3,068	3,068	1	3,069
Net loss for the period from discontinued operations	-	-	(97)	(97)	-	(97)
Other comprehensive income for the period from continuing operations	-	(317)	41	(276)	-	(276)
Total comprehensive income for the period	-	(317)	3,012	2,695	1	2,696
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	268	-	-	268	-	268
Transfer from / (to) retained profits	-	(22)	22	-	-	-
Transfer from equity-based compensation reserve	12	(12)	-	-	-	-
Equity-based compensation	-	66	-	66	-	66
Dividends paid	-	-	(2,667)	(2,667)	(2)	(2,669)
Distributions on other equity instruments	-	-	(51)	(51)	-	(51)
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

⁽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 year ended 30 September 2018 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 2018 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 2017 Annual Financial Report, the 31 March 2018 half year results, any public announcements made during the year and when released, the 2018 Annual Financial Report.

Accounting policies

The Group adopted the hedge accounting requirements of AASB 9 *Financial Instruments* and other minor amendments to the standard in 2018. The hedge accounting requirements were applied from 1 April 2018 as a change in accounting policy as permitted by AASB 9.

The amendment to AASB 107 *Statement of Cash Flows* will be reflected in the notes accompanying the Group's 2018 Annual Financial Report.

Apart from these changes, the Group's accounting policies are consistent with those applied in the 2017 Annual Financial Report.

The Group will adopt AASB 15 *Revenue from Contracts with Customers* effective 1 October 2018. Trailing commissions are the primary revenue stream impacted by the transition to AASB 15. The Group determined that it has no substantive ongoing performance obligation in respect of trailing commissions and therefore is required to estimate the present value of trailing commissions it is entitled to collect and recognise that estimate as a contract asset. The contract asset and the adjustment to retained earnings are not material to the Group's financial statements. No other material transition adjustments were identified.

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

Preparation of this report requires use of critical accounting assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of contingent liabilities. Areas involving critical assumptions and estimates include:

- impairment charges on loans and advances
- fair value of financial assets and liabilities
- impairment assessment of goodwill and other intangible assets
- provisions for customer-related remediation and other regulatory matters
- provisions for restructuring-related costs.

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.

2. Segment Information ⁽¹⁾

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 Australian major 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 2018 full year has been adjusted for distributions, hedging and other IFRS volatility, other non-cash items and MLC Wealth divestment transaction 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

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

Reportable Segments

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 ⁽²⁾ \$m	
Net interest income	5,539	3,964	1,882	1,698	384	13,467
Other operating income ⁽³⁾	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 ⁽⁴⁾	(2,230)	(3,046)	(1,297)	(869)	(1,550)	(8,992)
Underlying profit	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 earning items	-	(30)	-	-	88	58
Net profit 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 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

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

⁽²⁾ Corporate Functions and Other includes Group Eliminations.

⁽³⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.

⁽⁴⁾ Includes restructuring-related costs and customer-related remediation. Refer to Note 4 Operating expenses for further information.

2. Segment Information (continued) ⁽¹⁾

Reportable Segments (continued)

Segment information	Year ended 30 September 2017					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 ⁽²⁾ \$m	
Net interest income	5,257	3,884	1,972	1,586	467	13,166
Other operating income	1,062	1,597	1,368	530	172	4,729
Net operating income	6,319	5,481	3,340	2,116	639	17,895
Operating expenses	(2,084)	(2,910)	(1,236)	(827)	(578)	(7,635)
Underlying profit	4,235	2,571	2,104	1,289	61	10,260
Credit impairment charge	(180)	(267)	(37)	(67)	(259)	(810)
Cash earnings / (deficit) before tax and distributions	4,055	2,304	2,067	1,222	(198)	9,450
Income tax (expense) / benefit	(1,214)	(671)	(532)	(340)	47	(2,710)
Cash earnings / (deficit) before distributions	2,841	1,633	1,535	882	(151)	6,740
Distributions	-	-	-	-	(98)	(98)
Cash earnings / (deficit)	2,841	1,633	1,535	882	(249)	6,642
Fair value and hedge ineffectiveness	(26)	(1)	(23)	(14)	(436)	(500)
Other non-cash earning items	-	(62)	-	-	98	36
Net profit for the year from continuing operations	2,815	1,570	1,512	868	(587)	6,178
Net loss attributable to discontinued operations	-	-	-	-	(893)	(893)
Net profit attributable to the owners of NAB	2,815	1,570	1,512	868	(1,480)	5,285
Reportable segment assets	192,848	217,567	259,297	76,055	42,558	788,325

