Section 3

Financial Report

Consolidated Financial Statements

Income Statement[1]

	Note	Year to Sep 20[2] $m	Year to Sep 19 $m	Half Year to Sep 20 $m	Half Year to Mar 20 $m
Interest income					
Effective interest income		**20,921**	26,500	**9,361**	11,560
Fair value through profit or loss		**2,190**	2,694	**1,015**	1,175
Interest expense		**(9,234)**	(15,639)	**(3,387)**	(5,847)
Net interest income		**13,877**	13,555	**6,989**	6,888
Other income	3	**3,384**	3,980	**1,830**	1,554
Operating expenses	4	**(9,346)**	(8,263)	**(4,323)**	(5,023)
Credit impairment charge	8	**(2,752)**	(927)	**(1,585)**	(1,167)
Profit before income tax		**5,163**	8,345	**2,911**	2,252
Income tax expense	5	**(1,665)**	(2,440)	**(954)**	(711)
Net profit for the period from continuing operations		**3,498**	5,905	**1,957**	1,541
Net loss after tax for the period from discontinued operations	14	**(935)**	(1,104)	**(709)**	(226)
Net profit for the period		**2,563**	4,801	**1,248**	1,315
Profit attributable to non-controlling interests		**4**	3	**2**	2
Net profit attributable to owners of NAB		**2,559**	4,798	**1,246**	1,313

	cents	cents	cents	cents
Basic earnings per share	**82.1**	168.6	**38.2**	44.2
Diluted earnings per share	**80.5**	164.4	**37.6**	42.6
Basic earnings per share from continuing operations	**112.7**	208.2	**60.3**	52.0
Diluted earnings per share from continuing operations	**108.6**	201.0	**58.1**	49.5

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Consolidated Financial Statements (continued)

Statement of Comprehensive Income[(1)]

	Note	Year to Sep 20[(2)] $m	Year to Sep 19 $m	Half Year to Sep 20 $m	Half Year to Mar 20 $m
Net profit for the period from continuing operations		**3,498**	5,905	**1,957**	1,541
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		**1**	1	**1**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**(118)**	167	**(1,337)**	1,219
Revaluation of land and buildings		**(1)**	(2)	**(1)**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**(1)**	15	**(3)**	2
Tax on items transferred directly to equity		**32**	(50)	**393**	(361)
Total items that will not be reclassified to profit or loss		**(87)**	131	**(947)**	860
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains / (losses) on cash flow hedging instruments		**121**	284	**(413)**	534
Cost of hedging reserve		**(234)**	(260)	**(364)**	130
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**(37)**	104	**(488)**	451
Transfer to the income statement on disposal of foreign operations		**(22)**	8	**-**	(22)
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**40**	37	**322**	(282)
Gains / (losses) from sale transferred to the income statement		**3**	(2)	**7**	(4)
Tax on items transferred directly to equity		**29**	(37)	**138**	(109)
Total items that will be reclassified subsequently to profit or loss		**(100)**	134	**(798)**	698
Other comprehensive income for the period, net of income tax		**(187)**	265	**(1,745)**	1,558
Total comprehensive income for the period from continuing operations		**3,311**	6,170	**212**	3,099
Net loss for the period from discontinued operations	14	**(935)**	(1,104)	**(709)**	(226)
Other comprehensive income for the period from discontinued operations, net of income tax		**(2)**	(41)	**(6)**	4
Total comprehensive income for the period		**2,374**	5,025	**(503)**	2,877
Attributable to non-controlling interests	14	**4**	3	**2**	2
Total comprehensive income attributable to owners of NAB		**2,370**	5,022	**(505)**	2,875

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Consolidated Financial Statements (continued)

Balance Sheet

		As at		
	Note	30 Sep 20[(1)] $m	31 Mar 20 $m	30 Sep 19 $m
Assets				
Cash and liquid assets		**64,388**	58,338	55,457
Due from other banks		**52,351**	60,884	32,130
Trading instruments		**95,851**	124,647	96,828
Debt instruments		**40,355**	40,275	40,205
Other financial assets		**3,860**	5,974	7,110
Hedging derivatives		**3,830**	13,287	4,689
Loans and advances		**582,485**	601,798	587,749
Due from customers on acceptances		**1,477**	2,010	2,490
Deferred tax assets		**3,647**	2,970	2,670
Property, plant and equipment		**2,374**	2,291	1,117
Goodwill and other intangible assets		**3,809**	4,696	5,576
Other assets		**10,659**	10,458	11,103
Assets held for sale	14	**1,479**	-	-
Total assets		**866,565**	927,628	847,124
Liabilities				
Due to other banks		**50,556**	53,076	34,273
Trading instruments		**30,021**	56,669	34,318
Other financial liabilities		**29,971**	35,119	33,283
Hedging derivatives		**2,255**	6,664	4,037
Deposits and other borrowings	10	**546,176**	544,498	522,085
Current tax liabilities		**192**	300	468
Provisions		**3,820**	3,446	3,507
Bonds, notes and subordinated debt		**126,384**	148,873	143,258
Other debt issues		**6,191**	5,636	6,482
Deferred tax liabilities		**25**	-	-
Other liabilities		**9,460**	14,969	9,809
Liabilities directly associated with assets held for sale	14	**221**	-	-
Total liabilities		**805,272**	869,250	791,520
Net assets		**61,293**	58,378	55,604
Equity				
Contributed equity	11	**45,476**	41,193	38,707
Reserves	11	**99**	870	306
Retained profits		**15,717**	16,314	16,583
Total equity (parent entity interest)		**61,292**	58,377	55,596
Non-controlling interest in controlled entities		**1**	1	8
Total equity		**61,293**	58,378	55,604

(1) *Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Consolidated Financial Statements (continued)

Condensed Cash Flow Statement[1]

	Note	Year to Sep 20[2] $m	Year to Sep 19 $m	Half Year to Sep 20 $m	Half Year to Mar 20 $m
Cash flows from operating activities					
Interest received		**23,160**	29,471	**10,475**	12,685
Interest paid		**(10,151)**	(15,992)	**(3,881)**	(6,270)
Dividends received		**43**	28	**4**	39
Income tax paid		**(2,580)**	(2,251)	**(1,067)**	(1,513)
Other cash flows from operating activities before changes in operating assets and liabilities		**(6,117)**	(5,363)	**(5,460)**	(657)
Changes in operating assets and liabilities		**29,537**	4,517	**24,671**	4,866
Net cash provided by / (used in) operating activities		**33,892**	10,410	**24,742**	9,150
Cash flows from investing activities					
Movement in debt instruments					
Purchases		**(21,066)**	(22,567)	**(7,762)**	(13,304)
Proceeds from disposal and maturity		**21,411**	25,947	**8,132**	13,279
Net movement in associates and joint ventures, and other debt and equity instruments		**(148)**	347	**(92)**	(56)
Purchase of property, plant, equipment and software		**(972)**	(1,135)	**(494)**	(478)
Proceeds from sale of property, plant, equipment and software, net of costs		**73**	21	**-**	73
Net cash provided by / (used in) investing activities		**(702)**	2,613	**(216)**	(486)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(34,524)**	(31,001)	**(15,692)**	(18,832)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**14,996**	27,159	**2,650**	12,346
Proceeds from issue of ordinary shares, net of costs		**4,904**	1,000	**4,204**	700
Repayments of other contributed equity		**-**	(722)	**-**	-
Proceeds from other debt issues, net of costs		**1,098**	1,858	**598**	500
Repayments of other debt issues		**(649)**	(799)	**(42)**	(607)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(2,323)**	(3,266)	**(832)**	(1,491)
Repayments of lease liabilities		**(322)**	-	**(166)**	(156)
Net cash provided by / (used in) financing activities		**(16,820)**	(5,771)	**(9,280)**	(7,540)
Net increase in cash and cash equivalents		**16,370**	7,252	**15,246**	1,124
Cash and cash equivalents at beginning of period		**47,026**	37,946	**52,498**	47,026
Effects of exchange rate changes on balance of cash held in foreign currencies		**(1,355)**	1,828	**(5,703)**	4,348
Cash and cash equivalents at end of period	12	**62,041**	47,026	**62,041**	52,498

(1) *The cash flow statements include net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Refer to Note 14 Discontinued operations for further information.*

(2) *Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Consolidated Financial Statements (continued)

Statement of Changes in Equity[1]

