National Australia Bank

ANNUAL FINANCIAL REPORT 2020

National Australia Bank Limited ABN 12 004 044 937

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This 2020 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth), Accounting Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. NAB also produces a non-statutory Annual Review which can be viewed online at www.nab.com.au/annualreports.

To view the Report online, visit www.nab.com.au/annualreports. Alternatively, to arrange for a copy to be sent to you free of charge, call the shareholder information line on 1300 367 647 from within Australia or +61 3 9415 4299 from outside Australia.

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

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

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2020 AT A GLANCE

Dividend per share (for the full year)

$0.60

$1.06 lower than 2019

Cash return on equity

6.5%

490 basis points decrease from 2019

Colleague engagement score

76

5 points above our 2020 target of 71

Strategic Net Promoter Score

-11

5 point increase from 2019, #2 amongst major banks

Statutory net profit

$2.56BN

Cash earnings

$3.71BN

36.6% decrease from 2019

$4.73bn cash earnings ex large notables of $1.02bn 25.9% decrease from 2019

SME Guarantee Scheme

>$600M

Approved in Business Support Loans under Australian Government's Coronavirus SME Guarantee Scheme

Customers assisted experiencing financial hardship

26,621

35.3% increase from 2019

Supporting communities through crisis and recovery

$5M

Committed to support customers, colleagues and communities impacted by the bushfires

Supporting communities through crisis and recovery

>148,000

Business and home loan customers supported with deferrals

CHAIRMAN'S MESSAGE

Philip Chronican
Non-Executive Director & Chairman

The past year has been uniquely confronting for the customers and communities we serve. In that, we are no different from most businesses around the world that are dealing with disruptions unparalleled in most of our lifetimes.

In Australia, the tragic health and economic impacts of COVID-19 came on top of the severe drought and devastating bushfires over the summer of 2019/2020.

Our bank and our people have been tested. I am proud of how we are responding given the critical role we play in supporting the economy and our communities.

When the economic shutdowns were brought in earlier in the year, we knew that we would have to work with governments and regulators to ensure that our customers would be supported during these critical times.

NAB was not operating in isolation. The financial services industry has shown a strong focus on supporting customers and avoiding unnecessary financial stress on households and businesses.

Our wider economic contribution through employment, supplier and government payments, and community investment, is particularly important during a downturn. This year we paid $3.5 billion in government payments and taxes, $5.1 billion to suppliers, $3.3 billion in dividends, and other payments that flow to employees and into the community via donations and volunteering.

I am equally conscious of the impact of our COVID-19 response on our shareholders, many of whom rely on dividends which have been substantially reduced. The total dividend of 60 cents per share in the 2020 financial year reflects the economic environment, regulatory guidance and consideration of our strong capital position. Every decision the Board makes carefully balances our short and long-term responsibilities to shareholders and our ability to serve customers and communities.

Amid all of this, we are building a bank to be more resilient and to perform better over the long-term. We will not lose sight of the work to be done to reliably achieve responsible growth and healthy returns for our shareholders.

Making the necessary hard choices

Earlier this year we took decisive action to strengthen our capital position, in recognition of the magnitude of the economic crisis. Endorsed by many shareholders, our actions have enabled us to continue to support customers through COVID-19, as well as assist us to manage through the recession in Australia and economic headwinds globally.

In uncertain times, a strong balance sheet is critical. The Board will continue to focus on maintaining our strong balance sheet to target growth opportunities and support our customers' ambitions despite the operating environment.

By serving customers well through this difficult period, we expect to deliver long-term value to you. We do well when our customers do well.

The Board and leadership team have also been clear that we should share the challenges faced by our customers, shareholders and the community. The Executive Leadership Team will not receive an annual variable reward as part of their remuneration for 2020. The Board and Group Chief Executive Officer Ross McEwan also took a 20% reduction in base fees and fixed remuneration respectively from 1 April 2020 to 30 September 2020.

The Executive Leadership Team, led by Ross since last December, has a clear plan to strengthen NAB and is getting on with it. Ross has quickly shown he is the right leader for NAB through this crisis and beyond. Alongside a talented and capable leadership team, he has led the creation of a refreshed Group Strategy, which sets a simple and impactful ambition to 'serve customers well and help our communities prosper'. We have centred ourselves on the core notion of being a good bank.

Driving sustainable change

The lessons learnt from the Royal Commission and through our self-assessment into governance, accountability and culture remain front of mind. We are making sustainable progress by addressing the root causes of our failings.

We are holding ourselves accountable by tracking our performance in areas where we need to improve. Realising our desired culture will take time however, the right foundations are in place. Our refreshed strategy and organisational structure take these lessons to the heart of how we work.

Expectations of the bank are changing rapidly. Your Board is paying close attention to the commercial risks and opportunities that climate change poses for our business. We are taking a range of actions to help and support customers and communities through the transition to less emission intensive technologies. We have a clear ambition, and we will not walk away from industries working towards a low carbon economy.

The NAB Board continues to evolve to reflect the skills required for the future. After serving almost seven years on the Board, Geraldine McBride has announced she will not be seeking re-election at the AGM and will retire from the Board in December. I would like to thank Geraldine for her contribution. Simon McKeon, an experienced executive and board member, will stand for election at this year’s AGM in December with Peeyush Gupta, David Armstrong and Ann Sherry who all stand for re-election.

In a year characterised by challenges, we remain a strong and safe bank, well placed for the future. Our ambition is clear and easily understood. On behalf of the Board, thank you for your support as shareholders over the past year. Equally, I would like to thank our 34,000 colleagues who have remained focused on the right things for customers and who have understood where they could make the greatest contribution to helping Australia and New Zealand through this confronting period.

Philip Chronican, Chairman

OPERATING AND FINANCIAL REVIEW

The directors of National Australia Bank Limited (NAB) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2020.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2020 is referred to as 2020 and other financial years are referred to in a corresponding manner. Reference in this document to the year ended September 2020 are references to the twelve months ended 30 September 2020. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively.

Key terms used in this report are contained in the *Glossary*.

Forward looking statements

This report contains statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. Users of this report are cautioned not to place undue reliance on such forward looking statements.

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

There are many factors that could cause actual results to differ materially from those projected in such statements, including (without limitation) the risks and uncertainties associated with the ongoing impacts of COVID-19, changes to the Australian and global economic environment and capital market conditions, changes to the operating and regulatory environment of the Group and changes to the financial position or performance of the Group. Further information is contained on page 21 under *Disclosure on Risk Factors*.

Financial performance summary

The following financial discussion and analysis is based on statutory information unless otherwise stated. The statutory information is presented in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards and is audited by the auditors in accordance with Australian Auditing Standards.

Non-IFRS key financial performance measures used by the Group

Certain financial measures detailed in the Report of the Directors are not accounting measures within the scope of International Financial Reporting Standards (IFRS). Management review these financial metrics to measure the Group's overall financial performance and position and believe the presentation of these financial measures used by NAB's Australian peers provides useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. These financial performance measures include:

- cash earnings
- cash earnings (excluding large notable items)
- statutory return on equity
- cash return on equity
- net interest margin
- average equity (adjusted)
- average interest earning assets
- total average assets.

The Group regularly reviews the non-IFRS measures included in the Report of the Directors to ensure that only relevant financial measures are incorporated. Certain other financial performance measures detailed in the Report of the Directors are derived from IFRS measures and are similarly used by analysts and investors to assess the Group's performance. These measures are defined in the *Glossary*.

Any non-IFRS measures included in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. The non-IFRS financial measures referred to above have not been presented in accordance with Australian Accounting Standards, nor audited or reviewed in accordance with Australian Auditing Standards unless they are included in the financial statements.

Further information in relation to these financial measures is set out below and in the *Glossary*.

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and NAB's Australian peers with similar business portfolios. The Group also uses cash earnings for its internal management reporting as it better reflects what it considers to be the underlying performance of the Group.

Cash earnings is calculated by excluding discontinued operations, fair value and hedge ineffectiveness and other non-cash earnings items which are included within the statutory net profit attributable to owners of NAB.

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. A reconciliation between statutory net profit and cash earnings is included in *Note 2 Segment information* of the financial statements.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Information about net interest margin

Net interest margin (NIM) is a non-IFRS key financial performance measure that is calculated as net interest income (derived on a cash earnings basis) expressed as a percentage of average interest earning assets.

Information about average balances

Average balances, including average equity (adjusted), total average assets and average interest earning assets are based on daily statutory average balances derived from internally generated trial balances from the Group's general ledger.

This methodology produces numbers that NAB believes more accurately reflect seasonality, timing of accruals and restructures (including discontinued operations), which would otherwise not be reflected in a simple average.

Refer to page 7 for a five-year summary of the Group's average equity (adjusted), total average assets and average interest earning assets.

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. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

5 Year Financial Performance Summary

	Group[1]				
	2020	2019	2018	2017	2016
	$m	$m	$m	$m	$m
Net interest income	**13,877**	13,555	13,505	13,182	12,930
Other income	**3,384**	3,980	5,596	4,842	5,192
Operating expenses	**(9,346)**	(8,263)	(9,910)	(8,539)	(8,331)
Credit impairment charge	**(2,752)**	(927)	(791)	(824)	(813)
Profit before income tax	**5,163**	8,345	8,400	8,661	8,978
Income tax expense	**(1,665)**	(2,440)	(2,455)	(2,480)	(2,553)
Net profit for the year from continuing operations	**3,498**	5,905	5,945	6,181	6,425
Net loss after tax for the year from discontinued operations	**(935)**	(1,104)	(388)	(893)	(6,068)
Net profit for the year	**2,563**	4,801	5,557	5,288	357
Profit attributable to non-controlling interests	**4**	3	3	3	5
Net profit attributable to owners of NAB	**2,559**	4,798	5,554	5,285	352

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.

5 Year Key Performance Indicators

	Group				
	2020	2019	2018	2017	2016
Key Indicators					
Statutory earnings per share (cents) - basic	**82.1**	168.6	201.3	194.7	8.8
Statutory earnings per share (cents) - diluted	**80.5**	164.4	194.0	189.1	15.5
Statutory return on equity	**4.4%**	9.1%	11.2%	10.9%	0.5%
Cash return on equity[1]	**6.5%**	11.4%	11.7%	14.0%	14.3%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**60**	166	198	198	198
Net interest margin[1]	**1.77%**	1.78%	1.85%	1.85%	1.88%
Total Group Capital[2]					
Common Equity Tier 1 ratio	**11.47%**	10.38%	10.20%	10.06%	9.77%
Tier 1 ratio	**13.20%**	12.36%	12.38%	12.41%	12.19%
Total capital ratio	**16.62%**	14.68%	14.12%	14.58%	14.14%
Risk-weighted assets ($bn) (spot)	**425.1**	415.8	389.7	382.1	388.4
Volumes ($bn)					
Gross loans and acceptances (spot)[3]	**594.1**	601.4	585.6	565.1	545.8
Average interest earning assets	**781.7**	758.8	726.7	711.3	689.5
Total average assets	**877.0**	835.9	807.0	798.8	855.8
Customer deposits (spot)	**468.2**	424.6	409.0	407.6	390.5
Average equity (adjusted) - Statutory	**56.7**	51.6	48.7	47.5	44.3
Average equity (adjusted) - Cash	**56.7**	51.6	48.7	47.5	45.5
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**1.03%**	0.93%	0.71%	0.70%	0.85%
Full-time equivalent employees (FTE)[4]					
FTE (spot)	**34,944**	34,370	33,283	33,422	34,263
FTE (average)	**34,841**	33,950	33,747	33,746	34,567

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.
(2) Capital numbers reflect the reported figures as at the respective dates and have not been restated.
(3) Including loans and advances at fair value.
(4) Excluding discontinued operations, FTE (spot) is 31,372 (2019: 30,776) and FTE (average) is 31,204 (2019: 30,532).

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Principal Activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management services, funds management and custodian, trustee and nominee services.

The Group's Business

The Group is a financial services organisation with more than 34,000 colleagues, operating through a network of more than 850 branches, with over 639,000 shareholders and serving approximately nine million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the United Kingdom (UK) and the United States (US).

In April 2020, the Group redesigned its operational structure to support the Group's refreshed strategy. The structure reflects the Group's increased focus on digital and delivery by elevating UBank and Strategy & Innovation. The Group operates the following divisions:

- *Business and Private Banking* focuses on NAB's priority small and medium customer segments. This includes the leading NAB Business franchise, specialised Agriculture, Health, Government, Education and Community services, along with Private Banking and JBWere, as well as the micro and small business segments.
- *Personal Banking* provides customers with products and services through proprietary networks in NAB, as well as third party and mortgage brokers. Customers are served through the Personal Banking network to secure home loans or manage personal finances through deposit, credit or personal loan facilities. The network also provides servicing support to individuals and business customers.
- *Corporate and Institutional Banking* provides a range of products and services including client coverage, corporate finance, markets, asset servicing, transactional banking and enterprise payments. The division services its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.
- *New Zealand Banking* provides banking and financial services across customer segments in New Zealand. It consists of Partnership Banking, servicing consumer and SME segments; Corporate and Institutional Banking, servicing Corporate, Institutional, Agribusiness, and Property customers, and includes Markets Sales operations in New Zealand. New Zealand Banking also includes the Wealth and Insurance franchises operating under the 'Bank of New Zealand' brand, but excludes the Bank of New Zealand's Markets Trading operations.
- *Corporate Functions and Other* business includes UBank and enabling units that support all businesses including Treasury, Technology and Enterprise Operations, Strategy and Innovation, Support Units and Eliminations.

Significant change in the state of affairs

- On 28 April 2020, the Group completed a fully underwritten Institutional Share Placement, raising \$3.0 billion of Common Equity Tier 1 (CET1) capital.
- On 2 June 2020, the Group issued a further \$1.25 billion of CET1 capital under the Share Purchase Plan.
- On 25 June 2020, National Wealth Management Services Limited changed its name to MLC Wealth Limited.
- On 31 August 2020, NAB entered into a Sale and Purchase Agreement to sell 100% of MLC Wealth to IOOF Holdings Limited (IOOF) for a purchase price of \$1,440 million. Refer to *Note 37 Discontinued operations*.
- A number of changes to the composition of the NAB Board and Executive Leadership Team were announced during 2020, namely:
  - Mr Simon McKeon commenced as non-executive director on 3 February 2020.
  - Mr Mike Baird ceased as Chief Customer Officer - Consumer Banking effective 15 April 2020 and ceased employment with the Group effective 31 May 2020.
  - Mr Anthony Waldron, Executive, Digital, Analytics, Strategy and Execution, acted as Chief Customer Officer - Consumer Banking, from 16 April 2020 to 31 May 2020.
  - Ms Rachel Slade held the position of Chief Customer Experience Officer until she was appointed to the position of Group Executive, Personal Banking on 1 June 2020.
  - Mr Anthony Healy ceased as Chief Customer Officer - Business and Private Banking and ceased employment with the Group effective 30 April 2020.
  - Mr Michael Saadie, Chief Risk Officer - Business and Private Banking acted as Chief Customer Officer - Business and Private Banking, from 1 May 2020 to 31 August 2020.
  - Mr Nathan Goonan commenced as Group Executive, Strategy and Innovation, effective 1 June 2020.
  - Mr Andrew Irvine commenced as Group Executive, Business and Private Banking, effective 1 September 2020.
  - On 6 October 2020, it was announced that Ms Geraldine McBride will not be standing for re-election at the 2020 AGM.

There were no other significant changes in the state of affairs of the Group that occurred during the financial year under review that are not otherwise disclosed in this report.

Responding to COVID-19

The COVID-19 pandemic continues to challenge the Group and its customers, with varied impacts across industries, communities and state borders. The COVID-19 pandemic contributed to the Group experiencing volatile markets, subdued credit demand, low interest rates and signs of deteriorating asset quality.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The support measures provided by the Australian Federal Government (the Australian Government) have been vital and the Australian Government's 2020 Budget package to stimulate the economy is welcome. Tax incentives to encourage job creation and investment in research and development will help to rebuild the Australian economy. NAB was also pleased to see investment in industries with high growth potential such as manufacturing. NAB continues to work alongside state and federal governments, regulators and the broader industry to support customers and the community.

Supporting our customers

NAB has taken active steps to support customers affected by COVID-19. These steps include:
- Deferring more than 110,000 home loans (value of > $42.0 billion) and more than 38,000 business loans (value of >$21.0 billion).
- Approving more than $600 million Business Support Loans under the Australian Government Small and Medium Enterprise (SME) Guarantee Scheme.
- When appropriate, providing customers with the option to extend existing six-month loan deferrals by up to four months (ending no later than 31 March 2021).
- Providing Business Support Loans designed for small business customers with an annual turnover of less than $50 million, offering loans up to $1 million with no repayments required in the first six months.

Ongoing support provided by NAB include free counselling, financial coaching and free courses to help customers set up their businesses online. NAB has had check-in conversations with more than 41,000 homeowners on deferrals.

Adapting for our customers and colleagues

In response to COVID-19, the way the Group's customers are banking is changing rapidly. This includes how customers access their money. More than 90% of customers who interact with NAB are digitally active, with many transitioning to internet banking during COVID-19. NAB has adapted in many ways to serve its customers. These include:
- Extending NAB's servicing options to include video meetings.
- Launching a customer self-serve appointment booking system.
- Introducing a chat bot function online to answer recurring customer questions immediately.
- Enabling the Indigenous Customer Service Line team to remotely open customer accounts using alternative forms of identification.

NAB colleagues have assisted customers while being impacted by COVID-19 themselves. Over 30,000 NAB colleagues adjusted to working from home within three weeks. The health, safety and wellbeing of the Group's 34,000 colleagues remains NAB's highest priority. NAB has provided additional support measures for its colleagues to support them through this time, including 10 days paid pandemic leave, and continued support for colleagues' wellbeing and carer responsibilities.

As banking remains an essential service, NAB has supported its customers by keeping as many branches open as possible, and making NAB colleagues available to meet customer needs.

NAB temporarily closed some branches to use as training hubs. Bankers in these branches are learning new skills so they can serve customers remotely through other channels such as calls and online chat. NAB significantly increased the number of colleagues directly supporting customers in hardship, including re-training colleagues from within NAB.

Data security and financial crime

The challenges posed by COVID-19, particularly due to social distancing requirements and restriction of movement, have impacted NAB's ability to verify the identity of customers in person as required by *Anti-Money and Counter-Terrorism Financing Act and Rules* (AML/CTF Law) requirements. NAB responded by implementing alternate measures to support customers during this time while continuing to meet its regulatory obligations, noting the guidance issued by AUSTRAC. The alternate measures are based on the AML/CTF Law, and may be applied in instances where the usual verification methods cannot be undertaken.

Since June 2017, NAB has invested approximately $300 million in expanding its capability to manage financial crime and has more than 1,000 colleagues dedicated to managing financial crime risks. NAB has redesigned its financial crime operating model and recruited subject matter experts with domestic and global experience.

Response to Bushfires

This year, NAB provided support to assist those impacted by significant natural disasters, with a devastating bushfire season impacting customers, colleagues and communities across Australia. NAB's immediate response focused on the safety of customers and colleagues. A range of targeted support options were provided:
- Commitment of $1 billion in concessional loans supporting customers seeking to restructure existing facilities to assist in repairs, restocking and re-opening for business.
- Access to NAB's financial hardship assistance team in impacted communities.
- Up to a three-year deferral of interest and repayments for existing NAB loans.
- A commitment not to foreclose upon, or force the sale of collateral of existing loans for up to three years.
- Support and counselling services, by making NAB's Employee Assistance Program available to customers.
- $5 million committed to the NAB Disaster Relief fund, with approximately $3 million distributed in small emergency grants to impacted colleagues and customers to cover temporary accommodation, food and clothing, and business costs such as reopening, covering damaged

OPERATING AND FINANCIAL REVIEW (CONTINUED)

property, equipment, and loss of stock or livestock. The remaining funds support the Australian Red Cross' disaster preparedness, relief and recovery efforts, and donations to local organisations in impacted communities.
- Providing NAB colleagues an additional day of Bushfire Leave for 2020, to spend in bushfire affected regions and towns to support with economic recovery.

The Group recognises the influence of climate change on the frequency and severity of natural disasters, and the actions taken by the Group to manage and address climate risk are detailed in the *Environmental and social regulation, risk and opportunities* section of the Report of the Directors.

Governance and Accountability

NAB remains dedicated to building a culture that earns the trust of its customers and community. NAB is working to address weaknesses in its culture and governance identified in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) and APRA self-assessment.

Implementation of APRA self-assessment actions and Royal Commission Recommendations

In an update to the ASX on 11 November 2020, NAB detailed its implementation of self-assessment actions and progress to improve governance, accountability and culture.

The Board observed a stronger customer focus across the bank, and noted that under the leadership of Ross McEwan, NAB's refreshed strategy and new operating model are addressing the root causes of the failings identified through the self-assessment process.

NAB has continued to prioritise implementing the recommendations of the Royal Commission. NAB has completed seven recommendations and continues to progress the implementation of a further 32 recommendations. These include recommendations that have been completed to the extent possible but are pending further legislative, regulatory or industry guidance or are involved in consultation. Of the remainder, eight are not applicable to NAB and 29 do not currently require action.

Strategic Highlights

Accelerating our Strategy

In September 2020, the Group completed the three year acceleration of its strategy announced in November 2017, aimed at better positioning it for an environment of rapid and constant change. This involved a cumulative increase in investment spend over the three years of $1,671 million against a targeted increase of approximately $1.5 billion, taking total investment spend to approximately $4,671 million over that period, including MLC Wealth.

The increased investment spend was focused on improving customer experience with fewer, simpler products increasingly delivered via digital channels; enhancing efficiency with more streamlined and automated processes; developing a more responsive and resilient technology environment; and improving risk and compliance outcomes. Overall, solid progress was achieved as detailed below.

Best Business Bank

The Group invested in transforming its leading Australian Small and Medium Enterprise (SME) franchise to make it simpler and easier for customers. Key progress since September 2017 includes:
- Strengthened small business proposition with business customers migrated to a new customer service hub, open 7 days a week with extended operating hours.
- Improved digital and decisioning with the proportion of new small business lending accounts generated via the Quickbiz digital platform increasing from 14% to 43%, and enhanced resilience and customer experience of NAB Connect online banking.
- Revenue from bankers with industry specialisations or focus increased from 20% to 31%.
- Revenue per banker increased approximately 11% despite the impact of the low interest rate environment.
- While not yet complete, the Group continues to develop an end-to-end business lending process designed to deliver simpler, faster and safer outcomes for bankers and customers.

Simpler and Faster

The Group focused on delivering exceptional customer service with increased productivity and reduced complexity. Key progress since September 2017 includes:
- Number of products reduced by more than 30% from approximately 600 to 411.
- Over-the-counter branch transactions declined 47%.
- Simple consumer product sales via digital increased from 31% to 65%.
- IT applications reduced by 7% against a target of 15-20%, with the gap to target reflecting a push into microservices which increased applications count but creates more speed and flexibility.
- 38% of IT applications have been migrated to the cloud against a target of 35%, providing increased reliability and lower run-cost.
- Critical and high priority incidents decreased 70%.

Costs and productivity

Over the three years to September 2020, the Group achieved cumulative cost savings of $1,168 million against a target of greater than $1.0 billion. This resulted from simplifying and automating processes, reducing procurement and third party costs, and a flatter organisational structure.

The Group also outlined a target of achieving 'broadly flat' expenses (excluding large notable items) in both the financial years ended September 2019 and September 2020. This target was met in the financial year ended September 2019. For the financial year ended September 2020, expense

OPERATING AND FINANCIAL REVIEW (CONTINUED)

growth was 2% with the gap to target mostly due to restructuring-related costs associated with refreshing the Group’s strategy beyond September 2020 combined with lower than planned productivity in part reflecting COVID-19 related effects such as additional customer support and workout resources.

Over the three years to 30 September 2020, the Group undertook a reshaping of its workforce to allow it to deliver for customers. The Group targeted the creation of up to 2,000 new roles and a reduction of 6,000 existing roles as it further automated and simplified its business. Over the three year period, 3,997 roles were exited - below the target of 6,000. This primarily reflects additional hires in technology, operations and risk as the Group strengthened controls and resilience, combined with delayed restructuring activity and additional customer support and workout resourcing mostly in response to COVID-19 in the year ended September 2020. However, recommencement of restructuring activity from June 2020 relating to the Group's strategy refresh is expected to see approximately 550 further roles exited during the quarter ending December 2020. A total of 1,638 new roles were created over the three year period compared with the target of up to 2,000, with a focus in areas such as data and analytics, compliance and specific customer facing roles. In addition, the Group has added a further 1,697 roles through its strategic investment in insourcing technical expertise in areas such as network services and workplace technology, upskilling capabilities and providing improved flexibility and resilience at lower cost.

Long-term Strategy Refresh

In April 2020, the Group announced a refresh of its long term strategy. The refresh builds on progress achieved over the past three years in reducing complexity, uplifting digital capability and establishing strong foundations in technology. It also recognises the need to go further to create a simpler, more streamlined business with clear accountability, which is more productive, resilient and efficient.

The Group exists to serve customers well and help its communities prosper. To achieve this, the Group has narrowed its focus on a smaller number of key priorities which it believes will make a real difference to its customers and colleagues, and support over time its aim to be known as:

- Safe; protect customers and colleagues through financial and operational resilience.
- Easy; a simpler, more seamless and digitally enabled bank that gets things done faster.
- Relationship-led; building on market leading expertise, data and insights.
- Long-term; deliver sustainable outcomes for stakeholders.

The refreshed strategy recognises the Group’s strong portfolio of core banking businesses, with real strengths in relationship banking particularly in the SME sector. To allow the Group to increase its focus on this portfolio and to simplify, in August 2020 the sale of 100% of MLC Wealth to IOOF Holdings Ltd (IOOF) for $1,440 million was announced, which is also expected to create a stronger future for MLC Wealth through its combination with IOOF.

Other than the announced sale of MLC Wealth, there are no major changes planned in the Group’s portfolio, although the Group will continue to explore some smaller opportunities to optimise its portfolio and simplify its business by divesting non-core businesses. The Group also regularly assesses opportunities to acquire businesses that support the Group’s growth strategy. More significantly, there are important shifts in focus and priorities across the Group's existing businesses outlined below which are intended to drive growth and improve returns:

- Business and Private Banking will remain a key differentiator for the Group, with the objective of extending clear market leadership by investing in industry-leading bankers, enabled by data and insight capabilities, continued sector specialisation, increased focus on transactional banking and leveraging partnerships, combined with a more integrated high net worth offering. Importantly, the Group has also prioritised delivery of a simpler end-to-end business lending process.
- Personal Banking will invest in delivering radically simpler products and services, with digital-first propositions, flexible and professional bankers, easy customer experiences, simpler unsecured lending offers, and the delivery of simple home loans via a single mortgage experience.
- Corporate and Institutional Banking will continue its strategy of disciplined growth, with highly professional relationship managers and specialists, and leadership in infrastructure, investor and renewables sectors, with returns to be enhanced by further building out transactional banking and asset distribution capabilities.
- Bank of New Zealand intends to accelerate its portfolio shift towards SME and personal customer segments to deliver a simpler business with lower capital intensity, while also investing to create a step change increase in digital capability.
- The Group also recognises the opportunity to differentiate via UBank by investing in market leading digital experiences and new propositions to drive new customer acquisition.

Despite the challenges of the current environment, the Group has moved rapidly to implement its refreshed strategy.

A new customer-centric organisational structure has been embedded with clear end-to-end accountabilities, and the senior leadership team is now largely in place. The Group has a clear plan to achieve its key priorities including a discretionary investment spend program and specific commitments from each senior leader which will bring the strategy to life.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

A number of customer initiatives have been announced which support the Group's strategic objective of being easy to deal with. This includes the rollout of an online booking engine for home loan appointments available to customers via the NAB website, and customer information is now transferred automatically to home loan origination systems. A single home loan application experience across the retail network is being piloted by 50 bankers enabling them to provide customers with conditional loan approval within 30 minutes. The launch of the StraightUp card in September 2020 is another example. This is a simple credit card with online conditional approval available within 60 seconds, no interest, a fixed monthly fee and no other fees or charges.

The Group's recently announced partnership with Pollinate is expected to provide small business merchant customers with valuable real-time insights to help them better manage and grow their businesses including sales data, average transaction value, compare day periods and filter by payment type. Business customers are also set to benefit from merchant choice routing, which will be rolled out during the year ending September 2021, with one flat price of 1.15% on card transactions, replacing 10 separate pricing plans and enabling savings for businesses with contactless debit card payments automatically processed on the lowest cost network.

The Group is also investing in colleagues, with the rollout of Career Qualified in Banking, an education and accreditation program building skills and capability to best serve customers and to raise the bar of professionalism in the industry. In addition, a single Group-wide leadership program has been launched to ensure all colleagues can benefit from having great, consistent leadership.

The Group plans to implement its strategy refresh in the year ending September 2021 with annual investment spend of approximately $1.3 billion targeted. This includes regulatory spend to further enhance the safety and security of the Group's business, combined with discretionary investment spend focused on core projects including simplified home and business lending processes, simpler and digital transactional banking and payments, enhanced use of data and analytics, and continuing to improve technology resilience via insourcing and migration of applications to the cloud.

Over time, a simpler, more streamlined business with clear accountabilities is expected to be more productive and efficient, enabling better customer outcomes, more engaged colleagues and improved shareholder value. The Group will measure the success of its refreshed strategy according to four key metrics over three to five years:
- Colleague Engagement – top quartile
- Customer NPS – strategic NPS[1] first of major banks and positive
- Cash EPS growth – driven by market share growth in target segments while managing risk and pricing disciplines, and a disciplined approach to managing costs and investment with absolute costs (excluding large notable items) targeted to be lower relative to costs in the year ended September 2020 of $7.7 billion
- Return on Equity – targeting double digit cash ROE.

Balance sheet strength

Critical to the Group's success and ambition of being safe is balance sheet strength.

The Group remained well capitalised during the year to September 2020, with a Group CET1 ratio of 11.47% as at 30 September 2020. Completion of the MLC Wealth[2] sale is expected to add approximately 35 basis points (bps) of CET1.

Given the uncertain outlook resulting from COVID-19, the Group took a number of proactive steps during the year ended September 2020 to bolster its capital. These actions are intended to provide sufficient capacity to allow the Group to continue to support customers through the challenges presented by COVID-19, as well as manage through a range of possible scenarios including a prolonged and severe economic downturn. In combination, the actions outlined below added 98 bps to the Group's CET1 ratio:
- A fully underwritten Institutional Share Placement raising $3.0 billion.
- A non-underwritten Share Purchase Plan raising $1.25 billion.

The final dividend of 30 cents per share has been held stable with the 2020 interim dividend, bringing the total dividend for the year ended September 2020 to 60 cents per share. This represents a 64% reduction compared with the year ended September 2019 and reflects the uncertain outlook for COVID-19 impacts, APRA's revised dividend guidance and consideration of the Group's strong capital position.

The Group has maintained strong funding and liquidity through the year ended September 2020. The Net Stable Funding Ratio (NSFR) was 127% and the quarterly average Liquidity Coverage Ratio (LCR) was 139%, both above the APRA regulatory requirement of 100%.

While overall credit portfolio concentrations continue to be managed with reference to established Group risk appetite settings, COVID-19 presents a number of uncertainties and challenges to credit risk. In particular, the Group has identified four key sectors of interest which are receiving close oversight:
- Retail trade, particularly exposures reliant on discretionary spend.
- Tourism, hospitality and entertainment has been materially impacted by social distancing restrictions, and credit impacts will be dependent on length of continued shutdowns, speed of recovery and mitigating impacts of government support.

(1) Strategic NPS: Sourced from DBM Atlas, measured on a six month rolling average. Definition has been updated to give all customers within the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer and Business segment results using a 50% weighting for each.
(2) Expected completion before middle of calendar year 2021, subject to timing of regulatory approvals.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- Air travel and related services given ongoing disruption caused by COVID-19 related travel restrictions with length and severity unknown.
- Commercial property, where COVID-19 impacts remain uncertain but are likely to see short-term impacts on the retail and tourism sectors, and potential medium term impacts on the office sector.

On a cash earnings basis, credit impairment charges increased 201% over the year ended September 2020 and represent 0.46% of gross loans and acceptances. The key driver of this material increase in charges is $1,856 million of additional forward looking provisions to reflect potential COVID-19 impacts, of which $1,468 million is a top-up to the economic adjustment (EA) and $388 million is for targeted sectors experiencing elevated levels of risk including aviation, tourism, hospitality and entertainment, retail trade, and commercial property.

Total provisions for credit impairment increased 53.9% over the year to $6,376 million, and the ratio of collective provisions to credit risk-weighted assets increased from 0.96% to 1.56%.

The ratio of loans which are more than 90 days in arrears and impaired as a percentage of gross loans and acceptances increased over the year to September 2020 by 10 basis points to 1.03%, largely due to rising Australian mortgage delinquencies where customers were not part of the COVID-19 payment deferral program. Eligible customers receiving COVID-19 payment deferrals are treated as performing in accordance with regulatory guidance.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial Performance

	Group[1]					
	2020	Large[2] Notable Items	2020 ex Large Notable Items	2019	Large[2] Notable Items	2019 ex Large Notable Items
	$m	$m	$m	$m	$m	$m
Net interest income	**13,877**	**(49)**	**13,926**	13,555	(72)	13,627
Other income	**3,384**	**(80)**	**3,464**	3,980	(78)	4,058
Net operating income	**17,261**	**(129)**	**17,390**	17,535	(150)	17,685
Operating expenses	**(9,346)**	**(1,328)**	**(8,018)**	(8,263)	(612)	(7,651)
Credit impairment charge	**(2,752)**	**-**	**(2,752)**	(927)	-	(927)
Profit before income tax	**5,163**	**(1,457)**	**6,620**	8,345	(762)	9,107
Income tax expense	**(1,665)**	**434**	**(2,099)**	(2,440)	226	(2,666)
Net profit for the year from continuing operations	**3,498**	**(1,023)**	**4,521**	5,905	(536)	6,441
Net profit / (loss) after tax for the year from discontinued operations	**(935)**	**(357)**	**(578)**	(1,104)	(1,169)	65
Net profit for the year	**2,563**	**(1,380)**	**3,943**	4,801	(1,705)	6,506
Profit attributable to non-controlling interests	**4**	**-**	**4**	3	-	3
Net profit attributable to owners of NAB	**2,559**	**(1,380)**	**3,939**	4,798	(1,705)	6,503

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.
(2) Details of large notable items are outlined on page 15.

September 2020 v September 2019

Net profit attributable to owners of NAB (statutory net profit) decreased by $2,239 million or 46.7%.

Net interest income increased by $322 million or 2.4%, including an increase of $222 million which was offset by movements in economic hedges in other operating income and a decrease in customer-related remediation of $23 million in 2020. Excluding these movements, the underlying increase of $77 million or 0.6% was driven by the impact of repricing in the housing lending portfolio, growth in lending volumes, lower wholesale funding costs and a change in customer preferences towards lower cost on-demand deposits. These movements were partially offset by competitive pressures impacting housing lending margins, and lower earnings on deposits and capital due to the low interest rate environment, partially offset by an increase in capital held.

Other income decreased by $596 million or 15.0%, including a decrease of $222 million which was offset by movements in economic hedges in net interest income. The underlying decrease of $374 million or 9.4% was mainly due to lower merchant acquiring and cards income driven by the reduction in transaction volumes, and fee waivers to support customers during COVID-19. This was combined with lower NAB risk management income in Treasury due to lower level of mark-to-market gains on the high quality liquids portfolio, lower sales of interest rate risk management products and gains from asset sales in the prior period not repeated.

Operating expenses increased by $1,083 million or 13.1%. Excluding an increase of $716 million in large notable items, total operating expenses increased by $367 million or 4.8%. This was primarily due to an impairment loss relating to the Group's investment in MLC Life, higher restructuring-related costs, and increased personnel costs including annual salary increases and annual leave costs. Investment in technology, strengthening the compliance and control environment and improving customer experience, along with increased customer support costs in response to COVID-19 were partially offset by productivity benefits achieved through a reduction in third party spend and simplification of the Group's operations, combined with lower performance-based compensation and lower travel and entertainment costs as a result of COVID-19.

Credit impairment charge increased by $1,825 million driven primarily by an increase of $1,796 million in forward looking provisions as a result of COVID-19. Excluding forward looking provisions, charges are broadly stable due to the impact of COVID-19 payment deferrals and government stimulus.

Income tax expense decreased by $775 million or 31.8% largely due to a lower profit before tax.

Discontinued operations reflect the classification of MLC Wealth as a discontinued operation for the year ended 30 September 2020. Amounts relating to MLC Wealth include the business' operating results, large notable items attributable to MLC Wealth, an impairment loss of $199 million and transaction and separation costs amounting to $284 million before tax. The net loss attributable to MLC Wealth is partially offset by a reassessment of customer-related remediation in respect of MLC Life. The Group disposed of 80% of it's investment in MLC Life to Nippon Life Insurance Company (Nippon Life) in 2016.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Large Notable Items

	Group[1]	
	2020 $m	2019 $m
Net interest income		
Customer-related remediation	**(49)**	(72)
Other income		
Customer-related remediation	**(80)**	(78)
Net operating income	**(129)**	(150)
Operating expenses		
Customer-related remediation	**(136)**	(123)
Payroll remediation	**(108)**	-
Capitalised software policy change	**(950)**	(489)
Impairment of property-related assets	**(134)**	-
Loss before income tax	**(1,457)**	(762)
Income tax benefit		
Customer-related remediation	**80**	81
Payroll remediation	**32**	-
Capitalised software policy change	**282**	145
Impairment of property-related assets	**40**	-
Net loss for the year from continuing operations	**(1,023)**	(536)
Net loss after tax for the year from discontinued operations		
Customer-related remediation	**(269)**	(1,165)
Payroll remediation	**(14)**	-
Capitalised software policy change	**(74)**	(4)
Net loss attributable to owners of NAB	**(1,380)**	(1,705)

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.

In the September 2020 financial year, large notable items recognised in net profit attributable to owners of NAB consist of:

Customer-related remediation

- Charges associated with customer-related remediation matters of $185 million ($265 million before tax) in continuing operations (2019: $192 million ($273 million before tax)). The charges relate to banking-related matters including additional costs associated with executing the remediation programs for both existing and new matters.
- Charges associated with customer-related remediation matters of $269 million ($383 million before tax) in discontinued operations (2019: $1,165 million ($1,665 million before tax)). The charges are associated with matters including:
  - non-compliant advice provided to Wealth customers and costs associated with executing the program
  - adviser service fees charged by NAB Financial Planning (salaried advisers)
  - reassessment of provisions associated with MLC Life resulting in a release
  - other matters, including a higher allowance for ongoing liabilities associated with the existing Wealth remediation program.

Payroll remediation

- Charges associated with payroll remediation of $76 million ($108 million before tax) in continuing operations to address potential payroll issues relating to both current and former Australian colleagues, comprising payments to colleagues and costs to execute the remediation program.
- Charges associated with payroll remediation of $14 million ($20 million before tax) in discontinued operations relate to MLC Wealth for the reasons mentioned above.

Capitalised software policy change

- Accelerated amortisation charge of $668 million ($950 million before tax) in continuing operations following a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million. The change to the application of the software capitalisation policy made in the September 2019 financial year to increase the threshold from $0.5 million to $2 million resulted in an accelerated amortisation charge of $344 million ($489 million before tax).
- Accelerated amortisation charge of $74 million ($106 million before tax) in discontinued operations (2019: $4 million ($5 million before tax) relate to MLC Wealth for the reasons mentioned above.

Impairment of property-related assets

- Charges of $94 million ($134 million before tax) for the impairment of property-related assets. 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.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Review of Group and Divisional Results

	Group(1)	
	2020 $m	2019 $m
Business and Private Banking	**2,489**	2,817
Personal Banking	**1,380**	1,260
Corporate and Institutional Banking	**1,469**	1,508
New Zealand Banking	**977**	997
Corporate Functions and Other(2)	**(2,605)**	(729)
Cash earnings	**3,710**	5,853
Cash earnings (excluding large notable items)	**4,733**	6,389
Non-cash earnings items	**(212)**	52
Net loss from discontinued operations	**(939)**	(1,107)
Net profit attributable to the owners of NAB	**2,559**	4,798

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.
(2) Includes large notable items.

September 2020 v September 2019

Group

Cash earnings decreased by $2,143 million or 36.6%. Cash earnings excluding large notable items decreased by $1,656 million or 25.9%.

Business and Private Banking

Cash earnings decreased by $328 million or 11.6%, driven by lower revenue mainly due to the low interest rate environment, and higher operating expenses due to the continued investment in technology and compliance initiatives.

Personal Banking

Cash earnings increased by $120 million or 9.5%, driven by increased revenue as a result of home loan repricing and lower funding costs in the housing lending portfolio, combined with lower credit impairment charges and lower operating expenses.

Corporate and Institutional Banking

Cash earnings decreased by $39 million or 2.6%, driven by increased credit impairment charges and higher operating expenses, partially offset by increased revenue reflecting higher Markets income.

New Zealand Banking

Cash earnings decreased by $20 million or 2.0% driven by higher credit impairment charges, partially offset by lower operating expenses.

Corporate Functions and Other

The cash earnings loss increased by $1,876 million including an increase of $487 million in large notable items. Cash earnings loss (excluding large notable items) was driven by higher credit impairment charges and lower net operating income.

Group Balance Sheet Review

	Group	
	2020 $m	2019 $m
Assets		
Cash and liquid assets	**64,388**	55,457
Due from other banks	**52,351**	32,130
Trading instruments	**95,851**	96,828
Debt instruments	**40,355**	40,205
Other financial assets	**3,860**	7,110
Loans and advances	**582,485**	587,749
Due from customers on acceptances	**1,477**	2,490
All other assets	**24,319**	25,155
Assets held for sale	**1,479**	-
Total assets	**866,565**	847,124
Liabilities		
Due to other banks	**50,556**	34,273
Trading instruments	**30,021**	34,318
Other financial liabilities	**29,971**	33,283
Deposits and other borrowings	**546,176**	522,085
Bonds, notes and subordinated debt	**126,384**	143,258
Other debt issues	**6,191**	6,482
All other liabilities	**15,752**	17,821
Liabilities directly associated with assets held for sale	**221**	-
Total liabilities	**805,272**	791,520
Total equity	**61,293**	55,604
Total liabilities and equity	**866,565**	847,124

September 2020 v September 2019

Total assets increased by $19,441 million or 2.3%. The increase was mainly due to a net increase in cash and liquid assets and due from other banks of $29,152 million or 33.3% reflecting the Group's management of liquidity during the period. The increases were partially offset by a decrease in loans and advances (net of other financial assets and due from customers on acceptances) of $9,527 million or 1.6%, including an increase of $2,111 million in provision for credit impairments from additional forward looking provisions to reflect potential COVID-19 impacts, and other movements of $1,528 million predominantly due to foreign exchange rate movements during the period. Excluding these movements, the underlying decrease of $5,888 million or 1.0% reflects declines in housing lending from competitive pressures and negative investor housing system growth, and in non-housing driven by customers managing the impacts of COVID-19.

Total liabilities increased by $13,752 million or 1.7%. The increase was mainly due to deposits and other borrowings of $24,091 million or 4.6% reflecting existing customers managing the impacts of COVID-19 and amounts due to other banks of $16,283 million or 47.5% from draw downs of the Reserve Bank of Australia (RBA) Term Funding Facility. The increases were partially offset by a decrease in bonds, notes and subordinated debt and other financial liabilities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

of $20,186 million or 11.4% in line with Group funding requirements. Total equity increased by $5,689 million or 10.2% mainly due to an increase in contributed equity attributable to shares issued through the Institutional Share Placement, Share Purchase Plan, Dividend Reinvestment Plan (DRP), DRP underwritten allotments and conversion of convertible notes during the period.

Capital Management and Funding Review

Balance Sheet Management Overview

In the face of the significant economic challenges associated with the onset of COVID-19, the Group has maintained a strong capital and liquidity position consistent with our commitment to balance sheet strength.

Regulatory Reform

The Group remains focused on areas of regulatory change. Key reforms that may affect its capital and funding include:

'Unquestionably Strong' and Basel III Revisions

- The major Australian banks, including NAB, have been subject to APRA's 'unquestionably strong' target benchmark capital ratios since January 2020. APRA has suspended these requirements in response to COVID-19 until 1 January 2023. In suspending these requirements, APRA has indicated that banks may need to utilise some of the current capital buffers to facilitate ongoing lending to the economy. APRA has committed that any rebuild of capital buffers, if required, will be done in an orderly manner.
- APRA's consultation on revisions to the capital framework includes consideration of 'benchmarks for capital strength', 'risk sensitivity of the capital framework' and 'transparency, comparability and flexibility of the capital framework'. APRA has recently deferred the scheduled implementation of these prudential standards in Australia by one year to at least 1 January 2023, consistent with the Basel Committee on Banking Supervision (BCBS). The deferral supports Authorised Deposit-taking Institutions (ADIs) in maintaining operations and supporting customers in response to COVID-19. APRA has reiterated its view that ADIs currently hold sufficient capital to meet the new requirements.
- In October 2019, APRA proposed changes to the treatment of equity investments in subsidiaries (including BNZ) for the purpose of calculating Level 1 regulatory capital, expected to be implemented from 1 January 2022.
- APRA has also proposed a minimum leverage ratio requirement of 3.5% for internal ratings-based ADIs and a revised leverage ratio exposure measurement methodology from 1 January 2023. The Group has a leverage ratio as at 30 September 2020 of 5.8% (under current methodology).

Increased Loss-absorbing Capacity for ADIs

- In July 2019, APRA released its framework for the implementation of an Australian loss-absorbing capacity regime, requiring an increase in Total capital of 3% of risk-weighted assets (RWA) for Domestic Systemically Important Banks (D-SIBs) by 1 January 2024. APRA has maintained its overall target calibration of 4% to 5% of RWA, and will consult on alternative methods for raising the additional loss-absorbing capacity equal to 1% to 2% of RWA over the next three years.

Reserve Bank of New Zealand (RBNZ) Capital Review

- In December 2019, the RBNZ finalised its review of the capital adequacy framework applied to registered banks incorporated in New Zealand. The RBNZ amendments to the amount of regulatory capital required of locally incorporated banks include:
  - Increases in credit risk risk-weighted assets for banks that use the internal ratings-based approach due to an increase in the scalar, prescribed use of the standardised approach for banks and sovereign exposures, and the introduction of an overall minimum standardised floor.
  - An increase in the Tier 1 capital requirement to 16% of risk-weighted assets, and an increase in the Total capital requirement equal to 18% of risk-weighted assets.
- Due to significant uncertainties arising from the impacts of COVID-19, the RBNZ has delayed the start of the new capital requirements by one year to 1 July 2021. It is expected that the changes will be phased in over a seven year period.

Dividends

- In response to the impacts of COVID-19, the RBNZ and APRA have introduced restrictions on the payment of distributions:
  - The RBNZ has prohibited the payment of dividends on ordinary shares and the redemption of non- Common Equity Tier 1 (CET1) capital instruments.
  - APRA has advised that it expects that ADIs will retain at least half of their earnings for 2020. APRA has also confirmed that ADI's should utilise management buffers and stress testing to inform its capital management actions, and actively use capital management initiatives to at least partially offset any diminution in capital from distributions.
  - In each case, these regulatory restrictions remain in place and will apply until further notice.

Further detail on the regulatory changes impacting the Group was outlined in the September 2020 Pillar 3 Report.

Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. The capital adequacy objective seeks to ensure sufficient capital is held in excess of internal risk-based capital assessments and regulatory requirements, and is within the Group's balance sheet risk appetite. This approach is consistent across the Group's subsidiaries.

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and

OPERATING AND FINANCIAL REVIEW (CONTINUED)

regulatory outlook with the objective of maintaining balance sheet strength.

Additional Tier 1 Initiatives

- On 12 December 2019, the Group issued $500 million of NAB Wholesale Capital Notes, which will mandatorily convert into NAB Ordinary Shares on 12 December 2031, provided certain conditions are met. With prior written approval from APRA, NAB may elect to convert, redeem or resell NAB Wholesale Capital Notes on 12 December 2029, or on the occurrence of particular events, provided certain conditions are met.
- 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 17 July 2020, the Group issued $600 million of NAB Wholesale Capital Notes 2, which will mandatorily convert into NAB Ordinary Shares on 17 July 2027, provided certain conditions are met. With prior written approval from APRA, NAB may elect to convert, redeem or resell NAB Wholesale Capital Notes 2 on 17 July 2025, or on the occurrence of particular events, provided certain conditions are met.

Funding and Liquidity

The Group monitors the composition and stability of funding and liquidity through the Board approved risk appetite which includes compliance with the regulatory requirements of APRA's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. The NSFR is a metric that measures the extent to which assets are funded with stable sources of funding to mitigate the risk of future funding stress. At 30 September 2020, the Group's NSFR was 127%, above the regulatory minimum of 100%.

Another key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and the Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining term to maturity of greater than 12 months, including Term Funding Facility (TFF) drawdowns.

NAB's deposit strategy is to grow a stable and reliable deposit base informed by market conditions, funding requirements and customer relationships.

Over the year ended 30 September 2020, the SFI increased from 93% to 101%. The increase was driven by strong deposit inflows in line with system trends.

Term Funding Facility

On 19 March 2020, the RBA announced the establishment of a collateralised TFF for the Australian banking system to support ADIs in providing credit into the economy. Changes to extend and increase the TFF were announced on 1 September 2020, with a further change to the cost of the facility announced on 3 November 2020. The TFF provides ADIs with access to three-year funding, with an Initial Allowance and Supplementary Allowance based on total domestic credit outstanding and an Additional Allowance based on credit growth. Drawdowns on or before 3 November 2020 incurred a fixed cost of 0.25% per annum and drawdowns made from 4 November 2020 incur a fixed cost of 0.10% per annum.

NAB's total TFF available as at September 2020 was $25.4 billion, split between $14.3 billion of Initial Allowance and $11.1[1] billion of Additional Allowance. NAB drew down the full Initial Allowance of the TFF during the year ended 30 September 2020. The Supplementary Allowance is available from 1 October 2020 and for NAB is $9.6 billion. The Additional Allowance and Supplementary Allowance are available to be drawn down until 30 June 2021.

The TFF is an efficient source of three-year term funding, providing flexibility to manage refinancing and execution risk, while also reducing funding costs.

Term Wholesale Funding

The Group maintains a well-diversified funding profile across issuance type, currency, investor location and tenor.

Global funding conditions deteriorated significantly in late February following the onset of COVID-19. However, following significant central bank and government stimulus, onshore and offshore markets recovered rapidly to be broadly in line with pre-COVID levels. NAB was largely insulated from the impact of the significant widening of credit spreads during the year, having executed the majority of issuance prior to the time at which COVID-19 began to significantly disrupt the market. NAB only re- entered the market during the second half of the year for subordinated debt issuance once credit spreads had normalised.

The Group raised $15.0 billion of term wholesale funding during the year ended 30 September 2020. NAB raised $12.8 billion, including $5.6 billion senior unsecured, $5.3 billion of Tier 2 subordinated debt and $1.9 billion of secured funding (covered bonds). BNZ raised $2.2 billion during the year ended 30 September 2020.

The weighted average maturity of term wholesale funding raised by the Group at issuance, over the year ended 30 September 2020 was approximately 6.7[2] years to the first call date which was supported by the increase in Tier 2

(1) As at 2 November 2020, NAB's Additional Allowance has reduced to $4.2 billion.
(2) Weighted average maturity excludes Term Funding Facility drawdowns.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

subordinated debt issuance over the year. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.2[1] years.

Term funding markets will continue to be influenced by COVID-19 and other global events which shape investor sentiment, monetary and fiscal policy settings, as well as hedging costs in various derivative markets.

Short-term Wholesale Funding

During the year ended 30 September 2020, the Group accessed international and domestic short-term funding through wholesale markets when required, noting certain periods of increased volatility particularly associated with COVID-19 in March and April 2020.

In addition, repurchase agreements have been primarily utilised to support markets and trading activities. Repurchase agreements entered into (excluding those associated with the TFF) are materially offset by reverse repurchase agreements with similar tenors.

Liquidity Coverage Ratio

The LCR metric measures the adequacy of High Quality Liquid Assets (HQLA) available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario. HQLAs consist of cash, central bank reserves along with highly rated government and central bank issuance. In addition to HQLA, other regulatory liquid assets include the Committed Liquidity Facility (CLF) and the undrawn portion of the TFF.

The Group maintains a well-diversified liquid asset portfolio to support regulatory and internal requirements in the various regions in which it operates. The average value of regulatory liquid assets held through the September 2020 quarter was $199 billion and included $126 billion of HQLA. The increase in HQLA during 2020 was primarily driven by deposit inflows. The Group Alternative Liquid Assets (ALA) comprise pools of internally securitised mortgages, and other non-HQLA securities used to collateralise the CLF and the undrawn portion of the TFF with the RBA or are securities that are repo-eligible with the RBNZ. Quarterly average ALA for September 2020 was $73 billion and comprises unencumbered assets available to the CLF of $51 billion, undrawn TFF amounts of $20 billion and RBNZ securities of $2 billion.

A detailed breakdown of quarterly average net cash outflows is provided in the September 2020 Pillar 3 Report.

Credit Ratings

Entities in the Group are rated by S&P Global Ratings, Moody's Investors Service and Fitch Ratings.

Dividends

The directors have determined a final dividend of 30 cents per fully paid ordinary share, 100% franked, payable on 10 December 2020. The proposed payment amounts to approximately $987 million. The Group periodically adjusts the Dividend Reinvestment Plan (DRP) to reflect the capital position and outlook. In respect of the final dividend for the year ending 30 September 2020, the DRP discount is nil, with no participation limit, and the DRP is expected to be satisfied by the issuance of new shares.

Dividends paid since the end of the previous financial year:
- The final dividend for the year ended 30 September 2019 of 83 cents per fully paid ordinary share, 100% franked, paid on 12 December 2019. The payment amount was $2,393 million.
- The interim dividend for the year ended 30 September 2020 of 30 cents per fully paid ordinary share, 100% franked, paid on 3 July 2020. The payment amount was $895 million.

Information on the dividends paid and determined to date is contained in *Note 29 Dividends and distributions* of the financial statements. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%. New Zealand imputation credits have also been attached to the dividend at a rate of NZ$0.09 per share. Franking is not guaranteed. The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

Review of, and Outlook for, the Group Operating Environment

Global Business Environment

The global economy has sharply contracted in calendar year 2020, with the fall in output exceeding any decline since the early 1950s.

The contraction in economic activity has been broad-based globally, driven largely by measures introduced to counter COVID-19. The fall in activity was most substantial over March and April with the main exception of China, where it occurred earlier.

In response to the global downturn, authorities reduced policy rates and introduced a range of other measures, including bank funding programs, asset purchases and loan guarantees to support the flow of credit. In addition, governments introduced a broad range of fiscal programs to support businesses and households. These fiscal programs will increase public debt levels, generating longer term risk. The unwinding of these programs also presents near term risk if done too rapidly.

An economic recovery commenced in the third quarter of calendar 2020, however there remain significant risks around the global outlook. COVID-19 outbreaks remain uncontrolled in a number of countries, and there remains the risk of additional outbreaks – which could impact

(1) Weighted average maturity excludes Term Funding Facility drawdowns.

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household demand and business activity, regardless of whether governments reintroduce countermeasures.

In addition, trade tensions between the United States and China have re-emerged, threatening a resumption of the economically damaging trade war. Other geopolitical risks include uncertainty around the European Union (EU) and UK relationship post the current transition period, tensions between Hong Kong and mainland China, and uncertainty around the Middle East and the South China Sea.

Australian Economy

The Australian economy fell into recession with a 7.2% fall in GDP between the end of calendar 2019 and the June quarter 2020. The decline was mainly in the June quarter, which experienced the largest recorded quarterly fall. This was due to COVID-19 and the associated community response and government restrictions on movement and business operations.

The decline over the first half of calendar year 2020 was concentrated in private sector demand, including:

- An extremely large decline in household consumption, particularly in services such as transportation, hospitality, recreation, and health.
- Falls in residential dwelling and business investment.
- Large falls in both exports and imports, particularly in international tourism.

In contrast, government spending increased in the first half of calendar 2020 partly due to COVID-19 policy measures, including support to households and businesses. As a result, household disposable income over the first half of calendar 2020 increased, including a more than 20% increase in unincorporated businesses earnings, and corporate profits increased by 12%. Additional measures to support the economy were announced in the October 2020 Federal government Budget.

In the June quarter 2020, final demand fell in all states and territories, with the largest falls occurring in NSW and Victoria (over 8%). By industry, there were very large falls in the gross value added of many sectors, particularly accommodation and food, arts and recreation, transport, administrative and support, and real estate services.

Agricultural prices have been mixed, but higher overall this year while seasonal conditions are also much better than last year. Increases in tariffs, trade restrictions and other non-trade barriers by China on some Australian commodities are a concern.

GDP is expected to increase in the September quarter 2020, with most states and territories having eased restrictions internally, although the growth rate will be constrained by the reintroduction of restrictions in Victoria within the quarter. While substantially eased by late October, these restrictions are also likely to weigh on December quarter growth. Due to the large fall in the first half of the year, GDP is expected to decline in calendar 2020. Assuming COVID-19 transmission remains under control, and that there is a relaxation of state border controls by the end of calendar 2020, a gradual recovery is then projected over calendar 2021. Even so, a return to the end-calendar 2019 level of GDP is not expected until early-calendar 2022.

The large decline in economic activity led to a deterioration in the labour market, although there has been a partial recovery since May 2020:

- Employment fell by 6.7% between February and May, and total hours worked by 10%. By September, around 50% of the jobs lost had been recovered.
- Between February and July, the unemployment rate increased from 5.1% to 7.5% but in September was 6.9%.

After growing solidly between September 2019 and April 2020, dwelling prices in Australian capital cities have since fallen. The eight capital city CoreLogic Hedonic Home Value Index declined in each month between April and September, by a total of 2.8%:

- This was primarily due to falls in Melbourne (-5.2%) and Sydney (-2.9%). Prices also fell over this period in Perth (-2.0%) and Brisbane (-0.5%) but had stabilised by the end of it.

Annual total system credit growth has slowed. Over the year to September 2020 system credit rose 2.0% with:

- A large fall in other personal credit (-12.5%).
- Steady housing credit growth (3.3%). While business credit grew 2.0% over the year to September, it declined in each month from May to September.

Since the beginning of March 2020, the RBA has reduced the cash rate target by 65 basis points to 0.10% and has moved to targeting the yield of 3 year Australian Government bonds (current target is 0.10%) and introduced the TFF. In November, the RBA also announced a six-month $100 billion government bond purchase program (QE) which is in addition to any purchases made to support the 3 year yield target. At its November meeting, the RBA also indicated that it does not expect to increase the cash rate target for at least three years.