Segment information	Half 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 ⁽²⁾ \$m	
Net interest income	2,783	1,950	936	870	178	6,717
Other operating income ⁽³⁾	536	771	714	257	(111)	2,167
Net operating income	3,319	2,721	1,650	1,127	67	8,884
Operating expenses ⁽⁴⁾	(1,139)	(1,536)	(660)	(443)	(470)	(4,248)
Underlying profit	2,180	1,185	990	684	(403)	4,636
Credit impairment (charge) / write-back	(133)	(138)	36	(32)	(139)	(406)
Cash earnings / (deficit) before tax and distributions	2,047	1,047	1,026	652	(542)	4,230
Income tax (expense) / benefit	(618)	(312)	(263)	(182)	139	(1,236)
Cash earnings / (deficit) before distributions	1,429	735	763	470	(403)	2,994
Distributions	-	-	-	-	(51)	(51)
Cash earnings / (deficit)	1,429	735	763	470	(454)	2,943
Fair value and hedge ineffectiveness	(3)	2	(2)	(2)	106	101
Other non-cash earning items	-	(15)	-	-	39	24
Net profit for the year from continuing operations	1,426	722	761	468	(309)	3,068
Net loss attributable to discontinued operations	-	-	-	-	(97)	(97)
Net profit attributable to the owners of NAB	1,426	722	761	468	(406)	2,971
Reportable segment assets	199,750	228,705	263,752	79,130	35,173	806,510

⁽¹⁾ Information is presented on a continuing operations basis.⁽²⁾ Corporate Functions and Other includes Group Eliminations.⁽³⁾ Includes customer-related remediation. Refer to Note 3 Other income for further information.⁽⁴⁾ Includes customer-related remediation. Refer to Note 4 Operating expenses for further information.

2. Segment Information (continued) ⁽¹⁾

Reportable Segments (continued)

Segment information	Half Year ended 31 March 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 ⁽²⁾ \$m	
Net interest income	2,756	2,014	946	828	206	6,750
Other operating income	532	770	737	263	41	2,343
Net operating income	3,288	2,784	1,683	1,091	247	9,093
Operating expenses ⁽³⁾	(1,091)	(1,510)	(637)	(426)	(1,080)	(4,744)
Underlying profit	2,197	1,274	1,046	665	(833)	4,349
Credit impairment (charge) / write-back	(74)	(133)	7	(38)	(135)	(373)
Cash earnings / (deficit) before tax and distributions	2,123	1,141	1,053	627	(968)	3,976
Income tax (expense) / benefit	(641)	(337)	(275)	(175)	260	(1,168)
Cash earnings / (deficit) before distributions	1,482	804	778	452	(708)	2,808
Distributions	-	-	-	-	(49)	(49)
Cash earnings / (deficit)	1,482	804	778	452	(757)	2,759
Fair value and hedge ineffectiveness	(3)	25	15	-	44	81
Other non-cash earning items	-	(15)	-	-	49	34
Net profit for the year from continuing operations	1,479	814	793	452	(664)	2,874
Net loss attributable to discontinued operations	-	-	-	-	(291)	(291)
Net profit attributable to the owners of NAB	1,479	814	793	452	(955)	2,583
Reportable segment assets	196,180	223,416	250,117	79,048	47,307	796,068

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

⁽²⁾ Corporate Functions and Other includes Group Eliminations.

⁽³⁾ Includes restructuring-related costs. Refer to Note 4 Operating expenses for further information.

3. Other Income ⁽¹⁾

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Gains less losses on financial instruments at fair value				
Trading instruments	743	1,314	651	92
Hedge ineffectiveness ⁽²⁾	557	(680)	94	463
Financial instruments designated at fair value	225	(225)	62	163
Other	-	143	-	-
Total gains less losses on financial instruments at fair value	1,525	552	807	718
Other operating income				
Dividend revenue	38	27	23	15
Banking fees ⁽³⁾	1,008	943	510	498
Money transfer fees	573	584	289	284
Fees and commissions ^{(3) (4)}	1,916	2,162	816	1,100
Investment management fees	312	280	158	154
Other income	224	294	135	89
Total other operating income	4,071	4,290	1,931	2,140
Total other income	5,596	4,842	2,738	2,858

Customer-related remediation

On 16 October 2018, the Group announced additional costs for several customer remediation matters. These additional costs relate to refunds and compensation to customers impacted by issues in NAB's Wealth business, including adviser service fees, plan service fees, the Wealth advice review and other Wealth related issues. The customer-related remediation of \$249 million is recognised as a reduction in fees and commissions in the September 2018 half year.