Group - Yearly

	Contributed equity[2] $m	Reserves[2] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Balance at 1 October 2018	35,982	46	16,673	52,701	11	**52,712**
Net profit for the period from continuing operations	-	-	5,905	5,905	-	**5,905**
Net profit / (loss) for the period from discontinued operations	-	-	(1,107)	(1,107)	3	**(1,104)**
Other comprehensive income for the period from continuing operations	-	154	111	265	-	**265**
Other comprehensive income for the period from discontinued operations	-	(40)	(1)	(41)	-	**(41)**
Total comprehensive income for the period	-	114	4,908	5,022	3	**5,025**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	2,803	-	-	2,803	-	**2,803**
Conversion of preference shares	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(99)	99	-	-	**-**
Transfer from equity-based compensation reserve	147	(147)	-	-	-	**-**
Equity-based compensation	-	105	-	105	-	**105**
Dividends paid	-	-	(4,983)	(4,983)	(4)	**(4,987)**
Distributions on other equity instruments	-	-	(83)	(83)	-	**(83)**
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	**(719)**
Changes in ownership interests[3]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(2)	**(2)**
Balance at 30 September 2019	**38,707**	**306**	**16,583**	**55,596**	**8**	**55,604**
Restatement for adoption of AASB 16 *Leases*	-	-	(83)	(83)	-	**(83)**
Restated Balance at 30 September 2019[4]	**38,707**	**306**	**16,500**	**55,513**	**8**	**55,521**
Net profit for the period from continuing operations	-	-	3,498	3,498	-	**3,498**
Net profit / (loss) for the period from discontinued operations	-	-	(939)	(939)	4	**(935)**
Other comprehensive income for the period from continuing operations	-	(104)	(83)	(187)	-	**(187)**
Other comprehensive income for the period from discontinued operations	-	1	(3)	(2)	-	**(2)**
Total comprehensive income for the period	-	(103)	2,473	2,370	4	**2,374**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	5,880	-	-	5,880	-	**5,880**
Conversion of convertible notes	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(39)	39	-	-	**-**
Transfer from equity-based compensation reserve	139	(139)	-	-	-	**-**
Equity-based compensation	-	74	-	74	-	**74**
Dividends paid	-	-	(3,256)	(3,256)	(4)	**(3,260)**
Distributions on other equity instruments	-	-	(39)	(39)	-	**(39)**
Changes in ownership interests[3]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(7)	**(7)**
Balance at 30 September 2020	**45,476**	**99**	**15,717**	**61,292**	**1**	**61,293**

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Refer to Note 11 Contributed equity and reserves.*
(3) *Changes in ownership interests in controlled entities that does not result in a loss of control.*
(4) *The group adopted AASB 16 Leases on 1 October 2019. As permitted by AASB 16, the Group recognised the cumulative effect of initially applying the standard as an adjustment to opening retained profits at 1 October 2019. Comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Consolidated Financial Statements (continued)

Statement of Changes in Equity (continued)[1]

Group - Half Yearly

	Contributed equity[2] $m	Reserves[2] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Balance at 1 October 2019	38,707	306	16,500	55,513	8	**55,521**
Net profit for the period from continuing operations	-	-	1,541	1,541	-	**1,541**
Net profit / (loss) for the period from discontinued operations	-	-	(228)	(228)	2	**(226)**
Other comprehensive income for the period from continuing operations	-	696	862	1,558	-	**1,558**
Other comprehensive income for the period from discontinued operations	-	4	-	4	-	**4**
Total comprehensive income for the period	-	700	2,175	2,875	2	**2,877**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,603	-	-	1,603	-	**1,603**
Conversion of convertible notes	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(30)	30	-	-	**-**
Transfer from equity-based compensation reserve	133	(133)	-	-	-	**-**
Equity-based compensation	-	27	-	27	-	**27**
Dividends paid	-	-	(2,369)	(2,369)	(3)	**(2,372)**
Distributions on other equity instruments	-	-	(22)	(22)	-	**(22)**
Changes in ownership interests[3]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(6)	**(6)**
Balance at 31 March 2020	**41,193**	**870**	**16,314**	**58,377**	**1**	**58,378**
Net profit for the period from continuing operations	-	-	1,957	1,957	-	**1,957**
Net profit / (loss) for the period from discontinued operations	-	-	(711)	(711)	2	**(709)**
Other comprehensive income for the period from continuing operations	-	(800)	(945)	(1,745)	-	**(1,745)**
Other comprehensive income for the period from discontinued operations	-	(3)	(3)	(6)	-	**(6)**
Total comprehensive income for the period	-	(803)	298	(505)	2	**(503)**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	4,277	-	-	4,277	-	**4,277**
Transfer from / (to) retained profits	-	(9)	9	-	-	**-**
Transfer from equity-based compensation reserve	6	(6)	-	-	-	**-**
Equity-based compensation	-	47	-	47	-	**47**
Dividends paid	-	-	(887)	(887)	(1)	**(888)**
Distributions on other equity instruments	-	-	(17)	(17)	-	**(17)**
Changes in ownership interests[3]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(1)	**(1)**
Balance at 30 September 2020	**45,476**	**99**	**15,717**	**61,292**	**1**	**61,293**

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Refer to Note 11 Contributed equity and reserves.*
(3) *Changes in ownership interests in controlled entities that does not result in a loss of control.*

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This preliminary financial report (the report) for the September 2020 full year has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules and policies of the Australian Accounting Standards Board (AASB), but does not contain all disclosures of the type normally found within the Group's 2020 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 2019 Annual Financial Report, the 31 March 2020 half year results, any public announcements made during the year and, when released, the Group's 2020 Annual Financial Report.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income with comparative information restated accordingly. The balance sheet is not required to be restated for the effect of discontinued operations.

Accounting policies

The accounting policies and methods of computation applied in this report are consistent with those applied in the Group's 2019 Annual Financial Report with the exception of policies associated with new standards and interpretations adopted during the period as discussed below.

The Group adopted the following new accounting standards and interpretations effective 1 October 2019:

- AASB 16 *Leases.*
- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*.
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*.

AASB 16 Leases

AASB 16 significantly changes accounting for lessees, requiring recognition of all leases (subject to certain exceptions) on balance sheet in a manner comparable to how finance leases were previously accounted for under AASB 117 *Leases*, including related interpretations. Lessor accounting remains largely unchanged compared to AASB 117.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. For the leases of land and buildings where the Group is the lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently measured under the cost model and depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is reviewed for impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a lease modification that is not accounted for as a separate lease, there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Where this is the case, the lease is a finance lease. All other leases are classified as operating leases.

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

The Group adopted AASB 16 using the modified retrospective transition option, and as a result, comparative information from prior periods has not been restated.

On transition, AASB 16 requires the lease liability to be measured based on the future lease payments and permits two options for the measurement of the right-of-use asset. The right-of-use asset may either be measured with reference to the value of the lease liability or retrospectively (independently from the lease liability). The standard allows for these measurement options to be applied on a lease-by-lease basis.

The impact of the adoption of AASB 16 was disclosed in the Group's 2019 Annual Financial Report. In making these disclosures, the right-of-use assets were measured with reference to the value of the lease liability.

Subsequently, the Group determined that retrospective measurement of the right-of-use asset provides a more accurate reflection of the remaining utility of the assets. Consequently, the Group has recalculated the right-of-use assets for its most significant building leases using the retrospective measurement option.

The impact of adopting AASB 16 as at 1 October 2019 is as follows:

	$m
Opening retained profits at 1 October 2019	**16,583**
Right-of-use assets	1,393
Net deferred tax asset	35
Lease liabilities	(1,425)
Make-good provisions	(86)
Net impact on retained profits	**(83)**
Adjusted retained profits at 1 October 2019	**16,500**

As at 30 September 2020, right-of-use assets included within ‘property, plant and equipment’ were $1,363 million and lease liabilities included within ‘other liabilities’ were $1,555 million. During the year ended 30 September 2020, ‘depreciation of property, plant and equipment’ included the depreciation charge relating to right-of-use assets of $361 million and ‘interest expense’ included interest relating to the lease liability of $31 million.

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 September 2019 to the opening lease liabilities recognised under AASB 16 as at 1 October 2019.

	$m
Operating lease commitments at 30 September 2019	**2,888**
Less leases committed but not yet commenced	(1,308)
Less short-term and low value leases	(65)
Add reassessments under AASB 16	2
Effect of discounting at a weighted average incremental borrowing rate of 2.2%	(92)
Opening lease liability at 1 October 2019	**1,425**

On transition the Group, as lessee, applied the following practical expedients as permitted by AASB 16:

- Relied on previous assessments of contracts that were identified as leases under AASB 117.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on previous assessments in relation to whether leases are onerous.
- Accounted for leases for which the lease term ends within 12 months of 1 October 2019 as short-term leases.
- Excluded initial direct costs from the measurement of right-of-use assets.
- Used hindsight to determine the lease term.

Interest Rate Benchmark Reform

The Group has early adopted AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* released by the AASB in October 2019. AASB 2019-3 amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments,* modifying some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform (IBOR reform).

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

In accordance with the transitional provisions, the amendments have been applied retrospectively to hedging relationships that existed at the start of the reporting period and that were designated thereafter. The standard did not have a significant impact on the Group as it enables the Group to continue applying its existing hedge accounting.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

AASB Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments. The interpretation requires an assessment of each uncertain tax position and consideration of whether it is probable that a taxation authority will accept the entity's position. Where it is not probable that the taxation authority will accept the position, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

The Group's existing income tax recognition and measurement accounting policies, and related judgements, were materially aligned with the requirements of the interpretation. Consequently, no transition adjustment to retained earnings was required.