New Zealand Economy

New Zealand entered into recession in the first half of calendar 2020, with GDP declining by 1.4% in the March quarter and by 12.2% in the June quarter. This was due to COVID-19 and the containment measures that were put in place in response. Over these two quarters:

- There were large falls in household consumption, business and residential investment, trade (particularly services), while government expenditure increased.
- By industry, accommodation and food services production fell by 51%, transport by over 40%, while mining, construction, administrative and support services, arts and recreation and some manufacturing sub-sectors declined by over 20%.

The New Zealand Activity Index indicates that the fall in output occurred over March and April 2020 but that an easing in containment measures between late April and early June led to a rebound in activity. In August, restrictions were tightened, particularly in Auckland, and

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several economic indicators weakened subsequently, such as electronic card transactions. These restrictions started to be eased in late August and the country was back to the lowest alert level by early October.

In March 2020, the RBNZ reduced the Official Cash Rate (OCR) by 75 basis points to 0.25% and stated it would remain at this level for at least 12 months. It also instituted the Large Scale Asset Purchase Program of Government bonds (LSAP). Since March the RBNZ has, amongst other actions, expanded the scope and size of the LSAP and introduced a Term Lending Facility for banks. The RBNZ is considering further measures, including a Funding for Lending Programme to lower bank funding costs and a negative OCR.

In response to the pandemic, the New Zealand Government provided significant fiscal support, including payments and tax relief for households and businesses, health care and infrastructure spending. The extent and duration of future fiscal support, and developments in COVID-19 transmission in the community, are two of the key risks to the outlook.

Border restrictions have disrupted the tourism industry. By April 2020 the number of short-term visitor arrivals and departures had collapsed. Since March 2020 there has also been a substantial decline in net migration which will have implications for housing and other sectors if sustained.

A strong rebound in GDP is expected in the September quarter 2020. However, this will be partly due to pent-up demand and as this and fiscal supports unwind, and the impact of border restrictions becomes more evident, activity is expected to fall back in the final quarter of calendar 2020. Annual average GDP growth is expected to be -4.9% in calendar year 2020, and 1.6% in calendar 2021. GDP is not expected to return to its pre-COVID-19 peak until mid-calendar-2022.

While the global economy has also been significantly impacted by COVID-19, New Zealand's commodity prices, with their large agriculture weighting, have not moved significantly:

- In September 2020, commodity export prices in world price terms were 3.0% lower than in September 2019, and only 1.5% lower than in February 2020.
- This includes a fall in international dairy export prices of 8.4% since February 2020. Fonterra's 2019/20 farmgate milk price was NZ$7.14 per kg milk solids while a possibly lower, but still solid, result is expected (NZ$6.30-7.30) for the 2020/21 season.

Housing market conditions initially dipped as COVID-19 containment measures were put in place but subsequently rebounded strongly:

- The REINZ's House Price Index fell over April and May, but then grew strongly through to September 2020 to be 11.1% higher than a year ago.

Labour market indicators have been resilient, but there has been some deterioration:

- Between the March quarter 2020 and September quarter 2020, the unemployment rate increased from 4.2% to 5.3% while employment fell 1.1%.
- Total hours worked fell 10.2% in the June quarter 2020, but recovered in the September quarter to be only 1.8% below their March quarter level.

Overall system credit grew 3.1% over the year to September 2020, down from 5.6% annual growth in the same month a year ago.

- This weakening in credit growth was due to falls in business credit (including agriculture) following the downturn in the economy (-1.1% over the year to September 2020) and personal consumer credit (-11.7%).
- Annual housing credit growth has held up (6.8%).

Outlook

The outlook for the Group's financial performance and outcomes is closely linked to the levels of economic activity in each of the Group's key markets that are outlined above.

Disclosure on Risk Factors

Risks specific to the Group

Set out below are the principal risks and uncertainties associated with National Australia Bank Limited (the Company) and its controlled entities (the Group). It is not possible to determine the likelihood of these risks occurring with any certainty. However, the risk in each category that the Company considers most material is listed first, based on the information available at the date of this Report and the Company's best assessment of the likelihood of each risk occurring and the potential magnitude of the negative impact to the Group should such risk materialise. In the event that one or more of these risks materialise, the Group's reputation, strategy, business, operations, financial condition and future performance could be materially and adversely impacted.

The Group's Risk Management Framework and internal controls may not be adequate or effective in accurately identifying, evaluating or addressing risks faced by the Group. There may be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known or material. These may individually, or in aggregate, adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Strategic Risk

Strategic risk is the risk associated with the pursuit of the Group's strategic objectives, including the risk that the Group fails to execute its chosen strategy effectively or in a timely manner.

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Strategic initiatives may fail to be executed, may not deliver all anticipated benefits and may change the Group's risk profile.

The Group's corporate strategy sets its purpose, ambition and objectives.

The Group prioritises, and invests significant resources in, the execution of initiatives that are aligned to its chosen strategy, including transformation and change programs. These programs focus on technology, digital and data assets, infrastructure, business improvement and cultural transformation. There is a risk that these programs may not realise some or all of their anticipated benefits. These programs may also increase operational, compliance and other risks, and new or existing risks may not be appropriately controlled. Any failure by the Group to deliver in accordance with its strategy or to deliver these strategic programs effectively, may result in material losses to the Group, or a failure to achieve anticipated benefits, and ultimately, may materially and adversely impact the Group's operations and financial performance and position.

The Group faces intense competition.

There is substantial competition across the markets in which the Group operates. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating and business models. In addition, evolving industry trends, rapid technology changes and environmental factors (such as COVID-19) may impact customer needs and preferences and the Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to meet customer expectations and keep pace with competitors. This risk is heightened in the current context where the Group must prioritise responses to new regulation, identified weaknesses and initiatives to support customers through the COVID-19 pandemic.

The Australian Federal Government (the Australian Government) passed legislation in August 2019 to establish a 'Consumer Data Right' which seeks to improve consumers' ability to compare and switch between products and services. The Consumer Data Right is being introduced in the banking sector in phases. It began to apply to credit and debit cards, deposit accounts and transaction accounts on 1 July 2020. It will expand to a wider range of products, including mortgages and personal loan data, from 1 November 2020. These reforms (referred to as 'Open Banking') are expected to reduce the barriers to new entrants into, and increase competition in, the banking industry in Australia. Progress is also being made towards Open Banking in New Zealand (NZ), which, similarly, is expected to increase competition in the NZ banking industry.

Ongoing competition for customers can lead to compression in profit margins and loss of market share, which may ultimately impact the Group's financial performance and position, profitability and returns to investors.

The Group's sale of its advice, platforms, superannuation & investments and asset management businesses is conditional and there are risks in executing the sale.

As announced on 31 August 2020, the Group has agreed to sell its advice, platforms, superannuation & investments and asset management businesses to IOOF Holdings Ltd (IOOF) (the MLC Wealth Transaction). Completion of the MLC Wealth Transaction is subject to a number of conditions, including regulatory approvals and availability of IOOF funding. If these conditions are not met, the transaction may not complete and the business will remain with the Group. Timing of completion will depend on a number of factors, including receipt of regulatory approvals and execution of business separation activities.

The Group will incur costs associated with completing the MLC Wealth Transaction. If the MLC Wealth Transaction does not complete for any reason, including a failure to satisfy conditions, the Group will still incur costs that it is unable to recover and such failure may adversely affect the Group's reputation, operations and financial results.

The Company 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. The Company also provided covenants and warranties in favour of IOOF. A breach or triggering of these contractual protections may result in the Company being liable to IOOF.

The Company 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. The advice business is proposed to be transferred by way of an asset sale, with aligned advisors being offered to transfer to IOOF from completion. There is a risk that not all advisors will transfer to IOOF, and the Company will be liable for the costs of exiting any non-transferring advisors.

From completion, the Company has agreed to provide IOOF with certain transitional services and continuing access to records, as well as support for data migration activities. There is a risk that costs associated with separation activities and the costs incurred by the Company in satisfying its obligations under these agreements may be higher than anticipated. The Company may also be liable to IOOF if it fails to perform its obligations under these agreements. If these costs are higher than expected, or if the Company fails to perform its obligations in accordance with the relevant agreements, there may be an adverse impact on the Group's financial performance and position.

On completion, the MLC Wealth Transaction will result in the Group exiting a financial services market and accordingly will decrease the size of the Group's operations.

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This will have a consequential impact on the Group's revenues and potentially its profitability and returns to investors.

The agreed purchase price that IOOF has agreed to pay comprises $1,240 million in cash proceeds and $200 million in the form of a five-year structured subordinated note. Under the terms of the note, the Group's ability to collect the $200 million due thereunder will be subject to credit risks associated with IOOF, the issuer of the note, and the related subordination terms of the note and there is no guarantee that the Group receives the consideration due thereunder.

In addition, the MLC Wealth Transaction, and the execution of its separation, may create risks and uncertainty for the Group and its customers, aligned advisers, employees, suppliers and other counterparties.

Risks may arise from pursuing acquisitions and divestments.

The Group regularly considers a range of corporate opportunities, including acquisitions, divestments, joint ventures and investments.

Pursuit of corporate opportunities inherently involves transaction risks, including the risk that the Group over-values an acquisition or investment or under-values a divestment, as well as exposure to reputational damage. The Group may encounter difficulties in integrating or separating businesses, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. These risks and difficulties may ultimately have an adverse impact on the Group's financial performance and position.

The Group may incur unexpected financial losses following an acquisition, joint venture or investment if the business it invests in does not perform as planned or causes unanticipated changes to the Group's risk profile. Additionally, there can be no assurance that customers, employees, suppliers, counterparties and other relevant stakeholders will remain with an acquired business following the transaction and any failure to retain such stakeholders may have an adverse impact on the Group's overall financial performance and position.

The Group may also have ongoing exposures to divested businesses, including through a residual shareholding, the provision of continued services and infrastructure or an agreement to retain certain liabilities of the divested businesses through warranties and indemnities, which may have an adverse impact on the Group's business and financial performance and position.

In particular, specific risks exist in connection with the sale of 80% of MLC Limited, the Company's life insurance business (separate to the MLC Wealth Transaction described in Section 1.3), to Nippon Life Insurance Company (Nippon Life) in 2016. The Company gave certain covenants, warranties and indemnities in favour of Nippon Life and MLC Limited, a breach or triggering of which may result in the Company being liable to Nippon Life or MLC Limited.

The parties also entered into long-term agreements for the offer and promotion of life insurance products and the continued use of the MLC brand by MLC Limited. The duration and nature of these agreements give rise to certain risks, including that changes in the regulatory or commercial environment impact the commercial attractiveness of these agreements. These agreements also limit future opportunities for the Company through non-compete arrangements.

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including the provision of transitional services, as well as support for data migration activities and the development of technology systems. As this work is yet to be completed, there is a risk that implementation costs may ultimately prove higher than anticipated. The Company may also be liable to MLC Limited or Nippon Life if it fails to perform its obligations in accordance with the agreements relating to these matters. If implementation costs are higher than expected, or if the Company fails to perform its obligations in accordance with the relevant agreements, there may be an adverse impact on the Group's financial performance and position.

Credit Risk

Credit risk is the risk that a customer will fail to meet its obligations to the Group in accordance with agreed terms. Credit risk arises from both the Group's lending activities and markets and trading activities.

The economic impact of COVID-19 is extremely uncertain, but it has increased credit risk across the Group's portfolio.

COVID-19 has created economic and financial disruptions that have adversely affected, and will continue to adversely affect, the Group's business, financial condition, liquidity and results of operations. The extent of these continuing negative effects will depend on future developments, which are highly uncertain and cannot be predicted. Increased credit risk can result in both an increase in losses when customers default on their loan obligations and higher capital requirements through an increase in the probability of default.

The global economy is predicted to contract in 2020, due in large part to measures implemented to address COVID-19. Various regions in several countries have been forced to reintroduce measures to control fresh outbreaks, highlighting the high degree of uncertainty to the outlook. The functioning of financial markets in many countries has also been impaired by increased volatility and negative investor sentiment, adding to the risk of a larger and longer economic downturn. This may create credit risk for the Group, both in the short and long-term.

In Australia and globally, measures to control the spread of COVID-19, including restrictions on public gatherings, business closures and travel and trade restrictions have had,

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and may continue to have, a substantial negative impact on economic and business activity due to a range of factors including reduced trade flows and lower commodity prices. Certain sectors, including discretionary retail, hospitality, commercial property and air travel, have experienced, or are expected to experience, significant financial stress. This includes a heightened risk of corporate and business bankruptcies, a rise in unemployment and an increase in household financial stress. This combination of factors has introduced additional credit risk for the Group.

There is a continuing risk that the economic consequences of COVID-19, including supply disruptions caused by global and domestic containment efforts, may become more severe and far-reaching across the economy, leading to a more widespread downturn in business and economic activity. This would likely result in a significant loss of revenue for many businesses across a wide range of industry sectors, in turn potentially leading to further increased unemployment and customer defaults. The Group's commercial property, air travel, discretionary retail, tourism and hospitality portfolios would be significantly impacted in such a scenario, as would the Group's exposure to households, given the potential for higher unemployment to coincide with lower house prices.

Some of the Group's assets and liabilities comprise financial instruments that are carried at fair value, with changes in fair value recognised in the Group's income statement. Recent market declines and increased volatility could negatively impact the value of such financial instruments and cause the Group to incur losses.

Globally, governments (including Australia and NZ) have introduced fiscal stimulus packages to counter the negative impacts of the current economic downturn. The unwinding of these stimulatory policies presents downside risk to economies in the near-term, with the potential to exacerbate existing negative effects on businesses and households. In the longer term, governments may take measures to address the additional debt burden generated by these policies. The extent to which these packages mitigate and / or defer the economic impact, including any credit losses the Group may incur, is uncertain.

In response to COVID-19, the Group has established a range of accommodations and measures designed to support its personal and business customers. The decision by the Group to provide customers impacted by the COVID-19 pandemic the option of suspending or deferring certain loan repayments may lead to an increase in the level of credit risk related losses. These accommodations and measures, while supporting the Group's customers, may result in the Group assuming a greater level of risk than it would have under ordinary circumstances. This in turn may have a negative impact on the Group's business, results of operations, financial condition and prospects and may negatively impact the Group's net interest margin. As these accommodations and measures are scaled back or potentially removed, there may be a further increase in the credit risks facing the Group, as well as a negative impact on customer sentiment towards the Group and the banking sector generally. In the longer term, asset values may start to deteriorate if a large proportion of retail and business customers liquidate their investments, either during, or immediately after, the crisis or due to a decrease in demand for these assets. In both scenarios loan-to-value ratios are expected to be impacted.

The duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy remain unclear. Even after the pandemic subsides, the Australian economy, as well as most other major economies, may continue to experience a recession and unemployment may rise further. A prolonged recession in Australia and other major regions has the potential to negatively impact debt servicing levels, increase customer defaults and materially adversely impact the Group's financial performance and position, and its profitability.

A decline in property market valuations may give rise to higher losses on defaulting loans.

Lending activities account for most of the Group's credit risk. The Group's lending portfolio is largely based in Australia and NZ. Residential housing loans and commercial real estate loans constitute a material component of the Group's total gross loans and acceptances. The social and economic impacts of the spread of COVID-19 and the measures in place to control it, have the potential to drive a material decline in residential property prices due to, among other things, increased unemployment in Australia and NZ. The full negative impact of the COVID-19 pandemic may be delayed, in part, by governmental support measures and other actions that the Group and other financial institutions have taken, for example permitting loan payment deferrals in certain cases. In addition, there are a number of other potential factors in the medium term that may drive reductions in residential property prices. These factors include regulatory changes which may impact the availability of credit, reduced immigration and overseas investment, changes to taxation policy and rising unemployment. If these factors materialise, the declining value of the residential property used as collateral (including in business lending) may give rise to greater losses to the Group resulting from customer defaults, which, in turn, may impact the Group's financial performance and position, profitability and returns to investors. The most significant impact is likely to be experienced by residential mortgage customers in high loan-to-value-ratio brackets. This risk could be further compounded by a more severe downturn.

Adverse business conditions in Australia and NZ, particularly in the agriculture sector, may give rise to increasing customer defaults.

The Group has a large market share among lenders to the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. Volatility in commodity prices, milk prices, foreign exchange rate movements, disease and introduction

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of pathogens and pests, export and quarantine restrictions and supply chain constraints, extreme weather events, increasing weather volatility and longer-term changes in climatic conditions arising from climate change, may negatively impact these sectors. This may result in increased losses to the Group from customer defaults, and ultimately may have an adverse impact on the Group's financial performance and position.

Climate change and extreme climate patterns may lead to increasing customer defaults and may decrease the value of collateral.

Credit risk may arise as a result of climate change, including from:

- Extreme weather, increasing weather volatility and longer-term changes in climatic conditions affecting property and asset values or causing customer losses due to damage, existing land use ceasing to be viable, and / or interruptions to business operations and supply chains.
- The effect of new laws, regulations and government policies designed to mitigate climate change.
- The impact on certain customer segments as the economy transitions to renewable and low-emissions technology.

This may lead to increased levels of customer default in affected business sectors. The impact of this on the Group may be exacerbated by a decline in the value and liquidity of assets held by the Group as collateral in these sectors, which may impact the Group's ability to recover its funds when loans default.

For example, parts of Australia are prone to, and have recently experienced, physical climate events such as severe drought conditions and bushfires, notably over summer 2019/2020. The impact of these can be widespread, extending beyond primary producers to customers who are suppliers to the agricultural sector, and to those who reside in, and operate businesses within, impacted communities. Extreme weather events and long-term changes in climate across Australia may have similar impacts on other business sectors. Decreasing investor appetite and customer demand for carbon intensive products and services may give rise to transition risks and negatively impact revenue and access to capital for some businesses. These physical and transition risk impacts may increase current levels of customer defaults, thereby increasing the credit risk facing the Group and adversely impacting the Group's financial performance and position, profitability and returns to investors.

The Group's losses may differ materially from its provisions, which may impact its financial performance and position.

The Group provides for expected losses from loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the assumptions upon which these assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions which pose a credit risk.

The majority of the Group's businesses operate in Australia and NZ, with branches currently located in Asia, the United Kingdom (UK) and the United States (US). Levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial market conditions and forecasts most relevant for the Group in Australia and NZ, but also in the global locations in which the Group operates.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates; cost and availability of capital; central bank intervention; inflation and deflation rates; level of interest rates; yield curves; market volatility; and uncertainty. Deterioration in any of these factors may lead to the following negative impacts on the Group:

- Increased cost of funding or lack of available funding
- Deterioration in the value and liquidity of assets (including collateral)
- Inability to price certain assets
- An increase in customer or counterparty default and credit losses
- Higher provisions for credit impairment
- Mark-to-market losses in equity and trading positions, including the Company's high-quality liquid asset portfolios
- Lack of available or suitable derivative instruments for hedging purposes
- Lower growth in business revenues and earnings
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

Economic conditions may also be negatively impacted by climate change and major shock events, such as natural disasters, epidemics and pandemics (such as the ongoing COVID-19 pandemic), war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

The following macro-economic and financial market conditions are currently of most relevance to the credit risk facing the Group, and may give rise to slower revenue growth and / or increasing customer defaults:

- Central banks, including the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ), eased monetary policy and provided liquidity to markets in response to COVID-19 related economic downturn, with advanced economies essentially exhausting their conventional policy measures (with the RBA cutting the cash rate to 0.1% in November 2020). Any further policy easing may involve additional asset purchases (quantitative easing) or other unconventional policy

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tools that may adversely affect the Group's cost of funds, the value of the Group's lending and investments, and margins. Policy easing would be expected to reduce short-term downside risks to growth, but has the potential to build on existing imbalances in various asset classes and regions. Policy easing may also reduce the impetus for highly geared borrowers to deleverage thereby increasing the credit risk posed to the Group by these highly geared customers.

- As a key trading partner, China's economic growth is important to Australia and NZ, with export income and business investment exposed to any sharp slowdown in the rapid pace of Chinese economic growth. Following the negative economic impact of COVID-19 countermeasures in the first quarter of 2020, China's economy is expected to record its weakest growth in 2020 since 1976. China's high and growing debt burden presents a risk to its medium-term growth prospects. Political tensions between the Australian and Chinese governments have increased in recent years. Due to its export mix, Australia's economy is exposed to any sudden downturn in China's domestic investment in business, infrastructure or housing, as well as changes to trade policy (as exhibited by recent trade restrictions on a range of commodities including coal, barley, beef and wine). This may have a negative impact on the Group's customers who are exposed to these sectors and may give rise to increasing levels of customer defaults.
- Phase One of the 'Economic and Trade Agreement Between the United States of America and the People's Republic of China' (Phase One Agreement) was signed in January 2020. Despite this, the bulk of the tariffs imposed by both countries remain in place and continuing trade and other tensions remain which present additional uncertainty and pose risks to global economic growth. Although China is the primary target of US trade measures, value chain linkages mean that other emerging markets, primarily in Asia, may also be impacted. A number of East Asian economies are major trading partners of Australia and NZ, and accordingly a negative impact on their economies may increase the credit risk facing the Group.
- Geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. An increasing fragmentation of, and a rise in populism in, many major democratic economies have led to difficulties in policy implementation and an increase in anti-globalisation sentiment. Protests in Hong Kong during 2019 and 2020 highlight increased global political tensions with the Hong Kong Special Administrative Region and the People's Republic of China. As the UK and European Union have yet to agree on the terms of their relationship post the current transition period, the prospect of an economically damaging 'hard' Brexit remains a risk. In addition, there are a range of other geopolitical risks, particularly given the ongoing uncertainty around the Middle East, the Korean Peninsula and the South China Sea.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income tax receipts and exchange rates. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Commodity price volatility remains substantial and given the Group's sizeable exposures to commodity producing and trading businesses, this volatility poses a significant source of credit risk to the Group.

Market Risk

The Group may suffer losses as a result of a change in the value of the Group's positions in financial instruments or their hedges due to adverse movements in market prices. Adverse price movements impacting the Group may occur in credit spreads, interest rates, foreign exchange rates, and commodity and equity prices, in particular during periods of heightened market volatility or reduced liquidity. Since March 2020, global financial markets have become more volatile due to the impact of COVID-19. The full economic impact of COVID-19 remains uncertain.

The Group is exposed to market risk.

Credit spread risk is the risk of the Group's trading book being exposed to movements in the value of securities and derivatives as a result of changes in the perceived credit quality of the underlying company or issuer. Credit spread risk accumulates in the Group's trading book when it provides risk transfer services to customers seeking to buy or sell fixed income securities (such as corporate bonds). The Group may also be exposed to credit spread risk when holding an inventory of fixed income securities in anticipation of customer demand or undertaking market-making activity (i.e. quoting buy and sell prices to customers) in fixed income securities. The Group's trading book is also exposed to credit spread risk through credit valuation adjustments. A widening of credit spreads could negatively impact the value of the Credit Valuation Adjustment.

Interest rate risk is the risk to the Group's financial performance and capital position caused by changes in interest rates. The Group's trading book is exposed to changes in the value of securities and derivatives as a result of changes in interest rates. The Group's trading book accumulates interest rate risk when the Group provides interest rate hedging solutions for customers, holds interest rate risk in anticipation of customer requirements or undertakes market-making activity in fixed income securities or interest rate derivatives.

The occurrence of any event giving rise to a material trading loss may have a negative impact on the Group's financial performance and financial position.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Balance sheet and off-balance sheet items can create an interest rate risk exposure within the Group. As interest rates and yield curves change over time, including negative interest rates in certain countries in which the Group operates, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. Such exposure may arise from a mismatch between the maturity profile of the Group's lending portfolio compared to its deposit portfolio (and other funding sources), as well as the extent to which lending and deposit products can be repriced as interest rates approach zero or become negative, thereby impacting the Group's net interest margin.

Foreign exchange and translation risk arise from the impact of currency movements on the value of the Group's cash flows, profits and losses, and assets and liabilities due to participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates which gives rise to foreign currency exposures, including through the repatriation of capital and dividends. The Group's businesses may therefore be affected by a change in currency exchange rates, and movements in the mark-to-market valuation of derivatives and hedging contracts.

The Group's financial statements are prepared and presented in Australian dollars, and any adverse fluctuations in the Australian dollar against other currencies in which the Group invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

Funding, Liquidity and Capital Risk

The Group is exposed to funding and liquidity risk.

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its business, in addition to using customer deposits. Dislocation in capital markets, reduced investor interest in the Group's securities and / or reduced customer deposits, may adversely affect the Group's funding and liquidity position, increase the cost of obtaining funds or impose unfavourable terms on the Group's access to funds, constrain the volume of new lending, or adversely affect the Group's capital position.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operational expenses and taxes. The Group must also comply with prudential and regulatory liquidity obligations across the jurisdictions in which it operates. Any significant deterioration in the Group's liquidity position may lead to an increase in the Group's funding costs, constrain the volume of new lending, result in the Group drawing upon its committed liquidity facility with the RBA or cause the Group to breach its prudential or regulatory liquidity obligations. This may adversely impact the Group's reputation and financial performance and position.

The Group's capital position may be constrained by prudential requirements.

Capital risk is the risk that the Group does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital is the cornerstone of the Group's financial strength. It supports an authorised deposit-taking institution's (ADI's) operations by providing a buffer to absorb unanticipated losses from its activities.

The Group must comply with prudential requirements in relation to capital across the jurisdictions in which it operates. Compliance with these requirements and any further changes to these requirements may:

- Limit the Group's ability to manage capital across the entities within the Group
- Limit payment of dividends or distributions on shares and hybrid instruments
- Require the Group to raise more capital (in an absolute sense) or raise more capital of higher quality
- Restrict balance sheet growth.

In response to the impacts of COVID-19, the Australian Prudential Regulation Authority (APRA) has outlined its expectations for ADIs in relation to the payment of dividends during this period of disruption. In its July 2020 guidance, APRA advised banks to maintain caution in planning capital distributions. Specifically, APRA expects that ADIs will retain at least half their earnings in 2020 and actively use other capital management initiatives. In addition, RBNZ has prohibited the payment of dividends on ordinary shares by NZ-incorporated registered banks and has stated that those banks should not redeem non-Common Equity Tier 1 (CET1) capital instruments (other than on a stated final maturity date), until the economic outlook has sufficiently recovered, which prevents the Company's NZ subsidiary, Bank of New Zealand (BNZ), from paying dividends, which has a negative impact on the Group's Level 1 CET1 capital ratio. Additionally, if the information or the assumptions upon which the Group's capital requirements are assessed prove to be inaccurate, this may adversely impact the Group's operations, financial performance and financial position.

A significant downgrade in the Group's credit ratings may adversely impact its cost of funds and capital market access.

Credit ratings are an assessment of a borrower's creditworthiness and may be used by market participants in evaluating the Group and its products, services and securities. Credit rating agencies conduct ongoing review activities, which can result in changes to credit rating settings and outlooks for the Group, or sovereign

OPERATING AND FINANCIAL REVIEW (CONTINUED)

jurisdictions where the Group conducts business. Credit ratings may be affected by operational and market factors, or changes in the credit rating agency's rating methodologies.

On 7 April 2020, Fitch Ratings (Fitch) downgraded the major Australian banks, including the Company, from "AA-" to "A+", with a negative outlook. Fitch also made a corresponding downgrade to the long-term and short-term issuer default ratings of the major NZ banks, including BNZ. On 21 May 2020, Fitch revised the outlook of Australia's long-term issuer default rating to negative from stable. On 8 April 2020, S&P Global Ratings (S&P) revised its outlook for the major Australian banks, including the Company, reflecting a revision in the outlook for Australia from stable to negative. It reaffirmed the long-term and short-term issuer credit ratings of the Company at "AA-" and "A-1+" respectively. S&P also made a corresponding revision to the outlook of the major NZ banks, including BNZ. The Group faces the risk of further revisions or downgrades should economic and credit conditions continue to deteriorate.

A downgrade in the credit ratings or outlook of the Group, the Group's securities, or the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's cost of funds or limit access to capital markets. This may also cause a deterioration of the Group's liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers may also adversely impact the Group's competitive position and financial performance and position.

The Group may fail to, or be unable to, sell down its underwriting risk.

As financial intermediaries, members of the Group underwrite or guarantee different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and the Group may therefore be exposed to potential losses, which may be significant, if it fails to sell down some or all of this risk to other market participants.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic and reputation risk.

There are reputational implications inherent in the Group operations due to the range of customers, products and services the Group provides and the multiple markets and channels these products and services are delivered through.

The Group's workforce has been and may continue to be impacted by COVID-19. The Group takes all reasonable steps to protect its colleagues and customers. However, there is no certainty that all the precautions the Group has taken to protect its colleagues and customers will be adequate or appropriate. It is difficult to predict the extent to which each colleague's ability to provide customer support and service and maintain their own health will be affected over an extended period.

Disruption to technology may adversely impact the Group's reputation and operations.

Most of the Group's operations depend on technology, and therefore the reliability, resilience and security of the Group's (and its third-party vendors') information technology systems and infrastructure are essential to the effective operation of its business and consequently to its financial performance and position. The reliability and resilience of the Group's technology may be impacted by the complex technology environment, failure to keep technology systems up-to-date, an inability to restore or recover systems and data in acceptable timeframes, or a physical or cyber-attack.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand expose the Group to changing operational scenarios.

Any disruption to the Group's technology (including disruption to the technology systems of the Group's external providers) may be wholly or partially beyond the Group's control and may result in operational disruption; regulatory enforcement actions; customer redress; litigation; financial losses; theft or loss of customer data; loss of market share; loss of property or information; or may adversely impact the Group's speed and agility in the delivery of change and innovation.

In addition, any such disruption may adversely affect the Group's reputation, including the view of regulators or ratings agencies, which may result in loss of customers, a reduction in share price, ratings downgrades and regulatory censure or penalties. Social media commentary may further exacerbate such adverse outcomes for the Group and negatively impact the Group's reputation.

Privacy, information security and data breaches may adversely impact the Group's reputation and operations.

The Group processes, stores and transmits large amounts of personal and confidential information through its technology systems and networks. Threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated.

Although the Group invests in protecting the confidentiality and integrity of this information, the Group may not always be able to anticipate a security threat, or be able to implement effective information security policies, procedures and controls to prevent or minimise the resulting damage. The Group uses select external providers (in Australia and overseas) to process and store confidential data and to develop and provide its technology services, including the increasing use of cloud infrastructure.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

A breach of security at any of these external providers or within the Group may result in operational disruption, theft or loss of customer data, a breach of privacy laws, regulatory enforcement actions, customer redress, litigation, financial losses, or loss of market share, property or information. This may be wholly or partially beyond the control of the Group and may adversely impact its financial performance and position.

In addition, any such event may give rise to increased regulatory scrutiny or adversely affect the view of ratings agencies. Social media and responses to the relevant event may exacerbate the impact on the Group's reputation.

Deficient policies, processes, controls, infrastructure and models give rise to a significant risk to the Group's operations.

The Group's business involves the execution of many processes and transactions with varying degrees of complexity. The Group is reliant on its policies, processes, controls and supporting infrastructure functioning as designed, along with third parties appropriately managing their own operational risk and delivering services to the Group as required. A failure in the design or operation of these policies, processes, controls and infrastructure, failure of the Group to manage external service providers, or the disablement of a supporting system all pose a significant risk to the Group's operations and consequently its financial performance and reputation.

Models are used extensively in the conduct of the Group's business, for example, in calculating capital requirements or customer compensation payments and measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect the Group's customers and the Group's financial performance and position.

The Group is exposed to the risk of human error.

The Group's business, including the internal processes and systems that support in business decisions, relies on inputs from its employees, agents and third-party vendors. The Group is exposed to operational risk due to process or human errors including incorrect or incomplete data capture and records maintenance, incorrect or incomplete documentation to support activities, or inadequate design of processes or controls. The Group uses select external providers (in Australia and overseas) to provide services to the Group and is exposed to similar risks arising from such failures in the operating environment of its external providers. The materialisation of any of these risks could lead to direct financial loss, loss of customer, employee or commercially sensitive data, regulatory penalties and reputational damage.

The Group may not be able to attract and retain suitable personnel.

The Group is dependent on its ability to attract and retain key executives, colleagues and Board members with a deep understanding of banking and technology, who are qualified to execute the Group's strategy, as well as the technology transformation the Group is undertaking to meet the changing needs of its customers. Weaknesses in employment practices, including diversity, discrimination and workplace health and safety, are sources of operational risk that can impact the Group's ability to attract and retain qualified personnel with the requisite knowledge, skills and capability.

The Group's capacity to attract and retain key personnel is dependent on its ability to design and implement effective remuneration structures. This process may be constrained by regulatory requirements (particularly in the highly regulated financial services sector), as well as investor expectations, which may be somewhat disparate.

The unexpected loss of key resources or the inability to attract personnel with suitable experience may adversely impact the Group's ability to operate effectively and efficiently, or to meet the Group's strategic objectives.

External events may adversely impact the Group's operations.

Operational risk can arise from external events such as biological hazards, climate change, natural disasters or acts of terrorism.

External events include epidemics or pandemics, such as the outbreak of COVID-19, which has interrupted the usual operations of the Group, its customers and suppliers. This disruption has resulted in the activation of the Group's Crisis Management Team and implementation of the Group's continuity plan to protect the health, safety and well-being of its customers and colleagues. The steps taken include alternate work locations and arrangements being implemented for Group colleagues, a decreased reliance on property infrastructure, and an increased reliance on mobile technology and business process changes to support customers, colleagues and suppliers and ensure continuity of the Group's business operations. These operational changes could lead to direct financial loss or impact the Group's ability to operate effectively and efficiently. No assurance can be given that the steps being taken will be adequate nor can the Group predict the level of further disruption which may occur.

The Group is monitoring the situation closely as the domestic and global business environment changes and it is unclear how this will evolve or for how long the Group will continue to operate under its continuity plan. Other epidemics or pandemics may arise in future which may again activate a crisis response causing disruption to the Group's operations.

The Group has branches in regional areas in Australia that are prone to seasonal natural disasters, including fires and floods.

In addition, the Group has branches and office buildings in NZ, which have experienced significant earthquakes and

OPERATING AND FINANCIAL REVIEW (CONTINUED)

aftershocks in recent years, and which may be exposed to the risk of future earthquakes.

Given the Group's physical presence in major cities in Australia, NZ and other countries where it has, or is intending to establish, offshore operations, it may also be exposed to the risk of a terrorist attack.

External events such as extreme weather, natural disasters, biological hazards and acts of terrorism may cause property damage and business disruption, which may adversely impact the Group's financial performance. In addition, if the Group is unable to manage the impacts of such external events, it may lead to reputational damage and compromise the Group's ability to provide a safe workplace for its personnel.

The environment the Group is operating in has become more complex and more uncertain and could create operational risks that are yet to be identified.

Compliance Risk

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives.

The Group may be involved in a breach or alleged breach of laws governing bribery, corruption and financial crime.

Supervision, regulation and enforcement of anti-bribery and corruption, anti-money laundering, counter-terrorism financing, and international sanctions laws (collectively referred to as 'AML/CTF') has increased. In June 2018, Australia's financial intelligence agency, the Australian Transaction Reports and Analysis Centre (AUSTRAC), reached an agreement with another major Australian bank for a $700 million penalty relating to serious breaches of AML/CTF laws. In September 2020, AUSTRAC and a different major Australian bank agreed to the Australian bank paying a civil penalty of $1.3 billion in relation to proceedings alleging significant breaches of AML/CTF laws.

The Group has reported a number of AML/CTF compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. The Group is currently investigating and remediating a number of AML/CTF compliance issues and weaknesses and should further breaches be identified, the Group would expect to report those to regulators in accordance with its normal processes. The potential outcome and total costs associated with the investigations and remediation processes for specific issues identified to date, and for any issues identified in future, remain uncertain. A negative outcome to any investigation or remediation process may adversely impact the Group's reputation, business operations, financial position and results. Further, given the large volume of transactions that the Group processes, the undetected failure of internal AML/CTF controls, or the ineffective implementation or remediation of compliance issues, could result in a significant number of breaches of AML/CTF obligations and significant monetary penalties for the Group.

Refer to *Note 30 Contingent liabilities and credit commitments* of the financial statements under the heading '*Regulatory activity, compliance investigations and associated proceedings - Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) program uplift and compliance issues*' for more information.

Ensuring compliance with laws and regulations that apply to the Group is complex and costly.

The Group is highly regulated and subject to various regulatory regimes which differ across the jurisdictions in which it operates, trades and raises funds.

Ensuring compliance with all applicable laws is complex. There is a risk the Group will be unable to implement the processes and controls required by relevant laws and regulations in a timely manner, or that the Group's internal controls will prove to be inadequate or ineffective in ensuring compliance. There is also a potential risk of misinterpreting new or existing regulations. Any failure to comply with relevant laws and regulations may have a negative impact on the Group's reputation and financial performance and position, and may give rise to class actions, regulatory enforcement or litigation.

In addition, there is significant cost associated with the systems, processes, controls and personnel required to ensure compliance with applicable laws and regulations. Such costs may negatively impact the Group's financial performance and position.

Failure to comply with laws or regulatory requirements may expose the Group to class actions.

There have been a number of domestic and international firms facing high profile regulatory enforcement actions for alleged instances of non-compliance with laws or regulatory requirements. In some cases, class actions have been brought in respect of the matters that these enforcement actions relate to.

In particular, class actions have been commenced against the Group in respect of two matters that were referred to APRA by the Royal Commission, regarding the conduct of the Group's superannuation trustee, NULIS Nominees (Australia) Ltd (NULIS). In October 2019, litigation funder Omni Bridgeway (formerly IMF Bentham) and William Roberts Lawyers commenced a class action against NULIS alleging breaches of NULIS's trustee duties relating to the maintenance of grandfathered commissions following a successor fund transfer in 2016. In January 2020, Maurice Blackburn commenced a class action against NULIS and MLC Nominees (MLCN) alleging breaches of trustee obligations in connection with the speed of the transfer of members' accrued default amounts to the MySuper product. The potential outcome and total costs associated with these matters remain uncertain.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Company is also involved in class action proceedings in the UK with respect to the sale of tailored business loans through its former UK subsidiary, and it has been involved in class action litigation in the US in respect of alleged conduct relating to the Bank Bill Swap Reference Rate (BBSW), alongside other major Australian and international banks. In February 2020, all claims against the Company in relation to the BBSW matter were dismissed but this decision could potentially be appealed or reconsidered. Refer to *Note 30 Contingent liabilities and credit commitments* of the financial statements under the heading *'Legal proceedings'* for more information.

It is possible that class actions may arise against members of the Group in relation to allegations of which the Group is currently aware or other matters of which it is not yet aware. Any class action may impact the Group's reputation, divert management time from operations and affect the Group's financial performance and position, profitability and returns to investors.

The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect.

Preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. A higher degree of judgement is required for the estimates used in the calculation of provisions (including for customer-related remediation and other regulatory matters), the determination of income tax, the valuation of financial assets and liabilities (including fair value and credit impairment of loans and advances), the valuation of goodwill and intangible assets, and the presentation of discontinued operations. Changes in the methodology or assumptions on which the assessment of goodwill and intangible balances is based, together with expected changes in future cash flows (including changes flowing from current and potential regulatory reforms), could result in the potential write-off of a part or all of that goodwill or intangible balances.

If the judgements, estimates and assumptions used by the Group in preparing financial statements are subsequently found to be incorrect, there could be a significant loss to the Group beyond that anticipated or provided for, which may adversely impact the Group's reputation, and financial performance and position.

The Group may be exposed to litigation and contingent liabilities.

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be estimated with any certainty.

Following an investigation into payments of both current and former Australian colleagues, a review has identified a range of potential payroll under and over payments issues. A remediation program has been established and provisions have been taken but the final outcome and total costs associated with this matter remain uncertain.
There are also a number of ongoing regulatory investigations and court proceedings involving the Group. These include matters relating to: the provision of financial advice; the inappropriate charging of fees for services; selling practices and advice in relation to consumer credit insurance products. Where appropriate, provisions are held for litigation matters, regulatory and internal investigations based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. As with other accounting judgements, risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. There is inherent uncertainty regarding the possible outcome of any court proceedings involving the Group. It is also possible that further class actions, regulatory investigations, civil or criminal proceedings or the imposition of new licence conditions could arise in relation to these matters or other matters of which the Group is not yet aware.

Certain of these regulatory investigations and proceedings relate to matters examined or commented on by the Royal Commission. In particular, ASIC commenced civil proceedings against members of the Group in relation to two issues that were examined by the Royal Commission. The first concerned the Company's 'Introducer Program', in respect of which ASIC alleged that the Company engaged in credit activities with unlicensed persons in contravention of the NCCP Act. On 19 October 2020, the Federal Court delivered its judgment in relation to this matter, imposing a civil penalty of $15 million on the Company. The second relates to alleged breaches in respect of ongoing service arrangements and fee disclosure statements, with clients of NAB Financial Planning between 2013 and 2019. A Statement of Agreed Facts and Admissions was filed in October 2020, with the Company agreeing certain contraventions of the fee disclosure regime, some liability for misleading or deceptive conduct and false or misleading representations, as well as breaches of financial services laws. The potential outcome and total costs associated with this matter remains uncertain.

A negative outcome to regulatory investigations or litigation involving the Group may divert management time from operations and adversely impact the Group's reputation, and financial performance and position. Refer to *Note 30 Contingent liabilities and credit commitments* of the financial statements for details in relation to certain legal proceedings and contingent liabilities which may impact the Group.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Conduct Risk

Conduct risk is the risk that any action of the Group, or those acting on behalf of the Group, will result in unfair outcomes for any of the Group's customers.

The Group is heavily reliant on its employees, contractors and external suppliers acting in an appropriate and ethical way.

Organisational culture can greatly influence individual and group behaviours which can expose an organisation and lead to unfair customer outcomes. The behaviours that could expose the Group to conduct risk include:

- Selling, providing or unduly influencing customers to purchase or receive products or services that may not meet their existing needs or that place the customer at risk of future hardship.
- Being a party to fraud.
- Non-adherence to applicable requirements or providing financial advice which is not appropriate or in the customers' interests.
- Delays in appropriately escalating regulatory and compliance issues.
- Failure to resolve issues and remediate customers in a timely manner.
- Failure to deliver on product and service commitments.
- Failure to remediate business processes and stop reoccurrence in a timely manner.

In addition, events such as COVID-19, can result in rapid changes to the internal and external business environment and subsequent changes to business processes to support customers. This may impact both the likelihood and the consequence of unfair outcomes to customers, including through decisions and actions where the trade-offs or tail risks may not be immediately apparent or quantifiable. The Group is making significant efforts to support its customers in an appropriate way during the COVID-19 pandemic including through regular customer communication and redeployment of colleagues into customer-facing roles. However, no assurance can be given that the steps being taken will not have unintended consequences in the future or that they will meet the future expectations of the Group's regulators. The Group cannot predict the level of further disruption which may occur.

If the Group's conduct related controls were to fail significantly, be set inappropriately, or not meet legal, regulatory or community expectations, then the Group may be exposed to:

- Increased costs of compliance, fines, additional capital requirements, public censure, loss of customer confidence, class actions and other litigation, settlements and restitution to customers or communities.
- Increased supervision, oversight or enforcement by regulators or other stakeholders.
- Unenforceability of contracts such as loans, guarantees and other security documents.
- Enforced suspension of operations, amendments to licence conditions or loss of licence to operate all or part of the Group's businesses.
- Other enforcement or administrative action or agreements, including legal proceedings.

A failure of the Group's conduct controls to accurately reflect relevant legal, regulatory or community expectations may adversely impact the Group's reputation, financial performance and position, profitability, operations and returns to investors.

Regulatory Risk

Regulatory risk is the risk of failing to identify or appropriately respond to changes to the regulatory environment or of damaging the Group's standing with its regulators as a result of the Group not meeting regulatory expectations.

Extensive regulatory change poses a significant risk to the Group.

Globally, the financial services and banking industries are subject to a significant and increasing level of regulatory reviews and political scrutiny, including in Australia, NZ and other countries where the Group has, or is intending to establish, offshore operations. Changes to laws and regulations or their interpretation and application can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates.

Regulatory change may result in significant capital and compliance costs, changes to the Group's corporate structure and increasing demands on management, colleagues and information technology systems. This may also impact the viability of the Group's participation in certain markets or require the divestment of a part of the Group's business.

The Royal Commission made a considerable number of recommendations. The Australian Government has committed to take action on all of the recommendations and has announced further commitments to address issues raised in the final report of the Royal Commission. Some commitments have been actioned by the Australian Government and regulators, and others are in progress or subject to consultation. The Australian Government has also committed to an accelerated timeframe for introducing the legislative changes required to give effect to the recommendations, although it has deferred the implementation of these commitments for six months as a result of the regulatory challenges created by COVID-19. These legislative and regulatory changes are likely to impact the operations of the Group as considerable resources will be required to be redirected towards the timely implementation of such changes. The challenges may be exacerbated given the redirection of resources required to address customer needs through the COVID-19 pandemic and the possible detrimental impact on the Group's ability to embed regulatory change. The timeframe for

OPERATING AND FINANCIAL REVIEW (CONTINUED)

implementation combined with the complexities created by the COVID-19 pandemic may increase the risk associated with the timely implementation of these changes.

Further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the Australian and New Zealand Governments, which, depending on their scope, findings and recommendations, may adversely impact the Group.

Other reviews and regulatory reforms currently relevant to the Group which present a potential regulatory risk include:

- APRA's various reforms in relation to loss-absorbing capacity. These include the requirement, due to be implemented by 1 January 2024, that Domestic Systemically Important Banks (D-SIBs) such as the Company, increase total capital by 3% of risk weighted assets (RWA). This is expected to be satisfied primarily through the issue of additional Tier 2 Capital. In addition, APRA intends to consult on a target of additional capital amounting to a further 1-2% of RWA. The Group's funding costs are expected to increase due to the higher cost of Tier 2 Capital issuance relative to senior debt.
- APRA's final revisions to the credit risk management framework for ADIs (released in December 2019) include broadening requirements for credit risk management practices; revising credit standards; and aligning asset classification and provisioning with the Basel Committee on Banking Supervision's recent accounting standard changes and guidance; although noting that APRA has deferred the commencement date to 1 January 2022 in response to COVID-19.
- The RBNZ released its capital requirements for NZ banks in December 2019. The final capital requirements include: an increase to RWA for internal ratings based banks such as the Company's subsidiary, BNZ, to approximately 90% of what would be calculated under the standardised approach; an increase in the CET1 capital requirement equal to 13.5% of RWA (including a prudential capital buffer of 9% of RWA) for banks deemed systemically important (which includes BNZ); an increase in the Tier 1 capital requirement equal to 16% of RWA for banks deemed systemically important; and an increase in the Total Capital requirement equal to 18% of RWA for banks deemed systemically important. Due to significant uncertainties arising from the impacts of COVID-19, the RBNZ has delayed the start of the new capital requirements by 12 months – to 1 July 2021, after which it is expected that the changes will be phased in over a seven-year period. Some aspects of the framework (including the detailed regulatory requirements to be included in the capital standards) are still to be confirmed in consultations expected to take place in 2021. It also remains unclear the extent to which APRA will incorporate aspects of the RBNZ's capital requirements as part of its review of the Australian capital framework. The ultimate impact on the Group will depend on various factors, including BNZ's balance sheet size over the implementation period, and the potential mitigating actions undertaken.
- The major Australian banks (including the Company) have been subject to APRA's 'unquestionably strong' target benchmark capital ratios since January 2020, although noting the temporary suspension of these requirements in response to COVID-19. APRA has recently confirmed its intention to restart public consultations on select policy reforms, including in relation to ADI capital reform, although the implementation of revised prudential standards in relation to the risk-weighting framework and other capital requirements has been suspended until at least 1 January 2023. Implementation of these requirements may require the Group to hold additional capital. In addition, regulators in a number of countries in which the Company operates are recommending limits on, or restrictions to, capital distributions as a result of COVID-19.
- In 2018 and 2019, the NZ Financial Markets Authority and RBNZ undertook a review of conduct and culture in the financial services industry. Alongside industry-wide recommendations released as a result of the review, further specific findings were provided to individual NZ banks (including BNZ) in November 2018. The review led to the NZ Government introducing the Financial Markets (Conduct of Institutions) Amendment Bill to the NZ Parliament in December 2019 to create an oversight and licensing regime for regulating conduct in the banking, non-bank deposit taking and insurance sectors. The bill was initially expected to be passed by the end of 2020, but this timeframe may be delayed as a result of COVID-19.
- The Australian Banking Executive Accountability Regime (BEAR) applies to the Group. On 22 January 2020, the Australian Government Treasury released its proposal paper on a new Financial Accountability Regime (FAR). This regime has been developed in response to a number of Royal Commission recommendations and is intended to extend and replace BEAR. The FAR legislation was initially expected to be introduced by the end of 2020 (although implementation may be phased), and is likely to include new prescribed responsibilities, additional accountability obligations, and increased maximum civil penalties for the Group and its accountable persons. The timeframe for implementation of FAR may be delayed as a result of COVID-19.
- The Australian Government directed the Australian Competition and Consumer Commission (ACCC) to undertake an inquiry into home loan pricing. The ACCC is investigating a wide range of issues, including the rates paid by new and existing customers, impediments to customer switching, how the cost of financing for banks has affected interest rate decisions and the interaction between home loan pricing and rate-setting by the RBA. An interim report on this topic was provided to the Australian Government on 27 April 2020 and a final report on this topic is due to the Australian Government on 30 November 2020.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

- Other material regulatory changes include new requirements for the design and distribution of financial products, responsible lending reforms, and the implementation of the Consumer Data Right (known as 'Open Banking'). Open Banking's regulatory timelines require significant changes to the Group's operations and technology. There is a risk that the Group does not achieve compliance with the set milestones for the complete implementation of Open Banking. Open Banking may also lead to cyber and fraud risks in the Consumer Data Right ecosystem. Governance mechanisms including accountabilities, controls and frameworks are still evolving and, under the Open Banking regime, customer data will be shared with a broader range of stakeholders. The significant resources and management time required to implement Open Banking may also have a flow-on effect, impacting the Group's timely implementation of other regulatory reforms.
- There are a number of other ongoing or proposed regulatory changes and inquiries relevant to the Group, such as changes to the Group entities eligible for inclusion in the Level 1 group for prudential supervisory purposes; operational resilience; market abuse or conduct related regulations; changes to financial benchmarks; derivatives reform; replacement of the Reserve Bank of New Zealand Act 1989 (NZ); payments; data protection and privacy laws; data quality; competition inquiries; financial crime legislation; increasing modern slavery, climate and other sustainability risk related regulatory and reporting requirements, accounting and financial reporting requirements; and tax reform.
- Additionally, continued regulator focus on COVID-19 related impacts (such as loan deferrals) has resulted in temporary changes to a number of regulatory and associated regulatory reporting requirements.

The full scope, timeline and impact of current and potential inquiries and regulatory reforms such as those mentioned above, or how they will be implemented (if at all in some cases), is not known. The challenges raised by COVID-19 have caused a number of regulators to postpone or suspend planned policy and supervision initiatives, public consultations and the implementation dates of a number of regulatory reforms.

The impact of COVID-19 on the Group's operations may result in delays in its ability to implement regulatory change. The extent of any delays will be dependent on how regulators choose to adjust the prioritisation, timing and deployment of their supervisory mandate or legislative change.

Depending on the specific nature of the regulatory change requirements and how and when they are implemented or enforced, they may have an adverse impact on the Group's business, operations, structure, compliance costs or capital requirements, and ultimately its reputation, and financial performance and position.

There is a risk of the Group failing to deliver on commitments made to its regulators and to the public or otherwise damaging its relationship with regulators.

In response to the Royal Commission, the Group has made certain commitments to regulators and the public to change the way it operates. In November 2019, the Group published an update to the market on progress against actions related to self-assessment on governance, accountability and culture and recommendations arising from the Royal Commission. The Group provides periodic updates to regulators and the public on its progress in implementing these actions, recommendations from the Royal Commission or representations given to its regulators. The impact of COVID-19 may result in delays to the Group's delivery on any of these commitments.

If the Group does not deliver on the matters identified in its self-assessment, fails to deliver on its public commitments following the Royal Commission, or otherwise fails to comply with the representations or voluntary commitments it makes to the public or to its regulators, this may negatively impact the Group's reputation. Such reputational damage may adversely impact the Group's ability to attract and retain customers or colleagues in the short and long-term. It may also result in a higher risk premium being applied to the Group, and impact the cost of funding the Group's operations, or its financial performance and position.

The enforcement approach of the Group's principal regulators has changed, resulting in a greater risk of enforcement actions.

A number of measures were recommended by the Royal Commission to improve the effectiveness and oversight of ASIC and APRA in deterring, and imposing appropriate penalties for, misconduct. These included a recommendation for ASIC to change its approach to enforcement, with a focus on instigating court actions in relation to conduct matters where a breach of law is more likely than not, and the matter is in the public interest. Accordingly, the Group may be exposed to greater risk of enforcement action by its primary regulators ASIC and APRA, which may result in the imposition of civil or criminal penalties on the Group. The issuing of any such enforcement action, and any subsequent imposition of penalties, may negatively impact on the Group's reputation and financial performance and position.

DIRECTORS' INFORMATION

Directors

Details of NAB directors in office at the date of this report (or holding office during the year), and each director's qualifications, experience and other directorships and interests are below.

The Board acknowledges that directors benefit from being involved in a broad range of governance roles provided directors have the capacity to devote sufficient time and effort to fulfil their NAB responsibilities. The Chairman, with the assistance of the Nomination & Governance Committee, has determined each director meets this requirement.

Mr Philip Chronican
BCom (Hons), MBA (Dist), GAICD, SF Fin
Age: 64

Term of office: Non-executive director since May 2016. Chairman of the Board and Chairman of the Board's Nomination & Governance Committee since 15 November 2019. Mr Chronican served as interim Group CEO from 1 March 2019 to 14 November 2019.

Independent: Yes

Skills & Experience: Mr Chronican has more than 38 years of experience in banking and finance in Australia and New Zealand. Mr Chronican was responsible for the Retail and Commercial business of the Australia and New Zealand Banking Group Limited (ANZ) in Australia. Prior to joining ANZ, Mr Chronican had a long career at Westpac Banking Corporation, where he established his role in Australian banking as Group Executive Westpac Institutional Bank and Chief Financial Officer.

Mr Chronican has broad experience in M&A activity and post-merger integration, and has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity.

Mr Chronican's other directorships and interests include The Westmead Institute for Medical Research (Chairman) and the National Foundation for Australia-China Relations Advisory Board (Member).

Mr Ross McEwan CBE
BBus
Age: 63

Term of office: Group Chief Executive Officer and Managing Director of National Australia Bank Limited since December 2019.

Independent: No

Skills & Experience Mr McEwan has more than 30 years of experience in the finance, insurance and investment industries. Mr McEwan is a senior global financial services executive with deep experience in international markets and long-standing knowledge of the Australian banking environment. Mr McEwan also has extensive experience in leading organisations through significant change and recovery. Prior to joining NAB, Mr McEwan held executive roles at the Royal Bank of Scotland as CEO UK Retail from 2012 to 2013 and Group CEO from 2013 to 2019. Mr McEwan's experience includes executive roles at Commonwealth Bank of Australia, First NZ Capital Securities and National Mutual Life Association of Australasia / AXA New Zealand.

Mr McEwan is a Director of The Financial Markets Foundation for Children.

Mr David Armstrong
BBus, FCA, MAICD
Age: 62

Term of office: Non-executive director since August 2014. He is Chairman of the Board's Audit Committee and a member of the Board's Risk & Compliance Committee.

Independent: Yes

Skills & Experience: Mr Armstrong has more than 30 years of experience in professional services, including as a partner at PricewaterhouseCoopers (PwC). Mr Armstrong has significant knowledge and understanding of banking and capital markets, real estate and infrastructure and is well-versed in the reporting, regulatory and risk challenges faced by the industry.

Mr Armstrong's other directorships and interests include The George Institute for Global Health (Chairman), Opera Australia Capital Fund Limited, Australian Museum (President) and Lizard Island Reef Research Foundation.

Ms Kathryn Fagg AO
FTSE, BE(Hons), MCom(Hons)
Age: 59

Term of office: Non-executive director since December 2019. Member of the Board's Audit Committee and Risk & Compliance Committees.

Independent: Yes

Skills & Experience: Ms Fagg has more than 25 years of senior commercial and operational experience and is a respected and experienced director and Chairman, with extensive leadership experience across a range of industries, including banking. Ms Fagg has been a board member of the Reserve Bank of Australia and held executive roles with Linfox Logistics, Bluescope Steel and ANZ. Ms Fagg has a deep understanding of strategy, leadership,

DIRECTORS' INFORMATION (CONTINUED)

governance and risk, operations, investments, decision-making and corporate development.

***Directorships of other listed entities*:**
Boral Limited (since September 2014, Chairman since July 2018)
Djerriwarrh Investments Limited (since May 2014)

Ms Fagg's other directorships include Breast Cancer Network Australia (Chairman), CSIRO (Deputy Chairman), The Grattan Institute, The Myer Foundation and Male Champions of Change.

Mr Peeyush Gupta AM
BA, MBA, AMP (Harvard), FAICD
Age: 61

***Term of office*:** Non-executive director since November 2014. Member of the Board's Risk & Compliance and the People & Remuneration Committees. Director of certain MLC Wealth and Bank of New Zealand subsidiaries (subsidiaries of NAB).

Independent: Yes

Skills & Experience: Mr Gupta has more than 30 years of experience in wealth management. Mr Gupta was a co-founder and the inaugural CEO of IPAC Securities, a pre-eminent wealth management firm spanning financial advice and institutional portfolio management, which was acquired by AXA.

Mr Gupta has extensive corporate governance experience, having served as a director on many corporate, government, not-for-profit, trustee and responsible entity boards since the 1990s, including experience on audit, risk, and remuneration committees.

Directorships of other listed entities:
Link Administration Holdings Limited (Link Group) (since November 2016)
Charter Hall WALE Limited (since May 2016)

Mr Gupta's other directorships include Charter Hall Direct Property Management Limited (Chairman), Insurance & Care NSW (iCare) and Special Broadcasting Service Corporation.

Ms Anne Loveridge
BA (Hons), FCA, GAICD
Age: 59

***Term of office*:** Non-executive director since December 2015. Chairman of the Board's People & Remuneration Committee and a member of the Board's Nomination & Governance Committee.

***Independent*:** Yes

***Skills & Experience*:** Ms Loveridge has more than 30 years of experience in professional services, providing advice and other services to the financial services sector and ASX-listed companies. Up to her retirement in 2015, Anne held senior leadership roles as Partner and Deputy Chair at PwC where, in addition to client advisory and audit roles, she had responsibilities within the firm for governance, leadership development, mentoring and remuneration of senior executives and Partners.

Directorships of other listed entities:
nib Holdings Limited (since February 2017)
Platinum Asset Management Limited (since September 2016)

Ms Loveridge's other directorships and interests include The Bell Shakespeare Company Limited (Chairman), member of Chief Executive Women (CEW) and International Women's Forum (Australia).