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

⁽²⁾ Represents hedge ineffectiveness of designated hedging relationships.

⁽³⁾ March 2018 comparative has been restated to reclassify some banking fees to fees and commissions.

⁽⁴⁾ Includes customer-related remediation.

4. Operating Expenses ⁽¹⁾

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Personnel expenses				
Salaries and related on-costs	3,345	3,252	1,673	1,672
Superannuation costs-defined contribution plans	266	258	132	134
Performance-based compensation	622	582	301	321
Other expenses ⁽²⁾	728	326	151	577
Total personnel expenses	4,961	4,418	2,257	2,704
Occupancy-related expenses				
Operating lease rental expense	451	442	226	225
Other expenses ⁽²⁾	133	85	51	82
Total occupancy-related expenses	584	527	277	307
General expenses				
Fees and commission expense	612	611	308	304
Depreciation of property, plant and equipment	304	305	151	153
Amortisation of intangible assets	476	429	268	208
Advertising and marketing	226	187	123	103
Charge to provide for operational risk event losses ⁽³⁾	295	182	202	93
Communications, postage and stationery	206	204	102	104
Computer equipment and software	657	651	326	331
Data communication and processing charges	75	80	33	42
Professional fees ⁽²⁾	799	503	379	420
Impairment losses recognised ⁽²⁾	174	20	24	150
Other expenses ⁽²⁾	541	422	276	265
Total general expenses	4,365	3,594	2,192	2,173
Total operating expenses	9,910	8,539	4,726	5,184

Restructuring

On 2 November 2017, the Group announced an acceleration of its strategic agenda to enhance the customer experience and simplify its business. During the September 2018 full year, management undertook activities to identify changes to the Group's workforce, physical footprint and processes in order to commence delivering on the acceleration strategy. The Group satisfied the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* with internal announcements of a revised organisational structure, which identified specific roles affected by the restructuring. Furthermore, the Group commenced closure of a number of branches as part of the Group's changes to its physical footprint.

In the March 2018 half 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.

The Group expects the cash flows related to the restructuring provision to occur over the period to September 2020 as it undertakes the acceleration of its strategic agenda. Nonetheless, some uncertainty remains concerning the specific reporting periods in which particular portions of the provision will affect the Group's cash flows.

Customer-related remediation

On 16 October 2018, the Group announced additional costs for several customer remediation matters including costs for implementing remediation processes and other costs associated with regulatory compliance matters. The customer-related remediation of \$111 million is recognised as a charge to provide for operational risk event losses in the September 2018 half year.

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

⁽²⁾ Includes restructuring-related costs.

⁽³⁾ Includes customer-related remediation.

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 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Profit before income tax	8,400	8,661	4,342	4,058
Prima facie income tax expense at 30%	2,520	2,598	1,303	1,217
Tax effect of permanent differences				
Assessable foreign income	7	7	4	3
Foreign tax rate differences	(38)	(43)	(18)	(20)
Foreign branch income not assessable	(61)	(78)	(30)	(31)
Over provision in prior years	(3)	(17)	-	(3)
Offshore banking unit income	(62)	(62)	(29)	(33)
Restatement of deferred tax balances for tax rate changes	-	1	(8)	8
Non-deductible hybrid distributions	72	70	36	36
Losses not tax effected	4	11	4	-
Other	16	(7)	11	5
Total income tax expense	2,455	2,480	1,273	1,182
Effective tax rate (%)	29.2%	28.6%	29.3%	29.1%

⁽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 18		Sep 17	
	Amount per share cents	Total amount \$m	Amount per share cents	Total amount \$m
Dividends on ordinary shares				
Final dividend (in respect of prior year)	99	2,659	99	2,630
Interim dividend (in respect of current year)	99	2,696	99	2,649
Deduct: Bonus shares in lieu of dividend	n/a	(56)	n/a	(63)
Dividends paid by NAB	n/a	5,299	n/a	5,216
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4	n/a	5
Total dividend paid	n/a	5,303	n/a	5,221

Franked dividends declared or paid during 2018 were fully franked at a tax rate of 30% (2017: 30%).