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

Critical accounting judgements and estimates

The preparation of this report requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Except as explained below, there have been no significant changes to the accounting estimates, judgements and assumptions used in the September 2020 full year reporting period compared to those applied in the 2019 Annual Financial Report.

Measurement of expected credit losses

The impact of COVID-19 remains uncertain and represents a material downside risk to the economy. While the methodologies applied in the expected credit loss (ECL) calculations remained unchanged from those applied in the 2019 Annual Financial Report, the Group has incorporated estimates, assumptions and judgements specific to the impact of COVID-19 and the associated support packages in the measurement of ECL through forward looking economic adjustments. These are explained further in *Note 8 Provision for credit impairment on loans at amortised cost*.

Goodwill

The Group's cash-generating units (CGUs) are impacted by the risks associated with COVID-19. The Group has utilised estimates, assumptions and judgements that reflect this uncertainty.

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

	Goodwill		Discount rate per annum	Terminal growth rate per annum
	2020	2019	2020	2020
	$m	$m	%	%
Cash generating unit				
Business and Private Banking	**68**	68	**9.4**	**3.8**
New Zealand Banking	**258**	258	**9.6**	**3.7**
Consumer Banking and Wealth	**-**	2,538	**n/a**	**n/a**
Personal Banking	**1,512**	-	**9.4**	**3.8**
Total goodwill	**1,838**	2,864	**n/a**	n/a

Whilst there is no impairment in any of the CGUs, changes to the key assumptions would affect the recoverable amount of the CGUs. For the Personal Banking CGU either an increase in the discount rate of 25 basis points or a decrease in the growth rate of 90 basis points would result in impairment first becoming evident. The New Zealand Banking CGU would become impaired if the discount rate increased by 89 basis points or the growth rate decreased by 369 basis points. These sensitivities assume the specific assumptions move in isolation and all other assumptions are held constant.

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

Uncertainty over income tax treatments

The Group estimates the amount expected to be paid to tax authorities based on its understanding and interpretation of relevant tax laws which may require the exercise of judgement.

Disposal group held for sale

MLC Wealth has been presented as a disposal group held for sale. Although third party approvals remain outstanding, it is considered highly probable that the contracted sale will be completed within 12 months. The classification and presentation as a disposal group held for sale is a matter of judgement and the status of the transaction will be reviewed on an ongoing basis to ensure that the classification remains appropriate.

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

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.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information[1]

Overview

For the September 2020 full year, the Group's segment information is presented based on the following reportable segments: Business and Private Banking; Personal Banking; Corporate and Institutional Banking; New Zealand Banking; Corporate Functions and Other; and MLC Wealth.

On 27 April 2020, the Group announced a new operational structure to support the Group's refreshed strategy including the operational separation of UBank. In accordance with AASB 8 *Operating Segments*, a segment is separately reported only if it meets certain quantitative thresholds or if the Group elects to report it separately. Based on these criteria, UBank has been included in the Corporate Functions and Other segment.

The new operational structure has also resulted in changes to the allocation of income and costs within the reportable segments. These changes have not impacted the Group's net profit or balance sheet but have resulted in reallocations of net profit and balance sheet items between the reportable segments. In addition, MLC Wealth is now presented as a discontinued operation. The prior period segment information has been restated to reflect the change in segments as well as income and cost allocation and the presentation of MLC Wealth as a discontinued operation.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's major Australian bank peers with similar business portfolios. Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for items the Group considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2020 full year has been adjusted for distributions, fair value and hedge ineffectiveness, and amortisation and impairment of acquired intangible assets. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement.

Major customers

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

Reportable segments[2]

	Year ended 30 September 2020						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[3] $m**	**MLC Wealth $m**	**Total $m**
Net interest income[4]	5,400	4,017	2,075	1,872	507	-	13,871
Other operating income[4][2]	878	514	1,382	520	25	-	3,319
Net operating income	6,278	4,531	3,457	2,392	532	-	17,190
Operating expenses[4][2]	(2,404)	(2,292)	(1,313)	(894)	(2,104)	-	(9,007)
Underlying profit / (loss)	3,874	2,239	2,144	1,498	(1,572)	-	8,183
Credit impairment charge	(322)	(256)	(170)	(140)	(1,874)	-	(2,762)
Cash earnings / (deficit) before tax and distributions	3,552	1,983	1,974	1,358	(3,446)	-	5,421
Income tax (expense) / benefit	(1,063)	(603)	(505)	(381)	880	-	(1,672)
Cash earnings / (deficit) before distributions	2,489	1,380	1,469	977	(2,566)	-	3,749
Distributions	-	-	-	-	(39)	-	(39)
Cash earnings / (deficit)	2,489	1,380	1,469	977	(2,605)	-	3,710
Fair value and hedge ineffectiveness	(9)	(1)	(31)	(20)	27	-	(34)
Other non-cash earnings items	-	-	-	-	(178)	-	(178)
Net profit / (loss) for the period from continuing operations	2,480	1,379	1,438	957	(2,756)	-	3,498
Net loss after tax for the period from discontinued operations	-	-	-	-	(788)	(151)	(939)
Net profit / (loss) attributable to the owners of NAB	2,480	1,379	1,438	957	(3,544)	(151)	2,559
Reportable segment assets[5]	196,772	217,712	317,342	86,413	46,214	2,112	866,565

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*
(3) *Corporate Functions and Other includes Group Eliminations.*
(4) *Includes large notable items. Refer to Section 1 Large notable items for further information.*
(5) *Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.*

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)[(1)]

Reportable segments (continued)[(2)]

	Year ended 30 September 2019						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[(3)] $m**	**MLC Wealth $m**	**Total $m**
Net interest income[(4)]	5,634	3,836	1,827	1,828	417	-	13,542
Other operating income[(4)]	1,004	576	1,539	571	202	-	3,892
Net operating income	6,638	4,412	3,366	2,399	619	-	17,434
Operating expenses[(4)]	(2,265)	(2,302)	(1,281)	(911)	(1,381)	-	(8,140)
Underlying profit / (loss)	4,373	2,110	2,085	1,488	(762)	-	9,294
Credit impairment charge	(336)	(314)	(70)	(103)	(96)	-	(919)
Cash earnings / (deficit) before tax and distributions	4,037	1,796	2,015	1,385	(858)	-	8,375
Income tax (expense) / benefit	(1,220)	(536)	(507)	(388)	212	-	(2,439)
Cash earnings / (deficit) before distributions	2,817	1,260	1,508	997	(646)	-	5,936
Distributions	-	-	-	-	(83)	-	(83)
Cash earnings / (deficit)	2,817	1,260	1,508	997	(729)	-	5,853
Fair value and hedge ineffectiveness	(3)	(1)	(23)	12	(9)	-	(24)
Other non-cash earnings items	-	-	-	-	76	-	76
Net profit / (loss) for the period from continuing operations	2,814	1,259	1,485	1,009	(662)	-	5,905
Net profit / (loss) after tax for the period from discontinued operations	-	-	-	-	(1,260)	153	(1,107)
Net profit / (loss) attributable to the owners of NAB	2,814	1,259	1,485	1,009	(1,922)	153	4,798
Reportable segment assets[(5)]	200,910	219,238	295,042	84,307	44,039	3,588	847,124

	Half Year ended 30 September 2020						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[(3)] $m**	**MLC Wealth $m**	**Total $m**
Net interest income[(4)]	**2,642**	**1,985**	**1,133**	**913**	**312**	**-**	**6,985**
Other operating income[(4)]	**414**	**248**	**775**	**248**	**165**	**-**	**1,850**
Net operating income	**3,056**	**2,233**	**1,908**	**1,161**	**477**	**-**	**8,835**
Operating expenses[(4)]	**(1,250)**	**(1,136)**	**(679)**	**(449)**	**(746)**	**-**	**(4,260)**
Underlying profit / (loss)	**1,806**	**1,097**	**1,229**	**712**	**(269)**	**-**	**4,575**
Credit impairment charge	**(196)**	**(147)**	**(176)**	**(99)**	**(983)**	**-**	**(1,601)**
Cash earnings / (deficit) before tax and distributions	**1,610**	**950**	**1,053**	**613**	**(1,252)**	**-**	**2,974**
Income tax (expense) / benefit	**(485)**	**(293)**	**(285)**	**(171)**	**271**	**-**	**(963)**
Cash earnings / (deficit) before distributions	**1,125**	**657**	**768**	**442**	**(981)**	**-**	**2,011**
Distributions	**-**	**-**	**-**	**-**	**(17)**	**-**	**(17)**
Cash earnings / (deficit)	**1,125**	**657**	**768**	**442**	**(998)**	**-**	**1,994**
Fair value and hedge ineffectiveness	**(12)**	**(8)**	**(86)**	**(15)**	**67**	**-**	**(54)**
Other non-cash earnings items	**-**	**-**	**-**	**-**	**17**	**-**	**17**
Net profit / (loss) for the period from continuing operations	**1,113**	**649**	**682**	**427**	**(914)**	**-**	**1,957**
Net loss after tax for the period from discontinued operations	**-**	**-**	**-**	**-**	**(534)**	**(177)**	**(711)**
Net profit / (loss) attributable to the owners of NAB	**1,113**	**649**	**682**	**427**	**(1,448)**	**(177)**	**1,246**
Reportable segment assets[(5)]	**196,772**	**217,712**	**317,342**	**86,413**	**46,214**	**2,112**	**866,565**