Ms Geraldine McBride
BSc
Age: 59

***Term of office*[1]:** Non-executive director since March 2014. Member of the Board's Audit and Customer Committees.

***Independent*:** Yes

***Skills & Experience*:** Ms McBride has more than 30 years of experience in the technology industry and international business. Ms McBride is a former President of global software company SAP for North America, as well as roles with Dell and IBM. Ms McBride is CEO and Director of MyWave.

Directorships of other listed entities:
Sky Network Television Limited (since August 2013)
Fisher and Paykel Healthcare Corporation Limited (since July 2013)

Mr Douglas McKay ONZM
BA, AMP (Harvard), CMInstD (NZ)
Age: 65

***Term of office*:** Non-executive director since February 2016. Member of the Board's Audit and Customer Committees. Chairman of Bank of New Zealand (a subsidiary of NAB).

***Independent*:** Yes

***Skills & Experience*:** Mr McKay has more than 30 years of senior commercial and operational experience, together with marketing and private equity experience. Mr McKay has a deep understanding of New Zealand and Australian markets having held CEO and Managing Director positions within major trans-Tasman companies and organisations

(1) On 6 October 2020, it was announced that Geraldine McBride will not be standing for re-election at the 2020 AGM.

DIRECTORS' INFORMATION (CONTINUED)

including Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord and Independent Liquor.

Directorships of other listed entities:
Genesis Energy Limited* (since June 2014)
Fletcher Building Limited* (since September 2018)

**Dual-listed on the New Zealand and Australian stock exchanges*

Mr McKay's other directorships include Eden Park Trust (Chairman) and IAG (NZ) Holdings Limited.

Mr Simon McKeon AO
BCom, LLB, FAICD
Age: 64

Term of office: Non-executive director since February 2020. Chairman of the Board's Risk & Compliance Committee and a member of the Board's Nomination & Governance Committee.

Independent: Yes

Skills & Experience: Mr McKeon has more than 40 years of experience in financial services, law, government and the not for profit sector. He held a range of senior executive roles with Macquarie Group, including as Executive Chairman of its business in the State of Victoria. He previously served as Chairman of AMP, MYOB and CSIRO and was Founding President of the Federal Government's Australian Takeovers Panel.

Mr McKeon also served as Founding Chairman of MS Research Australia and as Chairman of the Federal Government's Panel that completed a strategic review of health and medical research in 2013. Mr McKeon is an active philanthropist and has been a significant contributor over many years to charitable, educational, public health and other community-based organisations and causes. Mr McKeon was Australian of the Year in 2011.

Directorships of other listed entities:
Rio Tinto Group (since January 2019)

Mr McKeon's other directorships and interests include Summer Housing (Chairman), South East Melbourne (Chairman), Monash University (Chancellor), The Big Issue (Member of the Advisory Board) and GFG Alliance Australia (Member of the Advisory Board).

Ms Ann Sherry AO
BA, Grad Dip IR, FAICD, FIPAA
Age: 66

Term of office: Non-executive director since November 2017. Chairman of the Board's Customer Committee and a member of the Board's People & Remuneration Committee. Ann is Co-Chair of NAB's Indigenous Advisory Group.

Independent: Yes

Skills & Experience: Ms Sherry has more than 20 years of experience in executive roles within the banking, tourism and transport industries in Australia and New Zealand, together with significant experience in government and public service. She was Chairman of Carnival Australia, having previously served as CEO and as Executive Chairman.

Prior to joining Carnival Australia, Ms Sherry had 12 years experience with Westpac Banking Corporation (Westpac) where she held executive roles including CEO, Westpac New Zealand, CEO, Bank of Melbourne and Group Executive, People & Performance.

Directorships of other listed entities:
Sydney Airport (since May 2014)
Enero Group Limited (Chairman since January 2020)

Ms Sherry's other directorships and interests include, UNICEF Australia (Chairman), Cape York Partnership, Museum of Contemporary Art, Infrastructure Victoria, and Australia NZ Leadership Forum (Co-Chairman).

Former Directors

Dr Henry resigned from the Board effective 14 November 2019.

Dr Ken Henry AC, BCom (Hons), PhD, DB h.c, FASSA, FAIIA

Age: **62**

Term of office: Non-executive director from November 2011 to November 2019. Chairman from December 2015 to 14 November 2019. Dr Henry was Chairman of the Board's Nomination & Governance Committee.

Independent: Yes

Skills & Experience: Dr Henry has more than 30 years of experience in economics, policy and regulation, governance and leadership. Dr Henry served as the Secretary of the Department of the Treasury and was special adviser to the Prime Minister with responsibility for leading the development of the White Paper on Australia in the Asian Century. Dr Henry conducted the Review into Australia's Future Tax System (the 'Henry Tax Review') commissioned by the Rudd Government.

Directorships of listed entities:
ASX Limited (since February 2013)

Dr Henry's other directorships and interests include Sir Roland Wilson Foundation (Chairman), Accounting for Nature Limited, Cape York Partnership, Committee of Economic Development of Australia (Governor), John Grill Centre for Project Leadership's Advisory Board and Australia-China Senior Business Leaders Forum.

DIRECTORS' INFORMATION (CONTINUED)

Mr Yuen retired from the Board effective 18 December 2019.

Mr Anthony Yuen B.Soc.Scs

***Age*: 70**

Term of office: Non-executive director from March 2010 to December 2019. Member of the Board's Audit and Risk & Compliance Committees.

Independent: Yes

Skills & Experience: Mr Yuen has more than 40 years of experience in international banking and finance. Prior to taking on a strategic investment management role on behalf of Royal Bank of Scotland with Bank of China in 2006, Mr Yuen held senior executive roles, having Asia wide regional responsibility with Bank of America Corporation, National Westminster Bank and The Royal Bank of Scotland.

Mr Yuen's other interests include Hong Kong Red Cross, ABF Hong Kong Bond Index Fund and Membership Committee of the Academy of Finance.

Company Secretaries

Details of company secretaries of NAB in office at the date of this report (or holding office during the year) and each company secretary's qualifications and experience are below:

Mrs Louise Thomson BBus (Dist), FGIA joined the Group in 2000 and was appointed Group Company Secretary in May 2013. She has experience in a wide range of finance, risk, regulatory and governance matters. The Group Company Secretary supports the Board to enable the Board to fulfil its role.

Ms Penelope MacRae BA (Hons), LLB (Hons) joined the Group in 2011 as a Senior Corporate Lawyer and was appointed Company Secretary in December 2016. She is the Secretary of the Board's Risk & Compliance Committee and manages the Group's Risk Management Committees and has experience in a wide range of corporate, legal, governance, risk and regulatory matters.

Ms Tricia Conte BCom, LLB (Hons) joined the Group in 2006 and was appointed Company Secretary in November 2018. She is the Secretary to the Board Audit Committee and a Senior Legal Counsel who advises the Group on a wide range of legal, corporate, governance and regulatory matters.

Ms Kelly Patterson BA, LLB (Hons) joined the Group in 2015 and was appointed Company Secretary in April 2018. Ms Patterson resigned as Company Secretary in January 2020.

Directors' and officers' indemnity

NAB's constitution

Article 20.1 of NAB's constitution provides that, to the maximum extent permitted by law, NAB may indemnify any current or former officer out of the property of NAB against:

- Any liability incurred by the person in the capacity as an officer (except a liability for legal costs).
- Legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the officer becomes involved because of that capacity.
- Legal costs incurred in connection with any investigation or inquiry of any nature (including, without limitation, a royal commission) in which the officer becomes involved (including, without limitation, appearing as a witness or producing documents) because of that capacity.
- Legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer, if that expenditure has been approved in accordance with the Board's charter, except to the extent that:
  - NAB is forbidden by law to indemnify the person against the liability or legal costs, or
  - An indemnity by NAB of the person against the liability or legal costs, if given, would be made void by law.

Under Article 20.2, NAB may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in that capacity, including a liability for legal costs, unless:
- NAB is forbidden by law to pay or agree to pay the premium, or
- The contract would, if NAB paid the premium, be made void by law.

NAB may enter into an agreement with a person referred to in Articles 20.1 and 20.2 with respect to the subject matter of those Articles. Such an agreement may include provisions relating to rights of access to the books of NAB. In the context of Article 20, 'officer' means a director, secretary or senior manager of NAB or of a related body corporate of NAB.

NAB has executed deeds of indemnity in favour of each director of NAB and certain directors of related bodies corporate of NAB. Some companies within the Group have extended equivalent deeds of indemnity in favour of directors of those companies.

Directors' and officers' insurance

During the year, NAB, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of NAB and of each related body corporate of NAB. The contract does not provide cover for the independent auditors of NAB or of a related body corporate of NAB. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered.

DIRECTORS' INFORMATION (CONTINUED)

Directors and Directors meeting

The NAB Board met 23 times during the year ended 30 September 2020.

The following table includes:
- The names of the Directors holding office at any time during, or since the end of the financial year.
- The number of scheduled and unscheduled Board and Committee meetings held during the financial year that each Director was a member of the Board or relevant Committee and eligible to attend, and the number of meetings actually attended by each Director.

All Directors may attend Committee meetings even if they are not a member of a relevant Committee. The table below excludes the attendance of those Directors at Committee meetings where they were not a Committee member.

Some directors also attended special purpose ad hoc committee meetings during the year, which is not included in the table below:

	Board meetings				Committee meetings									
	Scheduled(1)		Unscheduled(2)		Audit(3)		Risk & Compliance(3)		People & Remuneration(3)		Customer(3)		Nomination & Governance	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Current Directors														
Phil Chronican	11	11	12	12	-	-	-	-	-	-	-	-	5	5
Ross McEwan (joined December 2019)	8	8	12	12	-	-	-	-	-	-	-	-	-	-
David Armstrong	11	11	12	11	7	7	7	7	-	-	-	-	-	-
Kathryn Fagg (joined December 2019)	8	8	12	12	1	1	6	6	-	-	-	-	-	-
Peeyush Gupta	11	11	12	12	-	-	7	7	10	10	-	-	1	1
Anne Loveridge	11	11	12	12	-	-	-	-	10	10	-	-	5	5
Geraldine McBride	11	11	12	11	7	7	-	-	-	-	10	10	-	-
Doug McKay	11	11	12	12	7	7	-	-	-	-	10	10	1	1
Simon McKeon (joined February 2020)	7	7	11	11	-	-	5	5	-	-	-	-	4	4
Ann Sherry	11	11	12	12	-	-	-	-	10	10	10	10	-	-
Former Directors														
Ken Henry (resigned November 2019)	3	3	-	-	-	-	-	-	-	-	-	-	-	-
Anthony Yuen (retired December 2019)	4	4	-	-	2	2	2	2	-	-	-	-	-	-

(1) The number of meetings scheduled in the Board's approved annual calendar. Of these scheduled meetings, three were short meetings specifically related to financial reporting matters. This number includes several meetings held concurrently with Committees, which have not been counted separately for either the Board or the respective Committee. This number includes Board workshops and continuing education sessions, which formed part of the overall scheduled Board program of activities.

(2) The number of out-of-cycle meetings convened during the year for a special purpose that do not form part of the Board's approved annual calendar. Of these out-of-cycle meetings, the majority were scheduled for the Board to receive updates on the impact of COVID-19 on the Company, its customers and colleagues.

(3) The number of Committee meetings both scheduled in the Board's approved annual calendar and convened out-of-cycle. This includes Committee workshops and site visits. The People & Remuneration Committee held two out-of-cycle meetings during the year, which are included in the number of meetings shown for that Committee. The Customer Committee held four out-of-cycle workshops during the year, which are included in the number of meetings shown for that Committee.

OTHER INFORMATION

Directors' and executives' interests

Particulars of shares, performance rights and other relevant interests held directly and indirectly by directors and executives are set out in the Remuneration report.

Performance rights

As at the date of this report, there are 1,776,614 performance rights outstanding in relation to NAB fully paid ordinary shares. No exercise price is payable for performance rights. The latest dates for exercise of the performance rights range between 15 February 2021 and 15 February 2028. Persons holding performance rights are not entitled to participate in capital actions by NAB (such as rights issues or bonus issues).

For the period from 1 October 2020 to the date of this report, no fully paid NAB fully paid ordinary shares were issued as a result of the exercise of a performance right.

For further details on performance rights refer to *Note 34 Equity-based plans* of the financial statements and Section 5.4 of the Remuneration report.

OTHER MATTERS

Litigation and disputes

From time to time entities within the Group may be involved in disputes or legal proceedings arising from the conduct of their business. The outcomes and total costs associated with such disputes and proceedings are typically uncertain. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to *Note 30 Contingent liabilities and credit commitments* of the financial statements for details of the Group's material legal proceedings and contingent liabilities.

Future Developments

In the opinion of the directors, discussion or disclosure of any further future developments including the Group's business strategies and its prospects for future financial years would be likely to result in unreasonable prejudice to the interests of the Group.

Proceedings on behalf of NAB

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of NAB by a member or other person entitled to do so under section 237 of the *Corporations Act 2001* (Cth).

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 results for the 2020 financial year.

On 5 November 2020, with the prior consent of APRA, NAB announced it would exercise its option to redeem the $1.72 billion NAB Convertible Preference Shares II (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 period 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.

Integrity of reporting

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Board Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements.

Further details on the role of the Board and its committees can be found in NAB's 2020 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation, risk and opportunities

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered particular or significant environmental regulation under the laws of the Australian Commonwealth Government or of an Australian state or territory.

The operations of the Group are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) and the Streamlined Energy & Carbon Reporting (SECR) requirements which are implemented through the *Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* (UK) as part of the legislative response to climate change in Australia and the UK respectively. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the period from 1 July to 30 June (the environmental reporting year), therefore, all of the Group's energy and greenhouse gas (GHG) emissions reporting is aligned to this reporting period.

The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2020 environmental reporting year was 569,933 gigajoules (GJ) (2019: 576,376 GJ), which is approximately 92% of the Group's measured total net energy use. The associated total GHG emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 89,402 tCO_2-e (2019: 101,626 tCO_2-e).

The Group's UK-based (London Branch) net energy use[1] reported under the SECR for the 2020 environmental reporting year was 1,248,734 Kilowatt hours (KWh) (2019: 1,642,177 KWh). The associated total GHG emissions from fuel combustion (Scope 1) and from electricity use[2] (Scope 2) were 273 tCO_2-e (2019: 378 tCO_2-e). This equates to 236 KWh and 0.05 tCO_2-e per metre squared of property space occupied by the Group's London Branch. Further London Branch and Group energy and GHG emissions data is provided in Table 1 to satisfy SECR requirements. Information on the Group's environmental financing to support the low-carbon economy, and our climate-related governance risk management, strategy, and metrics and targets, is set out in the following pages consistent with the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures' (TCFD) recommendations.

(1) The Group's energy use and GHG emissions reported for SECR purposes are associated with building-related gas and electricity use only. The Group does not have a vehicle fleet associated with its UK operations.
(2) 100% of NAB's UK-based (London Branch) electricity is renewable electricity.

OTHER MATTERS (CONTINUED)

During the 2020 environmental reporting year, the Group's total net GHG emissions (Scope 1, 2 and 3[(1)]) were 149,452 tCO_2-e (2019: 168,175 tCO_2-e), after accounting for use of certified renewable energy in the UK and Australia.

The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of the Group's climate change strategy and targets. From 1 July 2006 to 30 June 2020, the Group identified a total of 1,288 energy efficiency and renewable energy opportunities in Australia alone. Initiatives implemented in 2020 are estimated to deliver ongoing annual energy savings of 21,075 GJ and annual estimated cost savings of $1.6 million. A further six efficiency energy opportunities are in progress or approved to proceed. In the UK, the Group's London Branch has moved into a new office building which has *BREEAM Excellent accreditation*[(2)]. This building is significantly more energy efficient and has contributed to a reduction in the Group's London Branch energy consumption and GHG emissions.

Additional detail on the Group's environmental and climate-related performance is provided in our *2020 Sustainability Report* and *2020 Sustainability Data Pack* available at https://www.nab.com.au/about-us/social-impact/shareholders/performance-and-reporting. Further information on the methodologies used to calculate the emissions in Table 1 is also available on the Group website[(3)].

The Group's main Melbourne-based data centre is subject to *National Environment Protection Measure* (National Pollutant Inventory) (NPI) reporting requirements in Australia. The NPI provides a public database of emissions and transfers of specified NPI substances from various facilities. The Group is required to report on these emissions because the volume of natural gas used to run the tri-generation plant at this facility triggers the NPI threshold. The Group has complied with this requirement.

In 2014, the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), introduced by the UK ESOS Regulations 2014 which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations buildings and transport to be conducted every four years. The Group appointed an appropriately qualified lead assessor to conduct the required ESOS assessment of its London Branch and submitted its notification of compliance to the UK Environment Agency to fulfil its ESOS obligation in December 2019.

As a lender, the Group may incur environmental liabilities in circumstances where it takes possession of a borrower's assets and those assets have associated environmental risks. The Group has developed and implemented credit policies to ensure that these risks are minimised and managed appropriately.

Climate Change

The Group recognises that climate change is one of the most significant challenges impacting the prosperity of our society and economy and it is a source of significant risk and opportunity for the Group. Therefore, the Group is aligning its business to help achieve the temperature goals of the Paris Agreement: to keep global warming to less than two degrees Celsius, striving for 1.5 degrees Celsius above pre-industrial levels and supporting a just transition to a net zero emissions economy by 2050. This includes working with the Group's customers to align its lending portfolio to net zero emissions by 2050.

Financial regulators have agreed that climate-related risks are a potential source of systemic financial risk that need to be addressed to ensure the future stability and resilience of the financial system. This is leading to changes in supervisory expectations of banks and to regulatory change. In addition to responding to relevant regulatory requirements, as a global provider of financial products and services, the Group seeks to play a key role in financing the low-carbon transition and green growth[(4)], and in doing so, make a contribution to the environmental sustainability of the communities in which it operates.

The Group is actively working to decarbonise its operations, to support its customers through the low-carbon transition, and to decarbonise the Group's lending portfolio in line with the Paris Agreement temperature goals. The Group considers an orderly approach to the low-carbon transition is critical to ensure communities have access to secure, reliable and affordable energy and to ensure this transition is just.

The following is a summary of the Group's approach to climate change governance, strategy, risk management, and metrics and targets consistent with the TCFD's recommendations.

(1) Scope 1 GHG emissions are direct emissions from sources that are owned or controlled by an organisation including on-site fossil fuel combustion and vehicle fleet fuel consumption. Scope 2 emissions are indirect emissions from purchased electricity. Scope 3 emissions relate to all other indirect emissions that occur outside the boundary of the organisation as a result of the activities of the organisation, including financed emissions.
(2) BREEAM is a sustainability assessment method for master planning projects, infrastructure and buildings. Further information is available at: https://www.breeam.com/
(3) https://www.nab.com.au/about-us/social-impact/shareholders/performance-and-reporting
(4) Green growth describes a path of economic growth that uses natural resources in a sustainable manner.

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Table 1: Key GHG emissions and energy use data (1 July-30 June)[(1)]

	London Branch		NAB Group (excluding London Branch)	
	2020	**2019**	**2020**	**2019**
Energy from gas consumption (KWh)	377,813	578,018	40,873,595	47,058,677
Energy from vehicle fleet fuel use (KWh)	0	0	27,568,578	26,586,135
Energy from electricity consumption (KWh)	870,922	1,064,159	101,589,007	127,528,288
Total energy for SECR reporting (KWh) (tCO2-e)	1,248,734	1,642,177	170,031,181	201,173,100
GHG emissions from energy use (Scope 1 – Gas) (tCO2-e)	70	106	7,701	8,733
GHG emissions from vehicle fleet (Scope 1) (tCO2-e)	0	0	6,885	8,483
GHG emissions from energy use (Scope 2, location-based – electricity) (tCO2-e)	203	272	79,482	90,162
Total gross Scope 1 & 2 GHG emissions for SECR reporting (tCO2-e)	273	378	87,184	98,895
Total gross Scope 3 emissions (tCO2-e)	1,975	1,430	59,676	60,463
Intensity ratio: Energy (KWh) / $ Underlying profit[(2)]	0.0004	0.01	0.02	0.02
Intensity ratio: GHG (tCO2-e) / $ Underlying profit[(2)]	0.000001	0.000003	0.00001	0.00001
Intensity ratio: Energy (KWh) / m2	236	401	246	280
Intensity ratio: GHG (tCO2-e) / m2	0.05	0.09	0.13	0.14
Intensity ratio: Energy (KWh) / FTE	4,024	5,620	4,919	5,992
Intensity ratio: GHG (tCO2-e) / FTE	0.88	1.29	2.52	2.95
Emissions from electricity use (Scope 2, market-based – electricity) (tCO2-e)	0	0	71,913	87,098
Total net Scope 1,2 and 3 GHG emissions (after accounting for UK and Australian renewable energy)	2,253	1,524	147,199	166,651
Carbon Offsets Retired	2,253	1,524	147,199	166,651
Net carbon emissions (carbon neutral)	0	0	0	0

Methodology

- Refer to 'How we calculate our carbon emissions' on *https://www.nab.com.au/about-us/social-impact/environment/climate-change*.
- The Group reports its energy and GHG data based on operational control.
- Energy consumption data is captured through utility billing; meter reads or estimates.
- The Group has applied the latest emission factors available at the time of reporting to the current year. Refer to methodology documents on the Group website at *https://www.nab.com.au/about-us/social-impact/environment/climate-change* for a full list of the emissions factor sources. Prior year figures reflect the emissions reported in that year, unless otherwise stated. UK-based emissions were calculated using factors provided by the UK Department for Business, Energy & Industrial Strategy.
- Intensity ratio calculations have been calculated using location-based emission factors.
- The financial intensity metrics in Table 1 use an activity data numerator which is reported for the Group's environmental reporting year (1 July 2019 - 30 June 2020) and a financial metric denominator which is reported for the Group's financial year (1 October 2019 - 30 September 2020). This is to ensure that the Group uses metrics which are publicly available as much as possible and because of the difference in the Group's environmental reporting and financial years.

(1) This data is an extract of the Group's full energy and GHG emissions inventory data to satisfy SECR requirements. A full set of the Group's assured energy use and emissions data is available in the Group's 2020 Sustainability Data Pack.

(2) The Group has used 'Underlying profit' as a financial metric (rather than other financial measures of profit or economic activity) for normalisation of its environmental performance as this allows for meaningful comparison to prior years' data and to financial intensity measures used in the Group's Sustainability Data Pack and CDP disclosures due to the nature of its underlying business activities.

Governance

The Board retains ultimate oversight for Environmental, Social and Governance (ESG) risks and issues, including climate change.

The Board receives regular reports on a range of climate change-related issues, including progress against the Group's climate change strategy, climate-related credit risk policy settings, commitments, targets and initiatives, environmental operational performance, carbon neutral status, and concerns raised by stakeholders. It also receives updates on regulatory change and greenhouse and energy reporting returns that require noting by the Board before submission to regulators. The Board Risk & Compliance Committee (BRCC) receives periodic reports on climate risk, regulatory developments and other related matters that fall under its charter, particularly matters such as emerging risk, risk appetite, scenarios and stress testing.

In the 2020 financial year, the Board incorporated climate change into its development agenda. This training covered information about: (i) the global carbon budget; (ii) the role of transition pathways in achieving the low-carbon transition and Paris Agreement alignment; and (iii) the changing regulatory and supervisory response to climate change risk.

Risk Management

ESG risks, including climate change, are identified, measured, monitored, reported and overseen in accordance

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with the Group's Risk Management Framework (as described in the Group's Risk Management Strategy).

During the 2020 financial year, climate risk was further integrated into the Group's Risk Appetite Statement. Sustainability Risk[1] was added as a material risk category within the Risk Management Strategy, effective in the 2021 financial year.

Two key risk committees are involved in the oversight of climate-related risk:
- the Group Non-Financial Risk Committee – which has oversight of non-financial risks, including climate-related risks, and the Group's environmental performance
- the Group Credit and Market Risk Committee – which has oversight of financial risk and ESG risks, including climate-related risks, in the context of the credit risk portfolio. This includes credit policy settings for climate intensive, low-carbon and climate-sensitive sectors.

Matters are escalated to the Executive Risk Committee, BRCC and the Board as required.

The Group's Climate Change Working Group (CCWG), which consists of management representatives from across the Group, reviews the key risks and opportunities facing the Group and its customers arising from climate change and the Paris Agreement, and monitors and supports the implementation of the Group's climate change strategy, including climate-related commitments.

Updates on implementation of the Group's climate change strategy are reported periodically by management to executives and the Board.

In the 2020 financial year, the Group's annual Risk Awareness training included a climate risk module to help colleagues understand:
- highlights from the latest climate science
- the goals of the Paris Agreement
- the key elements of the TCFD's framework for managing climate risk
- actions being taken by the Group to address climate change.

The training also provided examples of climate-related physical and transition risks to help colleagues understand the impacts of climate change on our business, customers and the communities in which the Group operates.

The Group's phased review of credit risk policy settings for carbon intensive, climate sensitive and low-carbon sectors has been proceeding more slowly than originally planned due to the increased regulatory requirements for COVID-related stress testing and the need to divert resources into customer facing areas to support customers during the pandemic. The Group's phased review commenced in the 2017 financial reporting year and is ongoing.

These reviews consider a range of factors including: (i) various climate change scenarios for both transition[2] and physical risk[3]; (ii) customer strategies and plans and their alignment to the Paris Agreement temperature goals; (iii) industry trends; and (iv) trends in Group exposures to these sectors. To date, this review process has led to implementation of the following credit risk policy settings. The Group will not finance:
- new thermal coal mining projects or new-to-bank thermal coal mining customers
- oil / tar sands extraction projects
- oil and gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge
- new, or material expansions of, coal-fired power generation facilities, unless there is technology in place to materially reduce emissions.

However, to facilitate an orderly transition to a low-carbon economy the Group continues to support existing customers across the mining and energy sectors.

The Group had intended to complete a review of the Oil and Gas sector in the 2020 financial year. This work was delayed due to COVID-19 and is now scheduled to be completed in the 2021 financial year.

In the 2020 financial year, the Group continued to collaborate and participate in climate-related risk activities and projects to better understand, and implement, methodologies to assess, and manage, climate risk, including:
- *Principles for Responsible Banking Collective Commitment to Climate Action (CCCA)* – The Group participated in CCCA working groups. Through the CCCA, the Group has committed to align its lending portfolio to reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below two degrees Celsius, striving for 1.5 degrees Celsius. Key CCCA activities have involved sharing experiences and methodologies used to date to assess climate impact on lending portfolios and actions being taken to support customers' shift to a low-carbon, climate-resilient economy. The Group also submitted its first annual return to UNEP FI reporting on progress in meeting its CCCA commitments. Further detail is available on page 29 of the Group's *2020 Sustainability Report*.
- *Energy Transitions Hub (the Hub)* – The Group continued to work with the University of Melbourne with the goal of developing a process to overlay physical climate risk information on the Group's lending portfolio for scenario analysis. The pilot process was initially used in the 2019 financial year to examine the potential impact of climate scenarios on the Group's Australian retail mortgage portfolio with a focus on the impact that cyclones may have under different levels of warming. This work was

(1) Sustainability risk, which includes climate risk, is defined as the risk that ESG events or conditions negatively impact the risk and return profile, value or reputation of the Group or its customers and suppliers.
(2) For the purpose of this work, transition risk was defined as the impact of low-carbon policy and transition to low-carbon technology on markets and industries.
(3) For the purpose of this work, physical risk was defined as the risk resulting from climate variability, extreme weather events and longer-term changes in climate patterns.

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delayed in the 2020 financial year, due to COVID-19, but is expected to be completed in the 2021 financial year.

- *Climate Measurement Standards Initiative (CMSI)* – The Group joined and supported this cross-sector industry initiative which formed in the 2020 financial year. The CMSI includes representatives from across the banking, insurance and investment sectors alongside pre-eminent Australian climate scientists working together under the auspices of the National Environmental Science Program's Earth Systems and Climate Change (ESCC) Hub, professional services firms and finance sector industry bodies. The objectives of the CMSI are to provide open-source voluntary guidelines for financial institutions (banks, insurers and asset managers and owners) with consistent scientific and technical guidance on how to assess the physical risk of climate-related damage to homes, buildings and other critical infrastructure arising from extreme weather events – such as tropical cyclones, bushfires and floods. The CMSI focused on supporting implementation of the TCFD recommendations in addition to better understanding the financial system's exposures to climate-related risks. Two key reports were published in the 2020 financial year, including a finance report and a science report which are available at: https://www.cmsi.org.au/reports
- *Climate-KIC Australia (Climate-KIC)* – The Group has been working with Climate-KIC and a number of other organisations, including government agencies and industry bodies on an Adaptation Finance Project. This project is exploring how the financial sector can invest in climate adaptation to deliver commercial returns and greater climate resilience with a view to developing insights into the creation of a scalable approach to adaptation finance. In 2020, the project completed a report that shares insights and makes recommendations for current and future projects focused on addressing the adaptation finance gap. This work has contributed to the adaptation finance discourse in Australia – the report is available at: https://climate-kic.org.au/our-projects/adaptation-finance-project/
- *Resilience Investment Vehicle (RIV)* – The Group has been working with IAG, CSIRO and a number of other government agencies, industry groups and not-for-profits on a RIV. This project is exploring how the financial sector can invest in climate adaptation to deliver commercial returns and greater climate resilience with a view to developing insights on the creation of a scalable approach to climate adaptation finance.
- *Australian Industry Energy Transitions Initiative* (AIETI) – The Group joined this collaborative industry initiative supported by ClimateWorks Australia and Climate-KIC in the 2020 financial year. The AIETI aims to accelerate informed action by Australian industry towards the achievement of net zero emissions in hard-to-abate sectors by 2050 while managing the transition to thrive in a decarbonised global economy. The AIETI will focus on five supply chains critical to achieving the Paris Agreement temperature goals ('well-below two degrees Celsius and striving for 1.5 degrees Celsius') given their significance to global emissions and their relatively higher abatement costs. The supply chains are:
  – Iron and steel
  – Aluminium
  – Liquefied natural gas (LNG)
  – Other metals (lithium, cobalt, etc)
  – Chemicals, in particular plastics, fertilisers and explosives.
- *United Nations Environment Program Finance Initiative (UNEP FI) Phase 2 pilot project* – The Group worked with 38 other UNEP FI member banks on methodologies and processes to implement the recommendations made by the TCFD. The Phase 2 work has involved examining a range of scenario tools to help increase the Group's understanding of the spectrum of scenarios available and explore the availability of further data sets to assist with climate-related scenario analysis and risk assessment. Work also included:
  – A focus on examining the availability of climate-relevant asset-level data to advance and refine the Phase I methodologies for physical risk and opportunity assessment.
  – Piloting the use of correlation analysis to help banks understand how climate-related hazards such as floods, droughts and wildfires can impact bank portfolios via property values, farm revenues, loan delinquency rates, mortgage approval rates and other indicators.
  – Developing sectoral heat maps for high-level physical and transition risk analysis (refer to case study: Physical and transition risk heat mapping immediately below) to provide an early indication of where higher risks may lie within a lending portfolio.
  – Development of a transition risk web tool by Oliver Wyman and UNEP FI (available at: https://www.climatetransitioncheck.com/#/home).
  – Examining additional scenarios including a disorderly transition.
  – Exploring the latest regulatory developments.

In addition, participating banks, including NAB, explored climate risk governance and disclosure best practices. Further details of the Phase 2 project outputs can be found at: https://www.unepfi.org/banking/tcfd/

Case study: Physical and transition risk heat mapping

Heat mapping can provide valuable high-level insights about whole of portfolio exposure to climate risk. It can quickly help identify where higher risk may lie within a portfolio for deeper-dive analyses of risk by other methodologies, which require application at a sectoral or sub-sectoral level.

In the UNEP FI Pilot Phase 2 project, a collaborative exercise was undertaken to produce high-level heat-maps for both physical and transition risk. This supported discussion between participating banks on the range of ways through which climate risk can manifest.

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For physical climate risk, the Phase 2 banks – including the Group – discussed the interlinkages between vulnerability, hazards and loan portfolio performance and developed a shared view of the climate vulnerability of six sectors to physical climate risk hazards.

The vulnerability rating was a function of three factors – vulnerability, hazard and exposure. Vulnerability[1] and exposure[2] vary significantly by sector and sub-sector and the hazard[3] component is location-specific. The collective physical risk heat mapping exercise was completed for six sectors using eight vulnerability indicators as follows:

- reliance on natural resources
- reliance on secure energy supplies
- reliance on climate sensitive supplies
- reliance on secure transport routes
- reliance on efficient operation of assets and processes
- climate sensitivity of market demand
- potential for environmental and social impact
- reliance on labour health and productivity.

Heat mapping climate-related vulnerability can help capture both direct and indirect physical impacts on banks' lending portfolios from a changing climate, accounting for chronic (incremental) changes as well as extreme events. The hazard indicators were selected to provide a comprehensive coverage of potential risk areas and to capture the extent of the physical climate-related factors that might affect the value chains of lending portfolios. Sub-sectors were assigned vulnerability indicator scores of Low, Medium, or High for all eight indicators, reflecting their relative importance to the sub-sector. An example of a sector analysed – power generation – is shown below.

Figure 1: Example of physical risk heat map – power generation

		Sub-sectors				
		Thermal power stations: natural gas	Biomass power stations	Solar CSP	Hydro-power	Power transmission and distribution
Vulnerability indicators	Natural resources	High	High	Low	High	Low
	Energy supply	Medium	Medium	Low	Low	High
	Climate sensitive supplies	Low	High	Low	Low	Low
	Transport routes	Medium	Medium	Medium	Medium	Medium
	Assets and processes	Medium	Medium	Low	Medium	Medium
	Market demands	High	High	High	High	Medium
	Environment and social impact	Medium	Medium	Low	Medium	Low
	Labour health and productivity	Low	Low	Medium	Medium	Medium

Source: Acclimatise's HeatMapR analytics (www.acclimatise.uk.com) *in Charting a New Climate, UNEP FI and Acclimatise, 2020*

Further details can be found in the Phase 2 Project Report, *Charting a New Climate*[4], published by UNEP FI and Acclimatise, in October 2020.

The Phase 2 UNEP FI project also created collective heat maps for transition risk across sectors and sub-sectors. See an example of a cross-sectoral heat map produced in Figure 2. An ambitious low-carbon transition scenario for meeting the Paris Agreement goal of keeping warming well below two degrees Celsius was selected for heat mapping so UNEP FI and the participating banks could discuss the major impacts of such a scenario on the global economy, given that some sectors are likely to require material transformation to remain relevant in a low-carbon future.

A broad set of sectors were explored to provide an indication of the widespread effects (both primary and secondary) that an aggressive transition is likely to have across the economy (see Figure 2 below) considering four key risk factors – direct and indirect emissions cost, low carbon 'capex' and revenue. The outcome of the analysis highlighted that in an aggressive low carbon transition scenario even low-carbon emitting sectors may be affected by the transition (e.g. through their supply chains, technological shifts, or changes in market demands).

The collective heat map outcomes were also useful as a feed into the transition risk loss methodology because they provided climate risk sensitivities and ratings for each sector/sub-sector analysed with the UNEP FI-Oliver Wyman Transition Check Tool[5].

Figure 2: Sector level heat map – Absolute (sectors compared to each other).

Sector	Direct emissions	Indirect emissions	Low-carbon capital expenditure	Revenue	Overall
Oil and gas	High	Low	Moderately high	High	High
Agriculture	Moderate	Moderate	Moderate	Moderate	Moderate
Real estate	Moderately low	Moderate	Moderate	Moderately low	Moderate
Power generations	Moderately high	Moderate	Moderately high	Moderate	Moderately high
Metals and mining	Moderately high	Moderately high	Moderate	Moderately low	Moderate
Industrials	Moderate	Moderately high	Moderate	Moderately low	Moderate
Transportation	Moderately high	Moderate	Moderate	Moderate	Moderate
Services and technology	Low	Moderately low	Moderately low	Low	Low

Source: UNEP FI, (2020) Beyond the Horizon: New Tools and Frameworks for transition risk assessments from UNEP FI's TCFD Banking Program (https://www.unepfi.org/wordpress/wp-content/uploads/2020/10/Beyond-the-Horizon.pdf)

(1) Vulnerability in the lending portfolio heat mapping exercise was defined as the propensity of an investment in a particular sector/sub-sector to be adversely affected by climate variability and change (Definition from the IPCC Fifth Assessment Report).
(2) Exposure is defined as 'the presence of people, livelihoods, species or ecosystems, environmental functions, services, and resources, infrastructure, or economic, social, or cultural assets in places and settings that could be adversely affected' (Definition from the IPCC Fifth Assessment Report).
(3) Hazard is defined as 'climate-related physical events or trends, or their physical impacts' that may cause 'loss of life, injury, or other health impacts, as well as damage and loss to property, infrastructure, livelihoods, service provision, ecosystems and environmental resources' (Definition from the IPCC Fifth Assessment Report).
(4) https://www.unepfi.org/publications/banking-publications/charting-a-new-climate/
(5) https://www.climatetransitioncheck.com/#/home

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The heat mapping process was found to be useful for management of climate risk in three key areas – risk identification, strategic prioritisation of transition risk for deeper analysis and for risk assessment when considering sensitivities to various risk drivers.

Case study: Helping customers decarbonise

The Group is connected to all parts of the economy through its lending and other banking activities and considers it has an important role to play in financing the low-carbon transition. Therefore, in the 2020 financial year, the Group sought to calculate the Scope 3 emissions associated with key segments of its lending portfolio – residential mortgages, commercial real estate (office and retail), agriculture, power generation and resources (including coal, oil and gas). The objective was to better understand what might be required to align the Group's lending portfolio to the temperature goals of the Paris Agreement and a net zero emissions economy by 2050.

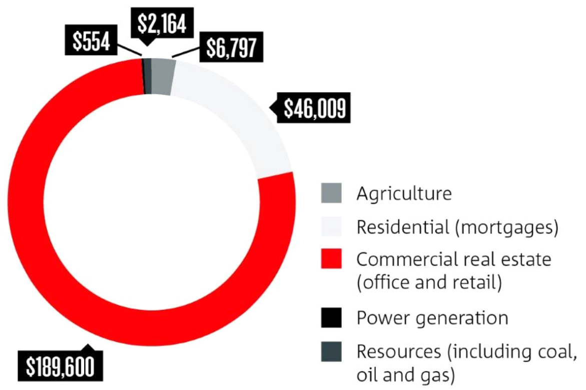
Estimations of financed emissions indicate the indirect impact the Group could have on achieving environmental outcomes in the real economy as a result of the Group's financing activities and highlights the crucial role financing can play in achieving environmental outcomes.

This quantitative estimate of financed emissions is limited to the Group's Australian customers and is based on measured and estimated emissions data. A description of the methodology used for this estimate is available at: https://www.nab.com.au/about-us/social-impact/environment/climate-change.

Calculating Scope 3 emissions associated with its financing activities has helped the Group to understand the relative carbon intensity of key segments in its Australian lending portfolio and establish a baseline from which the Group can monitor the alignment of its portfolio over time to the temperature goals of the Paris Agreement. This is the first estimate the Group has made of financed emissions, in addition to estimates of emissions associated with its Australian project finance power generation portfolio. The aggregated estimate for the five selected segments of the Group's Australian lending portfolio indicates that the Group lends approximately $23,320 to these sectors in Australia for every tonne of GHG emissions released to the atmosphere by customers in these industry segments.

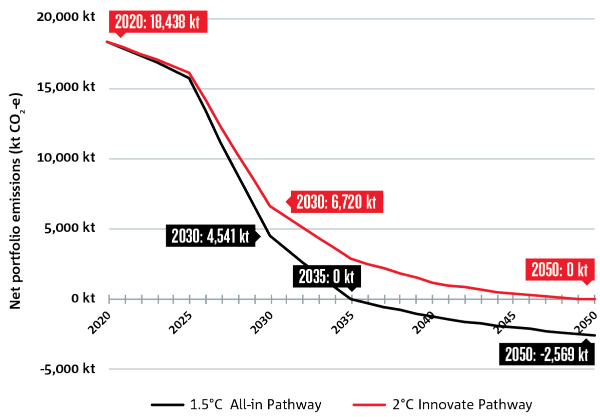
The data (see Figure 3) indicates that of the five segments for which financed emissions have been estimated[1], relative to Exposure at Default (EAD), power generation is the most carbon intensive at ~$550/t$CO_2$-e, followed by resources (including coal, oil and gas) at ~$2,200/t$CO_2$-e, followed by agriculture at ~$6,800/t$CO_2$-e, residential mortgages at ~$46,000/t$CO_2$-e and commercial real estate (retail and office) at ~$189,600/t$CO_2$-e. Of the absolute emissions estimated for the five segments, 90.2% are associated with an aggregate of residential mortgages (45.8%); agriculture (23.9%) and power generation (20.5%). The remaining (9.8%) are primarily associated with resources (including coal, oil and gas) (9.6%) and commercial real estate (office and retail) (0.2%). For the 20.5% of power generation-related emissions, coal and gas-fired power generation accounts for 89% of estimated GHG emissions attributable to the Group.

Figure 3: Dollars lent (EAD) per tonne of emissions (tCO_2-e) generated: Initial sector assessment



Further to developing the financed emissions estimate, the Group commissioned ClimateWorks Australia to apply two modelled scenarios from their *Decarbonisation Futures report*[2] to the five selected segments of NAB's Australian lending portfolio. The selected scenarios included a two degrees Celsius ('2C Innovate') and 1.5 degrees Celsius ('1.5C All-in') scenario. They provide two decarbonisation pathways to achieve a net zero lending portfolio by 2050, in alignment with the Paris Agreement. The Group's next step is to understand the suite of actions underlying these scenarios that the Group's customers may be able to undertake to make the low-carbon transition.

Figure 4: Indicative Australian lending portfolio emissions trajectories



The two low-carbon pathways illustrated by these scenario trajectories (see Figure 4) represent aggregated emissions

(1) Key assumptions and information notes about the methodology used to estimate the financed emissions are available in the Group's 2020 Sustainability Data Pack. The lower the dollar ($) value per t$CO_2$-e, the higher the carbon intensity. The financed emissions numbers are as at 31 August 2020.
(2) https://www.climateworksaustralia.org/wp-content/uploads/2020/04/Decarbonisation-Futures-March-2020-full-report-.pdf

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trajectories for the five segments included in the financed emissions estimate. Importantly, the Group recognises that each individual lending portfolio segment is likely to follow a different low-carbon transition pathway, as this is dependent on the technology opportunities that customers have available, to both reduce and remove or capture carbon emissions.

As an outcome of the financed emissions and low-carbon scenario work, the Group has committed to work closely with 100 of its largest greenhouse gas emitting customers to support them in developing or improving their low carbon transition plans by 2023.

Climate Change Strategy

In the 2020 financial year, the Group refreshed its strategy. A key pillar of the strategy is a long-term sustainable approach consisting of:
- commercial responses to society's biggest challenges
- resilient and sustainable business practices
- innovating for the future.

The Group's commitment to address climate change sits within this context. The Group is focused on supporting the low-carbon transition and working with communities to ensure they are more resilient to climate change. Key priorities are clean energy and environmental finance to assist the low-carbon transition, a just transition and climate adaptation to help the Group's customers to build resilience to climate change. The Group is developing key metrics to track its performance against each priority area and to measure how the Group is contributing to addressing the overall societal challenge.

The Group identifies and prioritises current and future business opportunities, including those related to climate change (for example, financing low-carbon technology like renewable power generation or water security projects which help deliver resilience to drought). This occurs through strategic planning processes both at a Group and business line level.

The Group's climate change strategy is focused on four key areas:
- leadership commitments
- developing climate change knowledge and insights
- supporting the Group's customers through the low-carbon transition
- investing in organisational capability to identify and respond to climate change risks and opportunities.

The Group is committed to playing an active role in addressing climate change by providing innovative products and services that help the Group's priority customer segments take advantage of low-carbon opportunities. The Group's assessment of climate change-related opportunities has led to a series of commitments covering the Group's operations, as well as how the Group supports its customers through the low-carbon transition. The Group's progress on key commitments includes:
- Reaching a total[(1)] of: (i) $23.1 billion against the Group's commitment to provide $35 billion to support green infrastructure, capital markets and asset finance by 2025; and (ii) $19.4 billion against the Group's commitment to provide $35 billion in new mortgage lending flow for 6 Star residential housing in Australia (new dwellings and significant renovations) by 2025. In the 2020 financial year, BNZ also made a commitment to provide NZ$10 billion in sustainable financing by 2025[(2)].
- Delivering on the Group's commitment to source 100% of its electricity from renewable electricity by 2025, using on-site solar generation at the Group's main data centre, a power purchase agreement for Victorian retail sites, and contracts for renewable energy certificates. The Group has entered into a new contract for the supply of additional Australian renewable energy certificates from late 2020 until 2023 to help the Group meet its RE100[(3)] commitment. This is expected to increase the Group's proportion of renewable energy to 20% in the 2021 environmental reporting year and to ~65% by the 2023 environmental reporting year. The proportion of electricity sourced which was renewable electricity increased from 3% in the 2019 environmental reporting year to 7% in the 2020 environmental reporting year.

The Group's climate change commitments have been integrated into the Group's business strategy. The Group is using its experience in clean energy financing and natural value to provide innovative, low-carbon solutions for customers across all of the Group's key sectors and markets. Highlights in the 2020 financial year have included:
- Providing a further $800 million in financing for renewable energy projects, taking the cumulative value of financing provided for renewable energy projects since 2003 to $10.2 billion.
- Participating in 12 public green, social and sustainability bond deals, one sustainability linked US Private Placement (USPP), two Climate Bond Certified green loans, and two sustainability-linked loans including a range of Australian and global firsts:
  - Acting as a Joint Lead Manager on the Mitsubishi UFJ Financial Group (MUFG Group) Total Loss Absorbing Capital (TLAC) A$500 million Green Bond which is the first Australian dollar TLAC format green bond, and the first offshore Financial Institution green bond in Australian dollars.
  - Acting as a Lender and Joint Lead Sustainability Structuring Arranger on the Coriance Sustainability-linked Loan. Coriance is First State Infrastructure's French district heating company. Three key sustainability performance indicators will be tracked as part of the loan including CO_2-e emissions per unit

(1) Represented as a cumulative amount of new environmental finance since 1 October 2015. Refer to the Group's 2020 Sustainability Data Pack for a further breakdown of this number and reference to how the environmental financing commitment is calculated.
(2) BNZ's sustainable financing commitment applies to the period from 1 October 2020 to 30 September 2025. The environmental financing component of BNZ's NZ $10 billion sustainable financing commitment will contribute to the Group's $70 billion environmental financing commitment.
(3) RE100 is a global corporate leadership initiative bringing together businesses committed to 100% renewable electricity.

OTHER MATTERS (CONTINUED)

sold, frequency of accidents, and the share of renewable energies in Coriance's production mix.
  – Acting as a Joint Lead Agent & ESG Structuring Agent on the Sydney Airport's A$100 million 20-year U.S. private placement (USPP) ESG-linked tranche. This sustainability-linked USPP is an Australian and world first. It creates a link between the Airport's sustainability performance and funding costs, with a potential margin benefit for improvement in sustainability performance and a margin penalty for a deterioration in sustainability performance.
  – BNZ acted as a Joint Lead Manager on the Kāinga Ora (Housing NZ) 15-year NZ$500 million WellBeing bond. At the time of issuance, this was New Zealand's longest tenor and largest Sustainability Bond. Its proceeds are earmarked for green buildings and affordable housing.
  – BNZ acted as a Joint Lead Manager on Auckland Council's 30-year NZ$500 million green bond. At the time of issuance, this was the longest bond in the New Zealand market and was also a record size and tenor for the green bond category. Proceeds are earmarked towards projects which benefit the environment, such as efficient buildings, waste management, and low carbon transport.
  – BNZ was also a Joint Lead Manager on Mercury Energy's inaugural green bond in 2020, which raised NZ$200 million primarily earmarked for financing the construction of the Turitea wind farm.
- BNZ joined a collaborative initiative coordinated by the Sustainable Business Network in New Zealand and involving government agencies and corporates to develop a climate action tool kit for SMEs[(1)]. The climate action toolkit will support BNZ to meet its target to have 50% of BNZ SME customers measuring and reporting on their emissions footprint by 2025.

Metrics and targets

Tracking the Group's portfolio alignment

In addition to the Group's environmental financing commitment, the Group is monitoring its exposure to carbon intensive and low-carbon sectors to track decarbonisation in its lending portfolio in line with portfolio transition commitments. Some of this data is reported to investors in half year and full year financial results presentations, as well as in the Group's annual *Sustainability Report*.

In the 2019 financial year, the Group announced two portfolio transition commitments:
- Supporting current coal-fired power generation customers implementing transition pathways aligned with Paris Agreement goals of 45% reduction in emissions by 2030 and net zero emissions by 2050.
- Capping thermal coal mining exposures at 2019 levels and reducing thermal coal mining financing by 50% by 2028, intended to be effectively zero by 2035, apart from residual performance guarantees to rehabilitate existing coal assets. The Group now expects its thermal coal mining exposure to reduce by 50% by 2026 (from 2019 financial year levels), and to be effectively zero by 2030. In the 2020 financial year, the Group decreased its thermal coal mining exposure by 11.4%.

As at 30 September 2020, the Group's exposures (as EAD) to key low-carbon and carbon intensive sub-sectors were as follows:
- renewable energy represented 71.5% of the Group's power generation portfolio (up from 69.4% at 30 September 2019)
- coal-fired power generation represented 1.1% of the Group's power generation portfolio (down from 1.7% at 30 September 2019)
- thermal coal mining exposure decreased from $0.76 billion at 30 September 2019 to $0.67 billion at 30 September 2020 and
- oil and gas exposure decreased from $3.73 billion at 30 September 2019 to $2.74 billion[(2)] at 30 September 2020.

Operational decarbonisation

In the 2020 financial year, the Group reached the end of its 5-year 2020 environmental performance targets and made progress towards its 2025 science-based emissions reduction target. The Group's performance against its energy and science-based emissions reduction targets was as follows:
- a 5% reduction in Group energy use by 30 June 2020 (the Group achieved a 15% reduction in energy against a 2016 baseline)
- a 51% science-based emissions reduction target by 2025 (the Group achieved a 41% reduction in the Scope 1 and 2 GHG emissions included in its science-based target as at 30 June 2020 against a 2016 baseline).

As all of the Group's 2020 environmental performance targets came to an end and were met in the 2020 environmental reporting year, the Group set new 5-year environmental performance targets through to the end of June 2025. These targets included a new energy reduction target to reduce Group-wide energy consumption by 30%.

Further information about the Group's environmental performance, climate change governance, strategy, risk management and metrics, targets and commitments, operational greenhouse reduction and resource efficiency targets and management approach can be found in the Group's *2020 Annual Review* and *2020 Sustainability Report* available online at www.nab.com.au/annualreports. Detailed GHG and environmental performance data is also available in the Group's *2020 Sustainability Data Pack*.

(1) https://sustainable.org.nz/climate-action-20-25/
(2) A significant contributor to the reduction since 30 September 2019 is AUD currency appreciation of USD denominated exposures and lower mark-to-market positions of treasury related products in the Oil and Gas extraction sector.

OTHER MATTERS (CONTINUED)

Modern Slavery

The Group is subject to modern slavery acts in Australia and the United Kingdom. On 1 January 2019, the *Australian Modern Slavery Act 2018* (Cth) came into effect and NAB is reporting subject to this Act for the first time in 2020.

The Group has prepared a Modern Slavery Act statement which sets out actions taken by the Group during the 2020 financial year to ensure that its business operations, and its supply chain, are free from slavery and human trafficking. This statement is available online at www.nab.com.au/modernslaverystatement in accordance with both the *UK Modern Slavery Act* and the *Modern Slavery Act 2018* (Cth).

OTHER MATTERS (CONTINUED)

Past employment with external auditor

EY has been the Group external auditor since 31 January 2005. There is no person who has acted as an officer of the Group during the 2020 financial year who has previously been a partner at EY when that firm conducted NAB's audit.

Audit-related, Taxation-related and Non-audit services

EY provided audit-related, taxation-related and non-audit services to the Group during 2020. The fees paid or due and payable to EY for these services during the year to 30 September 2020 are as follows:

	Group 2020 $'000
Total Audit services	**17,134**
Comfort letters	793
Regulatory	5,243
Non-regulatory	362
Total Audit-related services	**6,398**
Taxation-related services	60
Non-audit services	32
Total audit services, audit-related, taxation-related and non-audit services	**23,624**
Services for non-consolidated trusts of which a Group entity is a trustee, manager or responsible entity and non-consolidated Group superannuation funds	3,274
Total remuneration paid to the external auditor	**26,898**

As set out in *Note 33 Remuneration of external auditor* of the financial statements, total fees paid or due and payable for all services provided by EY to the Group during 2020 amount to $23.6 million.

ASIC disclosures

The Joint Parliamentary Committee inquiry into the Regulation of Auditing in Australia highlighted the disparity and lack of comparability of the external auditor fee remuneration disclosure for ASX Listed Corporates. ASIC are proposing four categories to define external auditor services as the basis of the proposed future disclosure requirements as set out below:

Consolidated and non-consolidated entities	Group 2020 $'000
Audit services for the statutory financial report of the parent and any of its' controlled entities	17,134
Assurance services that are required by legislation to be provided by the external auditor	299
Other assurance and agreed-upon-procedures services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the external auditor or another Professional Accounting firm	
Comfort letters	793
Regulatory	4,905
Non-regulatory	317
Non-consolidated	2,754
Other services	696
Total remuneration paid to the external auditor	**26,898**

In accordance with advice received from the Board Audit Committee, the directors are satisfied that the provision of audit-related, taxation-related and non-audit services during the year to 30 September 2020 by EY is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded that the provision of each service or type of service would not impair the independence of EY.

A description of the Board Audit Committee's pre-approval policies and procedures is set out in the NAB 2020 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Details of the services provided by EY to the Group during 2020 and the fees paid or due and payable for those services are set out in *Note 33 Remuneration of external auditor* of the financial statements. A copy of EY's independence declaration is set out on the following page.

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of National Australia Bank Limited

As lead auditor for the audit of the financial report of National Australia Bank Limited for the financial year ended 30 September 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of National Australia Bank Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
11 November 2020

DIRECTORS' SIGNATURES

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

Philip Chronican
Chairman
11 November 2020

Ross McEwan
Group Chief Executive Officer
11 November 2020

REMUNERATION REPORT

Letter from the People & Remuneration Committee Chairman, Anne Loveridge

Dear Shareholder,

The Group has maintained a clear focus over the past year in supporting our customers, colleagues and the community while taking decisive action to strengthen our business and ensure NAB remains a safe bank for the years ahead. Bushfires, drought and a global pandemic only strengthened our resolve to meet and exceed expectations as a financial services company and one of Australia's largest economic contributors.

During 2020, the structure of our business has been reorganised and our leadership strengthened. NAB welcomed our new Group Chief Executive Officer (Group CEO), Ross McEwan, who has led the refresh of our long-term strategy and implemented a new operating model to execute with excellence. We have renewed the Executive Leadership Team through the appointment of four new Group Executives and a change in position for one other. You can read more about the Executive Leadership Team in Section 1.

The Group CEO and Executive Leadership Team have demonstrated exemplary leadership in supporting our customers, communities and colleagues through the unprecedented challenges during 2020. As a Board, we are confident that we are well positioned to lead through this volatile environment. The Executive Leadership Team remains focused on the execution of our strategy, serving our customers well and building a responsible, secure business that will generate sustainable growth and returns to our shareholders.

Remuneration in 2020

The Executive Leadership Team and the Board took early and decisive action on remuneration outcomes for 2020 to reflect the challenges faced by our customers, shareholders and the community. Remuneration outcomes were reduced through:

- A 20% reduction in non-executive director base fees for the period 1 April 2020 to 30 September 2020.
- A 20% reduction in fixed remuneration volunteered by the Group CEO for the period 1 April 2020 to 30 September 2020.
- The decision that the Group CEO and other Executives would not be awarded any Annual Variable Reward for 2020.

There were no changes to the Executive remuneration framework for 2020. Similarly, there were no increases to non-executive director fees or Executive fixed remuneration for 2020, other than for Executives who had their accountabilities increased. Details of all remuneration matters for the Executive Leadership Team are provided in the Remuneration report.

Remuneration in 2021

A modest range of changes within the Group's remuneration framework will be applied in 2021 to:

- ensure performance measures align to the refreshed strategy
- simplify the calculation of annual variable reward
- enhance governance through clearer application of accountability and remuneration consequences.

The Board will continue to explore potential improvements to the remuneration framework to ensure Executive remuneration is aligned with our refreshed strategy, changes in regulatory requirements and takes shareholder outcomes into consideration. We will balance these requirements within an effective remuneration framework that appropriately rewards our Executive Leadership Team.

As a Board, we are proud of the way the NAB team has responded to such a confronting year by adopting new ways of working, enabling more than 90% of colleagues to work from home and maintaining resilience in technology and operations for our customers. I extend my thanks to all colleagues who have remained focused on serving our customers throughout 2020.

On behalf of your Board's People & Remuneration Committee, I would like to invite you to read the full Remuneration report in detail which will be presented to shareholders for adoption at our 2020 Annual General Meeting.

Anne Loveridge
People & Remuneration Committee Chairman

11 November 2020

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REMUNERATION REPORT (CONTINUED)

Section 1 - Summary

1.1 Key Management Personnel in 2020

The list of NAB's Key Management Personnel (KMP) is assessed each year and comprises the non-executive directors of NAB, the Group CEO (an executive director of NAB) and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. There were several changes to KMP during 2020 arising from the change in the organisational structure of the business and strengthening of the Executive Leadership Team. KMP during 2020 were:

Name	Position	Term as KMP
Non-executive directors		
Philip Chronican[1]	Chairman / Interim Group Chief Executive Officer and Chairman-elect	Full year
David Armstrong	Director	Full year
Kathryn Fagg	Director (from 16 December 2019)	Part year
Peeyush Gupta	Director	Full year
Anne Loveridge	Director	Full year
Geraldine McBride[2]	Director	Full year
Douglas McKay	Director	Full year
Simon McKeon	Director (from 3 February 2020)	Part year
Ann Sherry	Director	Full year
Former non-executive directors		
Ken Henry	Chairman (to 14 November 2019)	Part year
Anthony Yuen	Director (to 18 December 2019)	Part year
Group CEO		
Ross McEwan	Group Chief Executive Officer and Managing Director (from 2 December 2019)	Part year
Executives		
Sharon Cook[3]	Group Executive, Legal and Commercial Services	Full year
Shaun Dooley	Group Chief Risk Officer	Full year
Susan Ferrier[3]	Group Executive, People and Culture	Full year
David Gall[3]	Group Executive, Corporate and Institutional Banking	Full year
Nathan Goonan	Group Executive, Strategy and Innovation (from 1 June 2020)	Part year
Andrew Irvine	Group Executive, Business and Private Banking (from 1 September 2020)	Part year
Gary Lennon[4]	Group Chief Financial Officer	Full year
Angela Mentis[5]	Managing Director and CEO of Bank of New Zealand	Full year
Rachel Slade[6]	Group Executive, Personal Banking	Full year
Patrick Wright[3]	Group Executive, Technology and Enterprise Operations	Full year
Former Executives		
Mike Baird[7]	Chief Customer Officer - Consumer Banking (to 15 April 2020)	Part year
Anthony Healy[8]	Chief Customer Officer - Business and Private Banking (to 30 April 2020)	Part year
Executives acting on an interim basis		
Michael Saadie[3][9]	Acting Group Executive, Business and Private Banking (from 1 May to 31 August 2020)	Part year
Anthony Waldron[9]	Acting Chief Customer Officer - Consumer Banking (from 16 April to 31 May 2020)	Part year

(1) Philip Chronican was appointed as the interim Group Chief Executive Officer on 1 March 2019 and held that position until 14 November 2019. Effective 15 November 2019 he transitioned to Chairman of the Board.
(2) On 6 October 2020, it was announced that Ms Geraldine McBride will not be standing for re-election at NAB's 2020 Annual General Meeting.
(3) The positions held by Sharon Cook, Susan Ferrier, David Gall, Patrick Wright and Michael Saadie had different titles during 2020.
(4) Gary Lennon was Group Chief Financial Officer excluding the period from 15 November to 1 December 2019 when he was the acting Group Chief Executive Officer.
(5) All matters relating to the remuneration of Angela Mentis including variable reward, have been approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand.
(6) Rachel Slade held the KMP position of Chief Customer Experience Officer until 31 May 2020.
(7) Mike Baird ceased to be a KMP on 15 April 2020 and an employee of NAB and the Group on 31 May 2020.
(8) Anthony Healy ceased to be a KMP and an employee of NAB and the Group on 30 April 2020.
(9) Michael Saadie and Anthony Waldron returned to their permanent role at the end of the acting period.