Final dividend

On 1 November 2018, the directors declared the following dividend:

	Amount per share cents	Franked amount per share %	Total amount \$m
Final dividend declared in respect of the year ended 30 September 2018	99	100	2,707

	Year to			
	Sep 18		Sep 17	
	Amount per security ⁽¹⁾ \$	Total amount \$m	Amount per security ⁽¹⁾ \$	Total amount \$m
Distributions on other equity instruments				
National Income Securities	3.02	60	3.01	60
Trust Preferred Securities ⁽²⁾	99.23	40	93.99	38
Total distributions on other equity instruments		100		98

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 12 November 2018 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.

7. Loans and Advances including Acceptances

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Housing loans	339,540	333,758	329,534
Other term lending	209,594	199,856	197,134
Asset and lease financing	12,428	11,989	11,674
Overdrafts	5,821	5,853	5,673
Credit card outstandings	7,294	7,538	7,409
Other	6,822	6,620	6,539
Fair value adjustment	275	338	397
Gross loans and advances	581,774	565,952	558,360
Acceptances	3,816	5,288	6,786
Gross loans and advances including acceptances	585,590	571,240	565,146
<i>Represented by:</i>			
Loans and advances at fair value ⁽¹⁾	9,845	11,966	14,596
Loans and advances at amortised cost	571,929	553,986	543,764
Acceptances	3,816	5,288	6,786
Gross loans and advances including acceptances	585,590	571,240	565,146
Unearned income and deferred net fee income	(435)	(316)	(415)
Provision for credit impairment	(3,513)	(3,408)	(3,224)
Net loans and advances including acceptances	581,642	567,516	561,507
Securitised loans and loans supporting covered bonds⁽²⁾	33,541	34,847	38,957

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 30 September 2018				
Housing loans	303,007	36,422	111	339,540
Other term lending	161,338	36,381	11,875	209,594
Asset and lease financing	11,938	4	486	12,428
Overdrafts	3,666	2,124	31	5,821
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

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2018				
Housing loans	297,668	35,965	125	333,758
Other term lending	153,034	36,298	10,524	199,856
Asset and lease financing	11,515	7	467	11,989
Overdrafts	3,773	2,039	41	5,853
Credit card outstandings	6,427	1,111	-	7,538
Other	4,569	500	1,551	6,620
Fair value adjustment	296	42	-	338
Gross loans and advances	477,282	75,962	12,708	565,952
Acceptances	5,288	-	-	5,288
Gross loans and advances including acceptances	482,570	75,962	12,708	571,240
<i>Represented by:</i>				
Loans and advances at fair value	8,668	3,298	-	11,966
Loans and advances at amortised cost	468,614	72,664	12,708	553,986
Acceptances	5,288	-	-	5,288
Gross loans and advances including acceptances	482,570	75,962	12,708	571,240

⁽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.

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 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

8. Provision for Credit Impairment on Loans at Amortised Cost

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
New and increased provisions (net of releases)	1,057	1,177	536	521
Write-backs of specific provisions	(193)	(242)	(99)	(94)
Recoveries of specific provisions	(73)	(111)	(28)	(45)
Total charge to the income statement	791	824	409	382

Movement in provision for credit impairment on loans at amortised cost

Group - Yearly

	Stage 1	Stage 2	Stage 3		Total
	12-mth expected credit losses (ECL)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	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	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)
Write-offs from specific provisions	-	-	-	(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
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 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

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

Movement in provision for credit impairment on 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 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	194	(178)	(16)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(42)	109	(67)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(48)	50	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(22)	(101)	124	-
New and increased provisions (net of releases)	(128)	291	114	244	521
Write-backs of specific provisions	-	-	-	(94)	(94)
Write-offs from specific provisions	-	-	-	(256)	(256)
Foreign currency translation and other adjustments	2	7	2	2	13
Balance at 31 March 2018	336	1,978	385	709	3,408
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	213	(202)	(11)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(38)	90	(52)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(46)	48	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(22)	(80)	103	-
New and increased provisions (net of releases)	(184)	335	103	282	536
Write-backs of specific provisions	-	-	-	(99)	(99)
Write-offs from specific provisions	-	-	-	(317)	(317)
Foreign currency translation and other adjustments	-	(8)	(2)	(5)	(15)
Balance at 30 September 2018	324	2,125	391	673	3,513

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).