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*
(3) *Corporate Functions and Other includes Group Eliminations.*
(4) *Includes large notable items. Refer to Section 1 Large notable items for further information.*
(5) *Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.*

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)[(1)]

Reportable segments (continued)[(2)]

	Half Year ended 31 March 2020						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[(3)] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income[(4)]	2,758	2,032	942	959	195	-	6,886
Other operating income[(4)]	464	266	607	272	(140)	-	1,469
Net operating income	3,222	2,298	1,549	1,231	55	-	8,355
Operating expenses[(4)]	(1,154)	(1,156)	(634)	(445)	(1,358)	-	(4,747)
Underlying profit / (loss)	2,068	1,142	915	786	(1,303)	-	3,608
Credit impairment (charge) / write-back	(126)	(109)	6	(41)	(891)	-	(1,161)
Cash earnings / (deficit) before tax and distributions	1,942	1,033	921	745	(2,194)	-	2,447
Income tax (expense) / benefit	(578)	(310)	(220)	(210)	609	-	(709)
Cash earnings / (deficit) before distributions	1,364	723	701	535	(1,585)	-	1,738
Distributions	-	-	-	-	(22)	-	(22)
Cash earnings / (deficit)	1,364	723	701	535	(1,607)	-	1,716
Fair value and hedge ineffectiveness	3	7	55	(5)	(40)	-	20
Other non-cash earnings items	-	-	-	-	(195)	-	(195)
Net profit / (loss) for the period from continuing operations	1,367	730	756	530	(1,842)	-	1,541
Net profit / (loss) after tax for the period from discontinued operations	-	-	-	-	(254)	26	(228)
Net profit / (loss) attributable to the owners of NAB	1,367	730	756	530	(2,096)	26	1,313
Reportable segment assets[(5)]	198,463	218,143	358,937	91,703	57,974	2,408	927,628

(1) Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.
(2) Comparative information has been restated for immaterial changes in NAB's organisational structure.
(3) Corporate Functions and Other includes Group Eliminations.
(4) Includes large notable items. Refer to Section 1 Large notable items for further information.
(5) Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.

Notes to the Consolidated Financial Statements (continued)

3. Other Income[1]

	Year to		Half Year to	
	Sep 20 $m	Sep 19 $m	Sep 20 $m	Mar 20 $m
Gains less losses on financial instruments at fair value				
Trading instruments	**1,279**	2,315	**736**	543
Hedge ineffectiveness[2]	**26**	103	**(7)**	33
Financial instruments designated at fair value	**(217)**	(984)	**(1)**	(216)
Total gains less losses on financial instruments at fair value	**1,088**	1,434	**728**	360
Other operating income				
Dividend revenue	**36**	26	**1**	35
Banking fees	**1,020**	1,064	**497**	523
Money transfer fees	**440**	551	**204**	236
Fees and commissions[3][4]	**496**	525	**243**	253
Investment management fees[4]	**194**	188	**95**	99
Other income[4]	**110**	192	**62**	48
Total other operating income	**2,296**	2,546	**1,102**	1,194
Total other income	**3,384**	3,980	**1,830**	1,554

Customer-related remediation[5]

In the September 2020 full year, the Group recognised charges for customer-related remediation matters of $80 million ($78 million in the September 2019 full year) as a reduction in fees and commissions. This related to progression of work on banking-related matters.

In the September 2020 half year, the Group recognised charges for customer-related remediation matters of $22 million ($58 million in the March 2020 half year) as a reduction in fees and commissions.

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Represents hedge ineffectiveness of designated hedging relationships.*
(3) *Includes customer-related remediation.*
(4) *Comparative information has been restated to align to the presentation in the current period to reflect revised product classification.*
(5) *Included in Corporate Functions and Other.*

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses[1]

	Year to		Half Year to	
	Sep 20 $m	Sep 19 $m	Sep 20 $m	Mar 20 $m
Personnel expenses				
Salaries and related on-costs	**3,429**	3,167	**1,740**	1,689
Superannuation costs-defined contribution plans	**285**	260	**144**	141
Performance-based compensation	**291**	366	**208**	83
Other expenses	**455**	225	**278**	177
Total personnel expenses	**4,460**	4,018	**2,370**	2,090
Occupancy and depreciation expenses[2]				
Rental expense[3]	**92**	416	**39**	53
Depreciation of property, plant and equipment[4]	**776**	294	**466**	310
Other expenses	**95**	98	**53**	42
Total occupancy and depreciation expenses	**963**	808	**558**	405
General expenses				
Fees and commission expense	**48**	47	**23**	25
Amortisation of intangible assets[5]	**1,263**	1,070	**127**	1,136
Advertising and marketing	**162**	189	**87**	75
Charge to provide for operational risk event losses[6]	**257**	312	**164**	93
Communications, postage and stationery	**171**	176	**86**	85
Computer equipment and software	**741**	715	**366**	375
Data communication and processing charges	**84**	80	**43**	41
Professional fees	**681**	567	**362**	319
Impairment losses recognised	**225**	19	**10**	215
Other expenses	**291**	262	**127**	164
Total general expenses	**3,923**	3,437	**1,395**	2,528
Total operating expenses	**9,346**	8,263	**4,323**	5,023

Customer-related remediation[7]

In the September 2020 full year, the Group recognised costs for customer-related remediation matters of $136 million ($123 million in the September 2019 full year) as a charge to provide for operational risk event losses. This includes increased costs for executing the remediation programs.

In the September 2020 half year, customer-related remediation of $86 million was recognised ($50 million in the March 2020 half year) as a charge to provide for operational risk event losses.

Payroll remediation[7]

In the September 2020 full year, the Group recognised charges of $108 million before tax, as a charge to provide for operational risk event losses, to address potential payroll issues relating to both current and former Australian colleagues, comprising payments to colleagues and costs to execute the remediation program.

Capitalised software policy change[7]

In the September 2020 full year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million. This reflects a change in approach to managing projects which is intended to improve business accountability for projects less than $5 million. The impact of this change was an accelerated amortisation charge of $950 million recognised in the amortisation of intangible assets.

In the September 2019 full year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $0.5 million to $2 million. The impact of this change was an accelerated amortisation charge of $489 million recognised in the amortisation of intangible assets.

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*
(3) *Current year amount primarily relates to short term and low value leases.*
(4) *Includes impairment of property-related assets.*
(5) *Includes a change to the application of the software capitalisation policy.*
(6) *Includes customer-related and payroll remediation.*
(7) *Included in Corporate Functions and Other.*

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses (continued)[1]

Impairment of property-related assets[2]

In the September 2020 full year, the Group recognised a charge of $134 million for the impairment of property-related assets which is reflected within depreciation of property, plant and equipment. This primarily relates to plans to consolidate NAB's Melbourne office space with more colleagues expected to adopt a flexible and hybrid approach to working over the longer term.

Impairment of investment in MLC Life

In the September 2020 full year, the Group recognised an impairment loss of $214 million on its investment in MLC Life, a 20% owned associate. The impairment was driven by a reduction in the embedded value of MLC Life as a result of adverse assumption changes, as well as the challenging operating environment within the life insurance industry. The recoverable amount of the investment was determined with reference to its value in use.