REMUNERATION REPORT (CONTINUED)

1.2 Summary of key outcomes

Overall remuneration outcomes

In April 2020, the Board took early and decisive action to strengthen our business and support customers through COVID-19. We anticipated COVID-19 would have a significant impact on customers and acted quickly to provide immediate and responsible support. The Board recognised the uncertain economic outlook arising from COVID-19 and bolstered NAB's capital base and reduced the 2020 interim and final dividends.

As a responsible business, we also recognised the importance of our remuneration principles (see Section 2.1) and ensuring clear alignment between remuneration outcomes and customer, shareholder and community experiences by reducing Executive and Board remuneration. In April 2020, remuneration outcomes were reduced by:

- A 20% reduction in non-executive director base fees for the period 1 April 2020 to 30 September 2020.
- A 20% reduction in fixed remuneration volunteered by the Group CEO for the period 1 April 2020 to 30 September 2020.
- The decision that the Group CEO and other Executives would not be awarded any Annual Variable Reward for 2020.

Fixed remuneration (FR)

- No FR increases were received by Executives, except for Rachel Slade on appointment to the Group Executive, Personal Banking role on 1 June 2020. The increase reflected the expanded responsibilities of the position and appropriate pay relativities. Rachel Slade was the Chief Customer Experience Officer prior to this appointment.

Annual Variable Reward (VR) outcomes

The Group CEO and other Executives have not received any Annual VR for 2020. The Executives' aggregate maximum Annual VR opportunity was $15 million ($10 million at target opportunity). This is the second year of no Annual VR for Executives.

See Section 4.1 for details on the Group's actual performance for 2020 and Section 2.3 for details on how the Annual Variable Reward Plan works.

Three-year overview of Executive VR Outcomes

	% Maximum Annual VR		
Position	**2020**	**2019**	**2018***
Group CEO	0%	0%	12%
Other Executives	0%	0%	0% - 70%

* The amount shown has been adjusted for deferred variable reward amounts that were later forfeited by Executives on leaving the Group in accordance with the terms of the award or by the Board exercising its discretion to forfeit deferred variable reward.

Long-term variable reward outcomes

Long Term Incentive (LTI) awards granted in December 2014 and December 2015 vested in 2020. The outcome of these awards reflects the Group's Total Shareholder Return (TSR) performance over defined periods between November 2014 to November 2019 relative to certain peer groups.

	2014 LTI	**2015 LTI**
Performance period	5 years	4 years
Number of Executives with vested award	5	3
% of award vested	34.5%	37.6%
% of award lapsed	65.5%	62.4%

See Section 4.4 for further details on these awards and other vested and unvested long-term variable rewards.

A 2020 long-term variable reward, that will be subject to testing in December 2024, will be granted to Executives to align their interests with the interests of shareholders over the long term. See Section 2.4 for more information on this award.

Board fees

- The Board Chairman and each of the non-executive directors took a 20% reduction in their base fees from 1 April 2020 to 30 September 2020.
- No increase to non-executive director Board or Committee fees.

Key definitions

Term	Meaning
Executives	The Group CEO and other executive KMP, excluding the interim Group CEO (Philip Chronican) and executives who have acted in a KMP position on an interim basis (Michael Saadie and Anthony Waldron).
Control Roles	The Group Executive, Legal and Commercial Services, Group Chief Risk Officer, Group Executive, People and Culture, and Group Executive, Strategy and Innovation.
Key Management Personnel (KMP)	KMP are the non-executive directors of NAB, the Group CEO (an executive director of NAB) and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group.

REMUNERATION REPORT (CONTINUED)

1.3 Executive appointments

The following table outlines the remuneration arrangements for Executive appointments made during 2020. Further details are provided in Section 5.1.

Executive	Appointment arrangement
Ross McEwan, Group CEO	• Annual FR of $2.5 million with an Annual VR target of 100% of FR and Long Term Variable Reward (LTVR) of 130% of FR. • Ross' FR was reduced by 20% for the period 1 April 2020 to 30 September 2020. • Relocation benefits provided to support moving to Melbourne.
Susan Ferrier, Group Executive, People and Culture	• Annual FR of $900,000 with an Annual VR target of 70% of FR and LTVR of 100% of FR.
Nathan Goonan, Group Executive, Strategy and Innovation	• Annual FR of $900,000 with an Annual VR target of 70% of FR and LTVR of 100% of FR. • Nathan was an internal appointment. His prior role was Executive General Manager, Group Strategy and Development.
Andrew Irvine, Group Executive, Business and Private Banking	• Annual FR of $1.2 million with an Annual VR target of 100% of FR and LTVR of 130% of FR. • A commencement award was provided to compensate for the loss of deferred benefits and current year variable reward on leaving his former employer. The commencement award is subject to Andrew's continued employment, malus and clawback provisions. The award consists of $630,000 provided in cash, payable in December 2020 and $2.06 million in restricted shares, scheduled to vest between December 2020 and December 2024. • Relocation benefits provided to support moving to Melbourne.
Rachel Slade, Group Executive, Personal Banking	• Annual FR of $1.2 million with an Annual VR target of 100% of FR and LTVR of 130% of FR. • Rachel was an internal appointment. Her prior role was Chief Customer Experience Officer.

1.4 Executive exit arrangements

The following table outlines the exit arrangements for Executives who ceased employment with the Group during 2020. Further details are provided in Section 5.1.

Executive	Exit arrangement
Mike Baird (ceased as an Executive on 15 April 2020 and as an employee on 31 May 2020)	• A payment in lieu of notice in accordance with his employment contract. • Unvested 2018 deferred VR was retained in accordance with the terms and conditions of the award and remains restricted until November 2022 and subject to the relevant performance hurdles. • Unvested 2017 and 2019 long-term awards were partially retained in accordance with the terms and conditions of the relevant awards and remain subject to the relevant performance hurdles and restriction periods. • Payments in respect of statutory entitlements, career transition services and in recognition of Mr Baird's contribution to the Group. Half of the payment recognising his contribution to the Group was paid on separation (and is subject to clawback), with the remaining half deferred and scheduled to be paid incrementally in the period from November 2021 to 2024. The deferred component is subject to malus and clawback. • Termination benefits provided were in compliance with the termination benefits regime in the *Corporations Act 2001* (Cth).
Anthony Healy (ceased as an Executive and an employee on 30 April 2020)	• A payment in lieu of notice in accordance with his employment contract. • Unvested 2018 deferred VR was retained in accordance with the terms and conditions of the award and remains restricted until November 2022 and subject to the relevant performance hurdles. • Unvested 2016, 2017 and 2019 long-term awards were partially retained in accordance with the terms and conditions of the relevant awards and remain subject to the relevant performance hurdles and restriction periods. • Forfeiture of NZ General employee shares in accordance with the terms and conditions of the award. • Payments in respect of statutory entitlements, career transition services and in recognition of Mr Healy's contribution to the Group. Half of the payment recognising his contribution to the Group was paid on separation (and is subject to clawback), with the remaining half deferred and scheduled to be paid incrementally in the period from November 2021 to 2024. The deferred component is subject to malus and clawback. • Termination benefits provided were in compliance with the termination benefits regime in the *Corporations Act 2001* (Cth).

REMUNERATION REPORT (CONTINUED)

1.5 Realised remuneration

The table below is a voluntary non-statutory disclosure that shows the realised remuneration each Executive received for the period in 2020 during which they were an Executive. The amounts shown include fixed remuneration, previous years' deferred variable reward which vested in 2020, and other equity and cash based awards that vested in 2020. The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with accounting standards and this information differs from the statutory remuneration table (in Section 5.1) which shows the expense for vested and unvested awards in accordance with accounting standards.

		2020			Prior years		
Name		Fixed[1] remuneration $	Annual VR cash $	Total 2020 remuneration $	Vested / paid[2] remuneration $	Total realised remuneration $	Equity[3] forfeited / lapsed $
Group CEO							
Ross McEwan (for part year)	**2020**	**1,837,165**	**-**	**1,837,165**	**-**	**1,837,165**	**-**
Executives							
Sharon Cook	**2020**	**903,449**	**-**	**903,449**	**58,340**	**961,789**	**-**
	2019	900,606	-	900,606	46,288	946,894	(255,509)
Shaun Dooley	**2020**	**1,003,831**	**-**	**1,003,831**	**236,545**	**1,240,376**	**(224,607)**
	2019	997,622	-	997,622	121,838	1,119,460	(366,894)
Susan Ferrier	**2020**	**903,449**	**-**	**903,449**	**-**	**903,449**	**-**
David Gall	**2020**	**1,204,597**	**-**	**1,204,597**	**884,267**	**2,088,864**	**(1,490,936)**
	2019	1,200,731	-	1,200,731	363,262	1,563,993	(850,400)
Nathan Goonan (for part year)	**2020**	**303,448**	**-**	**303,448**	**-**	**303,448**	**-**
Andrew Irvine (for part year)	**2020**	**101,149**	**-**	**101,149**	**-**	**101,149**	**-**
Gary Lennon	**2020**	**1,106,235**	**-**	**1,106,235**	**360,575**	**1,466,810**	**(249,597)**
	2019	1,100,606	-	1,100,606	447,893	1,548,499	(620,135)
Angela Mentis	**2020**	**1,366,499**	**-**	**1,366,499**	**1,454,442**	**2,820,941**	**(1,822,197)**
	2019	1,365,468	-	1,365,468	612,255	1,977,723	(238,773)
Rachel Slade	**2020**	**1,033,334**	**-**	**1,033,334**	**113,940**	**1,147,274**	**-**
	2019	885,472	-	885,472	314,766	1,200,238	-
Patrick Wright	**2020**	**1,505,746**	**-**	**1,505,746**	**739,962**	**2,245,708**	**-**
	2019	1,499,999	-	1,499,999	928,188	2,428,187	-

(1) Includes cash salary and superannuation consistent with the statutory remuneration table in Section 5.1, and excludes accrued annual leave entitlements. The 2019 fixed remuneration comparative amounts have been restated as described in Section 5.1.
(2) Amounts related to prior year vested equity or cash based remuneration. This includes deferred Short Term Incentive (STI) shares and performance rights, LTI performance rights, commencement awards, shares received under the General Employee Share Offer and dividends paid during 2020 in relation to any deferred share awards. Details of the vested equity awards are provided in Section 5.2.
(3) Awards or remuneration lapsed or forfeited during 2020. Details of the awards are provided in Section 5.2.

REMUNERATION REPORT (CONTINUED)

Section 2 - Executive remuneration framework

2.1 Framework

Group strategy

During 2020, the Group introduced a refreshed strategy and made clear why we are here - to serve our customers well and help our communities prosper. The Group will achieve this by investing in customers and colleagues and being known for:
- **Relationship-led:** building on market-leading expertise, data and insights.
- **Easy:** a simpler, more seamless and digitally enabled bank that gets things done faster.
- **Safe:** protecting customers and colleagues through financial and operational resilience.
- **Long-term:** delivering sustainable outcomes for our customers, colleagues and communities.

Executive remuneration framework

The Executive remuneration framework has been developed and is applied based on guiding principles to ensure remuneration outcomes align with delivery of the Group's strategy over time.

REMUNERATION PRINCIPLES

CUSTOMERS	COLLEAGUES	SHAREHOLDERS	RISK	STRATEGY
Reinforce our commitment to customers	Attract and retain the best people	Align reward with sustainable shareholder value	Reflect risk, reputation, conduct and values outcomes	Drive delivery of long-term performance

HOW THE REMUNERATION FRAMEWORK SUPPORTS OUR STRATEGY

	FIXED REMUNERATION	ANNUAL VARIABLE REWARD	LONG TERM VARIABLE REWARD
WHY	**Set to attract and retain**	**Earned for delivery of annual goals that drive the Group's strategy**	**Align remuneration with long-term shareholder outcomes**
WHAT	• FR is comprised of base salary and superannuation • Paid regularly during the financial year	• 50% cash • 50% deferred performance rights (12.5% scheduled to vest at the end of year 1, year 2, year 3 and year 4) • Dividend equivalent payment for any vested deferred rights at the end of each deferral period	• 100% performance rights • Subject to four year performance hurdle • No dividend equivalent payment for any vested performance rights
HOW	• Set at a market competitive level for role and experience • Reviewed annually against the ASX20, the other major Australian banks and other financial services companies	• Quantum ranges (% of FR): 0% - 150% for Group CEO; 0% - 105% for Control Roles; 0% - 150% for all other Executives • Outcomes vary depending on Group[1] and individual performance (balanced scorecard including risk goals), values and behaviours	Maximum award value (% of FR)[2]: 130% for Group CEO; 100% for Control Roles; 130% for all other Executives • Granted subject to minimum individual performance requirements being met • Subject to NAB's TSR result against a financial services peer group[3]
	FIXED REMUNERATION	ANNUAL VR (CASH) / ANNUAL VR (DEFERRED RIGHTS)	LONG TERM VARIABLE REWARD
	PERFORMANCE YEAR (YEAR 0)	PERFORMANCE YEAR (YEAR 0) / YEARS 1-4	YEAR 4

Board discretion applies for qualitative matters including risk, reputation, conduct and values to ensure sustainable performance (including for malus and clawback)

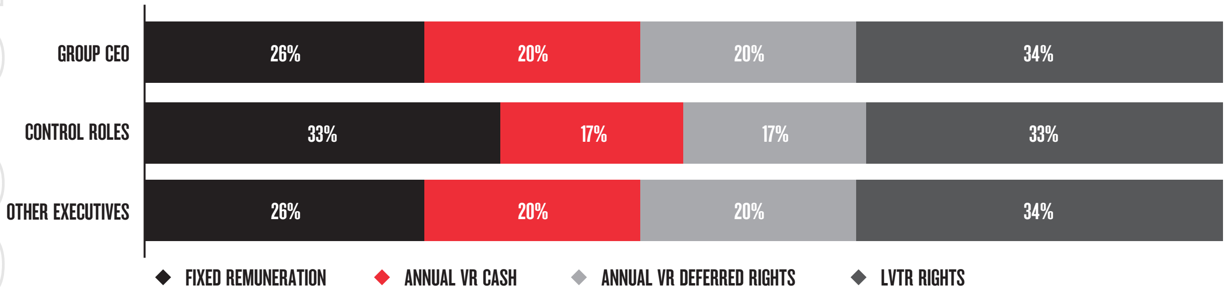
AT RISK

1 The outcome for the Managing Director and CEO BNZ will vary depending on overall BNZ performance.
2 The actual value delivered to an Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting.
3 For the 2020 LTVR the financial services peer group is AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Macquarie Group Limited, Suncorp Group Limited, Westpac Banking Corporation.

REMUNERATION REPORT (CONTINUED)

Remuneration mix

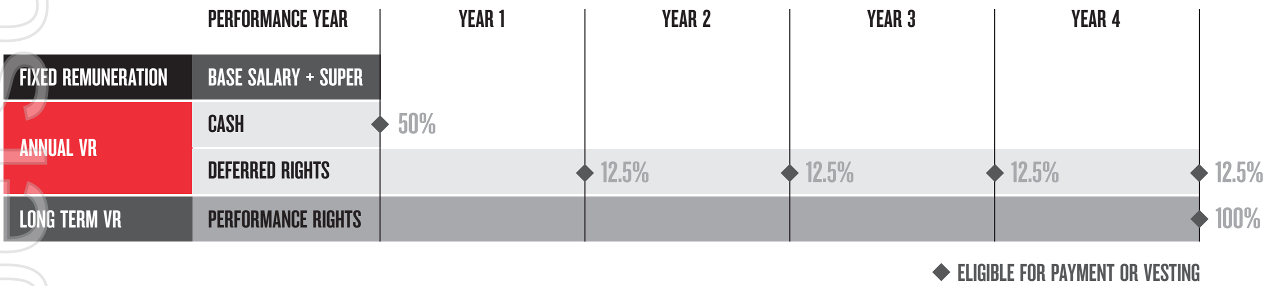
The following diagram shows the Group CEO and other Executives remuneration mix at maximum opportunity. At maximum opportunity, the framework delivers approximately three-quarters of total remuneration as variable, at risk remuneration for the Group CEO and other Executives (excluding Control Roles). For Control Roles a lower proportion of remuneration, two-thirds of total remuneration at maximum opportunity, is set to support the independence required of these roles and, in conjunction with the performance measures set, mitigate the potential for conflicts of interest. The actual remuneration mix for each Executive is subject to Group and individual performance each year.



2.2 Long-term alignment of remuneration

A proportion of remuneration is deferred in the form of equity for up to four years from the end of the current performance year. This encourages long-term decisions critical to creating sustainable value for customers and shareholders. Deferring remuneration in the form of equity also aligns Executive remuneration more closely with the shareholder experience.

The Board can determine that all or any unvested deferred variable reward be forfeited at any time. It can also claw back paid or vested variable reward if performance is not delivered over the long term or for other matters including risk, conduct, reputation, values and sustainability. See Section 3.5 for more detail.



REMUNERATION REPORT (CONTINUED)

2.3 Annual Variable Reward

The table below explains the key features of the 2020 and 2021 Annual VR plan for the Group CEO and other Executives.

Feature	Description
Purpose	To reward Executives for delivery of annual goals that drive long-term sustainable performance. The plan provides an appropriate level of remuneration that varies based on the Board's determination of the Executive's performance in the year measured against agreed targets for financial and non-financial measures that deliver strategic objectives. The plan is not formulaic, judgement is applied through qualitative assessment of risk, reputation, sustainability and environment, conduct and values, the quality of Group and individual performance and any other matters determined by the Board.
Annual VR Opportunity	The Annual VR opportunity for Executives is expressed as a percentage of FR and is set by the Board based on the recommendation of the People & Remuneration Committee, having regard to a range of factors including the scope and accountabilities of the Executive's role, and market competitiveness. The Annual VR opportunity ranges from:

Position	Annual VR opportunity (% of FR)
Group CEO	0% to 150%
Control Roles	0% to 105%
All other Executives	0% to 150%

Feature	Description
Group performance	Group performance is assessed using the Group Performance Scorecard (known as the One NAB Score) comprising financial and non-financial measures linked to the Group's key strategic priorities, which is overlaid by a qualitative assessment to support any adjustment of the outcome. The qualitative assessment is integral to the outcome and may result in the outcome being adjusted upwards or downwards (including to zero), for risk, reputation, How We Work, quality of performance or any other matters as determined by the Board. For 2020, the Group Performance Scorecard measures were: Return on Total Allocated Equity (ROTAE) (50%), Group cash earnings (25%), Strategic NPS (12.5%) and Transformation (12.5%). Further information on the Group Performance Scorecard outcome is provided in Section 4.1. For 2021, the Board has rebalanced the quantitative components of the Group Performance Scorecard to better accommodate the refreshed Group strategy, market practice within the financial services sector and expected regulatory changes. Financial performance measures within the Group Performance Scorecard will comprise 50% of the assessment with the remaining 50% covering Customers, Colleagues and Safe Growth measures. The qualitative overlay will continue to be an integral part of the assessment of Group performance.

2021 GROUP PERFORMANCE SCORECARD

QUANTITATIVE INPUT

Financial	Customers	Colleagues	Safe Growth
50%	15%	15%	20%

+

QUALITATIVE ASSESSMENT

Risk
Regulatory, breach management, risk management, losses associated with operational events and remediation costs

Quality of Performance
Consideration of financial, sustainability and environmental matters, progress made against strategy

Feature	Description
Individual Executive performance	The Group Performance Scorecard informs the critical priorities for the performance period. Key elements of the Group Performance Scorecard are cascaded to Executives in combination with appropriate business unit outcomes. Each Executive had a balanced scorecard for 2020 comprised of five equally weighted goals: Customers, Risk and Controls, Colleagues and Culture, Strategy Execution and Financial. The weighting of measures within each goal was set for each Executive to reflect the responsibilities of their role. The Board assessed each Executive's performance against their balanced scorecard. The Board also considered the Executive's conduct and the extent to which they had demonstrated NAB's values. The Group CEO's performance measures and outcome are detailed in Section 4.2. In assessing performance for each Executive, the People & Remuneration Committee seeks input from the Group CEO, Group CRO (on risk management), Group CFO (on financial performance) and Group Executive, People and Culture (on colleague and culture matters) together with appropriate input from Internal Audit. Relevant Board Committees then review the performance information submitted to the Board to inform their decisions on each Executive's overall performance outcome.

REMUNERATION REPORT (CONTINUED)

Feature	Description
Calculation and provision of Annual VR	The Group Variable Reward Plan (GVRP) is the variable reward plan that covers the Group CEO, other Executives and the majority of Group employees. The Board determines the appropriate funding for the GVRP informed by an assessment of the Group Performance Scorecard and qualitative overlay. Each Executive's Annual VR outcome is determined based on the combination of Group and Individual performance. The People & Remuneration Committee recommend the Annual VR outcome to the Board for approval. Annual VR will vary in line with performance, available GVRP funding and remains discretionary. Any amount may be awarded from zero up to the maximum VR opportunity. Individual Annual VR awards for Executives (excluding the Managing Director and CEO of BNZ[(1)]) are calculated as follows (adjusted by the Group Performance Scorecard assessment): **2021 INDIVIDUAL VARIABLE REWARD OUTCOME** **INDIVIDUAL BALANCED SCORECARD[1]** **Individual Scorecards provide a metricated and balanced approach to assessing performance, based on 5 key pillars:** **Financial – 20%** **Customers – 20%** **Colleagues (Leadership & Culture) – 20%** **Strategic Ambition – 20%** **Safe Growth – 20%** **+** **INDIVIDUAL MODIFIER** **How We Work** (individual conduct and values) **Individual Contribution** **x** **TARGET OPPORTUNITY** **Fixed Remuneration x Annual VR target %** 1 For 2021 the Group CEO's scorecard is aligned to the Group Performance Scorecard.
Board discretion	The Board has extensive discretion with respect to the GVRP, including in connection with Annual VR for Executives, and other deferred awards. The Board has discretion to (among other things): • Determine the amount of any VR award (which could range from zero up to the maximum VR opportunity). • Vary the GVRP terms and conditions, including the performance measures and their respective weightings within each goal category. • Forfeit some or all of the Annual VR deferred performance rights at any time before they vest. • Claw back awards after they have been paid or vested (to the extent legally permissible). More details on Annual VR deferred performance rights terms and conditions are described in Sections 3.5.
Award delivery and deferral	Annual VR is delivered as a combination of cash and deferred performance rights. Deferral proportions and vesting profiles are structured so that, in combination with any LTVR award, the proportion of variable pay that is deferred is no less than that required by regulation. Deferred performance rights are granted by the Board at its discretion, subject to the relevant plan rules as amended from time to time. The number of deferred performance rights granted is based on NAB's weighted average share price over the last five trading days of the financial year. A dividend equivalent payment for any vested deferred performance rights is paid at the end of each deferral period. The cash components of any Annual VR are paid following the performance year to which they relate, normally in December. Deferred performance rights are structured so that no performance rights vest faster than permitted by regulations. Vesting of deferred performance rights is subject to the terms and conditions of the grant including malus and clawback provisions. Currently, any deferred performance rights granted to Executives are scheduled to vest pro-rata over four years from grant.

(1) All matters relating to the remuneration of Angela Mentis, Managing Director and CEO of BNZ, including scorecard goals and performance assessment, have been approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand. The BNZ Board determined that for 2020, Angela Mentis' Annual VR would have a higher weighting towards overall BNZ performance and be calculated as (50% One NAB Score + 50% BNZ performance) x Individual Score x Target Opportunity. BNZ performance is assessed based on Customer 25%; Financial 50% and External Market Share 25%. The assessed overall BNZ performance for 2020 was 25%.

REMUNERATION REPORT (CONTINUED)

2.4 Long Term Variable Reward

The key features of the LTVR award to be awarded in respect of 2020 are:

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Purpose</td><td>LTVR awards are granted by the Board to encourage long-term decision making critical to creating long-term value for shareholders. They are determined and awarded independently from Annual VR decisions.</td></tr>
<tr><td>Participants</td><td>Group CEO and other Executives.</td></tr>
<tr><td>Award value</td><td>The LTVR award values are:
• Group CEO - 130% of FR
• Control Roles - 100% of FR
• Other Executives - 130% of FR.

The LTVR will be granted to each Executive subject to minimum individual performance requirements being met by the Executive. The Board assessed all Executives as meeting the minimum individual performance requirements for 2020 and determined that all eligible Executives would receive their 2020 LTVR grant in full. The actual value delivered to an Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting. This may be zero if the performance hurdle is not achieved.</td></tr>
<tr><td>Instrument</td><td>Performance rights: Each performance right entitles the Executive to receive one NAB share at the end of the four year performance period, subject to the performance hurdle being satisfied.</td></tr>
<tr><td>Allocation approach</td><td>A face value allocation approach is used.
The number of performance rights to be granted is calculated by dividing the LTVR award value by NAB's weighted average share price over the last five trading days of the financial year.
The weighted average share price used for 2020 is $17.99.</td></tr>
<tr><td>Grant date</td><td>The award is scheduled to be granted in February 2021.</td></tr>
<tr><td>Performance period</td><td>Four years from 15 November 2020 to 15 November 2024.</td></tr>
<tr><td>Performance hurdle</td><td>Total Shareholder Return (TSR): TSR measures the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. For the purposes of calculating TSR over the performance period, the value of the relevant shares on the start date and the end date of the performance period is based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date.</td></tr>
<tr><td>Vesting schedule</td><td>NAB's TSR is measured against the TSR Peer Group to determine the level of vesting:
<table>
<tr><th>NAB's relative TSR outcome</th><th>Level of vesting</th></tr>
<tr><td>Below the 50th percentile</td><td>0%</td></tr>
<tr><td>At the 50th percentile</td><td>50%</td></tr>
<tr><td>Between the 50th and 75th percentiles</td><td>Pro-rata vesting from 50% to 100%</td></tr>
<tr><td>At or above the 75th percentile</td><td>100%</td></tr>
</table></td></tr>
<tr><td>TSR Peer Group</td><td>AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Macquarie Group Limited, Suncorp Group Limited, Westpac Banking Corporation.</td></tr>
<tr><td>Testing</td><td>TSR outcomes are calculated by an independent provider.</td></tr>
<tr><td>No retesting</td><td>The award is not retested. Any performance rights that have not vested after the end of performance period will lapse in December 2024.</td></tr>
<tr><td>Dividends</td><td>No dividends paid.</td></tr>
<tr><td>Board discretion</td><td>The Board may adjust the value of the LTVR award down, or to zero, if it determines under performance or failings in risk, conduct, reputation, values or sustainability measures have occurred. This can be done:
• by reducing the value of the LTVR granted or lapsing the performance rights at any time before they vest
• through clawback of vested performance rights.

More details on LTVR performance rights terms and conditions are described in Section 3.5.</td></tr>
</table>

Refer to Section 4.4 for details of previous LTI awards that were tested during 2020.

REMUNERATION REPORT (CONTINUED)

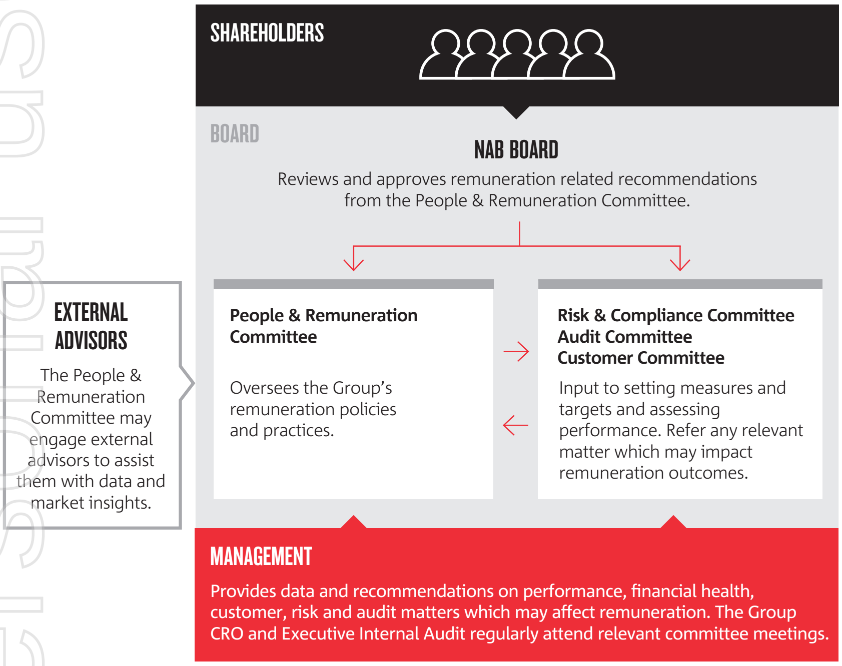
Section 3 - Remuneration governance

3.1 The role of the People & Remuneration Committee

The People & Remuneration Committee's name was changed during 2020 (formerly the Remuneration Committee) to reflect its expanded role in relation to the review and oversight of people related risks, culture, inclusion and diversity, talent and succession matters in addition to remuneration matters. This expanded role further emphasises the committee's focus on customers and colleagues ensuring the Group's policies and practices are effective and fulfil the regulatory and compliance requirements of the jurisdictions in which the Group operates.

In carrying out its duties, the People & Remuneration Committee seeks input from risk and financial control teams and engages external advisors who are independent of management. Members of the People & Remuneration Committee are independent non-executive directors. Further detail about the People & Remuneration Committee and its responsibilities is provided in our Corporate Governance Statement available at http://www.nab.com.au/about-us/ corporate-governance.

THE REMUNERATION GOVERNANCE FRAMEWORK



3.2 Performance, risk and remuneration

The People & Remuneration Committee oversees the Group Performance Scorecard by establishing robust performance measures and targets that support performance and conduct aligned to NAB's Code of Conduct and makes recommendations to the Board in relation to the performance and remuneration outcomes for the Group CEO, other Executives, other Accountable Persons and other persons as determined by the Board.

In making recommendations to the Board, the People & Remuneration Committee receives input from the Risk & Compliance Committee, Audit Committee and the Customer Committee. This input provides oversight of matters that may be relevant in the determination of performance and remuneration outcomes including any prior year malus or clawback adjustments.

Risk is the responsibility of all employees of the Group. A sound risk culture is where the mindset, decisions and behaviour of employees are aligned to the Group's ambition and contribute to sustainable outcomes for customers, shareholders and external stakeholders. The Board and Executive Leadership Team influence culture by focusing on leadership behaviour, systems and colleagues, reinforced through performance and remuneration outcomes. Regular reporting is provided to the Board on culture and the impact this may have on risk management outcomes.

REMUNERATION REPORT (CONTINUED)

The following components of the Group's remuneration framework support the alignment of remuneration outcomes with risk:

Component	Description
Risk assessment	• All employees, including Executives have a scorecard inclusive of a mandatory risk goal. • Divisional CROs provide active oversight, challenge and independent input to the performance review process. • The Group CRO prepares a detailed assessment of the risk outcomes for the Group CEO and each of the other Executives. The Risk & Compliance Committee assesses the Group CRO's risk outcomes. These assessments are used by the Board in determining individual Executive variable reward outcomes. • Executives and employees receive higher variable reward if they are driving improvements in the management of risk and compliance. • If risk is not appropriately managed, the individual's variable reward will be reduced and other consequences may be applied.
Risk adjustment	• On recommendation from the People & Remuneration Committee, the Board may adjust the 'in-year' funding level of variable reward outcomes or reduce variable reward for individuals to align with risk outcomes.
Malus and Clawback	• Malus and clawback may be used to reduce variable reward to align with risk outcomes. • Malus (or forfeiture / lapsing of unvested awards) applies to all employees. • Clawback applies to paid and vested variable reward provided to Executives since July 2018. The Board may apply clawback to the Group CEO, other Executives, other Accountable Persons, some UK employees and other employees in certain circumstances.

3.3 Remuneration effectiveness

As part of its role, the People & Remuneration Committee reviews the policy and frameworks that establish remuneration opportunities for the Group CEO, other Executives, other Accountable Persons and other persons as determined by the Board. The People & Remuneration Committee reviews the frameworks to ensure they support the Group's strategy and risk appetite with focus on how behaviour and conduct is incorporated to meet the expectations and requirements of customers, shareholders and regulators.

The People & Remuneration Committee seeks to ensure responsible remuneration outcomes that are reasonable, fair, and consistent with governance, legal and regulatory requirements. The Group's frameworks are designed to attract and retain employees and balance the interests of customers, shareholders and the community. The People & Remuneration Committee is committed to ensuring the Group's remuneration practices are fair, simple and transparent.

The Chairman of the Board and the Chairman of the People & Remuneration Committee engage throughout the year with key investors and regulators to seek feedback and consider opportunities to enhance the effectiveness of the Group's remuneration frameworks. The objective is to ensure NAB continues to foster an alignment of interests for Executives with the generation of long-term, sustainable shareholder value. This approach ensures key investor and regulator views are considered in the design of the Group's remuneration frameworks and in determining remuneration outcomes. Active listening to and engaging with investors, regulators and colleagues as well as considering broader community expectations, ensures an appropriate breadth of views are considered in remuneration decision-making.

3.4 Employee conduct and risk management

Through the People & Remuneration Committee, the Board maintains oversight of the Employee Conduct Management framework that together with setting clear accountabilities and effective consequence management reinforce expectations supporting an appropriate risk culture.

In 2020, NAB's Code of Conduct and Employee Conduct Management framework were refreshed to enhance transparency, proportionality and fairness of consequence outcomes. Through 2020, Speak Up training initiatives were implemented to enhance a culture where all colleagues can safely raise matters of concern. Consequence is informed by the severity of the matter, including an assessment of intention or repetitive conduct.

The scope of consequences includes any combination of coaching, counselling, formal warnings, termination of employment, impacts to "in-year" performance assessment and remuneration outcomes, and the application of malus or clawback depending of the severity of the matter. In assessing conduct and consequence, each division maintains a Professional Standards Forum which makes recommendations to the Executive Remuneration Committee (chaired by the Group Executive, People & Culture and whose members include the Group CRO and the Group Executive, Legal and Commercial Services). The Executive Remuneration Committee oversees the effectiveness of the framework, reviews material events, accountability and the application of suitable consequences. The People & Remuneration Committee and the Board oversee consequences for the Group CEO and other Executives.

Through a continuing focus on risk management, 3,223 employees (2019: 3,321) were recognised for their positive contribution to risk culture while 1,988 employees (2019: 1,706) were identified as not having met risk expectations and accountabilities.

REMUNERATION REPORT (CONTINUED)

In 2020, there were 1,105 Code of Conduct breaches identified that resulted in formal consequences (compared with 1,278 in 2019). Formal consequences included:

- 225 employees leaving NAB (2019: 292)
- 880 employees receiving coaching or other remedial actions, including the loss of variable reward (2019: 986).

In addition, equity forfeitures of $1.12 million (2019: $3.69 million), occurred as a result of Code of Conduct breaches and revisiting previous variable reward decisions. No forfeitures applied to Executives in 2020.

3.5 Remuneration plan governance

The following arrangements apply to all employees, including Executives, except as specified:

Board discretion	The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations. The Board's review may include the Group's quality of financial results, shareholder experience and other sustainability metrics relevant at the time. The Board has absolute discretion to adjust Rewards[(1)] down, or to zero, where appropriate (including because of Malus[(2)]). This includes: • determining the initial value of Rewards • reducing the value of deferred Rewards during the deferral or performance period, including at vesting • through claw back of paid and vested Rewards. The Board has absolute discretion to extend the deferral period at any time for any Rewards. For example, the Board may do so if the Board has reason to believe that an employee may not meet conduct standards or comply with their accountability obligations under the *Banking Act 1959* (Cth) or any other analogous or similar legislation or regulations. The Board may exercise those discretions in relation to any employee across the Group, by division, by role or individual, depending on circumstances.
Forfeiture or lapsing	Unvested Rewards will be forfeited or lapsed if the: • employee resigns • Board determines that some, or all, of the unvested Rewards be forfeited on cessation of employment with the Group • Board determines that the unvested Rewards should be forfeited due to conduct standards not being met, including as set out in NAB's Code of Conduct • Board determines that the unvested Rewards will be forfeited following the occurrence of a 'Malus Event'[(2)] and / or • Board exercises its discretion as described above.
Clawback	Clawback (recovery of paid and vested Rewards) applies to paid and vested Rewards provided to Executives since July 2018. The Board may apply clawback to the Group CEO, other Executives, other Accountable Persons, some UK employees and other employees in certain circumstances.
Executive mandatory shareholding requirement	Executives are required to accumulate and retain NAB equity[(3)] over a five year period from commencement as KMP to an amount equal to: • two times fixed remuneration for the Group CEO • one times fixed remuneration for other Executives. Additionally, the Group CEO must hold at least 2,000 NAB ordinary shares within six months of appointment. Details of Executive shareholdings are found in Section 5.5. (Details of non-executive director mandatory shareholding requirements are found in Section 6.3 and non-executive director shareholdings in Section 6.4).
Conduct standards	Vesting and grant of all forms of Rewards are subject to the employee meeting conduct standards as set out in NAB's Code of Conduct (NAB's Code of Conduct is found online at: www.nab.com.au).
Hedging policy	Directors and employees are prohibited from protecting the value of their equity Rewards by hedging. Further details are available in the Group Securities Trading Policy, found online at: www.nab.com.au.
Change of control	The Board generally has discretion to determine the treatment of unvested Rewards at the time a change of control event occurs. Vesting of Rewards will not be automatic or accelerated and the Board will retain discretion in relation to the vesting outcome including absolute discretion to forfeit all Rewards.

(1) In this Section, the term 'Rewards' refers to all forms of variable reward including cash provided under a variable reward plan, deferred variable reward (cash and equity), deferred variable reward to be paid or granted, LTVR performance rights, and any variable reward granted in previous years.

(2) Examples include where the Executive has failed to comply with their accountability obligations under the Banking Executive Accountability Regime in the Banking Act 1959 (Cth), has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings NAB into disrepute, or has materially breached a representation, warranty, undertaking or obligation to the Group.

(3) Includes NAB shares held by the Executive, equity received under NAB's employee equity plans that has vested and is retained by the Executive, and unvested deferred STI performance rights, VR deferred shares and VR deferred performance rights.

REMUNERATION REPORT (CONTINUED)

Section 4 - Remuneration outcomes

4.1 Group performance

The Board assesses Group performance over the financial year considering key performance measures and other discretionary factors (see Section 2.3).

The following table shows the key performance measures and outcomes used to support the Board in assessing Group performance for 2020:

Performance measure	Outcome	Result
ROTAE (risk-adjusted financial measure)(1)	Not met	• 5.8% against plan of 11.6%
Cash earnings (financial measure)(1)	Not met	• $3.1 billion against plan of $6.4 billion
Net Promoter Score (non-financial measure)	Above target	• Strategic NPS(2) score of -11 is above the target score of -14 (August 2019 to August 2020)
Transformation (financial and non-financial measures)	Partially met	• Key Transformation milestones for 2020 as assessed by the Board

(1) Includes items related to MLC Wealth that form part of discontinued operations. Refer to Note 37 Discontinued operations for further information.
(2) Strategic NPS: Sourced from DBM Atlas, measured on a six month rolling average. Definition was updated in August 2019 to give all customers within the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer and Business segment results using a 50% weighting for each. This has replaced "NPS priority segments" as previously reported by NAB, which was a simple average of four customer segments (Home Owners, Investors, Small Business and Medium Business).

The Board considered the strong progress throughout 2020 demonstrated the Group's commitment to serve customers well and help communities prosper. The creation of a refreshed strategy, and operating model, enhancing the Group's risk environment, prudent capital management and the focus on developing the capability of colleagues will ensure the Group remains safe and well positioned to grow in the long-term.

Historical Group performance

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

Financial performance measure	2020	2019	2018	2017	2016
Basic earnings per share (cents)	**112.7**(1)	208.2(1)	215.6	228.2	242.4
Cash earnings ($m)	**3,710**(1)	5,853(1)	5,702	6,642	6,483
Dividends paid per share	**$1.13**	$1.82	$1.98	$1.98	$1.98
Company share price at start of year	**$29.70**	$27.81	$31.50	$27.87	$29.98
Company share price at end of year	**$17.75**	$29.70	$27.81	$31.50	$27.87
Absolute Total Shareholder Return for the year	**(36.4%)**	13.3%	(5.4%)	20.1%	(0.7%)

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.

The table below summarises the variable reward outcomes for the Group CEO and other Executives over the last five years, including vesting of LTVR awards relating to prior periods.

	2020	2019	2018	2017	2016
Group CEO Annual VR (% of max. Annual VR)(1)	**0%**	0%	12%	36%	69%
Average other Executives Annual VR (% of max. Annual VR)(1)	**0%**	0%	30%	49%	54%
LTVR award - four year performance period (% of total award vested)(2)	**37.6%**	0%	0%	0%	n/a
LTVR award - five year performance period (% of total award vested)(3)	**34.5%**	0%	65%	n/a	n/a
NAB's four year Total Shareholder Return(4)	**23.1%**	6.4%	22.6%	46.1%	n/a
NAB's five year Total Shareholder Return(4)	**22.0%**	6.4%	80.9%	n/a	n/a

(1) The maximum Annual VR opportunity has changed over time, consistent with the relevant Annual VR plan.
(2) The amount shown for 2020 is the portion of the total 2015 LTI award that vested, measured over a four year performance period, against relevant peer groups.
(3) The amount shown for 2020 is the percentage of the total 2014 LTI award that vested. The amount shown for 2018 is the portion of the total 2012 award that vested. Both awards were measured over a five year performance period against relevant peer groups.
(4) Measured over the performance period of the relevant LTVR award.

REMUNERATION REPORT (CONTINUED)

4.2 Executives' performance

The table below shows the key 2020 performance measures for the Group CEO and the Board's assessment of the Group CEO's performance against those measures. The Board considered that the Group CEO and other Executives maintained a clear focus on delivering for customers throughout the volatility and challenges presented in 2020, including:

- Exemplary industry leadership at a national and local level in support of customers and communities in response to COVID-19.
- Rapid action to ensure the Group remains well capitalised to manage through the volatile environment.
- Creation of a refreshed strategy providing clear direction and purpose for all colleagues across the Group.
- Reaching an agreement to sell 100% of MLC Wealth to IOOF Holdings Limited, which will enable focus on execution in NAB's core banking businesses and further strengthen the Group's capital position.
- Enhancing the Group's risk, compliance and control environment.
- Investing in colleagues through the introduction of market leading programs for bankers and leaders designed to benefit customers, communities and shareholders into the long term.

Performance measure	Objective	Commentary
Customers • Strategic NPS • Operational NPS[1] • Complaint management	Deliver a great customer experience and grow customer advocacy	• Strategic NPS of -11 was eight points stronger than 2019, and 3 points above target of -14 (August 2019 to August 2020). • Majority of key Operational NPS were above target. • Continued progress against remediation plan and outstanding issues, including the settlement of a number of long standing customer complaints.
Risk and Controls • Better customer outcomes • Management of non-financial risks • Risk culture	Lead and deliver on strong risk and controls outcomes	• Actively managed the impact of COVID-19 on customers, colleagues and the Group's risk profile. • The Group operated within agreed Risk Appetite settings and improved risk culture. • Uplift in the control environment for new processes and obligations across Home and Business Lending, Cyber-Security, Data and People with over 1,000 new controls implemented or documented. • Invested in modernising technology infrastructure resulting in 33% reduction in critical and high incidents, meaning fewer interruptions to customers' banking needs. • Launched a new Governance, Risk and Compliance system to support the ownership and management of the Group's obligations, risk and controls environment.
Colleagues and Culture • Colleague engagement • Gender diversity	Improve engagement, build great inclusive leaders who inspire and grow talent that changes the future of financial services	• The Group's overall colleague engagement score of 76[2] was 5 points above the 2020 internal target of 71. • Representation of women in leadership roles increased. However, the outcome fell short of the 2020 target. • Implemented Career Qualified in Banking program, a multi year investment in banker skills, learning and career pathways and a new Group-wide leadership program. • Setting the right foundations for realising the Group's desired culture through establishing a simple and impactful strategy to serve customers well and help communities prosper.
Strategy Execution • Strategy milestones and outcomes	Deliver new enterprise business strategy	• Successfully led the refreshed Group Strategy and implemented a new operating model. • Mixed performance across key operational metrics related to prior transformation programs. • Delayed productivity initiatives in 2020 given bushfires in Australia and the onset of COVID-19.

REMUNERATION REPORT (CONTINUED)

Performance measure	Objective	Commentary
Financial[3] • Cash earnings • ROTAE • Balance sheet strength	Deliver attractive returns and the financial plan	• Cash earnings decreased by $1,999 million or 39.2%. Cash earnings excluding large notable items decreased by $1,899 million or 29.0%. • Return on equity declined 110 basis points to 5.8%. • Operating expenses increased by $1,249 million or 13.9%. Excluding an increase of $890 million in large notable items, operating expenses increased by $359 million or 4.4%. This was primarily due to higher restructuring-related costs, and increased colleague costs including annual salary increases and annual leave costs. • The Group's Common Equity Tier 1 (CET1) ratio as at 30 September 2020 was 11.47%. 98 basis points was added to the CET1 ratio through: – A fully underwritten Institutional Share Placement raising $3.0 billion. – A non-underwritten Share Purchase Plan raising $1.25 billion. • The Group has maintained strong liquidity through 2020. The Net Stable Funding Ratio was 127% and the quarterly average Liquidity Coverage Ratio was 139%, both above the APRA regulatory requirement of 100%.

(1) Operational NPS captures feedback from NAB customers based on their relationship with NAB, or after selected episodes or interactions.
(2) 2020 Employee Engagement Survey conducted by Glint, score based on July 2020 survey. 2020 methodology differs from prior years.
(3) Cash earnings, return on equity and operating expenses include items related to MLC Wealth that form part of discontinued operations. Refer to Note 37 Discontinued operations for further information.

The Executives' scorecards have relevant divisional or functional and individual measures aligned with the Group CEO's performance measures outlined above.

4.3 In-year variable reward outcomes

Group CEO and other Executives

Recognising the challenges faced by customers, shareholders and the community due to COVID-19, the Group CEO and Executives have not been awarded any Annual VR for 2020.

The Board determined that all eligible Executives would receive their 2020 LTVR grant in full. The actual value of the 2020 LTVR delivered to an Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting. This may be zero if the performance hurdle is not achieved. Further detail on the 2020 LTVR is available in Section 2.4.

Other employees

While performance against financial targets was not achieved in 2020, the Board is mindful of the need to continue to attract and retain employees at all levels and has been conscious to reward employees who have supported customers and communities impacted by COVID-19 and bushfires, and the progress the Group has made against its customer and transformation goals. The Board determined an annual variable reward pool for the majority of employees of 25% of target.

4.4 Prior year long-term incentive outcomes

(a) Testing of 2014 and 2015 LTI awards

The table below shows the performance of the Group against the LTI performance hurdles for the 2014 and 2015 LTI awards which were tested during 2020. Both awards had two TSR performance hurdles. Vesting for both hurdles were based on NAB's TSR result against a defined peer group. The vesting schedule was: 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile or better. There was no vesting below the 50th percentile.

The performance hurdles for the 2014 LTI award, measured over a five-year performance period, were partially achieved with 34.5% of the total 2014 LTI performance rights vesting during 2020. NAB's TSR over the performance period was 22.0%. The first test of this award in 2019 resulted in no vesting. There is no further testing of this award and all unvested performance rights were lapsed.

The performance hurdles for the 2015 LTI award, measured over a four-year performance period, were partially achieved resulting in 37.6% of the total 2015 LTI performance rights vesting. NAB's TSR over the performance period was 23.1%. This was the only test of this award and all unvested performance rights were lapsed.

REMUNERATION REPORT (CONTINUED)

Details of the LTI awards granted in respect of previous years, including 2014 and 2015, can be found in NAB's previous remuneration reports which are available at www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations.

LTI Award	Performance hurdle	Performance period	% of award	Percentile ranking	% of rights vested	% of rights lapsed	% of rights remaining
2014	TSR relative to S&P/ASX50 (50%)[1,2]	10/11/2014 to 10/11/2019	46	22nd	-	100	-
2014	TSR relative to Top Financial Services (50%)[3]	10/11/2014 to 10/11/2019	54	57th	64	36	-
2015	TSR relative to S&P/ASX50 (50%)[2,4]	9/11/2015 to 10/11/2019	41	23rd	-	100	-
2015	TSR relative to Top Financial Services (50%)[3]	9/11/2015 to 10/11/2019	59	57th	64	36	-

(1) The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2014. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano, Novion Property Group (formerly CFS Retail PR. TST. Group), Toll Holdings and Westfield. Under the terms of the award, there is no substitution for de-listed companies.
(2) The 30 trading day volume weighted average price up to and including 8 November 2019 has been used to determine the TSR for NAB and peer group companies since 9 November 2019 and 10 November 2019 were not trading days.
(3) The peer group for this performance hurdle is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Suncorp Group Limited and Westpac Banking Corporation.
(4) The peer group for this performance hurdle is the Standard & Poors / ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia as at 1 October 2015. The following companies were de-listed during the performance period and have been excluded from the performance hurdle test: Asciano and Westfield. Under the terms of the award, there is no substitution for de-listed companies.

(b) Overview of unvested long-term awards

The 2016 long-term incentive award is scheduled to be tested in November 2020. Any vesting of that award is subject to the Group's total shareholder return performance over the period November 2016 to November 2020 relative to a financial services peer group, and the Group's return on equity (ROE) performance over the 2017 to 2020 financial years, relative to the performance of the other major Australian banks.

The following is a summary of the unvested long-term awards held by the Executives.

Award	Grant date	Performance period	Vesting date	Performance hurdles
2016 LTI	14/12/2016	• 2017 to 2020 financial years • 9/11/2016 to 9/11/2020	20/12/2020	• NAB's cash ROE growth against Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Westpac Banking Corporation • NAB's TSR performance against a financial services peer group
2017 LTI	19/12/2017	• 2018 to 2021 financial years • 14/11/2017 to 14/11/2021	20/12/2021	• NAB's cash ROE growth against Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Westpac Banking Corporation • NAB's TSR performance against a financial services peer group
2019 LTVR	26/02/2020	• 15/11/2019 to 15/11/2023	22/12/2023	• NAB's TSR performance against a financial services peer group

For further detail on these awards refer to NAB's previous remuneration reports which are available at www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations.

REMUNERATION REPORT (CONTINUED)

Section 5 - Executive statutory remuneration disclosures

5.1 Statutory remuneration

The following table has been prepared in accordance with Australian Accounting Standards and Section 300A of the *Corporations Act 2001* (Cth). The table shows details of the nature and amount of each element of remuneration paid or awarded to Executives (including Executives acting on an interim basis) for services provided during the year while they were KMP (including variable reward amounts in respect of performance during the year which are paid following the end of the year). In addition to the remuneration benefits below, NAB paid an insurance premium for a contract insuring all Executives (including Executives acting on an interim basis) as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[1] $	Annual VR cash[2] $	Non-monetary[3] $	Superannuation[4] $	Other long-term benefits[5] $	Shares[6] $	Rights[7] $	Other remuneration[8] $	Total[9] $
Group CEO										
Ross McEwan (for part year)	**2020**	**1,865,204**	**-**	**269,141**	**22,852**	**7,664**	**-**	**255,279**	**-**	**2,420,140**
Executives										
Sharon Cook	**2020**	**886,553**	**-**	**-**	**20,344**	**6,083**	**53,238**	**127,349**	**-**	**1,093,567**
	2019	907,563	-	-	20,629	4,989	144	290,857	-	1,224,182
Shaun Dooley	**2020**	**991,429**	**-**	**583**	**20,065**	**35,752**	**6,270**	**179,572**	**-**	**1,233,671**
	2019	982,414	-	-	22,871	35,190	56,520	349,837	-	1,446,832
Susan Ferrier	**2020**	**897,838**	**-**	**4,433**	**22,852**	**4,152**	**-**	**82,347**	**-**	**1,011,622**
David Gall	**2020**	**1,182,823**	**-**	**2,840**	**21,774**	**21,221**	**-**	**400,689**	**-**	**1,629,347**
	2019	1,181,995	-	4,090	23,334	21,206	(89,228)	713,495	-	1,854,892
Nathan Goonan (for part year)	**2020**	**306,719**	**-**	**-**	**5,994**	**4,188**	**5,874**	**81,397**	**-**	**404,172**
Andrew Irvine (for part year)	**2020**	**102,876**	**-**	**14,042**	**5,994**	**361**	**203,525**	**-**	**210,000**	**536,798**
Gary Lennon	**2020**	**1,086,448**	**-**	**583**	**19,787**	**19,481**	**61,454**	**419,383**	**-**	**1,607,136**
	2019	1,100,855	-	-	20,824	19,474	287	739,710	-	1,881,150
Angela Mentis	**2020**	**1,304,386**	**-**	**246,600**	**33,573**	**32,361**	**167,791**	**513,167**	**-**	**2,297,878**
	2019	1,302,491	-	309,404	32,544	32,389	167,281	1,066,590	-	2,910,699
Rachel Slade	**2020**	**1,022,185**	**-**	**583**	**20,344**	**9,697**	**64,660**	**220,320**	**-**	**1,337,789**
	2019	859,165	-	-	22,859	5,928	121,729	372,581	-	1,382,262
Patrick Wright	**2020**	**1,556,040**	**-**	**130,201**	**18,672**	**10,139**	**314,257**	**299,613**	**7,835**	**2,336,757**
	2019	1,433,786	-	166,271	20,236	8,315	313,397	726,474	36,369	2,704,848

REMUNERATION REPORT (CONTINUED)

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[1] $	Annual VR cash[2] $	Non-monetary[3] $	Superannuation[4] $	Other long-term benefits[5] $	Shares[6] $	Rights[7] $	Other remuneration[8] $	Total[9] $
Former Executives										
Mike Baird (for part year)[10]	**2020**	**677,791**	**-**	**2,730**	**13,514**	**4,388**	**261,467**	**(142,010)**	**1,109,701**	**1,927,581**
	2019	1,113,484	-	-	22,148	6,652	220	559,713	-	1,702,217
Anthony Healy (for part year)[11]	**2020**	**702,254**	**-**	**12,399**	**13,514**	**12,348**	**304,461**	**4,446**	**1,169,701**	**2,219,123**
	2019	1,205,438	-	(8,650)	22,148	6,652	28,578	1,027,951	-	2,282,117
Lorraine Murphy (for part year)	2019	405,935	-	-	14,529	3,096	345,031	(401,227)	414,636	782,000
Andrew Thorburn (for part year)	2019	808,553	-	40,647	6,835	16,771	(244,313)	(6,955,235)	1,345,594	(4,981,148)
Executives acting on an interim basis										
Greg Braddy (for part year)	2019	105,368	29,774	-	5,133	1,940	13,347	28,743	-	184,305
Julie Rynski (for part year)	2019	359,309	106,438	6,482	11,472	1,967	25,810	89,553	-	601,031
Michael Saadie (for part year)	**2020**	**290,316**	**55,703**	**2,863**	**5,994**	**4,552**	**19,239**	**60,365**	**-**	**439,032**
Anthony Waldron (for part year)	**2020**	**105,454**	**13,480**	**-**	**1,868**	**1,236**	**5,394**	**18,825**	**-**	**146,257**
Total Executives	**2020**	**12,978,316**	**69,183**	**686,998**	**247,141**	**173,623**	**1,467,630**	**2,520,742**	**2,497,237**	**20,640,870**
Total Executives	2019	11,766,356	136,212	518,244	245,562	164,569	738,803	(1,390,958)	1,796,599	13,975,387

(1) Includes cash allowances, motor vehicle benefits, parking and short-term compensated absences, such as annual leave entitlements accrued. Any related fringe benefits tax is included. The 2019 comparative amount has been adjusted to reflect a change in the definition of non-monetary benefits and for Shaun Dooley to remove an amount of $27,614 related to his 2018 cash variable reward prior to his appointment as KMP. Salary sacrifice benefits such as motor vehicle benefits and parking are now included in cash salary.

(2) The VR cash received in respect of 2020 is scheduled to be paid on 23 December 2020 in Australia.

(3) Includes relocation costs considered to provide a benefit to the individual (including temporary accommodation, furniture rental, utility costs, dependant travel costs, insurance, stamp duty, associated fringe benefit tax and other benefits). For international assignees this may also include the provision of health fund benefits and tax advisory services. The 2019 comparative amount has been restated to reflect a change in the definition of non-monetary benefits. Salary sacrifice benefits such as motor vehicle benefits and parking are now included in cash salary.

(4) Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in New Zealand but such payments may be made as part of cash salary.

(5) Includes long service leave entitlements accrued based on an actuarial calculation.

(6) 2020 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for:
(a) General Employee shares granted in December 2016, December 2017, December 2018, December 2019 and scheduled to be granted in December 2020.
(b) Commencement shares allocated to Rachel Slade in February 2017 with 9% vesting in October 2019. The shares were subject to performance and service hurdles. The remaining shares vested in October 2017 (33%), July 2017 (34%) and October 2018 (24%).
(c) Commencement shares scheduled to be allocated to Andrew Irvine in November 2020 subject to performance and service hurdles. The restricted shares are scheduled to vest 21% in December 2020, 21% December in 2021, 24% in December 2022, 31% in December 2023 and the remaining 3% in December 2024. The shares are subject to continued employment, malus and clawback provisions.
(d) 2018 deferred STI shares granted in February 2019 to Shaun Dooley for performance in his previous role. The shares were restricted for approximately 1 year and were subject to performance and service hurdles.
(e) 2018 VR deferred shares granted in February 2019. The shares are restricted for approximately 4 years, subject to performance and service conditions. 2019 VR deferred shares granted in February 2020 to Nathan Goonan, Michael Saadie and Anthony Waldron for performance in their previous roles. The shares are restricted for approximately 3 years, subject to performance and service conditions.