Summary of total impaired assets	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Impaired assets	1,433	1,560	1,724
Restructured loans	88	49	-
Gross impaired assets ^{(1) (2)}	1,521	1,609	1,724
Specific provisions for credit impairment ⁽³⁾	(675)	(710)	(691)
Net impaired assets	846	899	1,033

Movement in gross impaired assets	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
Balance as at 31 March 2017	1,382	942	69	2,393
New ⁽⁴⁾	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
Balance as at 30 September 2017	1,213	437	74	1,724
New ⁽⁴⁾	314	155	-	469
Written-off	(72)	(14)	(5)	(91)
Returned to performing, repaid or no longer impaired	(260)	(230)	(14)	(504)
Foreign currency translation adjustments	-	8	3	11
Balance as at 31 March 2018	1,195	356	58	1,609
New ⁽⁴⁾	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)
Gross impaired assets as at 30 September 2018	1,230	247	44	1,521

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

90+ days past due loans - by geographic location	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Australia	2,527	2,296	2,094
New Zealand	104	113	138
Other International	17	18	13
90+ days past due loans ⁽⁵⁾	2,648	2,427	2,245

⁽¹⁾ Gross impaired assets include \$2 million (NZ\$3 million), (March 2018: \$76 million (NZ\$81 million), September 2017: \$205 million (NZ\$222 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽²⁾ Gross impaired assets include \$16 million (March 2018: \$19 million, September 2017: \$34 million) of gross impaired other financial assets at fair value.

⁽³⁾ Includes \$2 million (March 2018: \$1 million; September 2017: \$2 million) of specific provision on loans at fair value.

⁽⁴⁾ New gross impaired assets during the September 2018 half year include \$2 million (NZ\$3 million) (March 2018 half year \$43 million (NZ\$47 million), September 2017 half year \$9 million (NZ\$10 million)) of New Zealand Banking dairy exposures currently assessed as no loss based on security held. Collective provisions are held against these loans.

⁽⁵⁾ Includes \$nil (March 2018: \$nil, September 2017: \$3 million) of 90+ days past due loans at fair value.

10. Deposits and Other Borrowings

	As at		
	30 Sep 18 \$m	31 Mar 18 \$m	30 Sep 17 \$m
Term deposits	163,166	158,146	160,884
On-demand and short-term deposits	195,040	200,951	199,449
Certificates of deposit	43,962	46,867	52,255
Deposits not bearing interest ⁽¹⁾	50,767	49,306	47,247
Total deposits	452,935	455,270	459,835
Borrowings	27,021	27,919	21,981
Securities sold under agreements to repurchase	27,732	24,063	23,493
Fair value adjustment	2	(3)	5
Total deposits and other borrowings	507,690	507,249	505,314
<i>Represented by:</i>			
Total deposits and other borrowings at fair value	4,545	4,559	4,710
Total deposits and other borrowings at amortised cost	503,145	502,690	500,604
Total deposits and other borrowings	507,690	507,249	505,314

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$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
Total deposits	374,958	56,385	21,592	452,935
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

By product and geographic location	Australia	New Zealand	Other International	Total Group
	\$m	\$m	\$m	\$m
As at 31 March 2018				
Term deposits	119,139	31,676	7,331	158,146
On-demand and short-term deposits	168,397	18,920	13,634	200,951
Certificates of deposit	36,848	1,849	8,170	46,867
Deposits not bearing interest ⁽¹⁾	44,117	5,179	10	49,306
Total deposits	368,501	57,624	29,145	455,270
Borrowings	25,697	1,635	587	27,919
Securities sold under agreements to repurchase	888	-	23,175	24,063
Fair value adjustment	-	(3)	-	(3)
Total deposits and other borrowings	395,086	59,256	52,907	507,249
<i>Represented by:</i>				
Total deposits and other borrowings at fair value	-	4,559	-	4,559
Total deposits and other borrowings at amortised cost	395,086	54,697	52,907	502,690
Total deposits and other borrowings	395,086	59,256	52,907	507,249

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

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 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 ⁽¹⁾	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

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

11. Contributed Equity and Reserves

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Contributed equity			
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	33,062	32,782	31,707
Other contributed equity			
National Income Securities	1,945	1,945	1,945
Trust Preferred Securities	975	975	975
Total contributed equity	35,982	35,702	34,627