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Included in Corporate Functions and Other.*

Notes to the Consolidated Financial Statements (continued)

5. Income Tax Expense

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

	Year to		Half Year to	
	Sep 20 $m	Sep 19 $m	Sep 20 $m	Mar 20 $m
Profit before income tax[(1)]	**5,163**	8,345	**2,911**	2,252
Prima facie income tax expense at 30%	**1,549**	2,504	**873**	676
Tax effect of permanent differences				
Assessable foreign income	**5**	7	**2**	3
Foreign tax rate differences	**(60)**	(67)	**(40)**	(20)
Foreign branch income not assessable	**(56)**	(50)	**(31)**	(25)
Over provision in prior years	**3**	(1)	**4**	(1)
Offshore banking unit adjustment	**23**	(53)	**60**	(37)
Restatement of deferred tax balances for tax rate changes	**10**	2	**7**	3
Non-deductible hybrid distributions	**61**	73	**27**	34
Losses not tax effected	**32**	2	**(1)**	33
Impairment of investment in MLC Life	**64**	-	**-**	64
Other	**34**	23	**53**	(19)
Total income tax expense	**1,665**	2,440	**954**	711
Effective tax rate (%)	**32.2%**	29.2%	**32.8%**	31.6%

(1) *Information is presented on a continuing operations basis, unless otherwise stated. Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*

Notes to the Consolidated Financial Statements (continued)

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Year to			
	Sep 20		Sep 19	
	Amount per share	Total amount	Amount per share	Total amount
Dividends on ordinary shares	**cents**	**$m**	**cents**	**$m**
Final dividend (in respect of prior year)	**83**	**2,393**	99	2,707
Interim dividend (in respect of current year)	**30**	**895**	83	2,333
Deduct: Bonus shares in lieu of dividend	**n/a**	**(32)**	n/a	(57)
Dividends paid by NAB	**n/a**	**3,256**	n/a	4,983
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**4**	n/a	4
Total dividend paid	**n/a**	**3,260**	n/a	4,987

Franked dividends paid during the period were fully franked at a tax rate of 30% (2019: 30%).

Final dividend

On 5 November 2020, the Directors determined the following dividend:

	Amount per share	Franked amount per share	Total amount
	cents	**%**	**$m**
Final dividend determined in respect of the year ended 30 September 2020	30	100	**987**

The final 2020 ordinary dividend is payable on 10 December 2020. The Dividend Reinvestment Plan (DRP) discount is nil, with no participation limit, and the DRP is expected to be satisfied by the issuance of new shares. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2020 and will be recognised in subsequent financial reports.

	Year to			
	Sep 20		Sep 19	
	Amount per security[(1)]	Total amount	Amount per security[(1)]	Total amount
Distributions on other equity instruments	**$**	**$m**	**$**	**$m**
National Income Securities	**1.97**	**39**	3.12	62
Trust Preferred Securities[(2)]	**-**	**-**	50.42	21
Total distributions on other equity instruments		**39**		83

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

Dividend and distribution plans

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

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 16 November 2020 at 5pm (Australian Eastern Daylight time).

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

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances

	As at 30 Sep 20 $m	As at 31 Mar 20 $m	As at 30 Sep 19 $m
Housing loans	**341,729**	346,044	343,915
Other term lending	**223,206**	234,320	222,556
Asset and lease financing	**13,009**	12,692	12,763
Overdrafts	**4,347**	5,516	5,820
Credit card outstandings	**5,259**	6,439	6,774
Other	**4,780**	6,839	6,703
Fair value adjustment	**245**	303	331
Gross loans and advances	**592,575**	612,153	598,862
Acceptances	**1,477**	2,010	2,490
Gross loans and advances including acceptances	**594,052**	614,163	601,352
Represented by:			
Loans and advances at fair value[1]	**3,860**	5,214	6,761
Loans and advances at amortised cost	**588,715**	606,939	592,101
Acceptances	**1,477**	2,010	2,490
Gross loans and advances including acceptances	**594,052**	614,163	601,352
Unearned income and deferred net fee income	**(219)**	(306)	(452)
Provision for credit impairment	**(6,011)**	(4,835)	(3,900)
Net loans and advances including acceptances	**587,822**	609,022	597,000
Securitised loans and loans supporting covered bonds[2]	**36,505**	33,014	34,711

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 30 September 2020				
Housing loans	299,102	42,581	46	**341,729**
Other term lending	170,633	36,241	16,332	**223,206**
Asset and lease financing	12,611	-	398	**13,009**
Overdrafts	2,472	1,863	12	**4,347**
Credit card outstandings	4,426	833	-	**5,259**
Other	4,074	317	389	**4,780**
Fair value adjustment	256	(11)	-	**245**
Gross loans and advances	493,574	81,824	17,177	**592,575**
Acceptances	1,477	-	-	**1,477**
Gross loans and advances including acceptances	495,051	81,824	17,177	**594,052**
Represented by:				
Loans and advances at fair value	2,552	1,308	-	**3,860**
Loans and advances at amortised cost	491,022	80,516	17,177	**588,715**
Acceptances	1,477	-	-	**1,477**
Gross loans and advances including acceptances	495,051	81,824	17,177	**594,052**

(1) *On the balance sheet, this amount is included within other financial assets. 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.*

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances (continued)

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 31 March 2020				
Housing loans	302,368	43,619	57	**346,044**
Other term lending	175,479	40,247	18,594	**234,320**
Asset and lease financing	12,181	-	511	**12,692**
Overdrafts	3,229	2,270	17	**5,516**
Credit card outstandings	5,427	1,012	-	**6,439**
Other	5,393	429	1,017	**6,839**
Fair value adjustment	288	16	(1)	**303**
Gross loans and advances	504,365	87,593	20,195	**612,153**
Acceptances	2,010	-	-	**2,010**
Gross loans and advances including acceptances	506,375	87,593	20,195	**614,163**
Represented by:				
Loans and advances at fair value	3,483	1,731	-	**5,214**
Loans and advances at amortised cost	500,882	85,862	20,195	**606,939**
Acceptances	2,010	-	-	**2,010**
Gross loans and advances including acceptances	506,375	87,593	20,195	**614,163**

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

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost

Expected Credit Losses (ECL) are derived from unbiased probability weighted estimates of loss. The measurement of ECL and assessment of significant increase in credit risk, considers information about current conditions, past events, as well as reasonable and supportable forecasts of future economic conditions.

The Group's ECL measurement is derived from a probability weighted average of three distinct scenarios (base case, upside and downside) in addition to FLAs for emerging risk at an industry, geography or segment level. The probability of each scenario is determined by considering relevant macro-economic outlooks and their likely impact on the Group's credit portfolios.

Key estimates and assumptions

- In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions and granular probability of default and loss given default assumptions.
- Macro-economic variables used in these scenarios, include (but are not limited to) the cash rate, unemployment rates, GDP growth rates and residential and commercial property price indices.
- Forward looking macro-economic information and assumptions relating to COVID-19 have been considered in these scenarios, including impacts of COVID-19, recognising that uncertainty still exists in relation to the duration of COVID-19-related restrictions and the anticipated impact of government stimulus and regulatory actions.
- When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Group's historical loss experience.
- Consistent with industry guidance, customer support payment deferrals as part of COVID-19 support packages in isolation will not necessarily result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (Lifetime ECL) in the credit impairment provision for such loans.

Credit impairment charge on loans at amortised cost

	Year to		Half Year to	
	Sep 20 $m	Sep 19 $m	Sep 20 $m	Mar 20 $m
New and increased provisions (net of collective provision releases)	**2,990**	1,154	**1,713**	1,277
Write-backs of specific provisions	**(169)**	(170)	**(94)**	(75)
Recoveries of specific provisions	**(69)**	(57)	**(34)**	(35)
Total charge to the income statement	**2,752**	927	**1,585**	1,167

Notes to the Consolidated Financial Statements (continued)

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

Movement in provision for credit impairment on loans at amortised cost

Group - Yearly

	Stage 1	Stage 2	Stage 3		
	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	Total
	$m	$m	$m	$m	$m
Balance at 1 October 2018	324	2,125	391	673	**3,513**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	358	(348)	(10)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(48)	104	(56)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(65)	67	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(2)	(49)	(106)	157	**-**
New and increased provisions (net of collective provision releases)	(264)	456	236	726	**1,154**
Write-backs of specific provisions	-	-	-	(170)	**(170)**
Write-offs from specific provisions	-	-	-	(600)	**(600)**
Foreign currency translation and other adjustments	2	4	1	(4)	**3**
Balance at 30 September 2019	**368**	**2,227**	**523**	**782**	**3,900**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	335	(319)	(16)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(83)	142	(59)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(83)	85	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(46)	(107)	154	**-**
New and increased provisions (net of collective provision releases)	(146)	1,981	399	756	**2,990**
Write-backs of specific provisions	-	-	-	(169)	**(169)**
Write-offs from specific provisions	-	-	-	(700)	**(700)**
Foreign currency translation and other adjustments	(1)	(5)	(1)	(3)	**(10)**
Balance at 30 September 2020	**470**	**3,897**	**824**	**820**	**6,011**

Notes to the Consolidated Financial Statements (continued)

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

Movement in provision for credit impairment on loans at amortised cost (continued)

Group - Half Yearly

	Stage 1	Stage 2	Stage 3		
	12-mth ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	Specific provision	Total
	$m	$m	$m	$m	$m
Balance at 1 October 2019	368	2,227	523	782	**3,900**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	252	(242)	(10)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(34)	83	(49)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(77)	78	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(27)	(86)	114	**-**
New and increased provisions (net of collective provision releases)	(206)	959	223	301	**1,277**
Write-backs of specific provisions	-	-	-	(75)	**(75)**
Write-offs from specific provisions	-	-	-	(302)	**(302)**
Foreign currency translation and other adjustments	6	19	3	7	**35**
Balance at 31 March 2020	**384**	**2,942**	**682**	**827**	**4,835**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	236	(227)	(9)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(88)	162	(74)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(65)	67	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	-	(24)	(88)	112	**-**
New and increased provisions (net of collective provision releases)	(53)	1,133	250	383	**1,713**
Write-backs of specific provisions	-	-	-	(94)	**(94)**
Write-offs from specific provisions	-	-	-	(398)	**(398)**
Foreign currency translation and other adjustments	(7)	(24)	(4)	(10)	**(45)**
Balance at 30 September 2020	**470**	**3,897**	**824**	**820**	**6,011**

ECL Scenario analysis

The following table shows the key macro-economic variables used in the base case and downside scenario at 30 September 2020.