(7) 2020 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for:

REMUNERATION REPORT (CONTINUED)

(a) 2017 deferred STI performance rights granted in December 2017. The performance rights were granted with half of each grant restricted for approximately 1 year and the remaining half for approximately 2 years. 2017 deferred STI performance rights granted in February 2018 to Michael Saadie for performance in his previous UK role. The performance rights were granted with 20% restricted for approximately 3 years, 20% restricted for approximately 4 years, 20% restricted for approximately 5 years, 20% restricted for approximately 6 years and 20% restricted for approximately 7 years.
(b) 2015, 2016 and 2017 LTI performance rights granted in December 2015, December 2016 and December 2017 respectively under the Group's previous LTI program.
(c) 2019 LTVR performance rights granted in February 2020 and 2020 LTVR performance rights scheduled to be granted in February 2021 as described in Section 2.4.
(d) Transformation performance rights granted to Shaun Dooley, Nathan Goonan, Rachel Slade, Michael Saadie and Anthony Waldron in February 2018 for performance in their prior roles. The performance rights are restricted for 3 years and subject to performance and service hurdles.
(e) The 2019 comparative amount has been adjusted for Shaun Dooley, Greg Braddy and Julie Rynski to include an amount related to awards granted prior to their appointment as KMP.

(8) Includes remuneration on cessation of employment, remuneration on commencement or exchange rate movements. For Andrew Irvine, the amount shown is a portion of his commencement award scheduled to be paid in cash in December 2020. In accordance with accounting standards this amount has been expensed in 2020. Andrew received a commencement award to compensate for the loss of deferred benefits and current year variable reward on leaving his former employer. The award consists of $630,000 cash to be paid in December 2020 and $2.06 million in restricted shares (see 6(c) above). For Patrick Wright, the amount reflects exchange rate movements related to his commencement award as disclosed in NAB's 2017 Remuneration report. For Mike Baird and Anthony Healy, the amounts reflect payments provided on separation (see 10 and 11 below).

(9) The percentage of 2020 total remuneration related to performance-based remuneration was: Ross McEwan 11%, Sharon Cook 17%, Shaun Dooley 15%, Susan Ferrier 8%, David Gall 25%, Nathan Goonan 22%, Andrew Irvine 77%, Gary Lennon 30%, Angela Mentis 30%, Rachel Slade 21%, Patrick Wright 26%, Mike Baird 6%, Anthony Healy 14%, Michael Saadie 31%, Anthony Waldron 26%.

(10) On cessation of employment, Mike Baird received a termination payment of 26 weeks base salary (in accordance with his contract), and payments in respect of transition support services and in recognition of his contribution to the Group. Mr Baird retained 2018 VR deferred shares and partially retained 2017 LTI and 2019 LTVR performance rights. The value of the retained equity has been fully accounted for on cessation. That equity remains subject to the relevant performance hurdles and restriction periods. The remainder of 2017 LTI and 2019 LTVR performance rights were lapsed and the associated expense reversed. Further detail on the equity awards is provided in Section 5.2. In accordance with accounting standards the cash payments received for career transition services and contribution to the Group have been fully expensed in 2020 (see Section 1.4).

(11) On cessation of employment, Anthony Healy received a termination payment of 26 weeks base salary (in accordance with his contract), and payments in respect of transition support services and in recognition of his contribution to the Group. Mr Healy retained 2018 VR deferred shares and partially retained 2016 LTI, 2017 LTI and 2019 LTVR performance rights. The value of the retained equity has been fully accounted for on cessation. That equity remains subject to the relevant performance hurdles and restriction periods. The remainder of the 2016 LTI, 2017 LTI and 2019 LTVR performance rights and the General Employee Offer Shares held by Mr Healy were lapsed and the associated expense reversed. Further detail on the equity awards is provided in Section 5.2. In accordance with accounting standards the cash payments received for career transition services and contribution to the Group have been fully expensed in 2020 (see Section 1.4).

REMUNERATION REPORT (CONTINUED)

5.2 Value of shares and performance rights

The following table shows the number and value of shares and performance rights that were granted by NAB, forfeited, lapsed or vested for each Executive (including Executives acting on an interim basis) during the year to 30 September 2020. A performance right is a right to receive one NAB share subject to the satisfaction of the relevant performance and service conditions. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. Executives (including Executives acting on an interim basis) did not pay any amounts for performance rights that vested and were exercised during 2020. There are no amounts unpaid on any of the shares exercised. There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted. All performance rights that vest are automatically exercised when they vest.

For the awards allocated during the year to 30 September 2020, the maximum number of shares or performance rights that may vest is shown for each Executive (including Executives acting on an interim basis). The maximum value of the equity awards is the number of shares or performance rights subject to NAB's share price at the time of vesting. The minimum number of shares or performance rights and the value of the equity awards is zero if the equity is fully forfeited or lapsed.

Name		Granted[(1)] No.	Grant date	Forfeited / lapsed[(2)] No.	Vested[(3)] No.	Granted $	Forfeited / lapsed[(4)] $	Vested $
Executives								
Sharon Cook	Deferred STI rights	1,708	19/12/2017	-	1,708	-	-	45,125
	LTVR rights	30,150	26/02/2020	-	-	303,611	-	-
Shaun Dooley	LTI rights	13,777	10/12/2014	(9,024)	4,753	-	(224,607)	61,979
	General employee shares	34	14/12/2016	-	34	-	-	992
	STI deferred shares	4,121	27/02/2019	-	4,121	-	-	101,253
	LTVR rights	33,500	26/02/2020	-	-	337,345	-	-
David Gall	LTI rights	12,312	10/12/2014	(8,065)	4,247	-	(200,738)	55,381
	LTI rights	83,116	9/12/2015	(51,836)	31,280	-	(1,290,198)	256,809
	LTVR rights	52,261	26/02/2020	-	-	526,268	-	-
Nathan Goonan	General employee shares	34	14/12/2016	-	34	-	-	992
	General employee shares	39	11/12/2019	-	-	990	-	-
	STI deferred shares	3,749	27/02/2019	-	3,749	-	-	92,113
	VR deferred shares	2,604	26/02/2020	-	-	70,855	-	-
Gary Lennon	LTI rights	15,309	10/12/2014	(10,028)	5,281	-	(249,597)	68,864
	Deferred STI rights	7,825	19/12/2017	-	7,825	-	-	206,737
	LTVR rights	47,906	26/02/2020	-	-	482,413	-	-
Angela Mentis	LTI rights	12,847	10/12/2014	(8,415)	4,432	-	(209,449)	57,793
	LTI rights	103,895	9/12/2015	(64,795)	39,100	-	(1,612,748)	321,011
	Deferred STI rights	12,151	19/12/2017	-	12,151	-	-	321,029
	LTVR rights	52,261	26/02/2020	-	-	526,268	-	-
Rachel Slade	Commencement shares	3,536	22/02/2017	-	3,536	-	-	111,030
	LTVR rights	39,195	26/02/2020	-	-	394,694	-	-
Patrick Wright	Deferred STI rights	10,172	19/12/2017	-	10,172	-	-	268,744
	LTVR rights	65,326	26/02/2020	-	-	657,833	-	-
Former Executives								
Mike Baird	Deferred STI rights	4,193	19/12/2017	-	4,193	-	-	110,779
	LTI rights	63,695	19/12/2017	(25,212)	-	-	(449,026)	-
	LTVR rights	52,261	26/02/2020	(46,817)	-	526,268	(833,811)	-
Anthony Healy	LTI rights	61,052	10/12/2014	(39,993)	21,059	-	(995,426)	274,609
	LTI rights	92,724	9/12/2015	(57,828)	34,896	-	(1,439,339)	286,496
	General employee shares	34	14/12/2016	-	34	-	-	992
	LTI rights	57,421	14/12/2016	(8,373)	-	-	(142,006)	-
	General employee shares	30	13/12/2017	(30)	-	-	(499)	-
	Deferred STI rights	10,712	19/12/2017	-	10,712	-	-	283,011
	LTI rights	53,710	19/12/2017	(21,260)	-	-	(360,570)	-
	LTVR rights	52,261	26/02/2020	(46,817)	-	526,268	(794,016)	-

REMUNERATION REPORT (CONTINUED)

Name		Granted[1] No.	Grant date	Forfeited / lapsed[2] No.	Vested[3] No.	Granted $	Forfeited / lapsed[4] $	Vested $
Executives acting on an interim basis								
Michael Saadie	General employee shares	34	14/12/2016	-	34	-	-	992
	STI deferred shares	3,558	22/02/2017	-	3,558	-	-	93,362
	STI deferred shares	4,885	27/02/2019	-	4,885	-	-	120,024
	General employee shares	39	11/12/2019	-	-	990	-	-
	VR deferred shares	4,411	26/02/2020	-	-	120,023	-	-
Anthony Waldron	LTI rights	8,994	10/12/2014	(5,891)	3,103	-	(146,627)	40,463
	General employee shares	34	14/12/2016	-	34	-	-	992
	STI deferred shares	3,022	27/02/2019	-	3,022	-	-	74,251
	General employee shares	39	11/12/2019	-	-	990	-	-
	VR deferred shares	3,676	26/02/2020	-	-	100,024	-	-

(1) The following securities have been granted during 2020:
a) General Employee Share Offer granted to Nathan Goonan, Michael Saadie and Anthony Waldron in December 2019.
b) Variable reward deferred shares, allocated in February 2020 (in respect of 2019) to Nathan Goonan, Michael Saadie and Anthony Waldron. The shares are restricted until November 2022 and subject to performance and service hurdles.
c) LTVR performance rights allocated in February 2020 (in respect of 2019). The total fair value of the award at allocation is shown. The allocation fair value is shown in Section 5.3. The number of performance rights allocated to each Executive was calculated using the weighted average share price over the five trading days up to 30 September 2019 inclusive, being $29.85. The performance rights are restricted until December 2023 and subject to service and performance hurdles.

(2) The following securities have lapsed during 2020:
a) LTI performance rights allocated in December 2014 were partially lapsed in December 2019 for Shaun Dooley, David Gall, Gary Lennon, Angela Mentis, Anthony Healy and Anthony Waldron. Further details are provided in Section 4.4.
b) LTI performance rights allocated in December 2015 were partially lapsed in December 2019 for David Gall, Angela Mentis and Anthony Healy. Further details are provided in Section 4.4.
c) Mike Baird's 2017 LTI performance rights and 2019 LTVR performance rights were partially lapsed in May 2020 on his cessation of employment.
d) Anthony Healy's unvested General Employee Shares granted in December 2017 were fully lapsed and his 2016 and 2017 LTI performance rights and 2019 LTVR performance rights were partially lapsed in April 2020 on his cessation of employment.

(3) The following securities have vested during 2020:
a) General Employee Share Offer granted to Shaun Dooley, Nathan Goonan, Anthony Healy and Anthony Waldron in December 2016, fully vested in December 2019. Also granted to Michael Saadie in December 2016 while employed by NAB in the UK, fully vested in June 2020.
b) 2017 Tranche 2 deferred STI performance rights allocated in December 2017 to Sharon Cook, Gary Lennon, Angela Mentis, Patrick Wright, Mike Baird and Anthony Healy fully vested in November 2019.
c) Tranche 3 deferred STI shares granted in February 2017 (in respect of 2016) to Michael Saadie fully vested, 0.3% in November 2019 to cover UK tax liability and 99.7% in May 2020.
d) Deferred STI shares granted in February 2019 (in respect of 2018) to Shaun Dooley, Nathan Goonan, Michael Saadie and Anthony Waldron, fully vested in November 2019.
e) LTI performance rights allocated in December 2014 partially vested in December 2019 for Shaun Dooley, David Gall, Gary Lennon, Angela Mentis, Anthony Waldron and Anthony Healy. Further details are provided in Section 4.4.
f) LTI performance rights allocated in December 2015 partially vested in December 2019 for David Gall, Angela Mentis and Anthony Healy. Further details are provided in Section 4.4.
g) Commencement shares granted to Rachel Slade in February 2017 with the final 9% vested in October 2019.

(4) Calculated using NAB's closing share price on the forfeiture / lapsing date.

REMUNERATION REPORT (CONTINUED)

5.3 Determining the value of equity remuneration

The fair value of shares and performance rights is set out below for grants by NAB provided to Executives (including Executives acting on an interim basis) during 2020. The grant date fair value of each share is determined by the market value of NAB shares and is generally a five day weighted average share price.

Except for the General employee shares in Australia, the expense for each tranche of shares is amortised on a straight line basis over the vesting period and included in each Executive's (including Executives acting on an interim basis) disclosed remuneration in accordance with statutory accounting requirements. The expense for the General employee shares in Australia is recognised fully in the year the shares are granted as they are not subject to forfeiture.

No performance options have been granted during the year. Shares and performance rights granted during 2020 were granted at no cost to the Executive and have a zero exercise price.

		Shares		Performance rights			
Type of allocation	Grant date	Fair value $	Restriction period end	Grant share price[1] $	Fair value $	Exercise period from	Exercise period to[2]
General Employee Share Offer	11 December 2019	25.38	11 December 2022				
Deferred Variable Reward	26 February 2020	27.21	15 November 2022				
Long Term Variable Reward[3]	26 February 2020			26.24	10.07	22 December 2023	15 March 2024

(1) The Grant share price is NAB's closing share price at the date of valuation (being the grant date of the relevant award). The Grant share price was used to determine the fair value.
(2) The end of the exercise period for each performance rights allocation is also the expiry date.
(3) The number of LTVR performance rights allocated to each eligible Group Executive was calculated using the weighted average share price over the five trading days up to 30 September 2019, inclusive, being $29.85. Further detail on the LTVR performance rights is available in NAB's 2019 Remuneration Report.

5.4 Performance rights holdings

No performance options or performance rights (i.e. entitlements to NAB shares) are granted to Executives' (including interim Executives') related parties. No performance options (i.e. a right requiring payment of a subscription price on vesting) are currently held by the Executives (including Executives acting on an interim basis). The number of performance rights that vested during the year was equivalent to the number of performance rights that were exercised during the year. At 30 September 2020, no performance rights held by the Executives (including Executives acting on an interim basis) were: (i) vested and exercisable; nor (ii) vested but not exercisable.

Name	Balance at beginning of year[1] No.	Granted during year as remuneration No.	Exercised during year No.	Forfeited / lapsed or expired during year No.	Balance at end of year[2] No.
Executives					
Sharon Cook	31,433	30,150	(1,708)	-	59,875
Shaun Dooley	31,025	33,500	(4,753)	(9,024)	50,748
David Gall	189,429	52,261	(35,527)	(59,901)	146,262
Nathan Goonan	17,248	-	-	-	17,248
Gary Lennon	133,337	47,906	(13,106)	(10,028)	158,109
Angela Mentis	249,711	52,261	(55,683)	(73,210)	173,079
Rachel Slade	17,248	39,195	-	-	56,443
Patrick Wright	79,175	65,326	(10,172)	-	134,329
Former Executives					
Mike Baird	67,888	52,261	(4,193)	(72,029)	43,927
Anthony Healy	275,619	52,261	(66,667)	(174,271)	86,942
Executives acting on an interim basis					
Michael Saadie	25,347	-	-	-	25,347
Anthony Waldron	17,248	-	-	-	17,248

(1) Balance may include performance rights granted prior to individuals becoming KMP. For Executives (including Executives acting on an interim basis) who became KMP during 2020, the balance is at the date they became KMP.
(2) For Executives (including Executives acting on an interim basis) who ceased being KMP during 2020, the balance is as at the date they ceased being KMP.

REMUNERATION REPORT (CONTINUED)

5.5 Executives' share ownership

The number of NAB shares held (directly and nominally) by each Executive (including Executives acting on an interim basis) or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at beginning of year[(1)] No.	Granted during year as remuneration No.	Received during year on exercise of performance rights No.	Other changes during year No.	Balance at end of year[(2)] No.
Group CEO					
Ross McEwan	-	-	-	53,897	53,897
Executives					
Sharon Cook	13,446	-	1,708	(1,708)	13,446
Shaun Dooley	57,551	-	4,753	176	62,480
David Gall	79,937	-	35,527	(21,114)	94,350
Nathan Goonan	2,806	-	-	784	3,590
Gary Lennon	106,548	-	13,106	559	120,213
Angela Mentis	138,413	-	55,683	(40,000)	154,096
Rachel Slade	39,811	-	-	-	39,811
Patrick Wright	69,646	-	10,172	-	79,818
Former Executives					
Mike Baird	21,422	-	4,193	-	25,615
Anthony Healy	110,221	-	66,667	(28)	176,860
Executives acting on an interim basis					
Michael Saadie	8,133	-	-	(3,620)	4,513
Anthony Waldron	45,070	-	-	-	45,070

(1) Balance may include shares held prior to individuals becoming KMP. For Executives (including Executives acting on an interim basis) who became KMP during 2020, the balance is at the date they became KMP.
(2) For Executives (including Executives acting on an interim basis) who ceased being KMP during 2020, the balance is as at the date they ceased being KMP.

5.6 Executive contract terms

All Executives, including the Group CEO, are employed on the following contractual terms:

Contractual term	Arrangement
Duration	Permanent ongoing employment.
Notice period[(1)]	• 26 weeks for either NAB or the Group CEO giving notice. • Currently one week for Susan Ferrier and Andrew Irvine, three weeks for Sharon Cook, Rachel Slade and Patrick Wright, giving notice. This will increase based on years of service up to four weeks after five years service. Four weeks for all other current Executives. • 26 weeks for NAB giving notice to any of the Executives.
VR arrangements on separation	• Executives who resign or are dismissed do not receive any annual or long-term variable reward. See Section 3.5 for further details.
Post-employment obligations	Non-compete and non-solicitation obligations apply.

(1) Payment in lieu of notice for some or all of the notice period may be approved by the Board in certain circumstances. Termination payments are not paid on resignation, summary termination or termination for unsatisfactory performance, although the Board may determine exceptions to this. Statutory payments are also payable on termination.

REMUNERATION REPORT (CONTINUED)

Section 6 - Non-executive director remuneration

6.1 Fee policy and pool

Non-executive directors receive fees to recognise their contribution to the work of the Board. Additional fees are paid, where applicable, for serving on Board Committees, on Boards of controlled entities and internal advisory boards. Fees include NAB's compulsory contributions to superannuation. To ensure independence, non-executive directors are not paid any performance or reward related remuneration.

The total amount of non-executive directors' remuneration is capped at a maximum aggregate fee pool that is approved by shareholders. The current aggregate fee pool of $4.5 million per annum was approved by shareholders at NAB's 2008 Annual General Meeting. The total Board and Committee fees, including superannuation, paid to non-executive directors in 2020 is within the approved aggregate fee pool. Philip Chronican received a Special Duties fee in his capacity as the interim Group CEO (an executive director role).

2020 decisions and outcomes

- The Board recognised the challenges faced by customers, shareholders and the community due to COVID-19. The Board Chairman and non-executive directors have taken a 20% reduction in their base fees from 1 April 2020 to 30 September 2020.
- Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2020 fee review, the Board determined not to increase non-executive director Board or Committee fees.

The following table shows the 2020 base fee for the Chairman and non-executive directors of the Board (excluding the 20% reduction for the period from 1 April 2020 to 30 September 2020), along with the fees paid to members on the Board committees.

	Chairman ($pa)	Non-executive director ($pa)
Board(1)	790,000	230,000
Audit Committee	65,000	32,500
Risk & Compliance Committee(2)	60,000	30,000
People & Remuneration Committee(3)	55,000	27,500
Customer Committee	40,000	20,000
Nomination & Governance Committee	-	10,000

(1) The Board Chairman fee and non-executive director base fee were reduced by 20% from 1 April 2020 to 30 September 2020.
(2) The Risk Committee became the Risk & Compliance Committee in August 2020.
(3) The Remuneration Committee became the People & Remuneration Committee in August 2020 to reflect the expanded remit of the Committee.

REMUNERATION REPORT (CONTINUED)

6.2 Statutory remuneration

The 2020 fees paid to the non-executive directors are set out below. The fees take into account the 20% reduction to the chairman fee and non-executive director base fee from 1 April 2020 to 30 September 2020 and changes in the directors' duties and responsibilities during the year, including the Special Duties fee paid to Philip Chronican while interim Group CEO (an executive director role). The 2019 fees paid included a reduction equivalent to 20% of 2018 non-executive director base fees received.

		Short-term benefits		Post-employment benefits	
		Cash salary and fees[1]	Special duties	Superannuation[2]	Total
Name		$	$	$	$
Non-executive directors					
Philip Chronican (Chairman)[3]	**2020**	**595,226**	**224,764**	**21,176**	**841,166**
	2019	174,704	991,906	20,649	1,187,259
David Armstrong	**2020**	**304,325**	**-**	**21,175**	**325,500**
	2019	275,851	-	20,649	296,500
Kathryn Fagg (for part year)[4]	**2020**	**176,907**	**-**	**16,381**	**193,288**
Peeyush Gupta[5]	**2020**	**506,426**	**-**	**21,176**	**527,602**
	2019	508,056	-	20,649	528,705
Anne Loveridge	**2020**	**261,349**	**-**	**10,651**	**272,000**
	2019	229,928	-	19,072	249,000
Geraldine McBride	**2020**	**238,740**	**-**	**20,760**	**259,500**
	2019	209,493	-	18,674	228,167
Douglas McKay[6]	**2020**	**492,782**	**-**	**20,882**	**513,664**
	2019	464,593	-	19,975	484,568
Simon McKeon (for part year)[7]	**2020**	**149,553**	**-**	**14,114**	**163,667**
Ann Sherry	**2020**	**253,325**	**-**	**21,176**	**274,501**
	2019	229,006	-	20,464	249,470
Former non-executive directors					
Ken Henry (for part year)[8]	**2020**	**91,932**	**-**	**5,251**	**97,183**
	2019	769,351	-	20,649	790,000
Anthony Yuen (for part year)[9]	**2020**	**62,280**	**-**	**873**	**63,153**
	2019	241,133	-	5,367	246,500
Total	**2020**	**3,132,845**	**224,764**	**173,615**	**3,531,224**
Total	2019	3,102,115	991,906	166,148	4,260,169

(1) The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash.
(2) Reflects compulsory company contributions to superannuation.
(3) Philip Chronican received a Special Duties fee in his capacity as the interim Group CEO (an executive director role), which he held from 1 March 2019 until 14 November 2019. The Special Duties fee includes a non-monetary benefits amount of $5,919 (related to the use of accommodation and other benefits) provided while he was the interim Group CEO. He transitioned to Chairman of the Board from 15 November 2019.
(4) Kathryn Fagg commenced as a non-executive director on 16 December 2019.
(5) Peeyush Gupta received fees of $253,185 in his capacity as a non-executive director on the board of a number of Group subsidiaries, including as a non-executive director of BNZ Life. The director fees relating to BNZ Life were paid in NZD.
(6) Douglas McKay has forgone 20% of his director fees in his capacity as Chairman of Bank of New Zealand from 1 May 2020 to 30 September 2020. His remuneration received includes director fees of $247,497 in his capacity as Chairman of Bank of New Zealand, which was paid in NZD.
(7) Simon McKeon commenced as a non-executive director on 3 February 2020.
(8) Ken Henry resigned as a director and Chairman of the Board on 14 November 2019.
(9) Anthony Yuen retired from the Board following NAB's Annual General Meeting on 18 December 2019.

REMUNERATION REPORT (CONTINUED)

6.3 Minimum shareholding policy

To align with shareholder's interests, non-executive directors are required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors. To meet the minimum requirement, non-executive directors must:

- hold at least 2,000 NAB ordinary shares within six months of their appointment
- acquire NAB ordinary shares to the value of at least 20% of the annual base fee each year until the minimum holding requirement is met.

The value of a directors' shareholding is based on the share price at the time shares were acquired. All current non-executive directors' shareholding requirements have been met.

6.4 Non-executive directors' share ownership and other interests

The number of NAB shares held (directly and nominally) by each non-executive director of NAB and the Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below. No performance options or performance rights are granted to non-executive directors or their related parties.

Name	Balance at beginning of year[1] No.	Acquired No.	Other changes during year No.	Balance at end of year[2] No.
Non-executive directors				
Philip Chronican (Chairman)	40,000	2,120	-	42,120
David Armstrong	18,163	947	-	19,110
Kathryn Fagg	-	8,700	-	8,700
Peeyush Gupta	7,480	2,091	-	9,571
Anne Loveridge	10,000	2,120	-	12,120
Geraldine McBride	7,703	-	-	7,703
Douglas McKay	10,000	1,972	-	11,972
Simon McKeon	-	12,120	-	12,120
Ann Sherry	7,456	5,242	-	12,698
Former non-executive directors				
Ken Henry	10,360	-	-	10,360
Anthony Yuen	12,464	-	-	12,464

(1) Balance may include shares held prior to individuals becoming KMP.
(2) For non-executive directors who ceased being KMP during 2020, the balance is as at the date they ceased being KMP.

REMUNERATION REPORT (CONTINUED)

Section 7 - Loans, other transactions and other interests

7.1 Loans

Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to Executives (including Executives acting on an interim basis) may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of NAB and the Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth). The opening balance is 1 October and closing balance is 30 September, or the date of commencement or cessation of a KMP.

Total aggregated loans provided to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year $	Interest charged[1] $	Interest not charged[1] $	Write-off[1] $	Balance at end of year $
KMP[2]	Normal	9,015,405	145,759	-	-	6,920,255
	Employee	934,351	59,295	-	-	4,341,262
Other related parties[3]	Normal	16,518,996	447,552	-	-	18,522,115

(1) Relates to the period during which the Executive was KMP.
(2) The aggregated loan balance at the end of the year includes loans issued to 20 KMP.
(3) Includes the KMP's related parties, which includes their close family members or any entity they or their close family members control, jointly control or significantly influence. The balance at the beginning of the year for Douglas McKay and Sharon Cook has been restated to include the value of related party loans.

Aggregated loans to KMP and their related parties above $100,000

NAB and the Group	Balance at beginning of year $	Interest charged[1] $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year[2] $
Non-executive directors						
David Armstrong	348,397	26,543	-	-	1,078,592	-
Kathryn Fagg	1,450,400	5,942	-	-	1,388,818	1,444,679
Douglas McKay[3]	2,216,477	83,852	-	-	1,638,112	4,360
Group CEO						
Ross McEwan	-	18,599	-	-	1,830,899	1,500,006
Executives						
Sharon Cook[3]	1,134,060	29,188	-	-	1,102,482	1,130,486
Susan Ferrier	2,819,502	99,110	-	-	3,095,097	481,064
David Gall	5,280,676	86,614	-	-	4,699,033	2,368,726
Gary Lennon	905,696	51,722	-	-	3,122,483	3,146,028
Angela Mentis	681,362	15,661	-	-	442,183	53,223
Patrick Wright	3,421,673	89,238	-	-	3,320,357	41,587
Former Executives						
Mike Baird	3,977,848	78,240	-	-	3,903,300	3,224,859
Anthony Healy	3,812,702	64,708	-	-	3,732,129	24,957
Executives acting on an interim basis						
Anthony Waldron	386,622	977	-	-	383,758	386,622

(1) The interest charged may include the impact of interest offset facilities and only relates to the period during which the Executive was KMP.
(2) Represents aggregate highest indebtedness of the KMP during 2020. All other items in this table relate to the KMP and their related parties.
(3) The balance at the beginning of the year for Douglas McKay and Sharon Cook has been restated to include the value of related party loans.

REMUNERATION REPORT (CONTINUED)

7.2 Other transactions

From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

All other transactions that have occurred with KMP are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the Remuneration report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.

7.3 Other equity instrument holdings

Holdings and transactions involving equity instruments (held directly or indirectly), other than NAB shares and equity-based compensation, with each KMP or their related parties and NAB and the Group are set out below:

Name	Equity instrument	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
Non-executive directors				
Philip Chronican	National Income Securities	982	-	**982**
David Armstrong	NAB Convertible Preference Shares II	900	(900)	**-**
Executives				
Susan Ferrier	NAB Convertible Preference Shares II	104	-	**104**
David Gall	NAB Convertible Preference Shares II	700	-	**700**

7.4 Other relevant interests

The directors from time to time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly as at 30 September 2020 were:

Name	Nature of product	Relevant interest (Units)
Non-executive directors		
Peeyush Gupta	MLC Private Equity Co-Investment Fund I	600,000
Peeyush Gupta	MLC Private Equity Co-Investment Fund II	700,000
Peeyush Gupta	MLC PIC-Wholesale Inflation Plus Assertive Portfolio Fund	578,438
Ann Sherry	NAB Capital Notes 3	1,500

There are no contracts, other than those disclosed in the level of interests held table immediately above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for, or deliver shares in, debentures of, or interests in, a registered scheme made available by NAB or a related body corporate. All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between NAB and any such organisations.

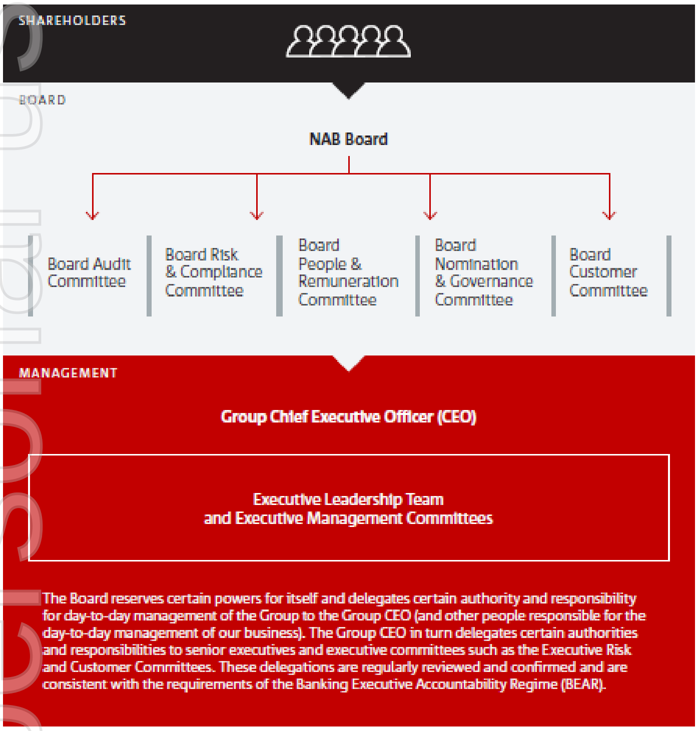
GOVERNANCE

NAB continually strives to improve its governance, accountability and risk management practices.

As a fundamental element of NAB's culture and business practices, the Corporate Governance Framework guides effective decision making in all areas of the Group through:
- Strategic and operational planning.
- Culture, purpose, values and conduct.
- Risk management and compliance.
- Customer outcomes.
- Financial management.
- External reporting.
- People and remuneration.

NAB follows the 3rd edition ASX Corporate Governance Council's Corporate Governance Principles and Recommendations and made changes during the year to comply with the 4th edition. The reporting on the 4th edition will be made in 2021.

NAB's 2020 Corporate Governance Statement and Appendix 4G are published separately in the corporate governance section of the NAB website at www.nab.com.au/about-us/corporate-governance.



Board COVID-19 response

The Board has been fully engaged in NAB's response to COVID-19, including regular briefings on issues such as customer support and workplace changes to protect the health of colleagues and customers.

The Board increased its frequency of meetings during 2020 to monitor the impacts of COVID-19 and met virtually from April onwards.

Board responsibilities

The Board's responsibilities include:
- Representing shareholders and serving the interests of NAB by overseeing and evaluating it's strategies, policies and performance.
- Approving NAB's purpose, values and Code of Conduct that underpin the desired culture within the Group, including a strong focus on sound risk management and customer outcomes.
- Approving the Group's strategic and financial plan, risk appetite statement, capital management strategy and funding strategy.
- Having due regard to the Group's relationships with stakeholders and the communities and environments in which the Group operates and in a manner that promotes fair customer outcomes and financial market integrity.

The Corporate Governance Statement includes the number of meetings held by the Board and its Committees in 2020. Directors' meeting attendance information is included in the Report of the Directors within this Annual Financial Report.

GOVERNANCE (CONTINUED)

Board renewal in 2020

During the year, there was a transition in Chairman and Group CEO as well as other Board renewal. The changes have delivered collective benefit in the form of fresh thinking, diversity and stability.

Mr Philip Chronican, a non-executive director since 2016, commenced as Chairman on 15 November 2019.

Mr Ross McEwan commenced as Group CEO and Managing Director on 2 December 2019.

Ms Kathryn Fagg was appointed as a non-executive director by the Board in December and was elected by shareholders at NAB's 2019 Annual General Meeting (AGM).

Mr Simon McKeon commenced as a non-executive director on 3 February 2020 and will stand for election at NAB's 2020 AGM on 18 December 2020. As outlined in the AGM Notice of Meeting, the Board recommends that shareholders vote in favour of Simon's election.

Three directors will also stand for re-election at the 2020 AGM – Mr David Armstrong, Mr Peeyush Gupta and Ms Ann Sherry. In the AGM Notice of Meeting, the Board also recommends that shareholders vote in favour of their re-election.

On 6 October 2020, it was announced that Ms Geraldine McBride will not be standing for re-election at the NAB's 2020 AGM. Geraldine has been a non-executive director since March 2014.

The Corporate Governance Statement includes information about the Board's skills matrix, tenure, age profile and gender diversity.

Shareholder engagement

NAB makes use of technology to communicate with all stakeholders by webcasting significant market briefings and meetings, including the AGM, (all of which are available on the NAB website at www.nab.com.au/shareholder, as well as the NAB Investor Relations mobile app). The 2020 AGM will be conducted as a virtual meeting in light of circumstances relating to COVID-19. Shareholders will be invited to submit questions in advance of the 2020 AGM to help the Board understand and address areas of interest or concern.

Key focus areas for the Board during 2020 were:

- Providing directional guidance to management on the refresh of NAB's purpose, values and strategy.
- Monitoring management's execution of business plans to achieve the Group's strategic objectives.
- Oversight of management's response to COVID-19 including crisis management, management of health, safety and wellbeing of NAB's customers, colleagues and the communities in which NAB operates, and operational and credit risk.
- Governance improvements, including the Board's oversight of non-financial risk, Board discretion on executive variable remuneration and progress against the findings in NAB's 2018 self-assessment on governance, culture and accountability.

During the year, the Board expanded the remit of its Remuneration Committee to include oversight of a broader range of people matters. It is now called the People & Remuneration Committee. In addition, the Board increased the emphasis of the Risk Committee on oversight of compliance risk. It is now called the Risk & Compliance Committee. Further information on these changes are provided in the Corporate Governance Statement.

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INCOME STATEMENTS

For the year ended 30 September	Note	Group[1] 2020[2] $m	Group[1] 2019 $m	Company 2020[2] $m	Company 2019 $m
Interest income					
Effective interest income		**20,921**	26,500	**20,514**	25,042
Fair value through profit or loss		**2,190**	2,694	**2,017**	2,408
Interest expense		**(9,234)**	(15,639)	**(12,389)**	(17,333)
Net interest income	3	**13,877**	13,555	**10,142**	10,117
Other income	4	**3,384**	3,980	**3,992**	3,006
Operating expenses	5	**(9,346)**	(8,263)	**(11,314)**	(7,760)
Credit impairment charge	17	**(2,752)**	(927)	**(2,462)**	(811)
Profit before income tax		**5,163**	8,345	**358**	4,552
Income tax expense	6	**(1,665)**	(2,440)	**(885)**	(1,273)
Net profit / (loss) for the year from continuing operations		**3,498**	5,905	**(527)**	3,279
Net loss after tax for the year from discontinued operations	37	**(935)**	(1,104)	**-**	-
Net profit / (loss) for the year		**2,563**	4,801	**(527)**	3,279
Profit attributable to non-controlling interests		**4**	3	**-**	-
Net profit / (loss) attributable to owners of NAB		**2,559**	4,798	**(527)**	3,279

Earnings per share	Note	cents	cents
Basic	7	**82.1**	168.6
Diluted	7	**80.5**	164.4
Basic from continuing operations	7	**112.7**	208.2
Diluted from continuing operations	7	**108.6**	201.0

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has 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.

STATEMENTS OF COMPREHENSIVE INCOME

		Group[1]		Company	
For the year ended 30 September	Note	2020[2]	2019	2020[2]	2019
		$m	$m	$m	$m
Net profit / (loss) for the year from continuing operations		**3,498**	5,905	**(527)**	3,279
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		**1**	1	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**(118)**	167	**(56)**	149
Revaluation of land and buildings		**(1)**	(2)	**-**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**(1)**	15	**-**	6
Tax on items transferred directly to equity		**32**	(50)	**14**	(37)
Total items that will not be reclassified to profit or loss		**(87)**	131	**(42)**	118
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
Gains on cash flow hedging instruments		**121**	284	**161**	354
Cost of hedging reserve		**(234)**	(260)	**(171)**	(208)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**(37)**	104	**(7)**	13
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		**40**	37	**40**	37
Gains / (losses) from sale transferred to the income statement		**3**	(2)	**3**	(2)
Tax on items transferred directly to equity		**29**	(37)	**(8)**	(57)
Total items that will be reclassified subsequently to profit or loss		**(100)**	134	**(4)**	137
Other comprehensive income for the year, net of income tax		**(187)**	265	**(46)**	255
Total comprehensive income for the year from continuing operations		**3,311**	6,170	**(573)**	3,534
Net loss for the year from discontinued operations	37	**(935)**	(1,104)	**-**	-
Other comprehensive income for the year from discontinued operations, net of income tax		**(2)**	(41)	**-**	-
Total comprehensive income for the year		**2,374**	5,025	**(573)**	3,534
Attributable to non-controlling interests	37	**4**	3	**-**	-
Total comprehensive income attributable to owners of NAB		**2,370**	5,022	**(573)**	3,534

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has 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.

BALANCE SHEETS

As at 30 September	Note	Group 2020[(1)] $m	Group 2019 $m	Company 2020[(1)] $m	Company 2019 $m
Assets					
Cash and liquid assets	8	**64,388**	55,457	**63,555**	54,811
Due from other banks	8	**52,351**	32,130	**48,895**	29,049
Trading instruments	9	**95,851**	96,828	**86,250**	89,552
Debt instruments	10	**40,355**	40,205	**40,324**	40,166
Other financial assets	11	**3,860**	7,110	**3,885**	6,229
Hedging derivatives	18	**3,830**	4,689	**2,888**	4,059
Loans and advances	12	**582,485**	587,749	**501,342**	506,527
Due from customers on acceptances		**1,477**	2,490	**1,477**	2,490
Due from controlled entities		**-**	-	**177,802**	114,786
Deferred tax assets	6	**3,647**	2,670	**2,895**	2,021
Property, plant and equipment		**2,374**	1,117	**1,486**	374
Investments in controlled entities		**-**	-	**3,806**	7,979
Goodwill and other intangible assets	22	**3,809**	5,576	**1,757**	2,306
Other assets	23	**10,659**	11,103	**8,867**	8,817
Assets held for sale	37	**1,479**	-	**1,837**	-
Total assets		**866,565**	847,124	**947,066**	869,166
Liabilities					
Due to other banks	8	**50,556**	34,273	**47,628**	32,552
Trading instruments	9	**30,021**	34,318	**33,450**	37,945
Other financial liabilities	16	**29,971**	33,283	**8,911**	8,550
Hedging derivatives	18	**2,255**	4,037	**1,721**	2,939
Deposits and other borrowings	13	**546,176**	522,085	**484,338**	463,026
Current tax liabilities		**192**	468	**150**	362
Provisions	24	**3,820**	3,507	**3,628**	3,207
Due to controlled entities		**-**	-	**177,422**	116,033
Bonds, notes and subordinated debt	14	**126,384**	143,258	**120,297**	137,599
Other debt issues	15	**6,191**	6,482	**6,191**	6,482
Deferred tax liabilities	6	**25**	-	**-**	-
Other liabilities	25	**9,460**	9,809	**8,688**	8,582
Liabilities directly associated with assets held for sale	37	**221**	-	**-**	-
Total liabilities		**805,272**	791,520	**892,424**	817,277
Net assets		**61,293**	55,604	**54,642**	51,889
Equity					
Contributed equity	27	**45,476**	38,707	**44,690**	37,921
Reserves	28	**99**	306	**34**	113
Retained profits		**15,717**	16,583	**9,918**	13,855
Total equity (parent entity interest)		**61,292**	55,596	**54,642**	51,889
Non-controlling interest in controlled entities		**1**	8	**-**	-
Total equity		**61,293**	55,604	**54,642**	51,889

(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.

CASH FLOW STATEMENTS

For the year ended 30 September[1]	Note	Group 2020[2] $m	Group 2019 $m	Company 2020[2] $m	Company 2019 $m
Cash flows from operating activities					
Interest received		**23,160**	29,471	**22,557**	27,694
Interest paid		**(10,151)**	(15,992)	**(13,159)**	(17,639)
Dividends received		**43**	28	**1,329**	1,370
Net trading income (paid) / received		**(2,114)**	(1,608)	**(1,341)**	(1,222)
Other operating income received		**3,301**	3,984	**985**	1,736
Operating expenses paid		**(7,304)**	(7,739)	**(5,462)**	(5,799)
Income tax paid		**(2,580)**	(2,251)	**(1,975)**	(1,515)
Cash flows from operating activities before changes in operating assets and liabilities		**4,355**	5,893	**2,934**	4,625
Changes in operating assets and liabilities					
Net (increase) / decrease in					
Deposits with central banks and other regulatory authorities		**(9,943)**	(566)	**(9,943)**	(566)
Trading securities		**(3,860)**	(4,613)	**(1,405)**	(4,421)
Other financial assets		**2,861**	3,201	**2,181**	2,512
Loans and advances		**2,053**	(18,993)	**2,485**	(14,117)
Due from customers on acceptances		**1,014**	1,294	**1,014**	1,294
Other assets		**834**	(794)	**766**	(240)
Net increase / (decrease) in					
Deposits and other borrowings		**25,890**	16,275	**22,977**	12,485
Other financial liabilities		**66**	1,179	**838**	431
Other liabilities and provisions		**(4,007)**	1,566	**(3,252)**	1,737
Net funds advanced to and receipts from other banks		**11,006**	(1,161)	**10,971**	(1,241)
Net movement in derivative assets and liabilities		**3,623**	7,129	**2,558**	6,449
Net changes in operating assets and liabilities		**29,537**	4,517	**29,190**	4,323
Net cash provided by / (used in) operating activities	36	**33,892**	10,410	**32,124**	8,948
Cash flows from investing activities					
Movement in debt instruments					
Purchases		**(21,066)**	(22,567)	**(21,037)**	(22,542)
Proceeds from disposal and maturity		**21,411**	25,947	**21,374**	25,859
Net movement in other debt and equity instruments		**(10)**	255	**-**	238
Net movement in amounts due from controlled entities		**-**	-	**(1,486)**	(1,227)
Net movement in shares in controlled entities		**-**	-	**(29)**	1,593
Proceeds from sale of controlled entities, net of cash disposed		**-**	25	**-**	-
Net movement in associates and joint ventures		**(138)**	67	**(138)**	27
Purchase of property, plant, equipment and software		**(972)**	(1,135)	**(721)**	(839)
Proceeds from sale of property, plant, equipment and software, net of costs		**73**	21	**7**	(1)
Net cash provided by / (used in) investing activities		**(702)**	2,613	**(2,030)**	3,108

(1) The cash flow statements include net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Refer to Note 37 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.

CASH FLOW STATEMENTS (CONTINUED)

For the year ended 30 September[(1)]	Note	Group 2020 $m	Group 2019 $m	Company 2020 $m	Company 2019 $m
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(34,524)**	(31,001)	**(29,800)**	(26,430)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**14,996**	27,159	**12,939**	21,542
Proceeds from issue of ordinary shares, net of costs		**4,904**	1,000	**4,904**	1,000
Repayments of other contributed equity		**-**	(722)	**-**	-
Proceeds from other debt issues, net of costs		**1,098**	1,858	**1,098**	1,858
Repayments of other debt issues		**(649)**	(799)	**(649)**	(799)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(2,323)**	(3,266)	**(2,319)**	(3,242)
Repayments of lease liabilities		**(322)**	-	**(278)**	-
Net cash provided by / (used in) financing activities		**(16,820)**	(5,771)	**(14,105)**	(6,071)
Net increase / (decrease) in cash and cash equivalents		**16,370**	7,252	**15,989**	5,985
Cash and cash equivalents at beginning of period		**47,026**	37,946	**44,164**	36,368
Effects of exchange rate changes on balance of cash held in foreign currencies		**(1,355)**	1,828	**(1,347)**	1,811
Cash and cash equivalents at end of year	36	**62,041**	47,026	**58,806**	44,164

(1) The cash flow statements include net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Refer to Note 37 Discontinued operations for further information.

STATEMENTS OF CHANGES IN EQUITY

Group[3]	Contributed equity[1] $m	Reserves[2] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2019						
Balance at 1 October 2018	35,982	46	16,673	52,701	11	52,712
Net profit for the year from continuing operations	-	-	5,905	5,905	-	5,905
Net profit / (loss) for the year from discontinued operations	-	-	(1,107)	(1,107)	3	(1,104)
Other comprehensive income for the year from continuing operations	-	154	111	265	-	265
Other comprehensive income for the year from discontinued operations	-	(40)	(1)	(41)	-	(41)
Total comprehensive income for the year	-	114	4,908	5,022	3	5,025
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	2,803	-	-	2,803	-	2,803
Conversion of preference shares	750	-	-	750	-	750
Transfer from / (to) retained profits	-	(99)	99	-	-	-
Transfer from equity-based compensation reserve	147	(147)	-	-	-	-
Equity-based compensation	-	105	-	105	-	105
Dividends paid	-	-	(4,983)	(4,983)	(4)	(4,987)
Distributions on other equity instruments	-	-	(83)	(83)	-	(83)
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	(719)
Changes in ownership interests[4]						
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[5]	38,707	306	16,500	55,513	8	55,521
Year to 30 September 2020						
Net profit for the year from continuing operations	-	-	3,498	3,498	-	3,498
Net profit / (loss) for the year from discontinued operations	-	-	(939)	(939)	4	(935)
Other comprehensive income for the year from continuing operations	-	(104)	(83)	(187)	-	(187)
Other comprehensive income for the year from discontinued operations	-	1	(3)	(2)	-	(2)
Total comprehensive income for the year	-	(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[4]						
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) Refer to Note 27 Contributed equity for further details.
(2) Refer to Note 28 Reserves for further details.
(3) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.
(4) Changes in ownership interests in controlled entities that do not result in a loss of control.
(5) 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.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Company	Contributed equity[1] $m	Reserves[2] $m	Retained profits $m	Total equity $m
Year to 30 September 2019				
Balance at 1 October 2018	34,221	108	15,413	49,742
Net profit for the year from continuing operations	-	-	3,279	3,279
Other comprehensive income for the year from continuing operations	-	151	104	255
Total comprehensive income for the year	-	151	3,383	3,534
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	2,803	-	-	2,803
Conversion of preference shares	750	-	-	750
Transfer from / (to) retained profits	-	(104)	104	-
Transfer from equity-based compensation reserve	147	(147)	-	-
Equity-based compensation	-	105	-	105
Dividends paid	-	-	(4,983)	(4,983)
Distributions on other equity instruments	-	-	(62)	(62)
Balance at 30 September 2019	37,921	113	13,855	51,889
Restatement for adoption of AASB 16 *Leases*	-	-	(83)	(83)
Restated Balance at 30 September 2019[3]	37,921	113	13,772	51,806
Year to 30 September 2020				
Net loss for the year from continuing operations	**-**	**-**	**(527)**	**(527)**
Other comprehensive income for the year from continuing operations	**-**	**(7)**	**(39)**	**(46)**
Total comprehensive income for the year	**-**	**(7)**	**(566)**	**(573)**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	**5,880**	**-**	**-**	**5,880**
Conversion of convertible notes	**750**	**-**	**-**	**750**
Transfer from / (to) retained profits	**-**	**(7)**	**7**	**-**
Transfer from equity-based compensation reserve	**139**	**(139)**	**-**	**-**
Equity-based compensation	**-**	**74**	**-**	**74**
Dividends paid	**-**	**-**	**(3,256)**	**(3,256)**
Distributions on other equity instruments	**-**	**-**	**(39)**	**(39)**
Balance at 30 September 2020	**44,690**	**34**	**9,918**	**54,642**

(1) Refer to Note 27 Contributed equity for further details.
(2) Refer to Note 28 Reserves for further details.
(3) The Company adopted AASB 16 Leases on 1 October 2019. As permitted by AASB 16, the Company 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.

INTRODUCTION

NOTE 1
BASIS OF PREPARATION

These are the financial statements of National Australia Bank Limited (Company) together with its controlled entities (Group) for the year ended 30 September 2020. National Australia Bank Limited, incorporated and domiciled in Australia, is a for-profit company limited by shares which are publicly traded on the Australian Securities Exchange.

The directors resolved to authorise the issue of these financial statements on 11 November 2020. The directors have the power to amend and reissue the financial statements.

The financial statements include information to the extent the Group considers it material and relevant to the understanding of users. Disclosed information is considered material and relevant if, for example:
- The dollar amount is significant in size or by nature.
- The Group's results cannot be understood by users without the specific disclosure.
- The information is important to help users understand the impact of significant changes in the Group's business during the financial year, for example, a business acquisition, disposal, or an impairment / write-down.
- The information relates to an aspect of the Group's operations which is important to its future performance.
- The information is required under legislative requirements of the *Corporations Act 2001* (Cth), the *Banking Act 1959* (Cth) or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

Basis of preparation

This general purpose financial report has been prepared by a for-profit company, in accordance with the requirements of the *Corporations Act 2001* (Cth) and accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB). Compliance with standards and interpretations issued by the AASB ensures that this financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Amounts are presented in Australian dollars (unless otherwise stated), which is the Company's functional and presentation currency. These amounts have been rounded to the nearest million dollars ($m), except where indicated, as allowed by ASIC Corporations Instrument 2016/191.

Unless otherwise stated, comparative information has been restated for any changes to presentation made in the current year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the Group's income statement and statement of comprehensive income with comparative information restated accordingly. Balance sheets are not required to be restated for the effect of discontinued operations. Refer to *Note 37 Discontinued operations* for further detail.

To comply with its obligations as an Australian Financial Services Licence holder, the Group includes the separate financial statements of the Company in this financial report, which is permitted by ASIC Class Order 10/654 dated 26 July 2010.

Basis of measurement

The financial report has been prepared under the historical cost convention, except for:
- certain assets and liabilities (including derivative instruments) measured at fair value through profit or loss or other comprehensive income.
- financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships.

NOTE 1 BASIS OF PREPARATION (CONTINUED)

Change in accounting policies

The Group adopted the following new accounting standards and interpretations effective from 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.

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**

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 liabilities 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.

NOTE 1 BASIS OF PREPARATION (CONTINUED)

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).

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. Additional information about the Group's exposure to IBOR reform is presented in *Note 18 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 amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

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 accounting standards or interpretations adopted during the period that have a material impact on the Group.

Critical accounting judgements and estimates

In the process of applying the Group's accounting policies, management have made a number of judgements and assumptions and applied estimates of future events. Some of these areas include:
- impairment charges on loans and advances
- fair value of financial assets and liabilities
- impairment assessment of goodwill and other intangible assets
- determination of income tax
- presentation of MLC Wealth as a discontinued operation
- provisions for customer-related remediation and other regulatory matters.

COVID-19

COVID-19 is a respiratory illness caused by the novel coronavirus and was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19 and related measures to slow the spread of the virus, have since had a significant impact on the Australian and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these financial statements. While the methodologies and assumptions applied in the measurement of various items within the financial statements remain unchanged from those applied in the 2019 financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19. Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks emerging from global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

NOTE 1 BASIS OF PREPARATION (CONTINUED)

Management's consideration of the potential impacts of COVID-19 on specific financial statement line items is detailed below:

Financial statement line item	Potential impacts of COVID-19	Note
Trading instruments	Given market volatility during the year, the Group reviewed the appropriateness of the inputs to its valuations, which included the use of correlations, price volatilities, funding costs and bid offer, counterparty and own credit spreads. The impact of changes in valuation inputs has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy.	*Note 20 Fair value of financial instruments*
Hedging derivatives and hedge accounting	An assessment was conducted as to whether the forecast cash flows in cash flow hedge relationships remain highly probable at the reporting date. Based on available facts as at 30 September 2020, the modelling of the hedged future cash flows were determined to remain highly probable and hence hedge accounting has continued to be applied.	*Note 18 Hedge accounting*
Loans and advances	The Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments for retail and small business customers for an initial period of six months. The terms and conditions related to the deferrals were considered to be non-substantial modifications and accounted for as a continuation of the existing loan agreements. No material modification gains or losses have been recognised in respect of loans on deferral.	*Note 17 Provision for credit impairment on loans at amortised cost*
Provision for the credit impairment on loans at amortised cost	In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date. The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 30 September 2019. The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialise, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.	*Note 17 Provision for credit impairment on loans at amortised cost*
Investments in associates	The Group considered the impact of COVID-19 in determining the appropriate value in use of its investments in associates.	*Note 5 Operating expenses*
Investments in controlled entities	The Company considered the impact of COVID-19 in reviewing the carrying amount of investments in subsidiaries.	*Note 31 Interest in subsidiaries and other entities*
Property, plant and equipment	The Group considered the impact of COVID-19, including plans to consolidate the Group's Melbourne office space enabled by changes in ways of working, on the carrying amount of property, plant and equipment.	*Note 5 Operating expenses*
Goodwill	The Group has tested goodwill for impairment. The assessment incorporated a consideration of the potential impacts of COVID-19. Given the range of possible scenarios and outcomes, the Group has provided information about the breakeven growth rates and discount rates for cash-generating units (CGUs) which have material goodwill balances allocated to them.	*Note 22 Goodwill and other intangible assets*
Due to other banks	On 19 March 2020, the Reserve Bank of Australia (RBA) announced a Term Funding Facility (TFF) to support lending to Australian businesses. The TFF is a collateralised three year facility which currently bears interest at 0.25%. As at 30 September 2020 the carrying value of the TFF was $14,270 million which has been included in *Amounts due to other banks.*	*Note 8 Cash and balances with other banks*

NOTE 1 BASIS OF PREPARATION (CONTINUED)

Management's consideration of the potential impacts of COVID-19 on specific financial statement line items is detailed below:

Financial statement line item	Potential impacts of COVID-19	Note
Earnings per share	COVID-19 has resulted in significant market volatility in the Group's share price. This volatility has resulted in the NAB Convertible Preference Shares II (NAB CPS II) not meeting the criteria for mandatory conversion into ordinary shares as at 30 September 2020. The NAB CPS II have therefore been excluded from the calculation of diluted earnings per share for the year ended 30 September 2020.	*Note 7 Earnings per share*

Given the dynamic and evolving nature of COVID-19 and limited recent experience of the economic and financial impacts of such a pandemic, the actual outcomes for the Group in future may differ from assumptions that have been applied in the measurement of the Group's assets and liabilities.

Future accounting developments

The following issued, but not yet effective, amendment to accounting standards has not been applied in preparing these financial statements.

In September 2020, the AASB issued AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2* to address the financial reporting impacts related to market-wide benchmark interest rate reform. The amendments include a practical expedient for modifications of financial assets and financial liabilities, relief from discontinuing hedge accounting, and allow alternative benchmark rates to be deemed to be separately identifiable risk components for hedge accounting purposes. There are also additional disclosure requirements. The amendments apply to annual periods beginning on or after 1 January 2021. The Group is assessing the impact of these amendments.

FINANCIAL PERFORMANCE

OVERVIEW

In the 2019 Annual Financial Report, the Group's segment information was presented based on the following segments:

- Business and Private Banking
- Consumer Banking and Wealth
- Corporate and Institutional Banking
- New Zealand Banking
- Corporate Functions and Other (including eliminations).

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,* the Group's operating segments are separately reported only if they meet certain quantitative thresholds or if the Group elects to report them separately. Based on these criteria, UBank has been included in the Corporate Functions and Other segment. This change in the presentation of segment information is in addition to the presentation of MLC Wealth as a separate operating segment following the significant progress made on the operational separation of MLC Wealth and subsequent presentation as a discontinued operation.

For the year ended September 2020, the Group's segment information is therefore presented based on the following reportable segments:

- Business and Private Banking
- Personal Banking
- Corporate and Institutional Banking
- New Zealand Banking
- Corporate Functions and Other, including UBank and Group eliminations
- MLC Wealth (presented as a discontinued operation).

Refer to The Group's Business section in the *Report of the Directors* for a description of the operating activities of each business unit.

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. Prior year segment information has been restated to reflect the change in operating segments and cost allocation.

The Group evaluates performance on the basis of cash earnings as it better reflects what is considered to be the underlying performance of the Group. Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and the Group's major Australian bank peers with similar business portfolios.

Cash earnings is calculated by excluding discontinued operations, fair value and hedge ineffectiveness and other non-cash earnings items which are included within the statutory net profit attributable to owners of NAB. Cash earnings for the year ended 30 September 2020 has been adjusted for distributions, fair value and hedge ineffectiveness and the 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.

The Group earns the vast majority of its revenue in the form of net interest income (NII). NII is the difference between interest earned on financial assets and interest paid on financial liabilities and other financing costs.

NOTE 2
SEGMENT INFORMATION

	2020[1]						
	Business and Private Banking $m	Personal Banking $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other[2] $m	MLC Wealth $m	Total Group $m
Reportable segment information							
Net interest income[3]	5,400	4,017	2,075	1,872	507	-	13,871
Other income[3][4]	878	514	1,382	520	25	-	3,319
Net operating income	6,278	4,531	3,457	2,392	532	-	17,190
Operating expenses[3][4]	(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 / (loss) 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 / (loss) before distributions	2,489	1,380	1,469	977	(2,566)	-	3,749
Distributions	-	-	-	-	(39)	-	(39)
Cash earnings / (loss)	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 year from continuing operations	2,480	1,379	1,438	957	(2,756)	-	3,498
Net loss after tax for the year 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.
(2) Corporate Functions and Other includes Group Eliminations.
(3) Includes large notable items. Refer Note 3 Net interest income, Note 4 Other income and Note 5 Operating expenses for further details.
(4) Comparative information has been restated for immaterial changes in NAB's organisational structure.
(5) Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.

NOTE 2 SEGMENT INFORMATION (CONTINUED)

	2019[1][2]						
	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
Reportable segment information							
Net interest income[4]	5,634	3,836	1,827	1,828	417	-	13,542
Other 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 / (loss) 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 / (loss) before distributions	2,817	1,260	1,508	997	(646)	-	5,936
Distributions	-	-	-	-	(83)	-	(83)
Cash earnings / (loss)	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 year from continuing operations	2,814	1,259	1,485	1,009	(662)	-	5,905
Net profit / (loss) after tax for the year 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

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has 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 Note 3 Net interest income, Note 4 Other income and Note 5 Operating expenses for further details.
(5) Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.