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
Movement in issued and paid-up ordinary share capital				
Balance at beginning of period	31,707	30,968	32,782	31,707
Shares issued:				
Dividend reinvestment plan	1,182	569	268	914
Transfer from equity-based compensation reserve	173	170	12	161
Balance at end of period	33,062	31,707	33,062	32,782

	As at		
	30 Sep 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Reserves			
Foreign currency translation reserve	(343)	(109)	(338)
Asset revaluation reserve	82	83	83
Cash flow hedge reserve	10	(6)	46
Cost of hedging reserve	(53)	-	-
Equity-based compensation reserve	243	191	273
Debt instruments at fair value through other comprehensive income reserve	22	61	89
Equity instruments at fair value through other comprehensive income reserve	85	111	84
Total reserves	46	331	237

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 18	31 Mar 18	30 Sep 17
	\$m	\$m	\$m
Cash and cash equivalents			
Assets			
Cash and liquid assets	50,188	44,232	43,826
Treasury and other eligible bills	672	379	762
Due from other banks (excluding mandatory deposits with supervisory central banks)	24,372	34,212	31,703
Total cash and cash equivalents assets	75,232	78,823	76,291
Liabilities			
Due to other banks	(37,286)	(35,761)	(36,491)
Total cash and cash equivalents	37,946	43,062	39,800

As at 30 September 2018, the collateralised cash deposit balance with the Bank of England is \$nil as CYBG fully claimed the support that remained outstanding under the Capped Indemnity in June 2018. Included within due from other banks at March 2018 was the cash deposit of \$263 million (£148 million), September 2017 \$877 million (£513 million) held with The Bank of England in connection with the CYBG demerger, that was required to collateralise NAB's obligations under the Capped Indemnity as agreed with the United Kingdom Prudential Regulation Authority (PRA). Further information is provided in *Note 13 Contingent liabilities*.

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 18	Sep 17	Sep 18	Mar 18
	\$m	\$m	\$m	\$m
New share issues				
Dividend reinvestment plan	1,182	569	268	914
New debt issues				
Subordinated medium-term notes reinvestment offer	-	539	-	-

(c) Disposal of businesses

The Group sold its Private Wealth business in Singapore and Hong Kong to Oversea-Chinese Banking Corporation Limited (OCBC Bank) on 10 November 2017 and 24 November 2017 respectively.

The transaction involved the sale at book value of designated assets and liabilities of \$2,015 million and \$2,357 million respectively. The difference between the agreed value of the transferred assets and liabilities was settled through a cash payment of \$342 million.

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 NAB-specific basis
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by NAB (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 and reviews involving Australian financial institutions has increased significantly over the year to 30 September 2018. Some of these investigations and reviews have resulted in customer remediation programs which are expected to continue into the 2019 financial year.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has also brought greater focus to a range of culture and compliance matters, including responsible lending. The Royal Commission is currently examining past conduct of entities within the Group. A final report is due by 1 February 2019.

There are contingent liabilities in respect of all these 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 (BBSW). 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 BBSW. The relevant ASIC proceedings against NAB were resolved in November 2017 pursuant to a court-approved settlement. The potential outcome and total costs associated with the US class action remain uncertain.

Superannuation Complaints Tribunal (SCT) decision appeal

On 6 August 2018, NAB filed an appeal with the Federal Court against a recent decision of the SCT relating to commissions for rollover contributions. The potential outcome and total costs associated with this matter remain uncertain.

UK conduct issues – potential action

In December 2017, NAB received a letter before action from solicitors acting for RGL Management, a claims management company in the UK. The letter makes allegations against NAB and CYBG in relation to the sale of fixed rate tailored business loans to customers of CYBG during the period from 2001 to 2012. The potential outcome and total costs associated with any proceedings which may arise remain uncertain.

(iii) Regulatory activity, compliance investigations and associated proceedings

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, 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. Investigation and remediation activities are currently occurring in relation to a number of identified issues, including certain weaknesses with the implementation of 'Know Your Customer' requirements, 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 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.

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 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.

13. Contingent Liabilities (continued)

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 entities within the Group. Under the service arrangements, customers generally pay an adviser service fee to receive an annual review together with a range of other services. NAB is assessing whether customers who have paid these fees have been provided with the agreed services.

NAB continues to engage with ASIC on the design of the review methodology for this matter. NAB is currently assessing certain cohorts of customers with financial advisers employed by the Group. Where customer compensation is probable and able to be reliably estimated, provisions have been taken. NAB has also commenced identifying cohorts of potentially impacted customers associated with the Group's advice partnerships. The potential outcome and total costs associated with this investigation remain uncertain.