	Base case			Downside		
	Calendar year			Calendar year		
	2020 %	2021 %	2022 %	2020 %	2021 %	2022 %
GDP change (year ended December)	**(5.7)**	3.1	2.8	**(8.0)**	1.5	2.5
Unemployment (end of year)	**9.2**	7.6	6.6	**12.0**	12.8	9.9
House price change (peak-to-trough)		**(11.6)**			**(20.7)**	

The probability weighted ECL is a blended outcome taking into consideration the respective scenarios applied across each of the Group's major loan portfolios. The following table shows the reported total provisions for ECL based on the probability weighting of scenarios, with the sensitivity range reflecting the ECL impacts assuming a 100% weighting is applied to the base case scenario or the downside scenario (with all other assumptions held constant).

Total provisions for ECL as at 30 September 2020 for key portfolios	Probability weighted $m	100% Base case $m	100% Downside $m
Housing	1,245	1,188	1,672
Business	4,252	3,925	5,501
Total Group	6,011	5,611	7,774

Notes to the Consolidated Financial Statements (continued)

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

The table below shows weightings applied to the Australian portfolio at 30 September 2020 to derive the probability weighted ECL.

	2020		
Macro-economics scenario weightings	**Housing %**	**Business %**	**Total Group %**
Upside	**15**	**15**	**15**
Base Case	**60**	**60**	**60**
Downside	**25**	**25**	**25**

Notes to the Consolidated Financial Statements (continued)

9. Asset Quality

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

Customers receiving COVID-19 payment deferrals have been treated in accordance with APRA guidance in the tables below.

	As at		
	30 Sep 20	31 Mar 20	30 Sep 19
Summary of total impaired assets	$m	$m	$m
Impaired assets	**1,844**	2,000	1,965
Restructured loans	**22**	37	7
Gross impaired assets[1]	**1,866**	2,037	1,972
Specific provisions for credit impairment[2]	**(840)**	(827)	(782)
Net impaired assets	**1,026**	1,210	1,190

Movement in gross impaired asset	Australia $m	New Zealand $m	Other International $m	Total Group $m
Balance at 1 April 2019	1,227	300	37	**1,564**
New	388	419	-	**807**
Written-off	(130)	(18)	(2)	**(150)**
Returned to performing, repaid or no longer impaired	(155)	(78)	-	**(233)**
Foreign currency translation adjustments	-	(15)	(1)	**(16)**
Balance at 30 September 2019	1,330	608	34	**1,972**
New	362	190	1	**553**
Written-off	(134)	(23)	-	**(157)**
Returned to performing, repaid or no longer impaired	(259)	(108)	(1)	**(368)**
Foreign currency translation adjustments	-	32	5	**37**
Balance at 31 March 2020	1,299	699	39	**2,037**
New	425	114	-	**539**
Written-off	(237)	(28)	-	**(265)**
Returned to performing, repaid or no longer impaired	(211)	(191)	(7)	**(409)**
Foreign currency translation adjustments	1	(33)	(4)	**(36)**
Gross impaired assets as at 30 September 2020	1,277	561	28	**1,866**

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

	As at		
	30 Sep 20	31 Mar 20	30 Sep 19
90+ days past due loans - by geographic location	$m	$m	$m
Australia	**4,082**	3,705	3,457
New Zealand	**163**	177	136
Other International	**10**	9	10
90+ days past due loans	**4,255**	3,891	3,603

(1) *Gross impaired assets include $38 million (March 2020: $nil, September 2019: $5 million) of gross impaired other financial assets at fair value.*
(2) *Includes $20 million (March 2020: $nil, September 2019: $nil) of specific provision on loans at fair value.*

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings

	As at		
	30 Sep 20 $m	31 Mar 20 $m	30 Sep 19 $m
Term deposits	**134,743**	151,596	160,383
On-demand and short-term deposits	**261,260**	236,402	210,557
Certificates of deposit	**35,564**	43,285	40,875
Deposits not bearing interest[(1)]	**72,221**	59,199	53,672
Borrowings	**21,767**	31,403	30,092
Repurchase agreements	**25,127**	30,459	31,362
Fair value adjustment	**1**	6	9
Total deposits and other borrowings	**550,683**	552,350	526,950
Represented by:			
Total deposits and other borrowings at fair value	**4,507**	7,852	4,865
Total deposits and other borrowings at amortised cost	**546,176**	544,498	522,085
Total deposits and other borrowings	**550,683**	552,350	526,950

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 30 September 2020				
Term deposits	101,512	27,699	5,532	**134,743**
On-demand and short-term deposits	226,978	26,810	7,472	**261,260**
Certificates of deposit	26,613	856	8,095	**35,564**
Deposits not bearing interest[(1)]	64,163	8,058	-	**72,221**
Borrowings	18,362	3,088	317	**21,767**
Repurchase agreements	1,402	-	23,725	**25,127**
Fair value adjustment	-	1	-	**1**
Total deposits and other borrowings	439,030	66,512	45,141	**550,683**
Represented by:				
Total deposits and other borrowings at fair value	-	4,507	-	**4,507**
Total deposits and other borrowings at amortised cost	439,030	62,005	45,141	**546,176**
Total deposits and other borrowings	439,030	66,512	45,141	**550,683**

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 31 March 2020				
Term deposits	112,003	32,159	7,434	**151,596**
On-demand and short-term deposits	204,352	25,372	6,678	**236,402**
Certificates of deposit	29,732	2,002	11,551	**43,285**
Deposits not bearing interest[(1)]	51,966	7,229	4	**59,199**
Borrowings	26,398	4,328	677	**31,403**
Repurchase agreements	3,515	-	26,944	**30,459**
Fair value adjustment	-	6	-	**6**
Total deposits and other borrowings	427,966	71,096	53,288	**552,350**
Represented by:				
Total deposits and other borrowings at fair value	-	7,852	-	**7,852**
Total deposits and other borrowings at amortised cost	427,966	63,244	53,288	**544,498**
Total deposits and other borrowings	427,966	71,096	53,288	**552,350**

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

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings (continued)

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

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

Notes to the Consolidated Financial Statements (continued)

11. Contributed Equity and Reserves

	As at		
Contributed equity	**30 Sep 20 $m**	**31 Mar 20 $m**	**30 Sep 19 $m**
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	**43,531**	39,248	36,762
Other contributed equity			
National Income Securities	**1,945**	1,945	1,945
Total contributed equity	**45,476**	41,193	38,707

	Year to		Half Year to	
Movement in issued and paid-up ordinary share capital	**Sep 20 $m**	**Sep 19 $m**	**Sep 20 $m**	**Mar 20 $m**
Balance at beginning of period	**36,762**	33,062	**39,248**	36,762
Shares issued:				
Institutional share placement	**2,954**	-	**2,954**	-
Retail share purchase plan	**1,250**	-	**1,250**	-
Dividend reinvestment plan	**976**	1,803	**73**	903
Dividend reinvestment plan underwritten allotments	**700**	1,000	**-**	700
Conversion of convertible preference shares and convertible notes	**750**	750	**-**	750
Transfer from equity-based compensation reserve	**139**	147	**6**	133
Balance at end of period	**43,531**	36,762	**43,531**	39,248

	As at		
Reserves	**30 Sep 20 $m**	**31 Mar 20 $m**	**30 Sep 19 $m**
Foreign currency translation reserve	**(38)**	453	20
Asset revaluation reserve	**26**	30	80
Cash flow hedge reserve	**307**	601	201
Cost of hedging reserve	**(396)**	(141)	(235)
Equity-based compensation reserve	**115**	73	190
Debt instruments at fair value through other comprehensive income reserve	**77**	(157)	46
Equity instruments at fair value through other comprehensive income reserve	**8**	11	4
Total reserves	**99**	870	306

Notes to the Consolidated Financial Statements (continued)

12. Notes to the Condensed Cash Flow Statement

(a) Reconciliation of cash and cash equivalents

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

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

	As at		
Cash and cash equivalents	**30 Sep 20 $m**	**31 Mar 20 $m**	**30 Sep 19 $m**
Assets			
Cash and liquid assets[(1)]	**64,560**	58,338	55,457
Treasury and other eligible bills	**1,607**	285	795
Due from other banks (excluding mandatory deposits with supervisory central banks)	**31,806**	43,566	23,705
Total cash and cash equivalents assets	**97,973**	102,189	79,957
Liabilities			
Due to other banks	**(35,932)**	(49,691)	(32,931)
Total cash and cash equivalents	**62,041**	52,498	47,026

(b) Non-cash financing and investing transactions

	Year to		Half Year to	
	Sep 20 $m	**Sep 19 $m**	**Sep 20 $m**	**Mar 20 $m**
New share issues				
Dividend reinvestment plan	**976**	1,803	**73**	903
Conversion of convertible preference shares and convertible notes	**750**	750	**-**	750

The Group did not offer a discount on the Dividend Reinvestment Plan for the interim or final dividends in respect of the year ended 30 September 2020. The Group offered a 1.5% discount on the Dividend Reinvestment Plans for dividends paid in respect of the year ended 30 September 2019.