Major customers

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

Geographical information

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

	Group			
	Income		Non-current assets[1]	
	2020 $m	2019 $m	2020 $m	2019 $m
Australia	**13,934**	14,293	**5,618**	6,537
New Zealand	**2,481**	2,537	**862**	690
Other International	**929**	776	**133**	47
Total before inter-geographic eliminations	**17,344**	17,606	**6,613**	7,274
Elimination of inter-geographic items	**(83)**	(71)	**-**	-
Total	**17,261**	17,535	**6,613**	7,274

(1) Consists of goodwill and other intangible assets, property, plant and equipment and investments in joint ventures and associates.

NOTE 3
NET INTEREST INCOME

Accounting policy

Interest income and expense are recognised in the income statements using the effective interest method. The effective interest method measures the amortised cost of a financial asset or financial liability using the effective interest rate. The effective interest rate discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial instrument.

Fees and costs which form an integral part of the effective interest rate of a financial instrument (for example, loan origination fees) are recognised using the effective interest method and recorded in interest income or expense depending on whether the underlying instrument is a financial asset or liability.

Included in net interest income are interest income and expense on trading securities, hedging instruments and financial instruments measured at fair value through profit or loss.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Interest income				
Effective interest method				
Amortised cost				
Due from other banks	**265**	479	**240**	432
Loans and advances	**19,446**	23,817	**16,274**	19,089
Due from customers on acceptances	**92**	155	**92**	155
Due from controlled entities	**-**	-	**2,851**	3,398
Other interest income(1)	**738**	1,264	**678**	1,186
Fair value through other comprehensive income				
Debt instruments	**380**	785	**379**	782
Total effective interest method	**20,921**	26,500	**20,514**	25,042
Fair value through profit or loss				
Due from other banks	**11**	27	**-**	-
Trading instruments	**1,214**	1,542	**1,125**	1,404
Other financial assets	**965**	1,125	**892**	1,004
Total fair value through profit or loss	**2,190**	2,694	**2,017**	2,408
Total interest income	**23,111**	29,194	**22,531**	27,450
Interest expense				
Effective interest method				
Due to other banks	**268**	638	**261**	622
Deposits and other borrowings	**5,102**	9,177	**4,166**	7,916
Bonds, notes and subordinated debt	**2,118**	3,823	**2,014**	3,674
Due to controlled entities	**-**	-	**4,594**	3,753
Other debt issues	**202**	243	**202**	243
Other interest expense	**458**	462	**455**	464
Total effective interest method	**8,148**	14,343	**11,692**	16,672
Fair value through profit or loss				
Trading instruments	**54**	50	**54**	50
Other financial liabilities	**620**	863	**231**	228
Total fair value through profit or loss	**674**	913	**285**	278
Bank levy	**412**	383	**412**	383
Total interest expense	**9,234**	15,639	**12,389**	17,333
Net interest income	**13,877**	13,555	**10,142**	10,117

(1) In the 2020 financial year, the Group and Company recognised charges of $49 million (2019: $72 million) as a reduction in other interest income. These costs mainly relate to the refund of interest from various banking-related matters.

NOTE 4
OTHER INCOME

Accounting policy

Classes of other income are measured as follows:

Items	Measurement basis
Trading instruments	**Trading derivatives** - Total fair value change (including interest income or expense), with the exception of some instruments that form part of an economic hedge relationship. **Trading securities** - All fair value changes except for interest income or expense, which is recognised within net interest income.
Hedge ineffectiveness	Represents hedge ineffectiveness, which are the fair value movements (excluding interest income or expense) that do not offset the hedged risk.
Financial instruments designated at fair value	Includes fair value movements on such items, other than interest income or expense and movements attributable to the Group's own credit risk.
Dividend revenue	Dividend revenue is recognised in the income statement on an accrual basis when the Group's right to receive the dividend is established.
Fees and commissions, banking and money transfer fees	Unless included in the effective interest rate, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided. When a third party is involved in providing goods or services to the Group's customer, the Group assesses whether the nature of the arrangement with its customer is as a principal or an agent of the third party. When the Group is not acting in a principal capacity, the income earned by the Group is net of the amounts paid to the third party provider. The net consideration represents the Group's income for facilitating the transaction.

	Group[1]		Company	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Gains less losses on financial instruments at fair value				
Trading instruments	**1,279**	2,315	**1,305**	1,820
Hedge ineffectiveness	**26**	103	**16**	4
Financial instruments designated at fair value	**(217)**	(984)	**(116)**	(445)
Total gains less losses on financial instruments at fair value	**1,088**	1,434	**1,205**	1,379
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,294**	1,343
Other entities	**36**	26	**35**	27
Banking fees	**1,020**	1,064	**835**	876
Money transfer fees	**440**	551	**325**	409
Fees and commissions[2][3]	**496**	525	**231**	(1,056)
Investment management fees[2]	**194**	188	**-**	-
Other income	**110**	192	**67**	28
Total other operating income	**2,296**	2,546	**2,787**	1,627
Total other income	**3,384**	3,980	**3,992**	3,006

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.
(2) Comparative information has been restated to align to the presentation in the current period to reflect revised product classification.
(3) In the 2020 financial year, the Group recognised charges of $80 million (2019: $78 million) and the Company recognised charges of $162 million (2019: $1,466 million) as a reduction in fees and commissions. This related to progression of work on banking-related matters.

NOTE 5
OPERATING EXPENSES

Accounting policy

Operating expenses are recognised as services provided to the Group, over the period in which an asset is consumed or once a liability is created.

Amounts received by the Group as a reimbursement for costs incurred are recognised as a reduction of the related expense.

Annual leave, long service leave and other personnel expenses

Salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled. A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated. All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows. Employee entitlements to long service leave is accrued using an actuarial calculation, including assumptions regarding employee departures, leave utilisation and future salary increases.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Refer to *Note 24 Provisions* for balances of employee benefit related provisions.

NOTE 5 OPERATING EXPENSES (CONTINUED)

	Group[1]		Company[2]	
	2020 $m	2019 $m	2020 $m	2019 $m
Personnel expenses				
Salaries and related on-costs	**3,429**	3,167	**3,150**	2,680
Superannuation costs-defined contribution plans	**285**	260	**269**	245
Performance-based compensation	**291**	366	**234**	253
Other expenses	**455**	225	**462**	256
Total personnel expenses	**4,460**	4,018	**4,115**	3,434
Occupancy and depreciation expenses[3]				
Rental expense[4]	**92**	416	**193**	466
Depreciation of property, plant and equipment[5]	**776**	294	**554**	149
Other expenses	**95**	98	**85**	84
Total occupancy and depreciation expenses	**963**	808	**832**	699
General expenses				
Fees and commission expense	**48**	47	**44**	44
Amortisation of intangible assets	**1,263**	1,070	**1,101**	875
Advertising and marketing	**162**	189	**138**	159
Charge to provide for operational risk event losses	**257**	312	**625**	608
Communications, postage and stationery	**171**	176	**141**	149
Computer equipment and software	**741**	715	**684**	662
Data communication and processing charges	**84**	80	**60**	54
Professional fees	**681**	567	**724**	519
Impairment losses recognised	**225**	19	**2,578**	254
Other expenses	**291**	262	**272**	303
Total general expenses	**3,923**	3,437	**6,367**	3,627
Total operating expenses	**9,346**	8,263	**11,314**	7,760

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.
(2) Operating expenses of the Company includes amounts which are presented in discontinued operations at a Group level. These include customer-related and payroll remediation charges, MLC Wealth separation charges, and changes in the provision for litigation. Refer to Note 37 – Discontinued operations for further information.
(3) 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.
(4) Current year amount primarily relates to short-term and low value leases.
(5) Includes impairment of property-related assets.

Customer-related remediation

In the 2020 financial year, the Group recognised $136 million (2019: $123 million) and the Company recognised $403 million (2019: $376 million) as a charge to provide for operational risk event losses. The charges relate to costs for executing the remediation programs for banking-related matters.

Payroll remediation

Payroll remediation relates to costs to address potential payroll issues relating to both current and former Australian colleagues, comprising payments to colleagues and costs to execute the remediation program.

In the 2020 financial year, the Group recognised charges of $108 million ($128 million in the Company), as a charge to provide for operational risk event losses.

Capitalised software policy change

In the 2020 financial 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. In the 2019 financial 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.

NOTE 5 OPERATING EXPENSES (CONTINUED)

In the 2020 financial year, the Group recognised an accelerated amortisation charge of $950 million (2019: $489 million) in the amortisation of intangible assets. The Company recognised an accelerated amortisation charge of $806 million (2019: $380 million).

Impairment of property-related assets

In the 2020 financial 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 losses

In the 2020 financial year, the Group recognised an impairment loss of $214 million ($239 million in the Company) 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.

In the 2020 financial year, the Company recognised an impairment loss of $2,339 million (2019: $249 million) on its investment in National Wealth Management Holdings (NWMH) Limited, which is classified as a non-current asset held for sale. The impairment loss impacts the profit or loss of the Company and not the Group. Refer to *Note 37 Discontinued operations* for details of the investment and the goodwill impairment recognised by the Group. The impairment was driven by the sales proceeds under the agreement with IOOF being lower than the carrying value of the Company's investment in NWMH.

NOTE 6
INCOME TAX

Accounting policy

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

The income tax benefit related to research and development expenditure is recognised as a reduction in the related asset or operating expense, depending on the nature of the expenditure.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

The Group undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement.

The Company and its wholly owned Australian subsidiaries are part of a tax consolidated group. The Company is the head entity in the tax consolidated group. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations and members. Any current tax liabilities / assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Company and funded in line with the tax funding arrangements.

Critical accounting judgements and estimates

The Group estimates the amount expected to be paid to tax authorities based on its understanding and interpretation of relevant tax laws. The effect of uncertainty over income tax treatments is reflected in determining the relevant taxable profit or tax loss, tax bases, unused tax losses and unused tax credits or tax rates. Uncertain tax positions are presented as current or deferred tax assets or liabilities as appropriate.

NOTE 6 INCOME TAX (CONTINUED)

Income tax expense

The income tax expense for the year reconciles to the profit before income tax as follows:

	Group[1]		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Profit before income tax	**5,163**	8,345	**358**	4,552
Prima facie income tax expense at 30%	**1,549**	2,504	**107**	1,366
Tax effect of permanent differences:				
Assessable foreign income	**5**	7	**5**	4
Foreign tax rate differences	**(60)**	(67)	**(32)**	(26)
Losses not tax effected	**32**	2	**32**	1
Foreign branch income not assessable	**(56)**	(50)	**(56)**	(50)
Over provision in prior years	**3**	(1)	**(3)**	-
Offshore banking unit adjustment	**23**	(53)	**40**	(38)
Restatement of deferred tax balances for tax rate changes	**10**	2	**2**	2
Non-deductible hybrid distributions	**61**	73	**61**	73
Dividend income adjustments	**-**	-	**(135)**	(187)
Impairment of investment in MLC Life	**64**	-	**72**	-
Impairment of investment in NWMH	**-**	-	**702**	75
Other	**34**	23	**90**	53
Income tax expense	**1,665**	2,440	**885**	1,273
Current tax expense	**2,544**	3,124	**1,574**	1,930
Deferred tax expense	**(879)**	(684)	**(689)**	(657)
Total income tax expense	**1,665**	2,440	**885**	1,273

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.

NOTE 6 INCOME TAX (CONTINUED)

Deferred tax assets and liabilities

The balance comprises temporary differences attributable to:

	Group		Company	
	2020 $m	2019[(1)] $m	2020 $m	2019 $m
Deferred tax assets				
Specific provision for credit impairment	**219**	225	**162**	182
Collective provision for credit impairment	**1,447**	917	**1,264**	787
Employee entitlements	**232**	250	**218**	219
Tax losses	**25**	67	**25**	67
Unrealised derivatives in funding vehicles	**294**	316	**-**	-
Other provisions	**674**	759	**659**	739
Depreciation	**496**	269	**358**	156
Reserves	**161**	86	**105**	52
Other	**393**	192	**355**	134
Total deferred tax assets	**3,941**	3,081	**3,146**	2,336
Set-off of deferred tax liabilities pursuant to set-off provisions	**(294)**	(411)	**(251)**	(315)
Net deferred tax assets	**3,647**	2,670	**2,895**	2,021
Deferred tax liabilities				
Intangible assets	**5**	7	**-**	-
Depreciation	**62**	47	**-**	-
Defined benefit superannuation plan assets	**9**	16	**7**	8
Reserves				
Cash flow hedge reserve	**133**	107	**148**	102
Other reserves	**22**	9	**22**	9
Other	**88**	225	**74**	196
Total deferred tax liabilities	**319**	411	**251**	315
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(294)**	(411)	**(251)**	(315)
Net deferred tax liability	**25**	-	**-**	-

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

Deferred tax assets not brought to account

Deferred tax assets have not been brought to account for the following items as realisation of the benefits is not regarded as probable:

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Capital gains tax losses	**1,684**	1,121	**1,684**	1,121
Income tax losses	**351**	350	**351**	350

The amount disclosed above for capital gains tax losses includes an estimate of the tax loss on disposal of MLC Wealth. The final loss on sale will be determined at completion and will be impacted by separation and transaction costs, net assets at completion and other adjustments.

NOTE 7
EARNINGS PER SHARE

	Group[1]			
	Basic		Diluted	
	2020	2019	2020	2019
Earnings ($m)				
Net profit attributable to owners of NAB	**2,559**	4,798	**2,559**	4,798
Distributions on other equity instruments	**(39)**	(83)	**(39)**	(83)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	-	**162**	165
Interest expense on convertible preference shares[2]	**-**	-	**-**	90
Adjusted earnings	**2,520**	4,715	**2,682**	4,970
Net loss from discontinued operations attributable to owners of NAB	**939**	1,107	**939**	1,107
Adjusted earnings from continuing operations	**3,459**	5,822	**3,621**	6,077
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares (net of treasury shares)	**3,068**	2,797	**3,068**	2,797
Potential dilutive weighted average number of ordinary shares				
Convertible notes	**-**	-	**258**	133
Convertible preference shares[2]	**-**	-	**-**	88
Share-based payments	**-**	-	**7**	6
Total weighted average number of ordinary shares	**3,068**	2,797	**3,333**	3,024
Earnings per share (cents) attributable to owners of NAB	**82.1**	168.6	**80.5**	164.4
Earnings per share (cents) from continuing operations	**112.7**	208.2	**108.6**	201.0
Earnings per share (cents) from discontinued operations	**(30.6)**	(39.6)	**(28.1)**	(36.6)

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation.

(2) Convertible preference shares have been excluded from the calculation of diluted earnings per share in the current period as the conversion conditions have not been met as at 30 September 2020.

FINANCIAL INSTRUMENTS

OVERVIEW

Financial instruments represent the majority of the Group's balance sheet, including loans and advances, deposits, securities and derivatives.

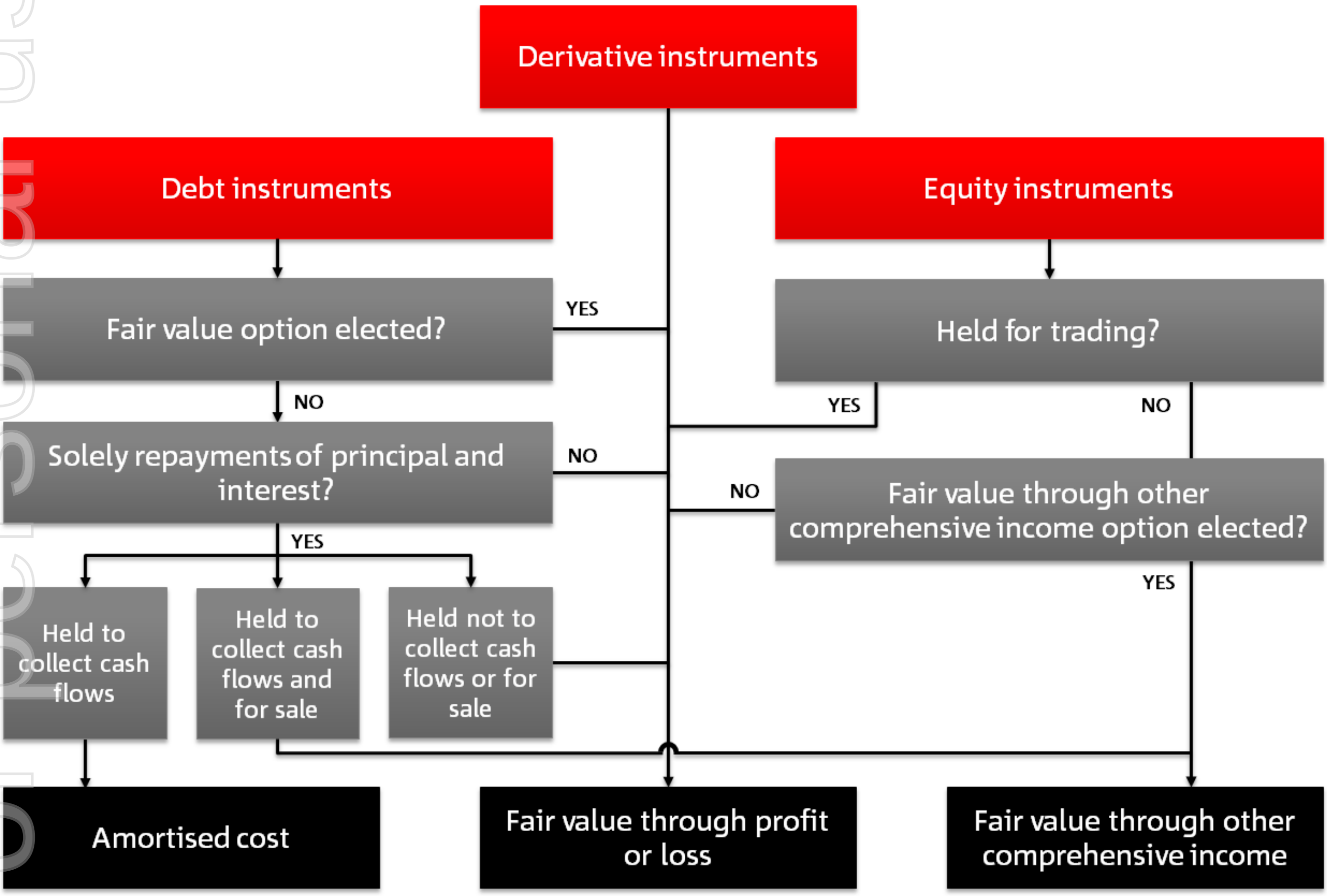
Initial recognition of financial instruments

A financial asset or financial liability is recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group recognises regular way transactions on the trade date.

All financial instruments are initially recognised at fair value. Directly attributable transaction costs are added to or deducted from the carrying value of the asset or liability on initial recognition, unless the instrument is measured at fair value through profit or loss, in which case they are recognised in profit or loss.

Classification

Subsequently, financial instruments are measured either at amortised cost or fair value depending on their classification. Classification of financial assets is driven by the Group's business model for managing the asset and the contractual cash flows of the asset. The Group uses the following flowchart to determine the appropriate classification for financial assets.



Non-derivative financial liabilities are measured at amortised cost unless the Group elects to measure the financial liability at fair value through profit or loss. The Group will elect to measure a financial liability at fair value through profit or loss if such measurement significantly reduces or eliminates an accounting mismatch.

Refer to the table at the end of this section for a summary of the classification of the Group's financial instruments.

Measurement

Financial instruments measured at amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method and for financial assets, adjusted for any loss allowance.

OVERVIEW (CONTINUED)

Financial assets measured at fair value through other comprehensive income

Gains or losses arising from changes in the fair value of debt instruments measured at fair value through other comprehensive income are recognised in other comprehensive income and accumulated in a separate component of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Investments in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which AASB 3 *Business Combination* applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts recognised in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial instruments at fair value through profit or loss

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the creditworthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit risk is calculated by determining the changes in own credit spreads and is recognised separately in other comprehensive income.

Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from an underlying price, index or other variable, and include instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised initially on the balance sheet at fair value and are subsequently measured at fair value through profit or loss, except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. Derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Refer to *Note 9 Trading instruments* and *Note 18 Hedge accounting*.

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group removes a financial liability from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

OVERVIEW (CONTINUED)

Summary of classification and measurement basis

Type of Instrument	Classification and measurement	Reason	Note
Financial assets			
Loans and advances (customer loans and facilities)	Amortised cost	Cash flows represent solely payments of principal and interest, held with the objective to collect contractual cash flows	*Note 12 Loans and advances*
Trading securities (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through profit or loss	Principal purpose is selling or repurchasing in the near term, or part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking	*Note 9 Trading instruments*
Trading derivatives (forwards, swaps, futures, options)		Derivatives not in a qualifying hedging relationship	
Other financial assets		Cash flows are not solely payments of principal and interest or designated at fair value through profit or loss to eliminate an accounting mismatch	*Note 11 Other financial assets*
Debt instruments (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through other comprehensive income	Cash flows represent solely payments of principal and interest, held with the objective to both collect contractual cash flows or to sell	*Note 10 Debt instruments*
Hedging derivatives (forwards, swaps, futures, options)	Fair value(1)	Designated in a qualifying hedging relationship	*Note 18 Hedge accounting*
Financial liabilities			
Trading derivatives (forwards, swaps, futures, options)	Fair value through profit or loss	Derivatives not in a qualifying hedging relationship	*Note 9 Trading instruments*
Deposits and other borrowings (deposits, commercial paper, repurchase agreements)	Amortised cost	Not designated as at fair value through profit or loss	*Note 13 Deposits and other borrowings*
Bonds and notes			*Note 14 Bonds, notes and subordinated debts*
Perpetual notes, convertible preference shares and convertible notes			*Note 15 Other debt issues*
Certain bonds, notes and deposits	Fair value through profit or loss(2)	Designated as at fair value through profit or loss to eliminate an accounting mismatch	*Note 16 Other financial liabilities*
Hedging derivatives (forwards, swaps, futures, options)	Fair value(1)	Designated in a qualifying hedging relationship	*Note 18 Hedge accounting*

(1) The classification of the fair value movements will depend on the type of hedge (i.e. fair value hedge, cash flow hedge, or hedge of a net investment). Refer to Note 18 Hedge accounting.
(2) Except for changes in own credit risk which are recognised in other comprehensive income.

NOTE 8
CASH AND BALANCES WITH OTHER BANKS

Accounting policy

Cash and liquid assets, and balances with other banks are initially measured at fair value and subsequently at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents includes cash and liquid assets (including reverse repurchase agreements and short-term government securities) and amounts due from other banks net of amounts due to other banks that are readily convertible to known amounts of cash within three months, highly liquid and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes).

Refer to *Note 36 Notes to the cash flow statements* for a detailed reconciliation of cash and cash equivalents.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Cash and liquid assets				
Coins, notes and cash at bank	**1,366**	1,003	**1,197**	850
Reverse repurchase agreements	**61,542**	53,201	**61,016**	52,976
Other (including bills receivable and remittances in transit)	**1,480**	1,253	**1,342**	985
Total cash and liquid assets	**64,388**	55,457	**63,555**	54,811
Due from other banks				
Central banks and other regulatory authorities	**18,934**	9,058	**16,914**	7,481
Other banks	**33,417**	23,072	**31,981**	21,568
Total due from other banks	**52,351**	32,130	**48,895**	29,049
Due to other banks				
Central banks and other regulatory authorities[1]	**25,111**	7,768	**24,900**	7,693
Other banks	**25,445**	26,505	**22,728**	24,859
Total due to other banks	**50,556**	34,273	**47,628**	32,552

(1) Included within amounts due to central banks and other regulatory authorities is $14,401 million (2019: $nil) for the Group and $14,270 million (2019: $nil) for the Company relating to the Term Funding Facility provided by the Reserve Bank of Australia and the Term Lending Facility and Term Auction Facility provided by the Reserve Bank of New Zealand.

NOTE 9
TRADING INSTRUMENTS

Accounting policy

Trading instruments comprise of:

- Derivatives that are not in a qualifying hedge relationship.
- Securities that are classified as held for trading because they are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking.

Trading instruments are measured at fair value through profit or loss.

	Group				Company			
	2020 Assets $m	2019 Assets $m	2020 Liabilities $m	2019 Liabilities $m	2020 Assets $m	2019 Assets $m	2020 Liabilities $m	2019 Liabilities $m
Trading derivatives	**30,914**	35,545	**30,021**	34,318	**31,326**	35,007	**33,450**	37,945
Trading securities	**64,937**	61,283	**-**	-	**54,924**	54,545	**-**	-
Total trading instruments	**95,851**	96,828	**30,021**	34,318	**86,250**	89,552	**33,450**	37,945

Further details of trading derivatives are disclosed in the below table.

	Group				Company			
	2020 Assets $m	2019 Assets $m	2020 Liabilities $m	2019 Liabilities $m	2020 Assets $m	2019 Assets $m	2020 Liabilities $m	2019 Liabilities $m
Foreign exchange rate-related contracts								
Spot and forward contracts	**6,389**	6,727	**6,527**	6,913	**6,132**	5,772	**6,112**	6,084
Cross currency swaps	**5,601**	8,478	**8,649**	10,286	**6,462**	8,800	**12,180**	14,385
Options / swaptions	**218**	241	**136**	138	**217**	239	**136**	139
Total foreign exchange rate-related contracts	**12,208**	15,446	**15,312**	17,337	**12,811**	14,811	**18,428**	20,608
Interest rate-related contracts								
Forward rate agreements	**25**	27	**19**	17	**23**	27	**16**	16
Swaps	**16,548**	18,584	**12,452**	15,364	**16,353**	18,677	**12,761**	15,717
Options / swaptions	**1,513**	1,219	**1,718**	1,372	**1,513**	1,219	**1,718**	1,372
Total interest rate-related contracts	**18,086**	19,830	**14,189**	16,753	**17,889**	19,923	**14,495**	17,105
Credit derivatives	**74**	58	**156**	103	**77**	61	**159**	106
Commodity derivatives	**525**	165	**359**	88	**528**	166	**363**	88
Other derivatives	**21**	46	**5**	37	**21**	46	**5**	38
Total trading derivatives	**30,914**	35,545	**30,021**	34,318	**31,326**	35,007	**33,450**	37,945

Further details of trading securities are disclosed in the below table.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Government bonds, notes and securities	**42,071**	35,800	**36,361**	33,484
Semi-government bonds, notes and securities	**5,827**	6,458	**3,096**	3,816
Corporate / financial institution bonds, notes and securities	**15,965**	18,034	**14,394**	16,254
Other bonds, notes, securities and other assets	**1,074**	991	**1,073**	991
Total trading securities	**64,937**	61,283	**54,924**	54,545

NOTE 10
DEBT INSTRUMENTS

Accounting policy

Debt instruments are measured at fair value through other comprehensive income as they are held in a business model with the objective of collecting contractual cash flows or realising the asset through sale and they have contractual cash flows which are considered to be solely repayments of principal and interest.

	Group		Company	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Government bonds, notes and securities	**3,282**	3,005	**3,280**	3,005
Semi-government bonds, notes and securities	**23,240**	21,689	**23,240**	21,689
Corporate / financial institution bonds, notes and securities	**6,648**	6,273	**6,648**	6,256
Other bonds, notes and securities	**7,185**	9,238	**7,156**	9,216
Total debt instruments	**40,355**	40,205	**40,324**	40,166

NOTE 11
OTHER FINANCIAL ASSETS

Accounting policy

Other financial assets are measured at fair value through profit or loss. Financial assets are measured at fair value through profit or loss when they have contractual cash flow characteristics that are not considered to be solely principal and interest or they have been designated as such to eliminate or reduce an accounting mismatch that would otherwise arise.

Other financial assets are measured at fair value both at initial recognition and subsequently. Changes in fair value and transaction costs are recognised in the income statement.

	Group		Company	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Loans at fair value	**3,860**	6,761	**2,552**	4,868
Other financial assets at fair value	**-**	349	**1,333**	1,361
Total other financial assets	**3,860**	7,110	**3,885**	6,229

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets is $3,860 million (2019: $6,761 million) for the Group and $2,552 million (2019: $4,868 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a $66 million loss (2019: $65 million loss) for the Group and a $35 million loss (2019: $54 million loss) for the Company.

NOTE 12
LOANS AND ADVANCES

Accounting policy

Loans and advances are financial assets for which the contractual cash flows are solely repayments of principal and interest and that are held in a business model with the objective of collecting contractual cash flows.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Loans and advances				
Housing loans	**341,729**	343,915	**298,154**	302,764
Other term lending	**219,591**	216,126	**184,665**	180,100
Asset and lease financing	**13,009**	12,763	**12,611**	12,230
Overdrafts	**4,347**	5,820	**2,484**	3,265
Credit card outstandings	**5,259**	6,774	**4,426**	5,717
Other lending	**4,780**	6,703	**4,463**	6,242
Total gross loans and advances	**588,715**	592,101	**506,803**	510,318
Deduct:				
Unearned income and deferred net fee income	**(219)**	(452)	**(282)**	(510)
Provision for credit impairment	**(6,011)**	(3,900)	**(5,179)**	(3,281)
Total net loans and advances	**582,485**	587,749	**501,342**	506,527

NOTE 13
DEPOSITS AND OTHER BORROWINGS

Accounting policy

Deposits and other borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Term deposits	**134,181**	160,328	**107,044**	127,997
On-demand and short-term deposits	**261,260**	210,294	**234,933**	190,284
Certificates of deposit	**34,708**	39,620	**34,709**	39,620
Deposits not bearing interest	**72,221**	53,672	**64,163**	47,861
Commercial paper and other borrowings	**18,679**	26,809	**18,362**	25,902
Repurchase agreements	**25,127**	31,362	**25,127**	31,362
Total deposits and other borrowings	**546,176**	522,085	**484,338**	463,026

NOTE 14
BONDS, NOTES AND SUBORDINATED DEBT

Accounting policy

Bonds, notes and subordinated debt are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue.

	Group		Company	
	2020	2019	2020	2019
	$m	$m	$m	$m
Bonds, notes and subordinated debt				
Medium-term notes	**85,274**	104,126	**83,711**	104,147
Securitisation notes	**3,126**	4,283	**-**	-
Covered bonds	**25,659**	23,999	**24,769**	23,110
Subordinated medium-term notes	**11,817**	10,342	**11,817**	10,342
Other subordinated notes	**508**	508	**-**	-
Total bonds, notes and subordinated debt[1]	**126,384**	143,258	**120,297**	137,599
Issued bonds, notes and subordinated debt by currency				
AUD	**38,663**	43,380	**35,390**	38,966
USD	**37,633**	41,914	**36,351**	41,813
EUR	**30,898**	36,359	**30,421**	35,787
GBP	**5,261**	6,708	**5,219**	6,680
Other	**13,929**	14,897	**12,916**	14,353
Total bonds, notes and subordinated debt[1]	**126,384**	143,258	**120,297**	137,599

(1) The balances include net discounts / premium adjustments.

NOTE 14 BONDS, NOTES AND SUBORDINATED DEBT (CONTINUED)

Subordinated medium-term notes

Currency	Notional amount[(1)]	Maturity / First optional call date	Group 2020	Group 2019	Company 2020	Company 2019
	$m		$m	$m	$m	$m
EUR	750	Fixed matured 2019	-	1,215	-	1,215
EUR	1,000	Fixed matured 2020	-	1,637	-	1,637
AUD	1,100	Floating matured 2020	-	1,100	-	1,100
HKD	1,137	Fixed due 2021	**208**	213	**208**	213
JPY	10,000	Fixed due 2021	**133**	138	**133**	138
AUD	150	Fixed due 2021	**152**	152	**152**	152
AUD	650	Floating due 2021	**650**	650	**650**	650
JPY	10,000	Fixed due 2021	**134**	138	**134**	138
SGD	450	Fixed due 2023	**484**	493	**484**	493
AUD	943	Floating due 2023	**939**	938	**939**	938
AUD	1,000	Floating due 2024	**1,000**	1,000	**1,000**	1,000
CAD	1,000	Fixed due 2025	**1,103**	-	**1,103**	-
AUD	225	Fixed due 2026	**237**	-	**237**	-
AUD	1,175	Floating due 2026	**1,175**	-	**1,175**	-
AUD	275	Fixed due 2027	**316**	309	**316**	309
AUD	20	Fixed due 2027	**30**	30	**30**	30
AUD	20	Fixed due 2028	**30**	30	**30**	30
USD	1,500	Fixed due 2029	**2,356**	2,299	**2,356**	2,299
USD	1,500	Fixed due 2030	**2,104**	-	**2,104**	-
AUD	205	Fixed due 2035	**205**	-	**205**	-
AUD	215	Fixed due 2040	**215**	-	**215**	-
AUD	245	Fixed due 2040	**246**	-	**246**	-
AUD	100	Fixed due 2040	**100**	-	**100**	-
Total			**11,817**	10,342	**11,817**	10,342

(1) Subordinated medium-term notes qualify as Tier 2 capital, in some cases subject to transitional Basel III treatment.

Other subordinated notes

On 17 December 2015, BNZ issued NZ$550 million of subordinated unsecured notes in New Zealand (BNZ Subordinated Notes), treated as Tier 2 capital, subject to an adjustment as the notes are issued by a subsidiary to third parties. The BNZ Subordinated Notes will mature in December 2025, but in certain circumstances (subject to APRA and RBNZ approval) BNZ may, at its option, repay some or all of the BNZ Subordinated Notes on 17 December 2020 (Optional Redemption Date) or on any scheduled interest payment date thereafter. The BNZ Subordinated Notes pay a fixed rate of interest, which will be reset if the BNZ Subordinated Notes are not redeemed on the Optional Redemption Date.

In response to the impacts of COVID-19, the RBNZ has stated that New Zealand-incorporated registered banks should not redeem non-Common Equity Tier 1 capital instruments (other than on a stated final maturity date), until the economic outlook has sufficiently recovered.

NOTE 15
OTHER DEBT ISSUES

Accounting policy

Perpetual notes, convertible preference shares and convertible notes are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2020	2019	2020	2019
	$m	$m	$m	$m
Perpetual floating rate notes	**21**	77	**21**	77
Convertible preference shares and convertible notes	**6,170**	6,405	**6,170**	6,405
Total other debt issues	**6,191**	6,482	**6,191**	6,482

The table below highlights the key features of the Group's other debt issuances.

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Issued amount	USD250 million	NAB CPS II - $1.72 billion	NAB Capital Notes - $1.34 billion NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion NAB Wholesale Capital Notes - $500 million NAB Wholesale Capital Notes 2 - $600 million
Issued date	9 October 1986	NAB CPS II - 17 December 2013	NAB Capital Notes - 23 March 2015 NAB Capital Notes 2 - 7 July 2016 NAB Capital Notes 3 - 20 March 2019 NAB Wholesale Capital Notes - 12 December 2019 NAB Wholesale Capital Notes 2 - 17 July 2020
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears	NAB Capital Notes - Quarterly in arrears NAB Capital Notes 2 - Quarterly in arrears NAB Capital Notes 3 - Quarterly in arrears NAB Wholesale Capital Notes - Semi-annually in arrears until the optional call date. Quarterly in arrears thereafter. NAB Wholesale Capital Notes 2 - Quarterly in arrears
Interest rate	0.15% per annum above the 6 month USD LIBOR	NAB CPS II - 3.25% per annum above the 3 month BBSW	NAB Capital Notes - 3.50% per annum above the 3 month BBSW NAB Capital Notes 2 - 4.95% per annum above the 3 month BBSW NAB Capital Notes 3 - 4.00% per annum above the 3 month BBSW NAB Wholesale Capital Notes - 4.95% per annum until the optional call date. 3.75% per annum above the 3 month BBSW thereafter. NAB Wholesale Capital Notes 2 - 4.00% per annum above the 3 month BBSW
Maturity / conversion	No final maturity	Mandatory conversion: NAB CPS II - 19 December 2022 Issuer conversion option[1]: NAB CPS II - 17 December 2020	NAB Capital Notes converted / redeemed on 23 March 2020 Mandatory conversion: NAB Capital Notes 2 - 8 July 2024 NAB Capital Notes 3 - 19 June 2028 NAB Wholesale Capital Notes - 12 December 2031 NAB Wholesale Capital Notes 2 - 17 July 2027 Issuer conversion option: NAB Capital Notes 2 - 7 July 2022 NAB Capital Notes 3 - 17 June 2026 NAB Wholesale Capital Notes - 12 December 2029 NAB Wholesale Capital Notes 2 - 17 July 2025

NOTE 15 OTHER DEBT ISSUES (CONTINUED)

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Outstanding amount	USD15.05 million	NAB CPS II - $1.72 billion	NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion NAB Wholesale Capital Notes - $500 million NAB Wholesale Capital Notes 2 - $600 million
Capital treatment	Tier 2 capital, subject to transitional Basel III arrangements	Additional Tier 1 capital	Additional Tier 1 capital

(1) On 5 November 2020, NAB announced it would exercise its option to redeem all of the NAB CPS II on 17 December 2020. Each NAB CPS II will be redeemed for cash at its par value of $100.

NOTE 16
OTHER FINANCIAL LIABILITIES

Accounting policy

In certain circumstances, the Group applies the fair value measurement option to financial liabilities. This option is applied where an accounting mismatch is significantly reduced or eliminated by measuring the financial liability at fair value through profit or loss.

Where liabilities are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses (except for changes in own credit risk that are recognised in other comprehensive income) are recognised in the income statement as they arise.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Other financial liabilities at fair value				
Bonds, notes and subordinated debt	**22,348**	25,998	**5,845**	6,414
Deposits and other borrowings				
On-demand and short-term deposits	**-**	263	**-**	-
Certificates of deposit	**856**	1,251	**-**	-
Term deposits	**562**	55	**-**	-
Commercial paper and other borrowings	**3,089**	3,296	**-**	-
Securities sold short	**3,092**	2,204	**3,042**	2,119
Other financial liabilities	**24**	216	**24**	17
Total other financial liabilities	**29,971**	33,283	**8,911**	8,550

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss for the 2020 financial year of $118 million (2019: $167 million gain) for the Group and a loss of $56 million (2019: $149 million gain) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of $83 million (2019: $35 million gain) for the Group and a gain of $10 million (2019: $66 million gain) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $21,230 million (2019: $25,078 million) for the Group and $5,358 million (2019: $5,991 million) for the Company.

NOTE 17

PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST

Accounting policy

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- debt instruments measured at amortised cost and fair value through other comprehensive income
- loan commitments
- financial guarantee contracts.

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

Stage	Measurement basis
12-months ECL (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not credit impaired (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – credit impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

At each reporting date, the Group assesses the default risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the default risk of an exposure has increased significantly since initial recognition, the asset will migrate to Stage 2. If no significant increase in default risk is observed, the asset will remain in Stage 1. Should an asset become credit impaired it will migrate to Stage 3.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis. Refer to *Note 19 Financial risk management*.

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit quality of financial assets

The Group's internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided to counterparties or customers. The Group has defined counterparty probabilities of default across retail and non-retail loans and advances. For non-retail, these can be broadly mapped to external credit rating agencies and comprise performing (pre-default) and non-performing (post-default) rating grades. In assessing for credit impairment of financial assets under the expected credit loss model, the Group aligns impairment with the definition of default prescribed in its Credit Policy and Procedures.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the Group's historical experience.

- For non-retail facilities, internally derived credit ratings, as described above, represent a key determinant of default risk. The Group assigns each customer a credit rating at initial recognition based on available information. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date, relative to the credit rating at the date of initial recognition.
- Retail facilities use the number of days past due (DPD) or the relative change in probability of default at an account level, to determine whether or not there has been a significant increase in credit risk.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

- In addition, the Group considers that significant increase in credit risk occurs when a facility is more than 30 DPD.
- Consistent with industry guidance, a customer support payment deferral as part of COVID-19 support packages by itself will not 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 for such loans.

Definition of Default

Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without remedial action, such as realisation of security. The offer or uptake of a COVID-19 related payment deferral does not automatically trigger a default event unless there is other evidence that the customer is unlikely to meet their contractual obligations.

Calculation of expected credit losses

- ECLs are calculated using three main parameters being a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward looking information, including macro-economic data.
- For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
- The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.
- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

Incorporation of forward looking information

- The Group uses internal subject matter experts from Risk, Economics and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments and any idiosyncratic or targeted portfolio / industry adjustments, to support the calculation of ECLs.
- Forward looking adjustments for both general macro-economic adjustments and more targeted portfolio / industry adjustments, reflect reasonable and supportable forecasts of potential future conditions that are not captured within the base ECL calculations.
- Macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.
- Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points, will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Critical accounting judgements and estimates

In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions. 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 potential 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.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

	Group 2020 $m	Group 2019 $m	Company 2020 $m	Company 2019 $m
Credit impairment charge				
New and increased provisions (net of collective provision releases)	**2,990**	1,154	**2,651**	987
Write-backs of specific provisions	**(169)**	(170)	**(130)**	(134)
Recoveries of specific provisions	**(69)**	(57)	**(59)**	(42)
Total charge to the income statement	**2,752**	927	**2,462**	811

Group	Stage 1: 12-mth ECL Collective provision $m	Stage 2: Lifetime ECL not credit impaired Collective provision $m	Stage 3: Lifetime ECL credit impaired Collective provision $m	Stage 3: Lifetime ECL credit impaired Specific provision $m	Total $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-months ECL - collective provision	358	(348)	(10)	-	-
Transferred to Lifetime ECL - 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-months ECL - collective provision	**335**	**(319)**	**(16)**	**-**	**-**
Transferred to Lifetime ECL - 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**

Impact of movements in gross carrying amount on provision for expected credit losses for the Group

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2020 financial year have contributed to the changes in the provision for credit impairment for the Group under the expected credit loss model.

Overall, the total provision for credit impairment increased by $2,111 million compared to the balance at 30 September 2019.

Specific provisions increased by $38 million compared to the balance at 30 September 2019, due to new and increased specific provisions raised for the Business lending portfolios in Australia and New Zealand, partially offset by work-outs for a small number of larger exposures.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Collective provisions increased by $2,073 million compared to the balance at 30 September 2019, comprised of:

Collective provision 12-months ECL (Stage 1) increased by $102 million as a result of:
- $131 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.
- Net collective provision forward looking adjustments raised for targeted sectors impacted by COVID-19 including aviation, tourism, hospitality, entertainment, retail trade and commercial property.
- Partially offset by $191 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) increased by $1,670 million as a result of:
- Collective provision forward looking economic adjustments raised due to deterioration in broader macro-economic factors as a result of COVID-19.
- Net collective provision forward looking adjustments raised for targeted sectors impacted by COVID-19 including aviation, tourism, hospitality, entertainment, retail trade and commercial property.
- $72 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.
- Partially offset by $48 billion of loans and advances that migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality, were repaid or experienced movement in underlying account balances during the period.

Collective provision Lifetime ECL – credit impaired (Stage 3) increased by $301 million as a result of:
- Collective provision forward looking economic adjustments raised due to deterioration in broader macro-economic factors as a result of COVID-19.
- $5 billion of loans and advances that experienced movement in underlying account balances during the period or were transferred into Stage 3 from Stage 1 and Stage 2 due to credit quality deterioration.
- Partially offset by $4 billion of loans and advances that were repaid or migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

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).

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

NOTE 17 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		
	Housing %	Business %	Total Group %
Macro-economics scenario weightings			
Upside	**15**	**15**	**15**
Base case	**60**	**60**	**60**
Downside	**25**	**25**	**25**

	Stage 1	Stage 2	Stage 3		
Company	12-mth ECL Collective provision $m	Lifetime ECL not credit impaired Collective provision $m	Lifetime ECL credit impaired Collective provision $m	Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 2018	260	1,785	342	567	2,954
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	282	(275)	(7)	-	-
Transferred to Lifetime ECL - collective provision	(39)	88	(49)	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(60)	62	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(2)	(35)	(96)	133	-
New and increased provisions (net of collective provision releases)	(201)	379	222	587	987
Write-backs of specific provisions	-	-	-	(134)	(134)
Write-offs from specific provisions	-	-	-	(525)	(525)
Foreign currency translation and other adjustments	2	1	-	(4)	(1)
Balance at 30 September 2019	300	1,883	474	624	3,281
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	**233**	**(221)**	**(12)**	**-**	**-**
Transferred to Lifetime ECL - collective provision	**(77)**	**132**	**(55)**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(2)**	**(74)**	**76**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(1)**	**(31)**	**(97)**	**129**	**-**
New and increased provisions (net of collective provision releases)	**(38)**	**1,747**	**335**	**607**	**2,651**
Write-backs of specific provisions	**-**	**-**	**-**	**(130)**	**(130)**
Write-offs from specific provisions	**-**	**-**	**-**	**(618)**	**(618)**
Foreign currency translation and other adjustments	**(1)**	**(2)**	**1**	**(3)**	**(5)**
Balance at 30 September 2020	**414**	**3,434**	**722**	**609**	**5,179**

Impact of movements in gross carrying amount on provision for expected credit losses for the Company

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2020 financial year have contributed to the changes in the provision for credit impairment for the Company under the expected credit loss model.

Overall, the total provision for credit impairment increased by $1,898 million compared to the balance at 30 September 2019.

Specific provisions decreased by $15 million compared to the balance at 30 September 2019, due to work-outs for a small number of larger names within the Business lending portfolio, partially offset by new and increased specific provisions raised for the Business lending portfolio.

Collective provisions increased by $1,913 million compared to the balance at 30 September 2019, comprised of:

Collective provision 12-months ECL (Stage 1) increased by $114 million due to:

- $103 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

- Net collective provisions forward looking adjustments raised for targeted sectors impacted by COVID-19 including aviation, tourism, hospitality, entertainment, retail trade and commercial property.
- Partially offset by $171 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – not credit impaired (Stage 2) increased by $1,551 million due to:
- Collective provision forward looking economic adjustments raised due to deterioration in broader macro-economic factors as a result of COVID-19.
- Net collective provisions forward looking adjustments raised for targeted sectors impacted by COVID-19 including aviation, tourism, hospitality, entertainment, retail trade and commercial property.
- $68 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.
- Partially offset by $35 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period, migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality.

Collective provision Lifetime ECL – credit impaired (Stage 3) increased by $248 million due to:
- Collective provision forward looking economic adjustments raised due to deterioration in broader macro-economic factors as a result of COVID-19.
- $4 billion of existing loans and advances that were transferred into Stage 3 from Stage 1 and stage 2 due to credit quality deterioration or experienced movement in underlying account balances during the period.
- Partially offset by $3 billion of loan and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the 2020 financial year, which are still subject to enforcement activity was $99 million (2019: $67 million) for the Group and $73 million (2019: $57 million) for the Company.

Information about total impaired assets

The following table provides details on impaired assets. Gross amounts are shown before taking into account any collateral held or other credit enhancements. Refer to *Note 19 Financial risk management* for analysis of the credit quality of the Group's loans and advances.

	Group		Company	
	2020	**2019**	**2020**	**2019**
Summary of total impaired assets	**$m**	**$m**	**$m**	**$m**
Gross impaired assets[(1)]	**1,866**	1,972	**1,299**	1,355
Specific provision for credit impairment[(2)]	**(840)**	(782)	**(609)**	(624)
Net impaired assets[(3)]	**1,026**	1,190	**690**	731

(1) Gross impaired assets include $38 million (2019: $5 million) for the Group and $nil (2019: $nil) for the Company of gross impaired loans at fair value, $26 million (2019: $22 million) of impaired off-balance sheet credit exposures for the Group and $19 million (2019: $20 million) for the Company.
(2) Specific provision for credit impairment includes $20 million (2019: $nil) for the Group and $nil (2019: $nil) for the Company of fair value credit adjustments on loans at fair value.
(3) The fair value of security in respect of impaired assets is $1,065 million (2019: $1,161 million) for the Group and $740 million (2019: $703 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Modifications

The Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments for retail and business customers for an initial period of up to six months. The terms and conditions related to the deferrals were considered to be non-substantial modifications and accounted for as continuation of the existing loan agreements. No material modification gains or losses have been recognised in respect of loans on deferral.

The table below sets out the gross credit risk exposures which remain on deferral as at 30 September 2020:

	Group	Company
	2020	2020
	$m	$m
Stage 1	26,989	25,602
Stage 2	18,104	18,051
Stage 3	680	637
Total	**45,773**	**44,290**

Options for customers upon expiry of initial deferral period include: resuming regular repayments, extension of loan terms, converting to interest only for a period of time, consolidation of debt, extension of initial deferral period for up to 4 months, hardship assistance or a combination of these measures.

NOTE 18
HEDGE ACCOUNTING

Accounting policy

The Group utilises the following three types of hedge relationships in managing its exposure to risk. At inception of all hedge relationships the Group documents the relationship between the hedging instrument and hedged item, the risk being hedged, the Group's risk management objective and strategy and how effectiveness will be measured throughout the hedge relationship.

	Cash flow hedge	Fair value hedge	Net investment hedge
Objective	To hedge changes to cash flows arising from interest rate and foreign currency risk.	To hedge fair value changes to recognised assets and liabilities arising from interest rate and foreign currency risk.	To hedge foreign currency exposure arising from foreign operations of the Group.
Methods for testing hedge effectiveness	For portfolio hedges, capacity analysis to ensure interest cash flows arising from the portfolio of hedged items are in excess of the hedging instruments.	Regression analysis and the Cumulative dollar offset method.	Cumulative dollar offset method.
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument. Discounting basis between the hedged item and hedging instrument.	Mainly mismatches in terms of the hedged item and the hedging instrument, prepayment risk and reset risk. Discounting basis between the hedged item and hedging instrument.	None expected as the net investment is only hedged to the extent of the notional or carrying amount of the hedging instrument.
Recognition of effective hedge portion	Fair value changes of the hedging instrument associated with the hedged risk are recognised in the cash flow hedge reserve in equity.	Fair value changes of the hedging instrument and those arising from the hedged risk on the hedged item are recognised in the income statement.	Fair value changes of the hedging instrument are recognised in the foreign currency translation reserve within equity.
Recognition of ineffective hedge portion	Recognised in the income statement as ineffectiveness arises.		
Hedging instrument expires, is sold, or when hedging criteria are no longer met	Transferred to the income statement as / when the hedged item affects the income statement. If the hedged item is no longer expected to occur the effective portion accumulated in equity is transferred to the income statement immediately.	Cumulative hedge adjustment to the hedged item is amortised to the income statement on an effective yield basis.	Cumulative fair value changes arising from the hedging instrument will remain in equity until the foreign operation is disposed.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Risk Management Strategy

Overview

The Group's hedging strategy is to manage its exposure to interest rate risk on a net variable basis in Australian or New Zealand dollars. For Australian and New Zealand denominated exposures the Group will enter into interest rate swaps where the exposure is to a fixed interest rate. In some instances, cash flow hedges of interest rate risk are also used to arrive at a net variable rate position. Foreign currency exposures are swapped to Australian or New Zealand dollars using cross-currency swaps and interest rate swaps. The material risks and the risk management strategy are explained further below.

Cash flow hedges – interest rate risk

The Group manages interest rate risk exposure on deposits and loans via interest rate derivatives. The Group accounts for these hedge relationships as a macro cash flow hedge. The gross exposures are allocated to time buckets based on expected repricing dates, with interest rate derivatives allocated to hedge accordingly. The benchmark interest rate is hedged which represents the largest component of changes in fair value and is observable in relevant financial markets.

Cash flow hedges – foreign currency risk

The Group is exposed to foreign currency risk on credit margin cash flows and foreign currency risk on the principal cash flows, both of which arise from foreign currency debt issuances.

The Group uses foreign currency derivatives to manage changes between the foreign currency and Australian and New Zealand dollars for the above mentioned cash flows.

Fair value hedges – interest rate risk

Interest rate risk arises on fixed rate bonds, notes and subordinated debt issuances, fixed rate debt instruments held for liquidity purposes and fixed rate loans and advances. The Group hedges its interest rate risk on these instruments with relevant interest rate derivatives to reduce its exposure to changes in fair value due to interest rate fluctuations.

Hedging relationships involving debt issuances and the debt instruments are predominantly one-to-one. The fixed rate loans and advances are predominantly managed on a macro basis, where exposures are bucketed based on expected repricing dates with hedging instruments designated accordingly.

With all the fair value hedges, the benchmark interest rate is hedged which represents the largest component of changes in fair value and is observable in relevant financial markets.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Hedging instruments

The table below sets out hedging derivative assets and liabilities by the hedged risk and type of hedge relationship in which they are designated. The Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps, the Group will often designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

			Group				Company			
			2020		2019		2020		2019	
	Hedging instrument	Risk	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m
Derivative assets										
Cash flow hedges	Interest rate swaps	Interest	**10**	**112,785**	152	178,447	**9**	**106,602**	152	171,741
Cash flow hedges	Cross-currency swaps	Currency	**2,620**	**95,600**	3,530	98,374	**2,098**	**88,825**	3,153	93,649
Cash flow hedges	Foreign exchange contracts	Currency	**273**	**11,972**	163	24,405	**273**	**11,972**	163	24,405
Fair value hedges	Interest rate swaps	Interest	**379**	**57,912**	331	53,390	**266**	**44,031**	219	42,706
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**547**	**9,757**	500	7,201	**241**	**5,191**	359	4,608
Cash flow hedges	Futures(1)	Interest	**1**	**663**	13	19,900	**1**	**32**	13	18,428
Derivative liabilities										
Cash flow hedges	Interest rate swaps	Interest	**29**	**54,817**	156	162,951	**29**	**49,853**	156	157,837
Cash flow hedges	Cross-currency swaps	Currency	**1,222**	**65,451**	1,162	49,804	**1,199**	**63,594**	1,141	47,770
Cash flow hedges	Foreign exchange contracts	Currency	**145**	**5,449**	114	19,040	**145**	**5,449**	114	19,040
Fair value hedges	Interest rate swaps	Interest	**82**	**40,418**	113	45,646	**80**	**23,892**	112	28,948
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**772**	**7,505**	2,450	17,918	**263**	**3,990**	1,374	11,290
Cash flow hedges	Futures(1)	Interest	**5**	**2,990**	27	19,593	**5**	**2,527**	27	18,851
Net investment hedges	Foreign exchange contracts	Currency	**-**	**-**	15	150	**-**	**-**	15	150

(1) Futures notional amounts are netted in 2020 for presentation purposes. The equivalent 2019 netted notional amounts are $849 million assets and $5,231 million liabilities for the Group and $120 million assets and $5,231 million liabilities for the Company.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

The following table shows the maturity profile of hedging instruments based on their notional amounts.

	2020				2019			
	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Group								
Interest rate swaps	**106,450**	**121,833**	**37,649**	**265,932**	286,494	122,583	31,357	440,434
Foreign exchange contracts	**17,421**	**-**	**-**	**17,421**	43,595	-	-	43,595
Futures[1]	**3,034**	**619**	**-**	**3,653**	32,068	7,425	-	39,493
Cross-currency swaps - interest and currency	**2,917**	**11,065**	**3,280**	**17,262**	6,834	13,343	4,942	25,119
Cross-currency swaps - currency	**28,257**	**90,823**	**41,971**	**161,051**	20,271	87,481	40,426	148,178
Company								
Interest rate swaps	**93,449**	**96,038**	**34,891**	**224,378**	277,513	94,560	29,159	401,232
Foreign exchange contracts	**17,421**	**-**	**-**	**17,421**	43,595	-	-	43,595
Futures[1]	**1,940**	**619**	**-**	**2,559**	29,854	7,425	-	37,279
Cross-currency swaps - interest and currency	**2,092**	**6,694**	**395**	**9,181**	6,834	8,564	500	15,898
Cross-currency swaps - currency	**27,799**	**84,143**	**40,477**	**152,419**	20,271	81,463	39,685	141,419

(1) Futures notional amounts are netted in 2020 for presentation purposes. The equivalent 2019 netted notional amounts are $849 million assets and $5,231 million liabilities for the Group and $120 million assets and $5,231 million liabilities for the Company.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

The average rate for major currencies of the final exchange of cross-currency swaps designated in hedge accounting relationships is as follows:

	Group		Company	
	2020	2019	2020	2019
USD:AUD	**1.337**	1.329	**1.333**	1.324
EUR:AUD	**1.461**	1.472	**1.489**	1.499
GBP:AUD	**1.790**	1.735	**1.788**	1.776
USD:NZD	**1.579**	n/a	**n/a**	n/a
CHF:NZD	**1.560**	n/a	**n/a**	n/a

The average executed rate for interest rate swaps in hedge accounting relationships for major currencies is as follows:

	Group				Company			
	2020		2019		2020		2019	
	Fair value hedges %	Cash flow hedges %	Fair value hedges %	Cash flow hedges %	Fair value hedges %	Cash flow hedges %	Fair value hedges %	Cash flow hedges %
NZD interest rates	**0.11 - 5.39**	**0.03 - 5.31**	0.92 - 5.39	0.92 - 5.31	**1.95 - 5.39**	**-**	2.16 - 5.39	-
USD interest rates	**0.62 - 3.52**	**-**	0.78 - 3.52	-	**0.62 - 3.52**	**-**	0.78 - 3.52	-
AUD interest rates	**1.00 - 7.13**	**0.09 - 7.29**	1.16 - 7.25	0.59 - 7.29	**1.00 - 7.13**	**0.09 - 7.29**	1.16 - 7.25	0.59 - 7.29
EUR interest rates	**(0.22) - 2.59**	**-**	(0.22) - 3.29	-	**(0.22) - 2.59**	**-**	(0.22) - 3.29	-

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in *Note 28 Reserves*. The movements in hedging instruments recognised in other comprehensive income are reported in the Group's statement of other comprehensive income. There are no amounts recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (2019: $nil).

The following table shows the carrying amount of fair value hedged items in hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes. The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2019: $nil) for the Group and $nil (2019: $nil) for the Company.