On 12 October 2018, ASIC announced that it would be expanding its current activities to include an industry-wide review of compliance with requirements for Fee Disclosure Statements and Renewal Notices in the financial advice sector. The expanded review is at an early stage, and the potential outcome and total costs associated with this matter 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 designing a remediation methodology for CCI customers who are potentially impacted. The outcome and total costs associated with this work are 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 in contravention of the *ASIC Act 2001* (Cth) in connection with the sale of a particular CCI product (being NAB Credit Card Cover). The class action is at an early stage, and 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 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 continues to review its compliance with the Holidays Act and is also working with the Labour Inspectorate to reach an appropriate resolution in respect of the issues identified in its report. The final outcome and total costs associated with the audit remain uncertain.

Plan service fees (PSF)

Further to ASIC's May 2017 report about its industry-wide investigation into financial advice fees, NAB has finalised the payment of refunds to customers who did not have a plan adviser attached to their superannuation account and were incorrectly charged PSF. ASIC has also investigated the payment of PSF by customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product. NAB is in the process of refunding PSF paid by these members and expects to have substantially completed these payments by 31 December 2018. Provisions have been taken in relation to these refunds, but the final outcome and total costs associated with this matter remain uncertain.

On 6 September 2018, ASIC also commenced Federal Court proceedings against two Group entities - NULIS Nominees (Australia) Limited (NULIS) and MLC Nominees Pty Ltd - in relation to PSF. ASIC is seeking declarations that a number of provisions of the *ASIC 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 these proceedings 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. The final outcome and total costs associated with this work remain uncertain.

13. Contingent Liabilities (continued)

(iv) 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 treated by NAB as a contingent asset. The outcome of such claims remains uncertain.

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 (Deed) under which NAB agreed, subject to certain limitations, to provide an indemnity in respect of historic conduct liabilities (Capped Indemnity). More information on the Deed is available in the contingent liabilities note to the Annual Financial Report 2017.

As at 30 September 2018, NAB had no outstanding financial exposure to CYBG for conduct indemnity claims under the Deed (other than any potential tax liabilities, the likelihood of which is considered low). As expected, in June 2018 CYBG claimed the full £148 million of available support that remained outstanding under the Deed. The collateralised cash deposit balance with the Bank of England is nil and NAB no longer has a CET1 deduction related to the Deed.

It is not expected that payments made to CYBG under the Deed will be taxable in the hands of the CYBG Group, but if tax were to be payable then the 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 the relevant amounts. CYBG is also obliged to compensate NAB where it obtains a tax benefit in future years relating to payments received by CYBG under the Deed.

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

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 (Transition Work).

NAB is currently in discussions with MLCL and Nippon Life to resolve a number of disputes arising from the above arrangements. The outcome of these discussions and any associated costs (including total costs to complete outstanding Transition Work), remain uncertain.

14. Discontinued Operations

In the 2016 financial year, the Group executed two major divestments, the sale of 80% of the Group's life insurance business to Nippon Life and the demerger and IPO of CYBG Group. Each of these transactions qualified as a discontinued operation.

Analysis of loss for the year from discontinued operations

The results set out below relate to the discontinued operations of the Group's life insurance business and the UK Banking operations related to the CYBG demerger. During the September 2018 full year, a net loss of \$411 million before tax (\$388 million after tax) was recognised in discontinued operations. This includes customer-related remediation relating to the insurance business and additional costs associated with the insurance business sale, plus the final payment relating to the Conduct Indemnity Deed entered into with CYBG. Refer to *Note 13 Contingent liabilities* for further information.

Analysis of loss for the year from discontinued operations

	Year to	
	Sep 18	Sep 17
	\$m	\$m
Total discontinued operations		
Net loss from life insurance business discontinued operation	(97)	-
Net loss from CYBG discontinued operation	(291)	(893)
Net loss from discontinued operations	(388)	(893)

15. Events Subsequent to Reporting Date

On 18 October 2018, with the prior consent of APRA, NAB announced it would exercise its option to redeem the £400 million Trust Preferred Securities on 17 December 2018. Each Trust Preferred Security will be redeemed for cash at its par value of £1,000, plus accrued distribution.

Other than the matter noted, there are no items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2018 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 2018 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.



Penny MacRae
Company Secretary
1 November 2018