On 23 March 2020, the Group completed the resale of all NAB Capital Notes (NCN) issued on 23 March 2015 to a nominated purchaser, in accordance with the resale notice issued on 17 February 2020. Following the resale, $750 million of NCN were converted into ordinary shares, and the remaining balance of approximately $593 million NCN were redeemed.

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

(1) *Includes cash and liquid assets held in MLC Wealth. Refer to Note 14 Discontinued operations.*

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities

General

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

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

Overall, the number and scale of investigations, reviews and litigation involving Australian and New Zealand financial institutions has increased significantly in recent years. Some matters have related customer remediation programs which are expected to continue beyond the 2020 financial year. Some of these matters may result in enforcement proceedings.

There are contingent liabilities in respect of all such matters. Such matters are often highly complex and uncertain. 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.

Legal proceedings

Bank Bill Swap Reference Rate US class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct relating to the Bank Bill Swap Reference Rate. The complaint named a number of defendants, including NAB and various other Australian and international banks, and refers to earlier proceedings brought by ASIC against three banks in relation to the Bank Bill Swap Reference Rate. The relevant ASIC proceeding against NAB was concluded in November 2017 with NAB admitting certain contraventions.

In February 2020, the Court dismissed all claims against NAB. The decision could potentially be appealed or reconsidered. However, any appeal would not occur until after final judgment against the rest of the defendants in the class action is delivered.

NULIS and MLCN – class actions

In October 2019, litigation funder Omni Bridgeway (formally IMF Bentham) and William Roberts Lawyers commenced a class action against NULIS Nominees (Australia) Limited (NULIS) alleging breaches of NULIS's trustee obligations to act in the best interests of the former members of The Universal Super Scheme in deciding to maintain grandfathered commissions on their transfer into the MLC Super Fund on 1 July 2016. NULIS filed its defence in the proceeding in February 2020.

In January 2020, Maurice Blackburn commenced a class action against NULIS and MLC Nominees Pty Ltd (MLCN) alleging breaches of NULIS's trustee obligations in connection with the speed with which NULIS and MLCN effected transfers of members' accrued default amounts to the MySuper product. NULIS and MLCN filed their joint defence in the proceeding in April 2020.

The potential outcomes and total costs associated with these matters remain uncertain.

UK conduct issues – class actions and insurance claims in relation to UK customer-related remediation matters

In May 2019, RGL Management Limited (a claims management company) commenced proceedings against CYBG and NAB on behalf of three customers of CYBG (the First Claim) in the English Courts. The First Claim concerns tailored business loans (TBLs) which customers entered into with CYBG and in respect of which NAB employees performed various functions. The claimants allege they were misled about: (1) the cost of breaking fixed interest rate periods; and (2) the composition of fixed interest rates offered under the TBLs. The alleged misconduct is said to give rise to several causes of action, including negligent misstatement, misrepresentation and deceit.

In November 2019, a further claim (the Second Claim) was served on behalf of 146 claimants. The Second Claim is in similar terms to the First Claim and is currently stayed.

On 14 October 2020, RGL issued a further claim (the Third Claim) in respect of a further 350 claimants (a number of which appear to be Scottish claimants from their addresses). This claim has not yet been served on NAB or CYBG. NAB expects RGL's lawyers to seek a stay of the Third Claim (as they did with the Second Claim).

RGL has been quoted in the press as saying that there are up to 2,000 further potential claimants on behalf of whom it has authority to bring similar claims. NAB does not have any details of these potential further claimants.

The potential outcome and total costs associated with the claims by RGL remain uncertain.

In prior periods the Group suffered losses in relation to certain UK customer-related remediation matters. NAB made insurance claims in relation to these losses. NAB and the reinsurers reached agreement for the settlement of the claims during the 2020 financial year. The net settlement proceeds have been set off against operating expenses where the original conduct expenses and the legal fees incurred were recognised.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Regulatory activity, compliance investigations and associated proceedings

Adviser service fees, fee disclosure statements (FDS) and plan service fees (PSF)

In 2015, ASIC commenced 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 pay an adviser service fee to receive ongoing financial review services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided or that customers were adequately informed of their ability to terminate the service fee. NAB is undertaking a remediation program in relation to this matter for the Wealth business, including NAB Financial Planning, NAB Advice Partnerships and JBWere.

NAB Financial Planning has made payments to most impacted customers, with only some complex cases still being assessed. NAB Advice Partnerships and JBWere are identifying the cohorts of potentially impacted customers for review. Provisions for customer compensation have been taken based on current best estimates. However given the early stage of the process, these estimates are subject to considerable uncertainty.

Key variables contributing to uncertainty about customer remediation amounts include ‘no evidence’ rates and recovery rates from advisers. The total ongoing advice fees received within the period 2009-2018 are estimated to be approximately $1.3 billion for NAB Advice Partnerships and approximately $650 million for NAB Financial Planning.

On 12 October 2018, ASIC announced that it was conducting an industry-wide review of compliance with requirements for FDSs and Renewal Notices in the financial advice sector. ASIC also continues to review compliance in relation to plan service fees.

NAB continues to assess its compliance with the FDS regime. NAB has ceased charging ongoing fees for customers of NAB Financial Planning employed advisers resulting from concerns about the accuracy of the FDSs. NAB has commenced refunding fees paid by NAB Financial Planning customers from 1 June 2018 up until they entered a new advice arrangement or the fees were switched off. NAB Financial Planning no longer offers ongoing services arrangements to its customers. NAB Advice Partnerships is also phasing out ongoing fee arrangements.

On 17 December 2019, ASIC commenced Federal Court proceedings against NAB alleging that between December 2013 and February 2019, NAB Financial Planning failed to comply with a number of provisions of the *Australian Securities and Investments Commission Act 2001* (Cth) (ASIC Act) and the *Corporations Act 2001* (Cth) (Corporations Act) in relation to the ongoing service arrangements and FDSs, including misleading conduct and unconscionable conduct. NAB has filed its response to ASIC’s claim making some admissions about FDS noncompliance and misleading conduct but has denied that it acted unconscionably.

Following on from ASIC’s May 2017 report about its industry-wide investigation into financial advice fees, the Group has finalised the payment of refunds to customers who were charged PSF, including refunds to customers who did not have a plan adviser attached to their superannuation account and customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product. The Federal Court has also delivered its judgement in the ASIC proceedings against two Group entities – NULIS and MLCN – in relation to PSF, imposing a civil penalty of $57.5 million on NULIS and MLCN.

The potential outcomes and total costs associated with these matters remain uncertain.

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

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

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. The Group has reported compliance breaches to relevant regulators, including over the last financial year, and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the Group’s implementation of ‘Know Your Customer’ (KYC) requirements, other financial crime risks, as well as systems and process issues that impacted transaction monitoring and reporting in some specific areas. In particular, the Group has identified issues with collection and verification of identity information and enhanced customer due diligence for non-individual customers. This is the subject of a dedicated remediation program that is underway.

The Group 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 compliance breaches may be identified and reported to AUSTRAC or

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

equivalent foreign regulators, and additional uplifting and strengthening may be required. The potential outcome and total costs associated with these investigations and remediation processes for specific issues identified to date, and for any issues identified in the future, remain uncertain.

Banking matters

A number of investigations into banking-related matters are being carried on across the Group, both internally and in some cases by regulatory authorities, including matters where:

- incorrect fees were applied in connection with certain products, including in relation to periodic payments
- customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code
- incorrect interest rates were applied in relation to certain products, including home lending products on conversion from interest only to principal and interest
- there were issues in delivering electronic statements, capturing customer consent to receive electronic statements and inconsistencies with recording statement preferences
- business term lending facilities were not amortising in accordance with approved facilities; and
- various responsible lending matters such as where business loans were used for residential purposes.

The potential outcome and total costs associated with these matters remain uncertain.

Breach reporting

In the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, NAB was criticised for failing to comply with breach reporting requirements under section 912D of the Corporations Act. There is an ongoing ASIC investigation in relation to this matter. The potential outcome and total costs associated with this matter remains 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.