	Group				Company			
	2020		2019		2020		2019	
	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m
Debt instruments[(1)]								
Semi-government bonds, notes and securities	**21,013**	**-**	19,680	-	**21,013**	**-**	19,680	-
Loans and advances								
Housing loans	**14,102**	**131**	14,226	138	**-**	**-**	-	-
Other term lending	**2,399**	**147**	2,375	73	**2,399**	**147**	2,375	73
Bonds, notes and subordinated debt								
Medium-term notes	**52,503**	**1,850**	63,802	1,512	**50,940**	**1,790**	63,802	1,512
Covered bonds[(2)]	**22,807**	**1,159**	22,950	1,234	**-**	**-**	-	-
Subordinated medium-term notes	**7,848**	**410**	6,653	168	**7,848**	**410**	6,653	168

(1) The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.
(2) The Company ceased to apply hedge accounting to covered bonds, which continue to be designated for hedge accounting purposes at the Group level.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

Hedge ineffectiveness

Fair value and cash flow hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the years ended 30 September:

	Change in fair value on hedging instruments		Change in fair value on hedged items		Hedge ineffectiveness recognised in income statement	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Group						
Fair value hedges (interest rate risk)	**404**	1,717	**(419)**	(1,573)	**(15)**	144
Cash flow hedges (interest rate risk)	**357**	333	**(356)**	(331)	**1**	2
Cash flow hedges (currency risk)	**(801)**	1,512	**841**	(1,555)	**40**	(43)
Fair value and Cash flow hedges (interest rate and currency risk)	**32**	-	**(32)**	-	**-**	-
Total	**(8)**	3,562	**34**	(3,459)	**26**	103
Company						
Fair value hedges (interest rate risk)	**422**	802	**(425)**	(826)	**(3)**	(24)
Cash flow hedges (interest rate risk)	**284**	252	**(284)**	(250)	**-**	2
Cash flow hedges (currency risk)	**(553)**	1,307	**572**	(1,281)	**19**	26
Total	**153**	2,361	**(137)**	(2,357)	**16**	4

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Cash flow hedge (interest rate risk)				
Cash flow hedges - gains or losses recognised in other comprehensive income	**360**	340	**288**	250
Amount reclassified from the cash flow hedge reserve to income statement	**(61)**	(38)	**(14)**	(2)

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Cash flow hedge (currency risk)				
Cash flow hedges - gains or losses recognised in other comprehensive income	**(818)**	1,551	**(571)**	1,295
Amount reclassified from the cash flow hedge reserve to income statement	**640**	(1,569)	**458**	(1,189)

IBOR Reform

The Group early adopted AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, effective 1 October 2019. This standard amends AASB 7 and AASB 9 to modify some specific hedge accounting requirements to provide relief from the potential effects of uncertainty caused by interest rate benchmark reform.

Managing the process to transition

The Group has an established Project Team which continues to comprehensively assess and manage the impacts of IBOR reform, including overseeing the transition from the impacted interest rate benchmarks to Alternative Reference Rates across various divisions and functions within the Group. A steering committee comprising senior executives from relevant divisions and functions is responsible for governance ensuring clear accountability for decisions made.

The scope of the Project Team includes:

- Assessing the impact of IBOR reform on systems and processes within the Group and implementing changes to position the Group post IBOR cessation.
- Assessing the impact of IBOR reform on legal agreements the Group has executed, developing plans to support transition and future regulatory changes.

NOTE 18 HEDGE ACCOUNTING (CONTINUED)

- Periodically updating the Group's Executive Leadership Team and the Board on progress within the Group, market developments and important transition events.

Key exposures

The Group's hedge accounting relationships are exposed to the following significant interest rate benchmarks subject to cessation: USD Libor, GBP Libor and JPY Libor. These hedging relationships are primarily within the Group's Corporate and Institutional Bank division and Treasury function. In addition to interest rate risk, the Group is also exposed to foreign exchange risk and potentially in the future, additional basis risk as market conventions develop and evolve.

Further information on significant interest rate benchmarks, the extent of risk exposure managed by the Group that is affected by interest rate benchmark reform and the nominal amount of the hedging instruments in those hedging relationships is outlined below.

Significant assumptions and judgements

The Group has made the following significant assumptions and judgements in applying AASB 2019-3:

- The Group has applied the assumptions afforded by AASB 2019-3 paras 6.8.1-6.8.8 where applicable.
- The Group will cease applying AASB 2019-3 to individual hedge accounting relationships after the Group adopts the new ISDA protocol from its effective date and following an announcement by a benchmark regulator on the cessation date of an IBOR referenced in a hedge accounting relationship.
- Disclosure in the table below is only shown for hedged items and hedging instruments referencing interest rate benchmarks subject to cessation and where their contractual terms need to be updated as a result of cessation.
- Where a single hedging instrument references more than one benchmark rate and both benchmarks are subject to cessation (for example in the case of a cross currency swap), the notional amount has been disclosed in the table below twice to reflect the absolute notional exposure to benchmark reform. Likewise, if only one benchmark rate is subject to cessation, the notional is only disclosed once in the table below. Since hedging instruments might be in asset or liability positions, the table below discloses the absolute (gross) notional rather than net notionals.
- Disclosure in the following table in relation to hedged items only includes externally issued standalone instruments where their contractual cash flows are directly impacted by IBOR reform. In addition to these, hedged items amounting to $2.4 billion assets (for Group and Company), $42.2 billion liabilities (for Group) and $33.8 billion liabilities (for Company), whose contractual cash flows are not directly impacted by IBOR reform, are designated in accounting hedge relationships using hedging instruments affected by IBOR reform.

	Group				Company			
	2020				2020			
	USD Libor $m	GBP Libor $m	JPY Libor $m	Other $m	USD Libor $m	GBP Libor $m	JPY Libor $m	Other $m
Hedged items (carrying value)								
Bonds, notes and subordinated debt	7,215	361	-	-	7,215	361	-	-
Hedging instruments (notional)								
Fair value hedges	47,750	3,159	4,606	-	34,113	542	4,606	-
Cash flow hedges	160,592	3,520	4,606	-	152,264	2,708	4,606	-

NOTE 19
FINANCIAL RISK MANAGEMENT

Overview of Risk Management Framework

Risk is an inherent part of the Group's business and the effective management of risk is a fundamental enabler of the Group's strategic plan. The strategy for managing risk is to protect customers and enable sustained performance. The Group's risk management is in line with APRA Prudential Standard CPS 220 *Risk Management*.

The Risk Management Strategy describes the Group's material risks and the approach to managing them. The Risk Management Strategy is reviewed by the Board at least annually, or more frequently if there is a material change to the size, business mix and complexity, or a material change to the Group's risk profile. It is approved by the Board and submitted to APRA.

The Group's Risk Management Framework consists of systems, structures, policies, processes and people within the Group that manage the Group's material risks. The Risk Management Framework is comprehensively reviewed every three years for appropriateness, effectiveness and adequacy by an operationally independent party. The Board is ultimately responsible for the Risk Management Framework and oversees its operation by management. In addition, directors and senior executives are held accountable for the parts of the Group's operations they manage or control, consistent with the Banking Executive Accountability Regime (BEAR).

The Group applies a 'Three Lines of Defence' operating model in relation to the management of risk. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line is:
• First Line - Businesses own risks and obligations, and the controls and mitigation strategies that help manage them
• Second Line - A functionally segregated Risk function develops risk management frameworks, defines risk boundaries, provides objective review and challenge regarding the effectiveness of risk management within the first line businesses, and executes specific risk management activities where a functional segregation of duties and / or specific risk capability is required
• Third Line - An independent Internal Audit function reporting to the Board monitors the end-to-end effectiveness of risk management and compliance with the Risk Management Framework.

Further risk management information for the Group is disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/corporate-governance.

Credit Risk

Credit risk overview, management and control responsibilities

Credit is any transaction that creates an actual or potential obligation for a counterparty or a customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to annual or more frequent review.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and principal repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if any counterparty failed to meet its obligations in accordance with agreed terms, all amounts with a counterparty are terminated and settled on a net basis.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Environmental, Social and Governance (ESG) risks

The Group is exposed to ESG and other emerging risks. The following items are examples of how these risks may impact the Group:

- Increases in the frequency and severity of climatic events could impact customers' ability to service their loans or the value of the collateral we hold to secure the loans.
- Action taken by governments, regulators and society more generally, to transition to a low-carbon economy, could impact the ability of some customers to generate long-term returns in a sustainable way or lead to certain assets being stranded in the future.
- Failure to comply with environmental and social legislation (emerging and current) may impact customers' ability to generate sustainable returns and service their loans.
- If in future, customers don't hold appropriate levels of insurance for physical assets against certain risks, this may impact the value the Group can recover in the event of certain natural disasters.

The Group considers these risks as part of the credit risk assessment and due diligence process before a customer is granted credit and for new product development. The Group also manages its total credit portfolio within established risk appetite and limits, particularly for specific industries or regions that are more exposed to these types of risks. As at 30 September 2020, the Group holds a forward looking adjustment in its credit impairment provisions of $89 million (2019: $180 million) reflecting the potential impact of Australian drought conditions.

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances, there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For irrevocable loan commitments and other credit-related commitments, the maximum exposure to credit risk is the full amount of committed facilities.

The table below shows the Group's maximum exposure to credit risk for on-balance sheet and off-balance sheet positions before taking into account any collateral held or other credit enhancements.

		Group		Company	
		2020	2019	2020	2019
	Footnote	$m	$m	$m	$m
Financial assets					
Cash and liquid assets	(a)	**63,022**	54,454	**62,358**	53,961
Due from other banks	(b)	**52,351**	32,130	**48,895**	29,049
Trading instruments	(c)	**95,851**	96,828	**86,250**	89,552
Debt instruments	(d)	**40,355**	40,205	**40,324**	40,166
Other financial assets	(e)	**3,860**	7,110	**3,885**	6,229
Hedging derivatives	(c)	**3,830**	4,689	**2,888**	4,059
Gross loans and advances	(e)	**588,715**	592,101	**506,803**	510,318
Due from customers on acceptances	(e)	**1,477**	2,490	**1,477**	2,490
Due from controlled entities	(f)	**-**	-	**177,802**	114,786
Other assets	(f)	**9,285**	9,057	**7,748**	7,101
Total		**858,746**	839,064	**938,430**	857,711
Contingent liabilities	(g)	**20,626**	23,811	**19,707**	22,893
Credit-related commitments	(g)	**173,656**	155,980	**153,090**	136,259
Total		**194,282**	179,791	**172,797**	159,152
Total credit risk exposure		**1,053,028**	1,018,855	**1,111,227**	1,016,863

(a) The balance of **Cash and liquid assets** that is exposed to credit risk is comprised primarily of reverse repurchase agreements and securities borrowing agreements. These are collateralised with highly liquid securities and collateral is in excess of the borrowed or loaned amount.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) The balance of **Due from other banks** that is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest earning assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount.

Balances held with central supervisory banks and other interest earning assets that are due from other banks are managed based on the counterparty's creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

(c) At any one time, the maximum exposure to credit risk from **Trading instruments** and **Hedging derivatives** is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

Credit risk from over-the-counter trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over-the-counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

(d) Debt instruments are generally comprised of government, semi-government, corporate and financial institution bonds, notes and securities. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

The Group may utilise credit default swaps, guarantees provided by central banks, other forms of credit enhancements or collateral to minimise the Group's exposure to credit risk.

(e) Other financial assets, Loans and advances and Due from customers on acceptances mainly comprise general lending and line of credit products. The distinction of classification reflects the type of lending product or is due to an accounting designation. These lending products will generally have a significant level of collateralisation depending on the nature of the product.

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptances the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral and, where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

(f) The balance of **Other assets** which is exposed to credit risk includes securities sold not delivered, interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

(g) Contingent liabilities and credit-related commitments are comprised mainly of guarantees to customers, standby or documentary letters of credit, performance related contingencies and binding credit commitments. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

Offsetting financial assets and liabilities

The tables below illustrate the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The tables exclude financial instruments not subject to offsetting arrangements and that are only subject to collateral arrangements (e.g. loans and advances).

The 'Net amounts' presented in the tables are not intended to represent the Group's actual exposure to credit risk, as the Group will utilise a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements.

The amounts recognised on the balance sheet are presented in the 'Total balance sheet amount' column in the table below, and comprise the sum of the 'Net amount reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements'.

	2020								
	Subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements	Total balance sheet amount
	Amounts offset on balance sheet			Amounts not offset on balance sheet					
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial Instruments	Non-cash collateral	Cash collateral	Net Amount		
Group	$m	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets	111,672	(83,311)	28,361	(12,372)	(459)	(5,169)	10,361	6,383	34,744
Reverse repurchase agreements	98,058	(13,731)	84,327	-	(84,327)	-	-	-	84,327
Total assets	209,730	(97,042)	112,688	(12,372)	(84,786)	(5,169)	10,361	6,383	119,071
Derivative financial liabilities	(111,868)	83,311	(28,557)	12,372	909	8,126	(7,150)	(3,719)	(32,276)
Repurchase agreements	(70,647)	13,731	(56,916)	-	56,916	-	-	-	(56,916)
Total liabilities	(182,515)	97,042	(85,473)	12,372	57,825	8,126	(7,150)	(3,719)	(89,192)
Company									
Derivative financial assets	100,267	(71,796)	28,471	(14,318)	(459)	(4,722)	8,972	5,743	34,214
Reverse repurchase agreements	97,134	(13,731)	83,403	-	(83,403)	-	-	-	83,403
Total assets	197,401	(85,527)	111,874	(14,318)	(83,862)	(4,722)	8,972	5,743	117,617
Derivative financial liabilities	(103,475)	71,796	(31,679)	14,318	909	7,411	(9,041)	(3,492)	(35,171)
Repurchase agreements	(69,992)	13,731	(56,261)	-	56,261	-	-	-	(56,261)
Total liabilities	(173,467)	85,527	(87,940)	14,318	57,170	7,411	(9,041)	(3,492)	(91,432)

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2019[(1)]								
	Subject to enforceable netting arrangements							Amounts not subject to enforceable netting arrangements	Total balance sheet amount
	Amounts offset on balance sheet			Amounts not offset on balance sheet					
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial Instruments	Non-cash collateral	Cash collateral	Net Amount		
Group	$m	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets	102,517	(69,497)	33,020	(21,067)	(613)	(5,562)	5,778	7,214	40,234
Reverse repurchase agreements	77,162	(12,353)	64,809	-	(64,809)	-	-	-	64,809
Total assets	179,679	(81,850)	97,829	(21,067)	(65,422)	(5,562)	5,778	7,214	105,043
Derivative financial liabilities	(103,624)	69,497	(34,127)	21,067	352	9,819	(2,889)	(4,228)	(38,355)
Repurchase agreements	(63,099)	12,353	(50,746)	-	50,746	-	-	-	(50,746)
Total liabilities	(166,723)	81,850	(84,873)	21,067	51,098	9,819	(2,889)	(4,228)	(89,101)
Company									
Derivative financial assets	92,772	(59,985)	32,787	(21,364)	(613)	(5,172)	5,638	6,279	39,066
Reverse repurchase agreements	76,608	(12,353)	64,255	-	(64,255)	-	-	-	64,255
Total assets	169,380	(72,338)	97,042	(21,364)	(64,868)	(5,172)	5,638	6,279	103,321
Derivative financial liabilities	(97,230)	59,985	(37,245)	21,364	352	8,724	(6,805)	(3,639)	(40,884)
Repurchase agreements	(62,985)	12,353	(50,632)	-	50,632	-	-	-	(50,632)
Total liabilities	(160,215)	72,338	(87,877)	21,364	50,984	8,724	(6,805)	(3,639)	(91,516)

(1) Comparative information for derivative financial assets and derivative financial liabilities has been restated to reflect certain transactions subject to enforceable netting arrangements.

Derivative financial assets and liabilities

Derivative amounts will only be offset on the balance sheet where the Group has a legally enforceable right of offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The Group has applied offsetting to certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 *Financial Instruments: Presentation* requirements.

Reverse repurchase and repurchase agreements

Reverse repurchase and repurchase agreements will typically be subject to Global Master Repurchase Agreements or similar agreements whereby all outstanding transactions with the same counterparty can only be offset and closed out upon a default or insolvency event. In some instances, the agreement provides the Group with a legally enforceable right of offset in all circumstances. In such a case and where there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously, the amounts with that counterparty will be offset on the balance sheet.

Where the Group has a right of offset on default or insolvency only, the related non-cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Credit risk exposure by risk grade

The following tables show the credit quality of gross credit risk exposures to which the expected credit loss model is applied, for both recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

Notional stage allocations (Stage 1, Stage 2 and Stage 3) for gross credit risk exposures incorporate the impact of forward looking stress applied in the expected credit loss model, including potential COVID-19 impacts. Refer Accounting Policy section of *Note 17 Provisions for credit impairment on loans at amortised cost* for further information.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Stage 1		Stage 2		Stage 3		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Group	$m	$m	$m	$m	$m	$m	$m	$m
On balance sheet assets								
Gross loans and advances								
Senior investment grade	**116,590**	100,469	**2,689**	316	**-**	-	**119,279**	100,785
Investment grade	**220,315**	254,768	**27,491**	6,961	**-**	-	**247,806**	261,729
Sub-investment grade	**87,820**	130,339	**123,699**	90,272	**-**	-	**211,519**	220,611
Default	**-**	-	**1,948**	1,862	**8,163**	7,114	**10,111**	8,976
Total gross loans and advances	**424,725**	485,576	**155,827**	99,411	**8,163**	7,114	**588,715**	592,101
Other financial assets[(1)]								
Senior investment grade	**40,352**	39,690	**3**	-	**-**	-	**40,355**	39,690
Investment grade	**203**	994	**278**	108	**-**	-	**481**	1,102
Sub-investment grade	**233**	879	**761**	1,016	**-**	-	**994**	1,895
Default	**-**	-	**-**	-	**2**	8	**2**	8
Total other financial assets	**40,788**	41,563	**1,042**	1,124	**2**	8	**41,832**	42,695
Total on balance sheet assets	**465,513**	527,139	**156,869**	100,535	**8,165**	7,122	**630,547**	634,796
Off balance sheet commitments								
Senior investment grade	**71,894**	68,192	**5,007**	433	**-**	-	**76,901**	68,625
Investment grade	**55,675**	66,644	**16,991**	2,972	**-**	-	**72,666**	69,616
Sub-investment grade	**16,583**	23,624	**27,433**	17,367	**-**	-	**44,016**	40,991
Default	**-**	-	**211**	192	**488**	367	**699**	559
Total off balance sheet commitments	**144,152**	158,460	**49,642**	20,964	**488**	367	**194,282**	179,791

(1) Other financial assets represent debt instruments and acceptances.

	Stage 1		Stage 2		Stage 3		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Company	$m	$m	$m	$m	$m	$m	$m	$m
On balance sheet assets								
Gross loans and advances								
Senior investment grade	**91,162**	78,961	**2,668**	296	**-**	-	**93,830**	79,257
Investment grade	**195,971**	231,572	**26,663**	4,893	**-**	-	**222,634**	236,465
Sub-investment grade	**65,569**	111,169	**115,673**	75,489	**-**	-	**181,242**	186,658
Default	**-**	-	**1,943**	1,859	**7,154**	6,079	**9,097**	7,938
Total gross loans and advances	**352,702**	421,702	**146,947**	82,537	**7,154**	6,079	**506,803**	510,318
Other financial assets[(1)]								
Senior investment grade	**40,321**	39,651	**3**	-	**-**	-	**40,324**	39,651
Investment grade	**203**	994	**278**	108	**-**	-	**481**	1,102
Sub-investment grade	**233**	879	**761**	1,016	**-**	-	**994**	1,895
Default	**-**	-	**-**	-	**2**	8	**2**	8
Total other financial assets	**40,757**	41,524	**1,042**	1,124	**2**	8	**41,801**	42,656
Total on balance sheet assets	**393,459**	463,226	**147,989**	83,661	**7,156**	6,087	**548,604**	552,974
Off balance sheet commitments								
Senior investment grade	**66,599**	62,694	**5,007**	406	**-**	-	**71,606**	63,100
Investment grade	**47,925**	60,017	**16,540**	2,168	**-**	-	**64,465**	62,185
Sub-investment grade	**10,311**	19,173	**25,833**	14,167	**-**	-	**36,144**	33,340
Default	**-**	-	**210**	193	**372**	334	**582**	527
Total off balance sheet commitments	**124,835**	141,884	**47,590**	16,934	**372**	334	**172,797**	159,152

(1) Other financial assets represent debt instruments and acceptances.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Industry concentration of financial assets

	Net loans and advances[1]		Other financial assets[2]		Contingent liabilities and credit-related commitments		Total	
	2020 $m	2019[3] $m	2020 $m	2019[3] $m	2020 $m	2019[3] $m	2020 $m	2019[3] $m
Group								
Accommodation and hospitality	**7,764**	8,295	**67**	160	**1,304**	1,339	**9,135**	9,794
Agriculture, forestry, fishing & mining	**42,963**	42,002	**385**	417	**11,271**	10,794	**54,619**	53,213
Business services and property services	**12,642**	13,157	**42**	191	**6,710**	6,299	**19,394**	19,647
Commercial property	**63,228**	66,294	**653**	1,220	**12,588**	11,112	**76,469**	78,626
Construction	**4,327**	4,576	**-**	1	**5,644**	5,031	**9,971**	9,608
Financial & insurance	**31,804**	30,852	**59,679**	39,420	**44,283**	39,982	**135,766**	110,254
Government & public authorities	**2,067**	1,975	**25,977**	23,977	**1,566**	1,180	**29,610**	27,132
Manufacturing	**11,030**	11,535	**22**	25	**7,731**	7,006	**18,783**	18,566
Personal	**7,102**	9,453	**-**	-	**14,977**	14,633	**22,079**	24,086
Residential mortgages	**340,504**	343,056	**6,923**	8,900	**55,717**	52,941	**403,144**	404,897
Retail and wholesale trade	**17,176**	18,721	**90**	226	**11,794**	10,557	**29,060**	29,504
Transport and storage	**16,675**	16,046	**1**	1	**6,801**	5,221	**23,477**	21,268
Utilities	**8,990**	8,607	**148**	-	**4,654**	4,415	**13,792**	13,022
Other	**20,292**	20,393	**196**	287	**9,242**	9,281	**29,730**	29,961
Total	**586,564**	594,962	**94,183**	74,825	**194,282**	179,791	**875,029**	849,578
Company								
Accommodation and hospitality	**6,638**	7,134	**67**	160	**1,132**	1,087	**7,837**	8,381
Agriculture, forestry, fishing & mining	**28,814**	26,926	**385**	417	**9,158**	8,787	**38,357**	36,130
Business services and property services	**11,289**	11,802	**42**	191	**6,069**	5,575	**17,400**	17,568
Commercial property	**55,668**	58,086	**653**	1,220	**10,600**	9,075	**66,921**	68,381
Construction	**3,384**	3,399	**-**	1	**4,722**	4,286	**8,106**	7,686
Financial & insurance	**29,751**	29,127	**56,223**	36,323	**42,892**	38,850	**128,866**	104,300
Government & public authorities	**1,898**	1,812	**25,976**	23,977	**905**	513	**28,779**	26,302
Manufacturing	**8,183**	8,472	**22**	25	**5,629**	4,910	**13,834**	13,407
Personal	**6,175**	8,204	**-**	-	**12,415**	12,070	**18,590**	20,274
Residential mortgages	**297,022**	301,966	**6,893**	8,877	**52,028**	48,721	**355,943**	359,564
Retail and wholesale trade	**14,306**	15,357	**90**	226	**9,921**	9,025	**24,317**	24,608
Transport and storage	**14,743**	14,106	**1**	1	**5,671**	4,534	**20,415**	18,641
Utilities	**8,013**	7,703	**148**	-	**4,019**	3,797	**12,180**	11,500
Other	**18,292**	17,811	**196**	287	**7,636**	7,922	**26,124**	26,020
Total	**504,176**	511,905	**90,696**	71,705	**172,797**	159,152	**767,669**	742,762

(1) Net loans and advances includes loans at fair value.
(2) Other financial assets represents due from other banks, debt instruments and acceptances.
(3) Comparative information has been restated to align to the presentation in the current period to reflect revised industry categories.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Geographic concentration of financial assets

	Australia		New Zealand		Other International	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**	**2020 $m**	**2019 $m**
Group						
Cash and liquid assets	**20,320**	5,868	**505**	193	**42,197**	48,393
Due from other banks	**24,645**	18,150	**3,397**	3,026	**24,309**	10,954
Trading instruments	**72,831**	76,558	**13,572**	11,243	**9,448**	9,027
Debt instruments	**30,466**	30,946	**-**	-	**9,889**	9,259
Other financial assets	**2,552**	5,095	**1,308**	2,015	**-**	-
Hedging derivatives	**3,826**	4,688	**-**	1	**4**	-
Loans and advances	**485,693**	490,388	**79,767**	79,401	**17,025**	17,960
Due from customers on acceptances	**1,477**	2,490	**-**	-	**-**	-
Other assets	**7,768**	8,189	**1,668**	1,697	**1,187**	1,142
Total	**649,578**	642,372	**100,217**	97,576	**104,059**	96,735
Company						
Cash and liquid assets	**20,223**	5,639	**-**	-	**42,135**	48,322
Due from other banks	**24,635**	18,142	**-**	-	**24,260**	10,907
Trading instruments	**76,740**	80,319	**-**	-	**9,510**	9,233
Debt instruments	**30,466**	30,946	**-**	-	**9,858**	9,220
Other financial assets	**2,552**	4,868	**-**	-	**1,333**	1,361
Hedging derivatives	**2,884**	4,059	**-**	-	**4**	-
Loans and advances	**484,715**	489,101	**-**	-	**16,627**	17,426
Due from customers on acceptances	**1,477**	2,490	**-**	-	**-**	-
Other assets	**7,691**	7,939	**-**	-	**1,157**	831
Total	**651,383**	643,503	**-**	-	**104,884**	97,300

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk overview and management

Market risk primarily stems from the Group's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

Market risk is represented by the below two categories:

Traded Market Risk

Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Corporate and Institutional Banking.

Trading activities represent dealings that encompass both active management of market risk and supporting client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Non-Traded Market Risk

The Group has exposure to non-traded market risk, primarily Interest Rate Risk in the Banking Book (IRRBB). IRRBB is the risk that the Group's earnings or economic value will be affected or reduced by changes in interest rates. The sources of IRRBB are as follows:

- Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risks.

Measurement of market risk

The Group primarily manages and controls market risk using Value at Risk (VaR), which is a standard measure used throughout the industry. VaR gauges the Group's possible loss for the holding period based on historical market movements. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate during the holding period.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to management, the Board Risk & Compliance Committee and ultimately the Board. These supplementary measures include stress testing, loss, position and sensitivity limits.

Traded Market Risk

The VaR methodology involves multiple revaluations of the trading books using 550 days of historical pricing shifts. The pricing data is rolled daily.

The use of VaR methodology has limitations, which include:

- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Traded market risk

The table below shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Value at Risk at a 99% confidence level																
Foreign exchange risk	**0.8**	0.9	**2.3**	4.5	**0.5**	0.2	**5.6**	11.8	**0.9**	0.8	**2.2**	4.4	**0.5**	0.5	**6.1**	11.7
Interest rate risk	**10.1**	7.7	**10.8**	8.0	**5.6**	5.8	**25.0**	12.8	**7.8**	7.6	**9.3**	7.3	**5.1**	5.0	**21.3**	12.2
Volatility risk	**4.7**	4.3	**4.2**	2.5	**2.8**	1.6	**6.2**	5.2	**4.7**	4.3	**4.2**	2.5	**2.8**	1.6	**6.2**	5.2
Commodities risk	**1.1**	0.5	**0.7**	0.6	**0.3**	0.2	**1.7**	2.1	**1.1**	0.5	**0.7**	0.6	**0.3**	0.2	**1.7**	2.1
Credit risk	**2.1**	1.8	**1.8**	1.4	**0.9**	0.8	**4.4**	2.0	**1.9**	1.7	**1.5**	1.3	**0.7**	0.7	**3.9**	1.8
Inflation risk	**1.7**	1.0	**1.9**	1.9	**1.1**	1.0	**3.3**	4.0	**1.7**	1.0	**1.7**	1.7	**0.9**	1.0	**3.1**	4.0
Diversification benefit	**(9.2)**	(6.9)	**(9.1)**	(8.9)	**n/a**	n/a	**n/a**	n/a	**(8.8)**	(6.6)	**(8.6)**	(8.3)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**11.3**	9.3	**12.6**	10.0	**7.5**	6.3	**24.2**	16.8	**9.3**	9.3	**11.0**	9.5	**6.7**	5.5	**23.6**	15.9
Other market risks	**10.0**	2.7	**4.9**	1.8	**2.3**	0.3	**10.0**	4.2	**10.0**	2.7	**4.9**	1.8	**2.3**	0.3	**10.0**	4.2
Total	**21.3**	12.0	**17.5**	11.8	**9.8**	6.6	**34.2**	21.0	**19.3**	12.0	**15.9**	11.3	**9.0**	5.8	**33.6**	20.1

Non-traded market risk - Balance sheet risk management

The principal objective of balance sheet risk management is to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group's banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Non-traded market risk – Interest rate risk management

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The Risk Management Framework incorporates both market valuation and earnings based approaches in accordance with the IRRBB Policy and Prudential Practice Guides. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains / losses and any inter-risk and / or inter-currency diversification. The Group has been accredited by APRA to use its internal model for the measurement of IRRBB.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Key features of the internal interest rate risk management model include:

- historical simulation approach utilising instantaneous interest rate shocks
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing)
- VaR and EaR are measured on a consistent basis
- 99% confidence level
- three month holding period
- EaR utilises a 12 month forecast period
- at least six years of business day historical data (updated daily)
- investment term for capital is modelled with an established benchmark term of between one and five years
- investment term for core ‘Non-Bearing Interest’ (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

The following table shows the Group and the Company aggregate VaR and EaR for the IRRBB:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Value at Risk																
Australia	**366.6**	261.0	**317.4**	268.5	**255.9**	226.3	**391.3**	303.1	**366.6**	261.0	**317.4**	268.5	**255.9**	226.3	**391.3**	303.1
New Zealand	**48.5**	21.4	**31.1**	14.8	**21.9**	6.3	**48.5**	25.8	**-**	-	**-**	-	**-**	-	**-**	-
Other International	**24.5**	19.7	**21.5**	17.4	**12.0**	14.4	**33.1**	21.6	**24.5**	19.7	**21.5**	17.4	**12.0**	14.4	**33.1**	21.6
Earnings at Risk[(1)]																
Australia	**24.2**	26.5	**39.7**	57.0	**18.0**	26.5	**67.6**	109.9	**24.2**	26.5	**39.7**	57.0	**18.0**	26.5	**67.6**	109.9
New Zealand	**12.7**	7.6	**8.8**	5.3	**4.2**	2.4	**12.7**	8.3	**-**	-	**-**	-	**-**	-	**-**	-

(1) EaR amounts calculated under the IRRBB model include Australian banking and other overseas banking subsidiary books, however excludes offshore branches.

Residual value risk

As part of its normal lending activities, the Group takes residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. This exposes the Group to a potential fall in prices of these assets below the outstanding residual exposure at the facility expiry.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding mix

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. Group Treasury is responsible for the management of these risks. Objective review and challenge of the effectiveness of risk management is provided by Group Balance Sheet and Liquidity Risk Management with oversight by the Group Asset and Liability Committee. The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:
- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a high quality liquid asset portfolio which supports intra-day operations and may be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, government and highly rated investment grade paper. The market value of total on balance sheet liquid assets held at 30 September 2020 was $170,141 million (2019: $129,578 million). In addition, the Group holds internal RMBS as a source of contingent liquidity. As at 30 September 2020, the amount of unencumbered internal RMBS after haircuts held was $81,617 million (2019: $50,170 million).

Funding mix

The Group's funding is comprised of a mix of deposits, term wholesale funding, short-term wholesale funding and equity. The Group manages this within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions and regulatory requirements.

The Group maintains a strong focus on stable deposits both from a growth and quality perspective and continues to source deposits as a key funding source for funded assets.

The Group supplements deposit-raising via its term funding programmes, raising $15,010 million of term wholesale funding in the 2020 financial year (2019: $26,231 million) at a weighted average maturity of approximately 6.7 years to first call (2019: 5.7 years). In addition, during the 2020 financial year, the Group continued to access international and domestic short-term wholesale markets.

On 19 March 2020, the RBA announced the establishment of a collateralised TFF for the Australian banking system to support ADIs in providing credit into the economy. The TFF provides access to three-year funding supporting ongoing lending to the Group's customers and reducing wholesale funding refinancing risks. Changes to extend and increase the TFF were announced on 1 September 2020, with a further change to the cost of the facility announced on 3 November 2020. Drawdowns on or before 3 November 2020 incurred a fixed cost of 0.25% per annum and drawdowns made from 4 November 2020 incur a fixed cost of 0.10% per annum. NAB's total TFF available in September 2020 was $25,412 million with $14,270 million having been drawn down.

In addition, during the 2020 financial year, the Group continued to access international and domestic short-term wholesale markets.

Given the uncertain outlook resulting from COVID-19, the Group took a number of proactive steps during the year ended September 2020 to bolster its capital. These actions are intended to provide sufficient capacity to allow the Group to continue to support customers through the challenges presented by COVID-19, as well as manage through a range of possible scenarios including a prolonged and severe economic downturn. In combination, the actions outlined below added 98 bps to the Group's CET1 ratio:
- A fully underwritten Institutional Share Placement raising $3.0 billion.
- A non-underwritten Share Purchase Plan raising $1.25 billion.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities of assets and liabilities at the reporting date. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

	Less than 12 months		Greater than 12 months		No specific maturity		Total	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Group								
Assets								
Cash and liquid assets	**64,388**	55,457	**-**	-	**-**	-	**64,388**	55,457
Due from other banks	**51,661**	31,905	**690**	225	**-**	-	**52,351**	32,130
Trading instruments	**10,640**	9,936	**54,294**	50,364	**30,917**	36,528	**95,851**	96,828
Debt instruments	**7,321**	7,590	**33,034**	32,615	**-**	-	**40,355**	40,205
Other financial assets	**2,313**	3,813	**1,547**	3,069	**-**	228	**3,860**	7,110
Loans and advances	**116,150**	115,589	**461,076**	465,386	**5,259**	6,774	**582,485**	587,749
Due from customers on acceptances	**1,477**	2,490	**-**	-	**-**	-	**1,477**	2,490
All other assets	**10,806**	11,434	**2,891**	3,467	**12,101**	10,254	**25,798**	25,155
Total assets	**264,756**	238,214	**553,532**	555,126	**48,277**	53,784	**866,565**	847,124
Liabilities								
Due to other banks	**36,247**	34,273	**14,309**	-	**-**	-	**50,556**	34,273
Trading instruments	**-**	-	**-**	-	**30,021**	34,318	**30,021**	34,318
Other financial liabilities	**9,035**	9,328	**20,936**	23,847	**-**	108	**29,971**	33,283
Deposits and other borrowings	**540,321**	517,030	**5,855**	5,055	**-**	-	**546,176**	522,085
Bonds, notes and subordinated debt	**24,838**	29,275	**101,546**	113,983	**-**	-	**126,384**	143,258
Other debt issues	**-**	-	**-**	-	**6,191**	6,482	**6,191**	6,482
All other liabilities	**8,703**	11,006	**3,047**	2,894	**4,223**	3,921	**15,973**	17,821
Total liabilities	**619,144**	600,912	**145,693**	145,779	**40,435**	44,829	**805,272**	791,520
Net (liabilities) / assets	**(354,388)**	(362,698)	**407,839**	409,347	**7,842**	8,955	**61,293**	55,604
Company								
Assets								
Cash and liquid assets	**63,555**	54,811	**-**	-	**-**	-	**63,555**	54,811
Due from other banks	**48,205**	28,824	**690**	225	**-**	-	**48,895**	29,049
Trading instruments	**6,421**	6,842	**48,500**	46,720	**31,329**	35,990	**86,250**	89,552
Debt instruments	**7,320**	7,570	**33,004**	32,596	**-**	-	**40,324**	40,166
Other financial assets	**1,271**	2,258	**2,614**	3,971	**-**	-	**3,885**	6,229
Loans and advances	**96,341**	94,872	**400,575**	405,938	**4,426**	5,717	**501,342**	506,527
Due from customers on acceptances	**1,477**	2,490	**-**	-	**-**	-	**1,477**	2,490
All other assets	**9,088**	9,360	**2,059**	2,836	**190,191**	128,146	**201,338**	140,342
Total assets	**233,678**	207,027	**487,442**	492,286	**225,946**	169,853	**947,066**	869,166
Liabilities								
Due to other banks	**33,358**	32,552	**14,270**	-	**-**	-	**47,628**	32,552
Trading instruments	**-**	-	**-**	-	**33,450**	37,945	**33,450**	37,945
Other financial liabilities	**437**	577	**8,474**	7,865	**-**	108	**8,911**	8,550
Deposits and other borrowings	**481,691**	460,141	**2,647**	2,885	**-**	-	**484,338**	463,026
Bonds, notes and subordinated debt	**24,820**	29,274	**95,477**	108,325	**-**	-	**120,297**	137,599
Other debt issues	**-**	-	**-**	-	**6,191**	6,482	**6,191**	6,482
All other liabilities	**7,859**	9,718	**2,401**	1,797	**181,349**	119,608	**191,609**	131,123
Total liabilities	**548,165**	532,262	**123,269**	120,872	**220,990**	164,143	**892,424**	817,277
Net (liabilities) / assets	**(314,487)**	(325,235)	**364,173**	371,414	**4,956**	5,710	**54,642**	51,889

NOTE 20
FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk (CVA) is also incorporated into the fair value as appropriate as well as an adjustment for funding costs (FVA) related to uncollateralised over-the-counter derivatives. The fair value measurement technique of each class of instrument is described below.

Instrument	Fair value measurement technique
Loans and advances	The fair value of loans and advances that are priced based on a variable rate with no contractual repricing tenor is assumed to equate to the carrying value. The fair value of all other loans and advances is calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date.
Deposits and other borrowings	The fair value of deposits and other borrowings that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date, is assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
Bonds, notes and subordinated debt and other debt issues	The fair values of bonds, notes and subordinated debt and other debt issues are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads, or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.
Trading and hedging derivatives	The fair values of trading and hedging derivative assets and liabilities are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
Trading instruments and debt instruments	The fair values of trading securities and debt instruments at fair value through other comprehensive income are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
Equity instruments	The fair value of equity instruments at fair value through other comprehensive income is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile.
Other financial assets and liabilities	The fair values of other financial assets and liabilities are based on quoted closing market prices and data or valuation techniques, appropriate to the nature and type of the underlying instrument.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities and amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand. Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items are not calculated, as very few of the commitments extending beyond six months would commit the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

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

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period in which the transfer occurs.

Critical accounting judgements and estimates

A significant portion of financial instruments are carried on the balance sheet at fair value.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm’s length transactions, discounted cash flow analysis, option pricing

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

Fair value hierarchy

The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 - Financial instruments that have been valued by reference to unadjusted quoted prices for identical financial assets or financial liabilities in active markets. Financial instruments included in this category are Commonwealth of Australia and New Zealand government bonds, and spot and exchange traded derivatives.
- Level 2 - Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for the financial asset or financial liability, either directly (as prices) or indirectly (derived from prices). Financial instruments included in this category are over-the-counter trading and hedging derivatives, semi-government bonds, financial institution and corporate bonds, mortgage-backed securities, loans measured at fair value, and issued bonds, notes and subordinated debt measured at fair value.
- Level 3 - Financial instruments that have been valued through valuation techniques incorporating inputs that are not based on observable market data. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Financial instruments included in this category are bespoke trading derivatives, trading derivatives where the credit valuation adjustment is considered unobservable and significant to the valuation, and certain asset-backed securities valued using unobservable inputs.

Transfers into and out of Level 3 take place when there are changes to the inputs in the valuation technique. Where inputs are no longer observable the fair value measurement is transferred into Level 3. Conversely, a measurement is transferred out of Level 3 when inputs become observable.

The Group’s exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 30 September 2020 attributable to reasonably possible alternatives would not have a material effect.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments, carried at amortised cost

The financial assets and financial liabilities listed in the table below are carried at amortised cost. While this is the value at which the Group expects the assets to be realised and the liabilities to be settled, the table below includes their fair values as at 30 September:

	2020					2019				
	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m
Group										
Financial assets										
Loans and advances	**582,485**	**-**	**4,506**	**579,047**	**583,553**	587,749	-	6,078	583,436	589,514
Financial liabilities										
Deposits and other borrowings	**546,176**	**-**	**546,530**	**-**	**546,530**	522,085	-	522,404	-	522,404
Bonds, notes and subordinated debt	**126,384**	**514**	**128,297**	**-**	**128,811**	143,258	7,855	137,950	-	145,805
Other debt issues	**6,191**	**5,236**	**1,128**	**-**	**6,364**	6,482	6,714	68	-	6,782
Company										
Financial assets										
Loans and advances	**501,342**	**-**	**2,528**	**499,861**	**502,389**	506,527	-	3,324	504,944	508,268
Financial liabilities										
Deposits and other borrowings	**484,338**	**-**	**484,137**	**-**	**484,137**	463,026	-	463,256	-	463,256
Bonds, notes and subordinated debt	**120,297**	**-**	**122,264**	**-**	**122,264**	137,599	7,327	132,293	-	139,620
Other debt issues	**6,191**	**5,236**	**1,128**	**-**	**6,364**	6,482	6,714	68	-	6,782

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised on the balance sheet

	2020				2019			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Group								
Financial assets								
Trading instruments	42,075	53,668	108	95,851	36,776	59,975	77	96,828
Debt instruments	3,209	36,427	719	40,355	3,206	36,520	479	40,205
Other financial assets	-	3,860	-	3,860	-	7,110	-	7,110
Hedging derivatives	-	3,830	-	3,830	-	4,689	-	4,689
Investments relating to life insurance business	-	100	-	100	-	101	-	101
Equity instruments(1)	-	-	116	116	-	-	91	91
Total financial assets measured at fair value	45,284	97,885	943	144,112	39,982	108,395	647	149,024
Financial liabilities								
Trading instruments	-	29,933	88	30,021	-	34,262	56	34,318
Other financial liabilities	1,371	28,600	-	29,971	1,249	32,034	-	33,283
Hedging derivatives	-	2,255	-	2,255	-	4,037	-	4,037
Total financial liabilities measured at fair value	1,371	60,788	88	62,247	1,249	70,333	56	71,638
Company								
Financial assets								
Trading instruments	36,365	49,777	108	86,250	34,466	55,009	77	89,552
Debt instruments	3,209	36,396	719	40,324	3,206	36,481	479	40,166
Other financial assets	-	3,885	-	3,885	-	6,229	-	6,229
Hedging derivatives	-	2,888	-	2,888	-	4,059	-	4,059
Equity instruments(1)	-	-	44	44	-	-	44	44
Total financial assets measured at fair value	39,574	92,946	871	133,391	37,672	101,778	600	140,050
Financial liabilities								
Trading instruments	-	33,362	88	33,450	-	37,889	56	37,945
Other financial liabilities	1,343	7,568	-	8,911	1,249	7,301	-	8,550
Hedging derivatives	-	1,721	-	1,721	-	2,939	-	2,939
Total financial liabilities measured at fair value	1,343	42,651	88	44,082	1,249	48,129	56	49,434

(1) Includes fair value through profit or loss instruments.

There were no material transfers between Level 1 and Level 2 during the year for the Group and the Company.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below summarises changes in fair value classified as Level 3:

	Assets						Liabilities	
	Trading instruments		Debt instruments		Equity instruments[1]		Trading instruments	
	2020	2019	2020	2019	2020	2019	2020	2019
Group	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of year	**77**	242	**479**	451	**91**	84	**56**	225
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or loss	**21**	(166)	**-**	-	**1**	-	**31**	(170)
In other comprehensive income	**-**	-	**13**	(1)	**(5)**	9	**-**	-
Purchases and issues	**14**	-	**91**	317	**29**	8	**-**	-
Sales and settlements	**-**	-	**(215)**	(119)	**-**	(16)	**-**	-
Transfers into Level 3	**(6)**	-	**429**	4	**-**	4	**-**	-
Transfers out of Level 3	**-**	-	**(78)**	(173)	**-**	-	**-**	-
Foreign currency translation adjustments	**2**	1	**-**	-	**-**	2	**1**	1
Balance at end of year	**108**	77	**719**	479	**116**	91	**88**	56
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or loss	**21**	(166)	**-**	-	**1**	-	**31**	(170)
In other comprehensive income	**-**	-	**13**	(1)	**(5)**	9	**-**	-
Company								
Balance at the beginning of year	**77**	242	**479**	451	**44**	47	**56**	225
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or loss	**21**	(166)	**-**	-	**-**	-	**31**	(170)
In other comprehensive income	**-**	-	**13**	(1)	**-**	-	**-**	-
Purchases and issues	**14**	-	**91**	317	**-**	(4)	**-**	-
Sales and settlements	**-**	-	**(215)**	(119)	**-**	-	**-**	-
Transfers into Level 3	**(6)**	-	**429**	4	**-**	3	**-**	-
Transfers out of Level 3	**-**	-	**(78)**	(173)	**-**	-	**-**	-
Foreign currency translation adjustments	**2**	1	**-**	-	**-**	(2)	**1**	1
Balance at end of year	**108**	77	**719**	479	**44**	44	**88**	56
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or loss	**21**	(166)	**-**	-	**-**	-	**31**	(170)
In other comprehensive income	**-**	-	**13**	(1)	**-**	-	**-**	-

(1) Includes fair value through profit or loss instruments.

NOTE 21
FINANCIAL ASSET TRANSFERS

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to special purpose entities (SPEs). Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	Group						Company					
	Repurchase agreements		Covered bonds		Securitisation		Repurchase agreements		Covered bonds		Securitisation	
	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m	2020 $m	2019 $m
Carrying amount of transferred assets	**28,050**	12,565	**33,454**	30,465	**3,051**	4,245	**26,741**	12,429	**29,211**	26,120	**135,990**	77,976
Carrying amount of associated liabilities	**25,432**	12,565	**28,648**	26,880	**3,126**	4,283	**24,146**	12,429	**24,544**	22,816	**135,990**	77,976
For those liabilities that have recourse only to the transferred assets												
Fair value of transferred assets	**n/a**	n/a	**n/a**	n/a	**3,057**	4,258	**n/a**	n/a	**n/a**	n/a	**136,274**	78,244
Fair value of associated liabilities	**n/a**	n/a	**n/a**	n/a	**3,186**	4,359	**n/a**	n/a	**n/a**	n/a	**138,214**	79,121
Net position	**n/a**	n/a	**n/a**	n/a	**(129)**	(101)	**n/a**	n/a	**n/a**	n/a	**(1,940)**	(877)

OTHER ASSETS AND LIABILITIES

NOTE 22
GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the identifiable net assets acquired.

Software costs

External and internal costs that are incurred to acquire or develop software are capitalised and recognised as an intangible asset. Capitalised software costs and other intangible assets are amortised on a systematic basis once deployed, using the straight-line method over their expected useful lives which are between three and ten years. Certain software assets are deployed on a progressive basis, in which case the amortisation is recognised in a manner that is reflective of the expected benefits profile from the asset's use.

Impairment of intangible assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. For assets that do not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit (CGU) to which that asset belongs. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Recoverable amounts of CGUs

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

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

Critical accounting judgements and estimates

The measurement of goodwill is subject to a number of key judgements and estimates. These include:
- the allocation of goodwill to CGUs on initial recognition
- the re-allocation of goodwill in the event of disposal or reorganisation
- the appropriate cash flows, growth rates and discount rates.

Further details about these items are provided below.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Group		Company	
	2020	2019	2020	2019
	$m	$m	$m	$m
Goodwill	**1,838**	2,864	**-**	-
Internally generated software	**1,890**	2,628	**1,705**	2,263
Acquired software	**65**	60	**52**	43
Other acquired intangible assets[1]	**16**	24	**-**	-
Total goodwill and other intangible assets	**3,809**	5,576	**1,757**	2,306
At cost	**8,860**	9,710	**5,940**	5,419
Deduct: Accumulated amortisation / impairment losses	**(5,051)**	(4,134)	**(4,183)**	(3,113)
Total goodwill and other intangible assets	**3,809**	5,576	**1,757**	2,306

(1) Other acquired intangible assets relates to brand names.

Reconciliation of movements in goodwill and internally generated software

	Group		Company	
	2020	2019	2020	2019
	$m	$m	$m	$m
Goodwill				
Balance at beginning of year	**2,864**	2,863	**-**	-
Reclassified to held for sale[1]	**(827)**	-	**-**	-
Impairment and write-offs	**(199)**	-	**-**	-
Foreign currency translation adjustments	**-**	1	**-**	-
Balance at end of year	**1,838**	2,864	**-**	-
Internally generated software				
Balance at beginning of year	**2,628**	2,821	**2,263**	2,388
Additions from internal development	**629**	871	**520**	709
Disposals, impairments and write-offs	**(12)**	(14)	**(12)**	(3)
Amortisation	**(301)**	(564)	**(260)**	(453)
Change in application of software capitalisation policy - continuing operations[2]	**(950)**	(489)	**(806)**	(380)
Change in application of software capitalisation policy - discontinued operations[2]	**(106)**	(5)	**-**	-
Foreign currency translation adjustments	**2**	8	**-**	2
Balance at end of year	**1,890**	2,628	**1,705**	2,263

(1) Refer to Note 37 Discontinued operations for further information.
(2) The 2020 and 2019 balances include a reduction of software assets balance following a change to the application of the software capitalisation policy. Refer to Note 5 Operating expenses for further details.

Goodwill allocation to cash-generating units

In the 2019 financial year, the Group allocated goodwill across the following cash generating units (CGUs): Business and Private Banking, Consumer Banking and Wealth, and New Zealand Banking. The Group has made significant progress in the operational separation of the MLC Wealth business and since March 2020 MLC Wealth has been a separate CGU.

As a consequence of the operational separation of MLC Wealth, the goodwill previously allocated to the Consumer Banking and Wealth CGU has been reallocated to the separate MLC Wealth and Personal Banking CGUs based on the relative values of the notional goodwill in each business. Goodwill allocated to the MLC Wealth CGU has been included in the balance sheet within Assets held for sale, refer to *Note 37 Discontinued operations*.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

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 $m	2019 $m	2020 %	2020 %
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.

NOTE 23
OTHER ASSETS

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Cash collateral placed with third parties	**3,561**	4,053	**2,703**	3,369
Accrued interest receivable	**789**	1,014	**685**	884
Prepayments	**263**	223	**213**	176
Receivables	**952**	586	**872**	194
Other debt instruments at amortised cost	**345**	366	**-**	-
Equity instruments at fair value through other comprehensive income	**102**	72	**29**	29
Investment in associates - MLC Life[1]	**411**	526	**441**	542
Securities sold not delivered	**3,428**	2,815	**3,318**	2,570
Other	**808**	1,448	**606**	1,053
Total other assets	**10,659**	11,103	**8,867**	8,817

(1) Refer table (b) in Note 31 Interest in subsidiaries and other entities for further details.

NOTE 24
PROVISIONS

Accounting policy

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Operational risk event losses

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

Customer-related and payroll remediation

Provisions for customer-related and payroll remediation include provisions for potential refunds and other compensation to customers, payments to colleagues, as well as associated program costs.

Restructuring costs

A provision for restructuring costs is only recognised when the Group has a detailed formal restructuring plan and the restructuring has either commenced or has been publicly announced. The provision includes the cost of employee termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided.

Critical accounting judgements and estimates

Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, customer-related remediation and litigation. The recognition and measurement of some of these provisions involves significant judgement about the existence of a present obligation, the likely outcome of various events and the related estimated future cash flows. If the future events are uncertain or where the outflows cannot be reliably measured a contingent liability is disclosed, refer to *Note 30 Contingent liabilities and credit commitments.*

Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

In relation to customer-related remediation, determining the amount of the provision requires the exercise of significant judgement. This includes forming a view on a number of different estimates, including the number of impacted customers, average refund per customer and the associated costs required to complete the remediation activities. The appropriateness of underlying assumptions is reviewed on a regular basis against actual experience and other available evidence, and adjustments are made to the provision where required.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Employee entitlements	**818**	899	**744**	728
Operational risk event losses	**348**	292	**326**	214
Customer-related and payroll remediation	**2,069**	2,092	**2,019**	2,068
Restructuring provision	**98**	45	**83**	27
Other	**487**	179	**456**	170
Total provisions	**3,820**	3,507	**3,628**	3,207

NOTE 24 PROVISIONS (CONTINUED)

Reconciliation of movements in provisions

	Group		Company	
	2020	**2019**	**2020**	**2019**
	$m	**$m**	**$m**	**$m**
Operational risk event losses				
Balance at beginning of year	**292**	238	**214**	139
Provisions made[1]	**323**	314	**289**	261
Payments out of provisions	**(100)**	(208)	**(68)**	(157)
Provisions no longer required and net foreign currency movements	**(128)**	(52)	**(109)**	(29)
Reclassified to held for sale[2]	**(39)**	-	**-**	-
Balance at end of year	**348**	292	**326**	214
Customer-related and payroll remediation				
Balance at beginning of year	**2,092**	461	**2,068**	461
Provisions made (continuing operations)[3]	**373**	273	**983**	1,914
Provisions made (discontinued operations)[3]	**643**	1,665	**-**	-
Payments out of provisions	**(799)**	(307)	**(792)**	(307)
Provisions no longer required	**(240)**	-	**(240)**	-
Balance at end of year	**2,069**	2,092	**2,019**	2,068
Restructuring provision				
Balance at beginning of year	**45**	285	**27**	253
Provisions made[1]	**251**	-	**236**	-
Payments out of provisions	**(198)**	(240)	**(180)**	(226)
Balance at end of year	**98**	45	**83**	27

(1) Amount includes provisions made in both continuing and discontinued operations.
(2) MLC Wealth's provision for operational risk event losses has been reclassified to held for sale. Refer to Note 37 Discontinued operations for further information.
(3) Prior period has been restated for the presentation of MLC Wealth as a discontinued operation.

NOTE 25
OTHER LIABILITIES

	Group		Company	
	2020	**2019**	**2020**	**2019**
	$m	**$m**	**$m**	**$m**
Accrued interest payable	**1,283**	2,217	**1,105**	1,881
Payables and accrued expenses	**805**	934	**408**	524
Cash collateral received from third parties	**1,544**	2,113	**1,542**	2,109
Securities purchased not delivered	**3,536**	3,246	**3,491**	2,930
Lease liabilities[1]	**1,555**	-	**1,319**	-
Other	**737**	1,299	**823**	1,138
Total other liabilities	**9,460**	9,809	**8,688**	8,582

(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.

NOTE 26
LEASES

Accounting Policy

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. Except for right-of-use assets measured in accordance with the standard's transition provisions, 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 which is based on the Group's funds transfer pricing curve. 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 does not include extension options in the measurement of the lease liability until such time that it is reasonably certain that the options will be exercised.

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.

Effect of leases on the Balance Sheets

	Group[(1)]	Company[(1)]
	2020	2020
	$m	$m
Right-of-use assets		
Property, plant and equipment		
Buildings	1,331	1,084
Technology	32	28
Total right-of-use assets	1,363	1,112
Additions to right-of-use assets during the period	480	411
Lease liabilities		
Other liabilities	1,555	1,319
Total lease liabilities	1,555	1,319

(1) Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.

NOTE 26 LEASES (CONTINUED)

Effect of leases on the Income Statements

	Group[1] 2020 $m	Company[1] 2020 $m
Depreciation		
Buildings[2]	433	383
Technology	32	30
Total depreciation on right-of-use assets	**465**	**413**
Interest		
Total interest expense on lease liabilities	**31**	**26**
Short-term lease expense		
Total short-term lease expense	**49**	**44**

(1) Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.
(2) Includes impairment of property-related assets.

Future cash flow effect of leases

The table below is a maturity analysis of future lease payments in respect of existing lease arrangements on an undiscounted basis.

	Group[1] 2020 $m	Company[1] 2020 $m
Due within one year	362	317
Due after one year but no later than five years	840	697
Due after five years	515	439
Total future lease payments	**1,717**	**1,453**

(1) Current year amounts reflect the adoption of AASB 16 Leases on 1 October 2019. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.

The Group has committed to a number of future lease contracts in relation to new buildings across Australia. As these new leases become effective, the Group will recognise additional right-of-use assets and lease liabilities of approximately $1,127 million over the next five years.

CAPITAL MANAGEMENT

NOTE 27
CONTRIBUTED EQUITY

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as determined from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**43,531**	36,762	**42,745**	35,976
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Total contributed equity	**45,476**	38,707	**44,690**	37,921

Reconciliation of movement in ordinary shares

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Balance at beginning of year	**36,762**	33,062	**35,976**	32,276
Shares issued:				
Institutional share placement	**2,954**	-	**2,954**	-
Retail share purchase plan	**1,250**	-	**1,250**	-
Conversion of convertible preference shares and convertible notes	**750**	750	**750**	750
Dividend reinvestment plan	**976**	1,803	**976**	1,803
Dividend reinvestment plan underwritten allotments	**700**	1,000	**700**	1,000
Transfer from equity-based compensation reserve	**139**	147	**139**	147
Balance at end of year	**43,531**	36,762	**42,745**	35,976

NOTE 27 CONTRIBUTED EQUITY (CONTINUED)

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

	Company	
	2020	2019
	No. '000	No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,883,019**	2,734,119
Shares issued:		
Institutional share placement	**212,014**	-
Retail share purchase plan	**88,337**	-
Conversion of convertible preference shares and convertible notes	**35,141**	30,185
Dividend reinvestment plan	**39,745**	73,265
Dividend reinvestment plan underwritten allotments	**26,898**	38,053
Bonus share plan	**1,445**	2,307
Share-based payments	**3,494**	5,084
Paying up of partly paid shares	**-**	6
Total ordinary shares, fully paid	**3,290,093**	2,883,019
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**19**	25
Paying up of partly paid shares	**-**	(6)
Total ordinary shares, partly paid to 25 cents	**19**	19
Total ordinary shares (including treasury shares)	**3,290,112**	2,883,038
Less: Treasury shares	**(5,572)**	(7,524)
Total ordinary shares (excluding treasury shares)	**3,284,540**	2,875,514

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the ASX. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 3 month bank bill rate plus 1.25% per annum, payable quarterly in arrears. NIS distributions are unfranked.

NIS currently qualify as Additional Tier 1 capital, subject to transitional Basel III treatment. NIS will cease to qualify as Tier 1 capital from 1 January 2022. Under Australian tax law, when the NIS no longer qualify as Tier 1 capital, it is expected that any subsequent NIS distributions will be franked to the same extent as dividends on NAB's ordinary shares are franked. The attachment of franking credits will not reduce the cash component of the NIS distributions.

NOTE 28
RESERVES

Accounting policy

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations, any offsetting gains or losses on hedging the net investment and any associated tax effect are reflected in the foreign currency translation reserve.

The results and financial position of Group entities that have a functional currency different from Australian dollars are translated into Australian dollars as follows:

- assets and liabilities are translated at the closing exchange rate at the balance sheet date,
- income and expenses are translated at average exchange rates for the period,
- all resulting exchange differences are recognised in the foreign currency translation reserve.

A cumulative credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised and recognised in the income statement on sale or disposal of the foreign operation.

Asset revaluation reserve

The asset revaluation reserve is used to record revaluation adjustments on land and buildings. When an asset is sold or disposed of the related balance in the reserve is transferred directly to retained profits.

Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve comprises fair value gains or losses associated with the effective portion of designated cash flow hedging instruments, net of tax. The cost of hedging reserve records movements in forward points on a forward contract and cross-currency basis on cross-currency swaps that have been removed from hedge relationships and amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Equity-based compensation reserve

The equity-based compensation reserve comprises the fair value of shares and performance rights provided to employees.

Debt instruments at fair value through other comprehensive income reserve

The reserve includes all changes in the fair value of investments in debt instruments that are measured at fair value through other comprehensive income, other than impairment losses, foreign exchange gains and losses, interest income and net of any related hedge accounting adjustments. The cumulative amount recognised in the reserve is transferred to profit or loss when the related asset is derecognised.

Equity instruments at fair value through other comprehensive income reserve

The Group has made an irrevocable election to measure certain investments in equity instruments that are not held for trading purposes at fair value through other comprehensive income. Changes in the fair value of these investments are recognised in this reserve, while dividends are recognised in profit or loss. The cumulative amount recognised in the reserve is transferred directly to retained profits when the related asset is derecognised.

NOTE 28 RESERVES (CONTINUED)

Reserves

	Group		Company	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Foreign currency translation reserve	**(38)**	20	**(243)**	(214)
Asset revaluation reserve	**26**	80	**-**	-
Cash flow hedge reserve	**307**	201	**346**	235
Cost of hedging reserve	**(396)**	(235)	**(264)**	(147)
Equity-based compensation reserve	**115**	190	**115**	190
Debt instruments at fair value through other comprehensive income reserve	**77**	46	**77**	46
Equity instruments at fair value through other comprehensive income reserve	**8**	4	**3**	3
Total reserves	**99**	306	**34**	113

Foreign currency translation reserve

	Group		Company	
	2020 $m	**2019 $m**	**2020 $m**	**2019 $m**
Balance at beginning of year	**20**	(343)	**(214)**	(227)
Transfer from retained profits	**-**	14	**-**	-
Redemption of Trust Preferred Securities	**-**	287	**-**	-
Currency adjustments on translation of foreign operations, net of hedging	**(36)**	110	**(7)**	13
Transfer to the income statement on disposal of foreign operations	**(22)**	(38)	**(22)**	-
Tax on foreign currency translation reserve	**-**	(10)	**-**	-
Balance at end of year	**(38)**	20	**(243)**	(214)

NOTE 29
DIVIDENDS AND DISTRIBUTIONS

	Amount per share cents	Total amount $m
2020		
Final dividend determined in respect of the year ended 30 September 2019	**83**	**2,393**
Interim dividend determined in respect of the year ended 30 September 2020	**30**	**895**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(32)**
Dividends paid by the Company during the year ended 30 September 2020	**n/a**	**3,256**
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**4**
Dividends paid by the Group (before dividend reinvestment plan)	**n/a**	**3,260**
2019		
Final dividend determined in respect of the year ended 30 September 2018	99	2,707
Interim dividend determined in respect of the year ended 30 September 2019	83	2,333
Deduct: Bonus shares in lieu of dividend	n/a	(57)
Dividends paid by the Company during the year ended 30 September 2019	n/a	4,983
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4
Dividends paid by the Group (before dividend reinvestment plan)	n/a	4,987

Franked dividends paid during 2020 were fully franked at a tax rate of 30% (2019: 30%).

NOTE 29 DIVIDENDS AND DISTRIBUTIONS (CONTINUED)

Final dividend

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

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

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

Australian franking credits

The franking credits available to the Group at 30 September 2020, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date, are estimated to be $1,017 million (2019: $660 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $423 million (2019: $1,026 million). The Company's franking account fluctuates during the year as a result of the timing of income tax instalment and dividend payments. While the franking account balance fluctuates during the year, a surplus is only required as at 30 June each year for the purpose of complying with Australian income tax legislation. Franking is not guaranteed. The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

New Zealand imputation credits

The Company is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ $0.09 per share will be attached to the final 2020 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
National Income Securities	**39**	62	**39**	62
Trust Preferred Securities	**-**	21	**-**	-
Total distributions paid	**39**	83	**39**	62

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

UNRECOGNISED ITEMS

NOTE 30
CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

Accounting Policy

The Group discloses certain items as contingent liabilities, as they are either possible obligations whose existence will be confirmed only by uncertain future events, or they are present obligations where a transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless an outflow of economic resources is remote.

Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 21 Financial asset transfers*.

Contingent liabilities

Bank guarantees and letters of credit

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The Group has four principal types of guarantees:

- bank guarantees
- standby letters of credit
- documentary letters of credit
- performance-related contingencies.

The Group considers all bank guarantees and letters of credit as "at call" for liquidity management purposes because it has no control over when the holder might call upon the instrument.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Bank guarantees and letters of credit				
Bank guarantees	**4,252**	4,515	**4,216**	4,483
Standby letters of credit	**3,272**	7,041	**3,272**	7,041
Documentary letters of credit	**3,313**	878	**3,016**	598
Performance-related contingencies	**9,789**	11,377	**9,203**	10,771
Total bank guarantees and letters of credit	**20,626**	23,811	**19,707**	22,893

Clearing and settlement obligations

The Group is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Network Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Group also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Group is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms and the ASX Over-The-Counter Central Counterparty, which enables the Group to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Group is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for capital adequacy

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Group could be required to commit additional funds to the default fund contribution.

Credit-related commitments

Binding credit-related commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Credit-related commitments				
Underwriting facilities	-	2	-	2
Binding credit commitments	173,656	155,978	153,090	136,257
Total credit-related commitments	173,656	155,980	153,090	136,259
Credit-related commitments by geographical location				
Australia	136,823	120,756	136,267	120,178
New Zealand	20,010	19,143	-	-
Other International	16,823	16,081	16,823	16,081
Total credit-related commitments	173,656	155,980	153,090	136,259

Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note:

- The Company will guarantee up to $28,141 million (2019: $29,636 million) of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $317 million (2019: $907 million) has been issued.
- The Company is responsible to its customers for any direct loss suffered as a result of National Nominees Limited failing to perform its obligations to the Company.
- The Company and MLC Wealth Limited have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that, in the event it is proposed that MLC Wealth Limited no longer continues as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the current workers' compensation liabilities of MLC Wealth Limited.
- The Company has issued letters of support in respect of certain subsidiaries and associates in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries and associates continue to meet their obligations.

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.

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

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.

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (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.

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

As this work progresses, further compliance breaches may be identified and reported to AUSTRAC or 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.

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

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.

Payroll review

In December 2019, NAB announced an investigation into payments of both current and former Australian colleagues. 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.

NOTE 30 CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

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.

OTHER DISCLOSURES

NOTE 31
INTEREST IN SUBSIDIARIES AND OTHER ENTITIES

Accounting policy

Investment in controlled entities

Controlled entities are all those entities (including structured entities) over which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation. External interest in the equity and results of the entities that are controlled by the Group are shown as non-controlling interests in controlled entities in the equity section of the consolidated balance sheet.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. The Group's investments in associates are accounted for using the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which is created through contractual arrangement. Depending on the Group's power over the relevant activities of the structured entities and its exposure to and ability to influence its own return, it may or may not consolidate the entity.

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entities. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:
- creates rather than absorbs variability of the unconsolidated structured entity
- provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity's activity. This excludes involvements that exist only because of typical customer-supplier relationships.

(a) Investment in controlled entities

The following table presents the material controlled entities as at 30 September 2020 and 30 September 2019. Investment vehicles holding life policyholder assets are excluded from the list below:

Entity name	Ownership %	Incorporated / formed in
National Australia Bank Limited		Australia
National Equities Limited	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
National Wealth Management Holdings Limited	100	Australia
MLC Investments Limited	100	Australia
NULIS Nominees (Australia) Limited	100	Australia

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in *Note 19 Financial risk management* and capital adequacy requirements in *Note 35 Capital adequacy*.

On 2 April 2020, the RBNZ announced a restriction on dividend payments by New Zealand banks. This has the effect of restricting NAB's ability to access cash by way of dividends from its wholly owned subsidiary, BNZ. The restrictions imposed by RBNZ will remain in place until further notice and are expected to be relaxed when the economic outlook has improved.

(b) Investment in associates

The Group's investments in associates include a 20% interest in MLC Limited (MLC Life), a provider of life insurance products in Australia. Set out below is the summarised financial information of MLC Life based on its financial information (and not the Group's 20% share of those amounts) and a reconciliation of that information to the equity-accounted carrying amount as at 30 September:

	2020 $m	2019 $m
Summarised income statement of MLC Life		
Revenue	**1,549**	2,030
Net loss for the period	**(167)**	(61)
Total comprehensive income for the period	**(167)**	(61)
Reconciliation to the Group's share of loss		
MLC Life's net loss for the period	**(167)**	(61)
Prima facie share of loss at 20%	**(34)**	(12)
Deduct amortisation of intangible assets recognised at acquisition, net of tax	**(3)**	(8)
Group's share of loss for the period	**(37)**	(20)
Summarised balance sheet of MLC Life		
Total assets	**6,810**	6,223
Total liabilities	**4,327**	4,263
Net assets	**2,483**	1,960
Reconciliation to the Group's investment in MLC Life		
Prima facie share of net assets at 20%	**497**	392
Add intangible assets recognised at acquisition, net of deferred tax	**128**	134
Accumulated impairment losses	**(214)**	-
Group's carrying amount of the investment in MLC Life	**411**	526

There was no dividend received from MLC Life during the 2020 financial year (2019: $2.6 million). The Group made additional capital contributions to MLC Life, in proportion to its 20% shareholding, totalling $138 million during the 2020 financial year (2019: $nil).

Significant restrictions

Assets in a statutory fund of MLC Life can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met. This may impact MLC Life's ability to transfer funds to the Group in the form of dividends. In addition, in certain circumstances the payment of dividends may require approval by APRA.

Transactions

As part of a long-term commercial arrangement with Nippon Life and MLC Life, the Group refers certain bank customers to MLC Life, makes available MLC life insurance products on the approved product lists of the Group's owned and aligned advice distribution network, and offers MLC life insurance products to the Group's superannuation customers.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

Under a financial services agreement and certain linked arrangements, the Group provides MLC Life with certain financial services on an arm's length basis, including:

- On an exclusive basis: custody, transactional banking facilities, fixed income, commodity and currency services.
- On a non-exclusive basis: investment portfolio management.

Under a transitional services agreement, the Group provides certain support services until such time as MLC Life establishes its own standalone environment and capability. These services include financial and investment reporting, infrastructure services and major systems. In addition, the Group is obligated to support the data migration activities and development of the technology systems of MLC Life. MLC Life also uses the MLC brand under licence from the Group.

(c) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Type	Details
Securitisation	The Group engages in securitisation activities for funding, liquidity and capital management purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction. The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2020 is $1,530 million. ASIC has granted relief to Titan NZ (MRP Bonds) Trust, a consolidated structured entity, under ASIC Instrument No 18-0620 from the requirement to synchronise its reporting period with that of the Company. The effect of this relief is immaterial to the financial statements.
Covered bonds	The Group is entitled to any residual income after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the covered pool assets.

(d) Unconsolidated structured entities

The Group has interests in the following types of unconsolidated structured entities:

Type	Details
Securitisation	The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.
Other financing	The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles. Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.
Investment funds	The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units and receiving fees for services. The Group's interest in unconsolidated investment funds is immaterial.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2020 $m	2019 $m	2020 $m	2019[1] $m	2020 $m	2019 $m
Loans and advances	**13,401**	10,936	**4,947**	5,588	**18,348**	16,524
Debt instruments	**7,194**	9,253	**-**	-	**7,194**	9,253
Total carrying value of assets in unconsolidated structured entities	**20,595**	20,189	**4,947**	5,588	**25,542**	25,777
Commitment / contingencies	**8,392**	5,753	**20**	100	**8,412**	5,853
Total maximum exposure to loss in unconsolidated structured entities	**28,987**	25,942	**4,967**	5,688	**33,954**	31,630

(1) Comparative information has been restated to appropriately reflect the Group's exposure to unconsolidated structured entities.

Exposure to loss is managed as part of the Group's Risk Management Framework. The Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Consequently, the Group has presented these measures rather than the total assets of the unconsolidated structured entities. Refer to *Note 19 Financial risk management* for further details. Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements and fees and commissions.

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2020 $m	2019 $m	2020 $m	2019[1] $m	2020 $m	2019 $m
Senior investment grade	**20,388**	20,007	**1,228**	1,559	**21,616**	21,566
Investment grade	**206**	179	**1,812**	3,678	**2,018**	3,857
Sub-investment grade	**1**	3	**1,907**	351	**1,908**	354
Total[2]	**20,595**	20,189	**4,947**	5,588	**25,542**	25,777

(1) Comparative information has been restated to appropriately reflect the Group's exposure to unconsolidated structured entities.
(2) Of the total, $25,640 million (2019: $25,146 million) represents the Group's interest in senior notes and $120 million in subordinated notes (2019: $86 million). Comparative information has been restated to more closely align with relevant regulatory definitions.

NOTE 32
RELATED PARTY DISCLOSURES

The Group provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The Company may incur costs on behalf of controlled entities in respect of customer-related remediation, regulatory activity, compliance investigations and associated proceedings. Refer to *Note 30 Contingent liabilities and credit commitments* for further information in respect of these matters.

Subsidiaries

The table below shows the aggregate amounts receivable / (payable) from subsidiaries for the years ended 30 September:

	Company	
	2020 $m	2019 $m
Balance at beginning of year	**(1,247)**	(2,405)
Net cash (inflows) / outflows	**1,486**	1,227
Net foreign currency translation movements and other amounts receivable	**141**	(69)
Balance at end of year	**380**	(1,247)

The table below shows material transactions with subsidiaries for the years ended 30 September:

	Company	
	2020 $m	2019 $m
Net interest (expense)	**(1,743)**	(355)
Dividend revenue	**1,294**	1,343

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
Payment to:	2020 $m	2019 $m	2020 $m	2019 $m
National Australia Bank Group Superannuation Fund A	**243**	239	**243**	239
National Wealth Management Superannuation Plan	**1**	1	**-**	-
Bank of New Zealand Officers Provident Association (Division 2)	**7**	9	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**8**	7	**8**	7

Transactions between the Group and superannuation plans sponsored by the Group were made on commercial terms and conditions.

NOTE 32 RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Personnel (KMP)

KMP are the directors and senior executives of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. Details of KMP are set out in Section 5.1 and Section 6.2 of the *Remuneration report* of the *Report of the Directors*.

Remuneration

Total remuneration of KMP is included within total personnel expenses in *Note 5 Operating expenses*. The total remuneration is as follows:

	Group	
	2020	2019[(1)]
	$	$
Short-term benefits		
Cash salary	**16,111,161**	14,868,471
Variable reward cash	**69,183**	136,212
Non-monetary	**686,998**	518,244
Post-employment benefits		
Superannuation	**420,756**	411,710
Other long-term benefits		
Other long-term benefits	**173,623**	164,569
Equity-based benefits		
Shares	**1,467,630**	738,803
Performance rights	**2,520,742**	(1,390,958)
Other		
Other remuneration	**2,497,237**	1,796,599
Special duties	**224,764**	991,906
Total	**24,172,094**	18,235,556

(1) The 2019 comparative amounts have been adjusted to reflect changes in the definition of non-monetary benefits and amounts related to a cash variable reward and other equity awards granted to some KMP prior to their appointment as KMP. See Section 5.1 Remuneration report for more detail.

Performance rights and shareholdings of KMP are set out in the *Remuneration report* included in the *Report of the Directors*.

Loans to KMP and their related parties

During the reporting period, loans made to KMP and other related parties of the Group and Company were $8 million (2019: $5 million). Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to Executives (including Executives acting on an interim basis) may be made on similar terms and conditions generally available to other employees of the Group. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2020, the total loan balances outstanding were $22 million (2019: $23 million).

No amounts were written off in respect of any loans made to directors or other KMP of the Group and Company during the current or prior reporting period.

Further details regarding loans advanced to KMP of the Group and Company are included in the *Remuneration report* of the *Report of the Directors*.

NOTE 33
REMUNERATION OF EXTERNAL AUDITOR

	Group		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
EY Australia				
Audit services	**12,971**	11,717	**10,138**	8,587
Audit-related services	**5,792**	7,568	**4,278**	5,970
Taxation-related services	**60**	60	**60**	60
Non-audit services	**26**	91	**26**	84
Total Australia	**18,849**	19,436	**14,502**	14,701
EY Overseas				
Audit services	**4,163**	4,070	**2,083**	1,953
Audit-related services	**606**	731	**283**	363
Taxation-related services	**-**	165	**-**	151
Non-audit services	**6**	8	**-**	-
Total Overseas	**4,775**	4,974	**2,366**	2,467
Total Australia and Overseas	**23,624**	24,410	**16,868**	17,168
Services for non-consolidated trusts of which a Group entity is a trustee, manager or responsible entity and non-consolidated Group superannuation funds	**3,274**	3,274	**-**	-
Total remuneration paid to the external auditor	**26,898**	27,684	**16,868**	17,168

NOTE 33 REMUNERATION OF EXTERNAL AUDITOR (CONTINUED)

The Joint Parliamentary Committee inquiry into the Regulation of Auditing in Australia highlighted the disparity and lack of comparability of the external auditor fee remuneration disclosure for ASX Listed Corporates. ASIC are proposing four categories to define external auditor services as the basis of the proposed future disclosure requirements which are set out below.

Auditor's Remuneration - ASIC disclosures

	Group		Company	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**
EY Australia - consolidated entities				
Audit services for the statutory financial report of the parent and any of its' controlled entities	**12,971**	11,717	**10,138**	8,587
Assurance services that are required by legislation to be provided by the external auditor	**299**	274	**126**	96
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**5,409**	5,018	**4,068**	3,620
Other services	**170**	2,427	**170**	2,398
Total Australia	**18,849**	19,436	**14,502**	14,701
EY Overseas - consolidated entities				
Audit services for the statutory financial report of the parent and any of its' controlled entities	**4,163**	4,070	**2,083**	1,953
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**606**	719	**283**	363
Other services	**6**	185	**-**	151
Total Overseas	**4,775**	4,974	**2,366**	2,467
Total Australia and Overseas	**23,624**	24,410	**16,868**	17,168
EY Australia and Overseas - non-consolidated entities				
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**2,754**	2,406	**-**	-
Other services	**520**	868	**-**	-
Total remuneration paid to the external auditor for the non-consolidated entities	**3,274**	3,274	**-**	-
Total remuneration paid to the external auditor	**26,898**	27,684	**16,868**	17,168

For a description of the Board Audit Committee's pre-approval policies and procedures, refer to the NAB 2020 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Further details of the audit-related, taxation-related and non-audit services provided by EY to the Group during 2020 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

NOTE 34
EQUITY-BASED PLANS

Accounting policy

The value of shares and performance rights provided to employees are measured by reference to their grant date fair value. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The grant date fair value of shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.

With the exception of general employee shares in Australia, the expense for each tranche of shares or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the vesting period for the shares or performance rights. The expense for general employee shares in Australia is recognised in the income statement in the year the shares are granted as they are not subject to forfeiture. A corresponding increase is recorded in the equity-based compensation reserve.

Critical accounting judgements and estimates

The key estimates and inputs used in the Black-Scholes model vary depending on the award and type of security granted. They include the NAB share price at the time of the grant, exercise price of the performance rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulated version of the Black-Scholes model takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance rights.

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

Under the Group's employee equity plans, employees of the Group are awarded shares and performance rights. An employee's right to participate in a plan is often dependent on their performance or the performance of the Group, and shares and performance rights awarded under the plans are often subject to service and / or performance conditions.

The Board determines the maximum total value of shares or performance rights offered under each plan having regard to the rules of the relevant plan and, where required, the method used in calculating the fair value per security. Under ASX Listing Rules, shares and performance rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Under the terms of most offers, there is a period during which shares are held on trust for the employee they are allocated to and cannot be dealt with, or performance rights granted to an employee cannot be exercised, by that employee. There may be forfeiture or lapse conditions which apply to shares or performance rights allocated to an employee (as described below), including as a result of the employee ceasing employment with the Group during those periods or conduct standards not being met. Shares allocated to employees are eligible for any cash dividends paid by NAB on those shares from the time those shares are allocated to the trustee on their behalf. Performance rights granted to employees are not eligible for any cash dividends paid by NAB. In some limited circumstances, there may be a cash equivalent payment made in the event that performance rights vest.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

The key equity-based programs offered to employees are:

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition / Retention awards	General employee shares
Description	A proportion of an employee's annual VR is provided in equity and is deferred for a specified period. The deferred amount and the deferral period is commensurate with the level of risk and responsibility within a role. VR was referred to as 'short-term incentive' before the: • 2018 financial year, for members of the Executive Leadership Team and other Accountable Persons • 2019 financial year for all other employees.	LTVRs (including prior year Long-term Incentive (LTI) grants) are awarded to encourage long-term decision-making critical to creating long-term value for shareholders through the use of challenging long-term performance hurdles.	Provided to enable the buy-out of equity or other incentives from an employee's previous employment.	Offered to key individuals in roles where retention is critical over the medium-term (generally between 2 and 3 years).	Shares up to a target value of $1,000 are offered to eligible employees.
Eligibility	Certain permanent employees based in Australia, New Zealand, the United Kingdom and the United States having regard to their individual performance and the performance of the Group.	The Group CEO and Executive Leadership Team were previously eligible to receive LTI grants except for the 2018 financial year. Other senior executives were previously eligible to receive LTI grants prior to 2015. The Group CEO and Executive Leadership Team are now eligible to receive LTVR.	Provided on a case by case basis, with the recommendation of the People & Remuneration Committee and the approval of the Board.	Provided on a case by case basis, with the recommendation of the People & Remuneration Committee and the approval of the Board.	Prior to 2019, permanent employees based in Australia, Asia, New Zealand, the United Kingdom and the United States were eligible to participate. From 2019, only permanent employees in Australia were eligible to participate.
Type of equity-based payment	Generally shares. However, performance rights are granted to: • the Group CEO and other members of the Executive Leadership Team (except in respect of 2018 when shares were granted) and other Accountable Persons • other employees for jurisdictional or regulatory reasons.	Performance rights.	Generally shares. However, performance rights are also granted for jurisdictional reasons.	Generally shares. However, performance rights are also granted for jurisdictional reasons.	Shares.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition / Retention awards	General employee shares
Service conditions and performance hurdles	Deferred shares or performance rights are forfeited or lapsed during the vesting period if: • the employee resigns • the employee does not meet conduct standards • the employee's employment with the Group is terminated, subject to certain exclusions.	During the vesting period, all of an executive's performance rights will lapse on the executive's resignation from the Group and a pro rata portion will lapse on cessation of employment in other circumstances. Performance rights will also lapse if conduct standards or performance hurdles are not met. The Board has absolute discretion to determine vesting or lapsing outcomes for the performance rights.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares or performance rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In New Zealand, the United Kingdom and the United States, the shares are effectively forfeited if the employee resigns or is dismissed from the Group before the end of the 3 year restriction period.
Vesting, performance or deferral period	Defined period to align with the level of risk and impact of the role on business performance and results or to meet regulatory requirements. The vesting period will generally be between 1 and 7 years.	Defined period set at time of grant, generally between 4 and 5 years.	Defined period set at time of grant, based on satisfactory evidence of foregone awards from previous employment.	Defined period set at time of grant.	3 years.
Exercise period (only applicable for performance rights)	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	Performance rights granted in 2014 generally have an expiry date between 5 and 6 years from the effective date, if they remain unexercised. Performance rights granted from 2015 will be automatically exercised if they vest.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	If the applicable conditions are met, performance rights will vest and each performance right will be automatically exercised. n/a for share grants.	n/a.
Board discretion	The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations and has the ability to: • Extend the vesting, performance or deferral period beyond the original period for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and, in certain circumstances, other employees. • Forfeit or lapse the deferred shares or performance rights. • Clawback the deferred shares or performance rights for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and, in certain circumstances, other employees.				n/a.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

Employee Share Plan

	2020		2019	
	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $
Employee share plans				
Variable reward deferred shares	**1,686,075**	**26.86**	3,993,696	24.76
Commencement and recognition shares	**433,537**	**21.36**	390,944	25.43
General employee shares	**1,041,183**	**25.38**	1,032,504	24.19

The closing market price of NAB shares at 30 September 2020 was $17.75 (2019: $29.70). The volume weighted average share price during the year ended 30 September 2020 was $19.92 (2019: $25.80).

Performance rights movements

	2020	2019
Number of performance rights		
Opening balance as at 1 October	**2,794,858**	4,753,714
Granted	**456,144**	185,185
Forfeited	**(984,769)**	(1,882,568)
Exercised	**(489,619)**	(261,473)
Closing balance as at 30 September	**1,776,614**	2,794,858
Exercisable as at 30 September	**-**	-

Performance rights outstanding

	2020		2019	
	Outstanding at 30 Sep No.	Weighted average remaining life months	Outstanding at 30 Sep No.	Weighted average remaining life months
Terms and conditions				
Market hurdle	**741,323**	**25**	1,553,319	11
Non-market hurdle	**875,305**	**8**	993,980	20
Individual hurdle	**159,986**	**30**	247,559	27

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The table also shows a 'no hurdle' value for performance rights that do not have any market-based performance hurdles attached. The 'no hurdle' value is calculated as the grant date fair value of the rights, adjusted for expected dividends over the vesting period.

	2020	2019
Weighted average values		
Contractual life (years)	**4.0**	2.3
Risk-free interest rate (per annum)	**0.64%**	2.02%
Expected volatility of share price	**16%**	n/a
Closing share price on grant date	**$26.24**	$24.83
Dividend yield (per annum)	**6.30%**	6.92%
Fair value of performance rights with a market hurdle	**$10.07**	n/a
Fair value of performance rights without a market hurdle	**$22.84**	$21.59
Expected time to vesting (years)	**3.73**	2.06

NOTE 35
CAPITAL ADEQUACY

As an ADI, the Company is subject to regulation by APRA under the authority of the *Banking Act 1959* (Cth). APRA has set minimum Prudential Capital Requirements (PCR) for ADIs consistent with the Basel Committee on Banking Supervision (BCBS) capital adequacy framework. PCR are expressed as a percentage of total risk-weighted assets. APRA requirements are summarised below:

Common Equity Tier 1	**Tier 1 capital**	**Total capital**
4.5% minimum	**6.0% minimum**	**8.0% minimum**
CET1 capital is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111.	CET1 capital plus Additional Tier 1 capital. Additional Tier 1 capital comprises high quality components of capital that satisfy the following essential characteristics: • provide a permanent and unrestricted commitment of funds • are freely available to absorb losses • rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer • provide for fully discretionary capital distributions.	Tier 1 capital plus Tier 2 capital. Tier 2 capital comprises other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

An ADI must hold a capital conservation buffer above the PCR for CET1 capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets. As a Domestic Systemically Important Bank (D-SIB) in Australia, the Group is also required to hold an additional buffer of 1% in CET1 capital.

APRA may determine higher PCR for an ADI and may change an ADI's PCR at any time. A breach of the required ratios under APRA's Prudential Standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital.

Capital ratios are monitored against internal capital targets that are set by the Board over and above minimum capital requirements set by APRA.

The implementation of APRA's 'Unquestionably Strong' CET1 benchmark of 10.5% is delayed until 1 January 2023.

The Group remained well capitalised during the year to September 2020. The Group's CET1 ratio as at 30 September 2020 was 11.47%.

In April 2020, APRA announced temporary changes to expectations for ADI capital requirements, allowing for the current 1.50% 'Unquestionably Strong' buffer to be drawn upon to support ongoing lending to the economy during the COVID-19 disruption, as long as ADIs continue to meet their minimum capital requirements.

In April and June 2020, in light of the uncertain economic outlook due to COVID-19, the Group took proactive steps to build capital via a $4.25 billion equity raise and a reduction in the interim dividend. These actions provided sufficient capacity to continue supporting customers through this period and will assist in managing a range of possible scenarios, including a prolonged and severe economic downturn.

NOTE 36

NOTES TO THE CASH FLOW STATEMENTS

Reconciliation of net profit attributable to owners of NAB to net cash provided by / (used in) operating activities

	Group		Company	
	2020	2019	2020	2019
	$m	$m	$m	$m
Net profit / (loss) attributable to owners of NAB	**2,559**	4,798	**(527)**	3,279
Add / (deduct) non-cash items in the income statement:				
(Increase) / decrease in interest receivable	**218**	176	**194**	160
Increase / (decrease) in interest payable	**(915)**	(347)	**(770)**	(306)
Increase / (decrease) in unearned income and deferred net fee income	**(234)**	16	**(227)**	8
Fair value movements on assets, liabilities and derivatives held at fair value	**(3,186)**	(3,034)	**(2,548)**	(2,589)
Increase in provisions	**2,027**	2,298	**1,898**	2,267
Equity-based compensation recognised in equity or reserves	**74**	105	**74**	105
Impairment losses on non-financial assets	**424**	19	**2,578**	217
Credit impairment charge	**2,821**	984	**2,521**	853
Depreciation and amortisation expense	**2,184**	1,412	**1,655**	1,024
(Increase) / decrease in other assets	**(387)**	(58)	**(705)**	(34)
Decrease in other liabilities	**(57)**	(135)	**(118)**	(143)
Increase / (decrease) in income tax payable	**(331)**	408	**(401)**	405
(Increase) in deferred tax assets	**(836)**	(665)	**(833)**	(641)
Increase / (decrease) in deferred tax liabilities	**(15)**	(23)	**143**	(6)
Operating cash flow items not included in profit	**29,537**	4,517	**29,190**	4,323
Investing or financing cash flows included in profit				
(Gain) on sale of controlled entities, before income tax	**-**	(18)	**-**	-
(Gain) / loss on sale of associates and joint ventures, before income tax	**-**	(32)	**-**	41
(Gain) on sale of other debt and equity instruments	**-**	(12)	**-**	(12)
(Gain) / loss on sale of property, plant, equipment and other assets	**9**	1	**-**	(3)
Net cash provided by / (used in) operating activities	**33,892**	10,410	**32,124**	8,948

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Group				Company			
	Bonds, notes and subordinated debt		Other debt issues	Lease liabilities	Bonds, notes and subordinated debt		Other debt issues	Lease liabilities
	At fair value	At amortised cost			At fair value	At amortised cost		
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 October 2018	23,580	140,222	6,158	-	5,485	136,110	6,158	-
Cash flows								
Proceeds from issue	4,213	22,946	1,874	-	227	21,316	1,874	-
Repayments	(3,734)	(27,267)	(799)	-	(170)	(26,260)	(799)	-
Non-cash changes								
Conversion of convertible preference shares and convertible notes	-	-	(750)	-	-	-	(750)	-
Fair value changes, including fair value hedge adjustments	982	3,131	-	-	570	2,215	-	-
Foreign currency translation and other adjustments	957	4,226	(1)	-	302	4,218	(1)	-
Balance at 30 September 2019	25,998	143,258	6,482	-	6,414	137,599	6,482	-
Cash flows								
Proceeds from issue	**552**	**14,444**	**1,100**	**-**	**-**	**12,939**	**1,100**	**-**
Repayments	**(4,140)**	**(30,384)**	**(649)**	**(322)**	**(573)**	**(29,227)**	**(649)**	**(278)**
Non-cash changes								
Opening lease liabilities on adoption of AASB 16	**-**	**-**	**-**	**1,425**	**-**	**-**	**-**	**1,204**
Additions to lease liabilities	**-**	**-**	**-**	**473**	**-**	**-**	**-**	**404**
Conversion of convertible preference shares and convertible notes	**-**	**-**	**(750)**	**-**	**-**	**-**	**(750)**	**-**
Fair value changes, including fair value hedge adjustments	**342**	**512**	**-**	**-**	**204**	**450**	**-**	**-**
Foreign currency translation and other adjustments	**(404)**	**(1,446)**	**8**	**(21)**	**(200)**	**(1,464)**	**8**	**(11)**
Balance at 30 September 2020	**22,348**	**126,384**	**6,191**	**1,555**	**5,845**	**120,297**	**6,191**	**1,319**

NOTE 36 NOTES TO THE CASH FLOW STATEMENTS (CONTINUED)

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 cash flow statement is reconciled to the related items on the balance sheet as follows:

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
Assets				
Cash and liquid assets[1]	**64,560**	55,457	**63,555**	54,811
Treasury and other eligible bills	**1,607**	795	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**31,806**	23,705	**28,363**	20,635
Total cash and cash equivalent assets	**97,973**	79,957	**91,918**	75,446
Liabilities				
Due to other banks	**(35,932)**	(32,931)	**(33,112)**	(31,282)
Total cash and cash equivalents	**62,041**	47,026	**58,806**	44,164

(1) Includes cash and liquid assets held in MLC Wealth. Refer to Note 37 Discontinued operations.

Non-cash financing and investing activities

	Group		Company	
	2020 $m	2019 $m	2020 $m	2019 $m
New share issues				
Dividend reinvestment plan	**976**	1,803	**976**	1,803
Conversion of convertible preference shares and convertible notes	**750**	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 of CPS was redeemed.

NOTE 37
DISCONTINUED OPERATIONS

Accounting policy

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statements and statements of comprehensive income.

Critical accounting judgements and estimates

MLC Wealth has been presented as a disposal group held for sale, although third party approvals remain outstanding, as it is considered highly probable that the contracted sale will be completed within 12 months. The classification and presentation as 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.

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 of $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 the 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 life insurance discontinued operation related 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 re-assessment of customer-related remediation provisions associated with the MLC Life business and additional costs associated with the sale. Refer to *Note 30 Contingent liabilities and credit commitments* for further information.

NOTE 37 DISCONTINUED OPERATIONS (CONTINUED)

Analysis of net loss from discontinued operations

	Group 2020 $m	2019(1) $m
MLC Wealth discontinued operation		
Net operating income	**1,258**	1,486
Operating expenses	**(1,194)**	(1,270)
MLC reportable segment profit before tax	**64**	216
MLC Wealth-related items(2)	**(1,308)**	(1,384)
Income tax benefit	**340**	353
Net loss related to MLC Wealth	**(904)**	(815)
Impairment of goodwill	**(199)**	-
Net loss from MLC Wealth discontinued operation	**(1,103)**	(815)
MLC Life discontinued operation		
Net profit / (loss) from MLC Life discontinued operation	**168**	(289)
Net loss from discontinued operations	**(935)**	(1,104)
Attributable to owners of NAB	**(939)**	(1,107)
Attributable to non-controlling interests	**4**	3

(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.

Cash flows provided by / (used in) discontinued operations

	Group 2020 $m
MLC Wealth discontinued operation	
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)**

NOTE 37 DISCONTINUED OPERATIONS (CONTINUED)

Non-current assets and disposal group held for sale

As at 30 September 2020, the Company had assets held for sale of $1,837 million (2019: $nil) which represents NAB's investment in NWMH. An impairment loss has been recognised within Operating Expenses in respect of this investment, refer to *Note 5 Operating expenses*.

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

	Group 2020 $m
MLC Wealth disposal group[(1)]	
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**

(1) Amounts are shown net of inter-company balances.

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.

NOTE 38
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 results for the 2020 financial year.

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.

The directors of National Australia Bank Limited declare that:

(a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 85 to 193 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1 Basis of preparation* to the financial statements, and the *Corporations Act 2001* (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2020, and of the performance of NAB and the Group for the year ended 30 September 2020;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth).

Dated this 11th day of November 2020 and signed in accordance with a resolution of the directors.

Philip Chronican
Chairman

Ross McEwan
Group Chief Executive Officer

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of National Australia Bank Limited

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company balance sheets as at 30 September 2020;
- the Group consolidated and Company income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies, and
- the Directors' declaration.

In our opinion the accompanying Financial Report is in accordance with the *Corporations Act* 2001, including:

- giving a true and fair view of the Company's and the Group's financial position as at 30 September 2020 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations* 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards*) (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. The key audit matters identified below, unless otherwise stated, relate to both the Company and the Group.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Why significant	How our audit addressed the key audit matter
Provision for credit impairment	
As described in Note 17 *Provision for credit impairment on loans at amortised cost* and Note 19 *Financial risk management*, the provision for credit impairment is determined in accordance with Australian Accounting Standard – AASB 9 *Financial Instruments* (AASB 9). This was a key audit matter due to: ▶ the value and timing of the recognition of the provision; ▶ the significant impact of COVID-19 and related industry responses (e.g. deferral programs and government stimulus packages) on expected credit losses; and ▶ the degree of judgment and estimation uncertainty associated with the calculations. Key areas of judgment included: ▶ the application of the impairment requirements under AASB 9 within the Company's and the Group's expected credit loss methodology; ▶ the identification of exposures with a significant deterioration in credit quality; ▶ assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis); and ▶ forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and impacts from COVID-19 that may impact future expected credit losses.	We assessed the alignment of the Group's expected credit loss model and its underlying methodology with the requirements of AASB 9, with consideration of COVID-19 impacts and related industry responses. We assessed the following for exposures evaluated on a collective basis and overlays: ▶ significant modelling and macroeconomic assumptions, including the reasonableness of forward-looking information and scenarios; ▶ the basis for and data used to determine overlays; and ▶ sensitivity of the collective provisions to changes in modelling assumptions. We involved our actuarial specialists to test the mathematical accuracy of the model and to consider key assumptions. We examined a sample of exposures assessed on an individual basis by: ▶ assessing the reasonableness and timeliness of internal credit quality assessments based on the borrowers' particular circumstances; and ▶ evaluating the associated provisions by assessing the reasonableness of key inputs into the calculation, with particular focus on the impact of COVID-19 on high-risk industries, work out strategies, collateral values, and the value and timing of recoveries. In conjunction with our IT specialists, we assessed the effectiveness of relevant controls relating to the: ▶ capture of data, including loan origination and transactional data, ongoing internal credit quality assessments, storage of data in data warehouses, and interfaces with the models; and ▶ expected credit loss models, including functionality, ongoing monitoring/ validation and model governance. We considered the processes used to identify, assess and manage climate-related risks associated with the Company's and the Group's loan portfolio. We considered the adequacy and appropriateness of the disclosures related to credit impairment within the Financial Report.

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Why significant	How our audit addressed the key audit matter
Provisions for customer-related remediation and associated costs, regulatory compliance matters and legal proceedings	
As detailed in Note 24 *Provisions* and Note 30 *Contingent liabilities and credit commitments*, the Company and the Group has recorded provisions and/or made disclosures in relation to matters requiring customer remediation, regulatory compliance investigations (including from APRA, ASIC and AUSTRAC) and associated legal proceedings. This was a key audit matter due to the significant judgment required to determine a reliable estimate of the provision. Key areas of judgment included the: ▶ decision whether to recognise a provision and/or disclose a contingent liability, including whether sufficient information existed to allow a provision to be reliably measured; ▶ assumptions used to estimate the customer-related remediation payments, including refund rates and average compensation amounts; and ▶ costs required to complete the remediation programs.	We developed an understanding of the Company's and the Group's processes for identifying potential regulatory compliance matters and customer-related remediation obligations. We held discussions with management, reviewed Board of Directors and Board committee minutes, reviewed correspondence with regulators and attended Board Audit Committee and Board Risk and Compliance Committee meetings. We discussed ongoing and potential legal matters with management, including General Counsel, and considered the need to obtain external legal confirmations. We assessed key assumptions used to estimate the customer-related remediation amounts, including a consideration of industry and historical trends and compensation experience to date. We also reviewed and assessed legal advice where applicable. We evaluated the adequacy of the costs recognised with reference to the status of each program and costs incurred to date. For those matters where the Company and the Group determined that a sufficiently reliable estimate of the amount of the obligation cannot be made and for which no provisions have been recognised, we assessed the appropriateness of this conclusion and any related disclosure as a contingent liability. We considered the adequacy and appropriateness of the disclosures within the Financial Report related to the provisions and/or related contingent liability disclosure.

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Why significant	How our audit addressed the key audit matter
Information Technology (IT) systems and controls over financial reporting	
A significant part of the Company's and the Group's financial reporting process is primarily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information. A fundamental component of these IT controls is ensuring that risks relating to inappropriate user access management, unauthorised program changes and IT operating protocols are addressed.	We focused on those IT systems and controls that are significant to the Group's financial reporting process. We involved our IT specialists, as audit procedures over IT systems and controls require specific expertise. We assessed the design and tested the operating effectiveness of the Company's and the Group's IT controls, including those related to user access, change management and data integrity. Where we identified design and/or operating deficiencies in the IT control environment, our procedures included the following: ▶ we assessed the integrity and reliability of the systems and data related to financial reporting; and ▶ where automated procedures were supported by systems with identified deficiencies, we assessed alternative controls that were not reliant on the IT control environment.

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Why significant	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The Group has recognised goodwill of $1.8 billion on its balance sheet. As detailed in Note 22 *Goodwill and other intangible assets*, the Group performs an annual impairment assessment, or more frequently, if there is an indication that goodwill may be impaired. This involves a comparison of the carrying value of the cash generating unit (CGU) to which the goodwill has been attributed with its recoverable amount. The recoverable amount was determined using a value in use calculation. This calculation incorporated a range of assumptions, including: ► future cash flows; ► discount rate; and ► terminal growth rate. The impairment assessment of goodwill was a key audit matter due to the degree of estimation uncertainty associated with the assumptions applied in the impairment assessment, including the potential impacts of COVID-19. Goodwill allocated to the previous MLC Wealth CGU, has been recorded within Assets held for sale, in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. The fair value less costs of disposal was determined with reference to the sale proceeds under the agreement with IOOF Holdings Limited ("IOOF"). In addition, as detailed in Note 5 *Operating expenses*, the Company recognised an impairment charge in respect of its investment in National Wealth Management Holdings Limited (NWMH), the holding company for MLC Wealth. This was a key audit matter due to the value of the impairment charge recorded.	We gained an understanding of the sale agreement entered into between NAB and IOOF through discussions with management and Directors, review of the relevant sale agreements and Board of Directors and Board committee minutes. We assessed the appropriateness of the CGUs identified to which goodwill has been allocated. We assessed whether the methodology used by the Group for the impairment assessment of Goodwill, and the Company for the impairment assessment of the investment in NWMH, was in accordance with the requirements of Australian Accounting Standards. We agreed the forecast cash flows to the most recent Board or management-approved cash flow forecasts and assessed the accuracy of the previous forecasts by performing a comparison of historical forecasts to actual results. We involved our valuation specialists to assess the key assumptions, including the discount rate, terminal growth rate and growth assumptions, used in the impairment assessment with reference to comparable companies and to test the mathematical accuracy of the impairment models. We considered market capitalisation of the business and recent trading history relative to net assets and benchmarked the implied valuations to comparable company valuation multiples. We evaluated the adequacy of impairment charge recognised during the financial year. We considered the disclosures within the Financial Report related to the impairment of goodwill and investment in NWMH.

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Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's Annual Financial Report for the year ended 30 September 2020 but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act* 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

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As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 54 to 82 of the Report of the Directors for the year ended 30 September 2020.

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2020 complies with section 300A of the *Corporations Act* 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act* 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

11 November 2020

Twenty largest registered fully paid ordinary shareholders of the Company as at 20 October 2020

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	782,918,398	23.80
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	467,825,535	14.22
CITICORP NOMINEES PTY LIMITED	278,671,858	8.47
NATIONAL NOMINEES LIMITED	123,177,120	3.74
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	73,961,247	2.25
BNP PARIBAS NOMS PTY LTD <DRP>	44,286,697	1.35
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	29,201,904	0.89
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	20,200,707	0.61
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	12,054,789	0.36
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	8,091,433	0.25
ARGO INVESTMENTS LIMITED	6,309,685	0.19
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	5,160,360	0.16
CPU SHARE PLANS PTY LTD	4,910,074	0.15
MILTON CORPORATION LIMITED	4,868,831	0.15
AMP LIFE LIMITED	4,862,355	0.15
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	4,365,465	0.13
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	3,994,579	0.12
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	3,609,671	0.11
BNP PARIBAS NOMS (NZ) LTD <DRP>	2,785,272	0.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,299,232	0.07
Total	**1,883,555,212**	**57.25**

Substantial shareholders

The following organisations have disclosed a substantial shareholding notice to ASX. As at 20 October 2020, the Company has received no further update in relation to these substantial shareholdings.

Name	Number of shares	% of voting power
BlackRock Group (1)	177,651,034	6.02%
The Vanguard Group, Inc. (2)	191,802,827	6.00%

(1) Substantial shareholding as at 18 March 2020, as per notice lodged on 20 March 2020.
(2) Substantial shareholding as at 27 May 2020, as per notice lodged on 1 June 2020.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	380,989	59.60	135,597,964	4.12
1,001 – 5,000	199,947	31.28	452,836,637	13.76
5,001 – 10,000	35,941	5.62	249,749,229	7.59
10,001 – 100,000	21,841	3.42	439,178,461	13.35
100,001 and over	498	0.08	2,012,731,098	61.18
Total	**639,216**	**100**	**3,290,093,389**	**100**
Less than marketable parcel of $500	24,710		319,882	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Twenty largest registered National Income Securities (NIS) holders as at 20 October 2020

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,992,659	14.96
CITICORP NOMINEES PTY LIMITED	2,588,725	12.94
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	947,530	4.74
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	583,360	2.92
BNP PARIBAS NOMS PTY LTD <DRP>	387,487	1.94
MUTUAL TRUST PTY LTD	221,498	1.11
NATIONAL NOMINEES LIMITED	174,827	0.87
BNP PARIBAS NOMS (NZ) LTD <DRP>	160,471	0.80
LAVA CORPORATION PTY LTD <LAVA UNIT A/C>	150,000	0.75
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	148,438	0.74
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	142,062	0.71
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	140,295	0.70
TAVERNERS NO 11 PTY LTD <BRENCORP NO 11 UNIT A/C>	137,061	0.69
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	100,275	0.50
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	83,509	0.42
BALMORAL FINANCIAL INVESTMENTS PTY LTD <NO 2 A/C>	74,812	0.37
TAVERNERS J PTY LTD <SCANLON FOUNDATION RC A/C>	73,652	0.37
EASN PTY LTD <SANE SUPERANNUATION FUND A/C>	72,000	0.36
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	67,435	0.34
JAMPLAT PTY LTD	60,000	0.30
Total	**9,306,096**	**46.53**

Distribution of NIS holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	21,770	92.06	5,080,953	25.41
1,001 – 5,000	1,663	7.03	3,204,830	16.02
5,001 – 10,000	117	0.50	811,348	4.06
10,001 – 100,000	83	0.35	2,028,181	10.14
100,001 and over	15	0.06	8,874,688	44.37
Total	**23,648**	**100**	**20,000,000**	**100**
Less than marketable parcel of $500	58		164	

Voting rights

Holders of NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 20 October 2020

	Number of securities	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,535,533	8.94
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	423,687	2.47
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	312,937	1.82
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	288,079	1.68
BERNE NO 132 NOMINEES PTY LTD <684168 A/C>	235,055	1.37
CITICORP NOMINEES PTY LIMITED	220,301	1.28
LONGHURST MANAGEMENT SERVICES PTY LTD	206,000	1.20
NATIONAL NOMINEES LIMITED	205,547	1.20
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	192,851	1.12
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	184,625	1.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	180,240	1.05
BNP PARIBAS NOMS PTY LTD <DRP>	177,147	1.03
NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	144,950	0.84
MUTUAL TRUST PTY LTD	116,132	0.68
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	85,349	0.50
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	85,081	0.50
EASTCOTE PTY LTD <VAN LIESHOUT FAMILY A/C>	58,229	0.34
CITICORP NOMINEES PTY LIMITED <DPSL>	53,513	0.31
MCCUSKER FOUNDATION LTD <THE MCCUSKER CHARITABLE A/C>	50,000	0.29
BNP PARIBAS NOMINEES PTY LTD <PITCHER PARTNERS DRP>	46,222	0.27
Total	**4,801,478**	**27.97**

Distribution of NAB CPS II holdings

	Number of security holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,924	90.57	6,455,338	37.59
1,001 – 5,000	1,864	8.47	3,825,941	22.28
5,001 – 10,000	127	0.58	914,006	5.32
10,001 – 100,000	71	0.32	1,553,561	9.05
100,001 and over	14	0.06	4,423,084	25.76
Total	**22,000**	**100**	**17,171,930**	**100**
Less than marketable parcel of $500	29		83	

Voting rights

Holders of NAB Convertible Preference Shares II (NAB CPS II) are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NAB CPS II on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NAB CPS II.

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:
- National Income Securities, NAB Convertible Preference Shares II, NAB Capital Notes 2, NAB Capital Notes 3, NAB Subordinated Notes 2, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Medium-term notes and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the Euro MTF market.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the NZX Debt Market.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.
- Medium-term notes which are quoted on the Taipei Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2020:
- 18,748 partly paid ordinary shares, of which there are 25 holders
- 1,776,614 performance rights, of which there are 77 holders (see page 40 of this report for further details).

Chairman
Mr Philip Chronican
BCom (Hons), MBA (Dist), GAICD, SF Fin

Group Chief Executive Officer and Managing Director
Mr Ross McEwan CBE
BBus

Group Chief Financial Officer
Mr Gary Lennon
BEc (Hons), FCA

Registered office
Level 1
800 Bourke Street
DOCKLANDS VIC 3008
Australia
Tel: 1300 889 398
Tel: +61 3 8872 2461

Auditor
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000
Australia
Tel: +61 3 9288 8000

Company Secretary
Mrs Louise Thomson
BBus (Dist), FGIA

Group Investor Relations
Level 28
255 George Street
SYDNEY NSW 2000
Australia
Email: investorrelations@nab.com.au

Social Impact
National Australia Bank Limited
700 Bourke Street
DOCKLANDS VIC 3008
Australia
Email: social.impact@nab.com.au

Shareholder Centre website
The Group's website at www.nab.com.au/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholder information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

Principal Share Register
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
ABBOTSFORD VIC 3067
Australia

Postal address:
GPO Box 2333
MELBOURNE VIC 3001
Australia

Local call: 1300 367 647
Fax: +61 3 9473 2500
Telephone and fax (outside Australia):
Tel: +61 3 9415 4299; Fax: +61 3 9473 2500

Email: nabservices@computershare.com.au
Website: www.investorcentre.com/au

United Kingdom Share Register
Computershare Investor Services plc
The Pavilions
Bridgwater Road
BRISTOL BS99 6ZZ
United Kingdom

Tel: +44 370 703 0197
Fax: +44 370 703 6101

Email: nabgroup@computershare.co.uk
Website: www.investorcentre.com/au

United States ADR Depositary, Transfer Agent and Registrar contact details for NAB ADR holders:
Deutsche Bank Shareholder Services
American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
USA
Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137
Email: db@astfinancial.com

Contact details for NAB ADR brokers & institutional investors:
US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500
Email: adr@db.com

Term Used	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due (DPD) and gross impaired assets to GLAs	Loans and advances 90+ DPD but not impaired and impaired assets expressed as a percentage of gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (past due over 90 days)' and 'Gross impaired assets' divided by gross Loans and Acceptances.
AASB	Australian Accounting Standards Board.
ACCC	Australian Competition and Consumer Commission.
Accountable Person	An accountable person for the purposes of the *Banking Act 1959* (Cth).
ADI	Authorised Deposit-taking Institution.
ADR	American Depositary Receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APRA self-assessment	The Group undertook a self-assessment into governance, accountability and culture in June 2018 at the request of the Australian Prudential Regulation Authority (APRA). The self-assessment identified shortcomings in aspects of the Group's approach to non-financial risk management, with particular focus on operational, compliance and conduct risk. The Group voluntarily published the self-assessment report which identified 26 actions to deliver structural, procedural and cultural change.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited (or the market operated by it).
Average equity (adjusted)	Average equity (adjusted) is adjusted to exclude non-controlling interests and other equity instruments.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Bank levy	A levy imposed under the *Major Bank Levy Act 2017* (Cth) on ADIs with total liabilities of more than $100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and was effective for ADIs from 1 January 2013.
BBSW	Bank Bill Swap Rate.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the 2020 financial year has been adjusted for the following: - Distributions - Fair value and hedge ineffectiveness - Amortisation and impairment of acquired intangible assets.
Cash return on equity (cash ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.
CGU	Cash-generating unit.
Committed Liquidity Facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 Ratio	CET1 capital divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CYBG	Virgin Money UK PLC (formerly CYBG PLC).

Term Used	Description
Deferred STI shares	Deferred STI shares form part of the Short-term incentives (STI) equity-based plan. They are NAB ordinary shares, allocated at no charge to the employee, in respect of prior year performance, which provide dividend income to the employee from allocation.
Dilutive potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares and which would have the effect of decreasing earnings per share. For the Group, these include convertible preference shares, convertible notes and shares issued under employee incentive schemes.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single coordinated plan for disposal.
Distributions	Payments to holders of equity instruments other than ordinary shares such as National Income Securities and Trust Preferred Securities.
EaR	Earnings at risk.
Earnings per share (EPS) - basic	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares.
Earnings per share (EPS) - diluted	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares, after adjusting both earnings and the weighted average number of ordinary shares for the impact of dilutive potential ordinary shares.
Face value	The face value of each performance right is determined by the market value of a NAB share. NAB generally uses a five day weighted average share price to determine the face value at grant date and on allocation date.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Fair value (for the purposes of equity awards set out in the Remuneration Report)	The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five day weighted average share price. The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.
FCA	Financial Conduct Authority (formerly the UK Financial Service Authority).
Full-time equivalent employees (FTEs)	Includes all full-time, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This excludes consultants, IT professional services, outsourced service providers and non-executive directors.
FVOCI	Fair Value through Other Comprehensive Income.
Gross Domestic Product (GDP)	GDP is the market value of the finished goods and services produced within a country in a given period of time.
Gross Loans and Acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans at fair value' and 'Total gross loans and advances'.
Group	NAB and its controlled entities.
High Quality Liquid Assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest. - Non-retail loans which are contractually past due and / or there is sufficient doubt exists about the ability to collect principal and interest in a timely manner. - Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. - Unsecured portfolio managed facilities that are 180 days past due (if not written off).
Internal ratings-based (IRB)	The processes employed by the Group to estimate credit risk through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Key Management Personnel (KMP)	KMP are the directors of NAB and senior executives of the Group who have authority and responsibility of planning, directing and controlling activities of both NAB and the Group.

Term Used	Description
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Lifetime expected credit losses (ECL)	The ECL that results from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Marketable debt securities	Comprises trading securities and debt instruments.
MLC Life	MLC Limited.
MLC Wealth	MLC Wealth is the Group's Wealth division which provides superannuation, investments, asset management and financial advice to retail, corporate and institutional clients, supported by several brands including MLC, Plum and investment brands under MLC Asset Management.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net Promoter Score (NPS)	Net Promoter® and NPS® are registered trademarks, and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Net Promoter Score measures the likelihood of a customer's recommendation to others for retail or business banking.
Net Stable Funding Ratio (NSFR)	A ratio of the amount of available stable funding to the amount of required stable funding.
Official Cash Rate (OCR)	Official Cash Rate is an interest rate set by the Reserve Bank of New Zealand.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Return on Total Allocated Equity (ROTAE)	ROTAE is a function of cash earnings, risk-weighted assets, regulatory capital deductions and target capital ratios.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RMBS	Residential Mortgage Backed Securities.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.
Securitisation	Structured finance technique which involves pooling and packaging cash flow converting financial assets into securities that can be sold to investors.
Senior executives	The Executive Leadership Team, excluding the Group CEO.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance.
SME	Small and medium sized enterprises.
SME Guarantee Scheme	The Australian Government's Coronavirus SME Guarantee Scheme which is supporting up to $40 billion of lending to SMEs (including sole traders and not-for-profits) by guaranteeing 50 per cent of new loans issued by participating lenders to SMEs.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Standardised approach	An alternative approach to the assessment of credit, operational and traded market risk whereby an ADI uses external rating agencies to assist in assessing credit risk and / or the application of specific values provided by regulators to determine risk-weighted assets.
Statutory net profit	Net profit attributable to owners of NAB.
Statutory return on equity	Statutory earnings after tax expressed as a percentage of average equity (adjusted), calculated on a statutory basis.
Term Funding Index (TFI)	Term wholesale funding (with remaining maturity to first call date greater than 12 months), including Term Funding Facility (TFF) drawdowns divided by core assets.
Tier 1 capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total average assets	The average balance of assets held by the Group over the period, adjusted for discontinued operations.

Term Used	Description
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.
Total Shareholder Return (TSR)	TSR represents share price change over a period of time plus dividends paid over that period.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit / (loss)	Underlying profit / (loss) is a performance measure used by NAB. It represents cash earnings / (loss) before various items, including income tax expense and the credit impairment charge. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
VaR	Value at Risk.
Weighted average number of ordinary shares	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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PRINCIPAL ESTABLISHMENTS

National Australia Bank Limited
Level 1, 800 Bourke Street
Docklands VIC 3008
Australia

If calling within Australia
1300 889 398

If calling internationally
+61 3 8872 2461

www.nab.com.au

NAB Asset Servicing
12/500 Bourke Street
Melbourne VIC 3000

Correspondence to:
GPO Box 1406
Melbourne VIC 3001
Australia

Fax: +61 1300 556 414
SWIFT: NATAAU3303X

www.nab.com.au/assetservicing

New York Branch
28th Floor, 245 Park Avenue
New York NY 10167
United States of America

Tel: +1 212 916 9500
Fax: +1 212 986 5252

London Branch
52 Lime Street
London
EC3M 7AF
England
United Kingdom

Tel: +44 (0)20 7710 2100

Hong Kong Branch
Suites 506-509
Levels 5 & 6, Three Pacific Place
1 Queen's Road East
Hong Kong

Tel: +852 2826 8111
(HK Branch General line) (HK Branch)
Fax: +852 2845 9251
(HK Branch General line) (HK Branch)

www.nab.com.au/corporate

Singapore Branch
12 Marina View
#20-02 Asia Square Tower 2
Singapore 018961

Tel: +65 6419 7000
Fax: +65 6336 0067

www.nab.com.au/corporate

Tokyo Branch
Muromachi Higashi Mitsui Building 18F
2-2-1 Nihonbashi Muromachi
Chuo-ku
Tokyo 103-0022
Japan

Tel: +81 3 3241 8781
Fax: +81 3 3241 8951

www.nab.com.au/corporate

Beijing Branch
Unit 01, 29 - 32, Level 23
China World Office 1
No. 1 Jian Guo Men Wai Avenue
Beijing 100004
China

Tel: +86 10 6535 9800
Fax: +86 10 6505 8836

www.nab.com.au/corporate

Shanghai Branch
Suite 4201 – 4204 42nd Floor, One Lujiazui
68 Middle Yincheng Road
Pudong
Shanghai 200120
China

Tel: +86 21 2089 0288
Fax: +86 21 6100 0531

www.nab.com.au/corporate

Indonesia Representative Office
106E, 6th Floor
Sentral Senayan I
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta Pusat 10270
Indonesia

Tel: +62 21 572 4111
Fax: +62 21 572 4120

www.nab.com.au/corporate

Mumbai Representative Office
No. 64, 6th Floor
3 North Avenue
Maker Maxity
Bandra (East)
Mumbai 400051
India

www.nab.com.au/corporate

Bank of New Zealand
Level 4
80 Queen Street
Auckland 1010
New Zealand

Tel: +64 9 375 1300

www.bnz.co.nz

www.nab.com.au/shareholder

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