On 12 May 2020, the Federal Court approved the settlement of a class action brought by plaintiff law firm Slater & Gordon against NAB and MLC Limited in connection with the issuance and sale of NAB Credit Card Cover (NCCC) and NAB Personal Loan Cover (PLC).

NAB is currently making remediation payments to NAB Mortgage Protect (NMP) customers (the third and final CCI product sold by NAB) who are potentially impacted. Where customer compensation is able to be reliably estimated, provisions have been taken.

There is also an ongoing ASIC investigation into the sale of CCI products.

The outcome and total costs associated with these matters 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 and Science Australia is currently reviewing various prior year claims made by the Group for research and development tax incentives. Risk reviews and audits are also being undertaken by tax authorities in other jurisdictions in which the Group conducts business, as part of normal tax authority review activity in those countries. NAB continues to respond to any notices and requests for information it receives from relevant tax authorities.

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

Deceased estates

There are certain instances where fees were incorrectly charged to deceased estates. There is an ongoing ASIC investigation into deceased estates. The outcome and total costs associated with this matter remain uncertain.

NZ Ministry of Business, Innovation and Employment compliance audit

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

Other wealth matters

A number of investigations into wealth advice related matters are being carried out across the Group. These include a review of the implementation of financial advice provided by NAB Financial Planning in relation to reinvestment as well as into the disclosure of a customer's cost base in a product. The potential outcome and total costs associated with these matters remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Payroll review

In December 2019, NAB announced an investigation into payments of both current and former Australian employees. The review has identified a range of potential payroll under and over payment issues and a remediation program has been established. Provisions have been taken but the final outcome and total costs associated with this matter 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. Customers may also be compensated where regular audit reviews identify non-compliant advice which warrants compensation. Where customer compensation is able to be reliably estimated, provisions have been taken. The final outcome and total costs associated with this work remain uncertain.

Workplace super

A number of investigations are being carried out in relation to workplace super, including matters where some employer superannuation plans and member entitlements were not correctly set up in the administration systems, and matters relating to disclosure and administration of certain features of the super product such as insurance and fees. The potential outcome and total costs associated with these matters remain uncertain.

Contractual commitments

Financial Planning Subsidiaries

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

MLC Life insurance transaction

In connection with the sale of 80% of MLC Life 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 MLC Life as a standalone entity, including by providing transitional services as well as support for data migration activities and the development of technology systems. The final financial impact associated with this transaction remains uncertain.

MLC Wealth transaction

On 31 August 2020, NAB announced that it had agreed to sell MLC Wealth, comprising its advice, platforms, superannuation & investments and asset management businesses to IOOF Holdings Ltd (IOOF).

As part of this transaction, NAB has provided IOOF with indemnities relating to certain pre-completion matters, including a remediation program relating to workplace superannuation, breaches of anti-money laundering laws and regulations, regulatory fines and penalties and certain litigation and regulatory investigations. NAB also provided covenants and warranties in favour of IOOF. NAB also agreed a process to reassess certain provisions for pre-completion matters as part of the completion accounts process, which may involve increases to such provisions. A breach or triggering of these contractual protections may result in NAB being liable to IOOF.

The Group will retain the companies that operate the Advice business, such that the Group will retain all liabilities associated with the conduct of that business pre-completion.

From completion, NAB will provide IOOF with certain transitional services and continuing access to records, as well as support for data migration activities. NAB may be liable to IOOF if it fails to perform its obligations under these agreements.

The final financial impact associated with this transaction remains uncertain.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations

Sale of MLC Wealth

On 31 August 2020, the Group entered into an agreement for the sale of 100% of MLC Wealth, including the advice, platforms, superannuation & investments and asset management businesses, to IOOF Holdings Limited for $1,440 million, subject to completion adjustments. The agreement follows the strategic decision announced by NAB in 2018 to pursue an exit of MLC Wealth and is in line with NAB's strategy to simplify and focus on its core banking business, while creating a stronger future for MLC Wealth. The business being disposed of was previously presented as the MLC Wealth reportable segment.

The transaction is subject to certain conditions, including certain regulatory approvals. Subject to the timing of regulatory approvals, completion is expected to occur before 30 June 2021. Management have concluded that MLC Wealth meets the criteria to be classified as a disposal group held for sale and a discontinued operation as at 30 September 2020.

Loss upon classification as held for sale

Based on the selling price of $1,440 million and the carrying value of the disposal group, net of expected completion adjustments $1,639 million, an impairment loss of $199 million was recognised within the 'net loss from discontinued operations' for the year ended 30 September 2020. The impairment loss was attributed to the $1,027 million of goodwill allocated to the MLC Wealth cash generating unit in the March 2020 half year.

A provision of $284 million has been recognised in respect of estimated separation costs, and the after tax expense of $200 million has been recognised within 'net loss from discontinued operations'.

The combined effect of the impairment loss and separation costs of $483 million ($399 million after tax) represents the loss that has been recognised in the 2020 financial year as a result of the transaction. The final loss on the sale will be determined at completion and will be impacted by separation and transaction costs, net assets at completion and other adjustments.

MLC Life discontinued operation

Amounts presented in the MLC Life discontinued operation relate to the Group's life insurance business. The Group disposed of 80% of its investment in MLC Life to Nippon Life Insurance Company in 2016. The amounts presented relate to a reassessment of customer-related remediation provisions associated with the MLC Life business and additional costs associated with the sale. Refer to *Note 13 Contingent liabilities* for further information.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations (continued)

Analysis of net loss from discontinued operations

	Year to		Half Year to	
MLC Wealth discontinued operation	**Sep 20 $m**	**Sep 19[(1)] $m**	**Sep 20 $m**	**Mar 20[(1)] $m**
Net operating income	**1,258**	1,486	**606**	652
Operating expenses	**(1,194)**	(1,270)	**(574)**	(620)
MLC reportable segment profit before tax	**64**	216	**32**	32
MLC Wealth-related items[(2)]	**(1,308)**	(1,384)	**(812)**	(496)
Income tax benefit	**340**	353	**207**	133
Net loss related to MLC wealth	**(904)**	(815)	**(573)**	(331)
Impairment of goodwill	**(199)**	-	**(199)**	-
Net loss from MLC Wealth discontinued operation	**(1,103)**	(815)	**(772)**	(331)
MLC Life discontinued operation				
Net profit / (loss) from MLC Life discontinued operation	**168**	(289)	**63**	105
Net loss from discontinued operations	**(935)**	(1,104)	**(709)**	(226)
Attributable to owners of NAB	**(939)**	(1,107)	**(711)**	(228)
Attributable to non-controlling interests	**4**	3	**2**	2

Cash flows provided by / (used in) discontinued operations

	Year to
MLC Wealth discontinued operation	**Sep 20 $m**
Net cash provided by / (used in) operating activities	**(728)**
Net cash provided by / (used in) investing activities	**27**
Net cash provided by / (used in) financing activities	**(71)**
Net cash inflows / (outflows) from MLC Wealth discontinued operation	**(772)**
MLC Life discontinued operation	
Net cash provided by / (used in) operating activities	**(98)**
Net cash inflows / (outflows) from life insurance business discontinued operation	**(98)**

Disposal group held for sale

The major classes of assets and liabilities included in the MLC Wealth disposal group as at 30 September 2020 are summarised below:

	Year to
MLC Wealth disposal group[(3)]	**Sep 20 $m**
Assets	
Cash and liquid assets	**172**
Other financial assets	**226**
Deferred tax assets	**91**
Property, plant and equipment	**1**
Goodwill and other intangibles	**827**
Other assets	**162**
Assets held for sale	**1,479**
Liabilities	
Provisions	**96**
Deferred tax liabilities	**6**
Other liabilities	**119**
Liabilities directly associated with assets held for sale	**221**

As at 30 September 2020, the fair value of total assets in the disposal group held for sale is $1,479 million and the fair value of total liabilities in the disposal group held for sale is $221 million. These fair values are categorised within Level 2 of the fair value hierarchy.

(1) *Prior periods have been restated for the presentation of MLC Wealth as a discontinued operation.*
(2) *Primarily relates to customer-related remediation, MLC Wealth separation costs, the impact of the change in the application of the software capitalisation policy and changes in the provision for litigation.*
(3) *Amounts are shown net of inter-company balances.*

Notes to the Consolidated Financial Statements (continued)

15. Events Subsequent to Reporting Date

On 19 October 2020, the Federal Court of Australia delivered its judgement in proceedings brought by ASIC against NAB in connection with the introducer payments program, imposing a civil penalty of $15 million on NAB. The financial impact has been reflected in the Group's 2020 full year results.

On 5 November 2020, with the prior consent of APRA, NAB announced it would exercise its option to redeem the $1.72 billion NAB CPS II on 17 December 2020. Each NAB CPS II will be redeemed for cash at its par value of $100.

There are no other items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2020 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 2020 is prepared:

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

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

Louise Thomson
Company Secretary

5 November 2020