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Annual Financial Report 2014

National Australia Bank

National Australia Bank Limited ABN 12 004 044 937
This *2014 Annual Financial Report* (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (the Company) is publicly listed in Australia and overseas. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth) and Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. The Group deregistered from the United States Securities and Exchange Commission (SEC) effective 20 September 2007. Accordingly, the Company is not required to include SEC-related disclosures in the Report for either the current or comparative financial years.

The Company no longer produces a concise report under section 314(2) of the *Corporations Act 2001* (Cth), and instead compiles a non-statutory Annual Review which can be viewed online at nabgroup.com/annualreports.

To view the Report online, visit nabgroup.com/annualreports. Alternatively, to arrange for a copy to be sent to you free of charge, call Shareholder Services 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 the Company 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.

Front cover: Cheryl and Erick Joosten, E&C Joinery, Pakenham, Victoria.

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**The Remuneration Report has been audited*

Report of the Directors

Operating and Financial Review

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended 30 September 2014.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2014 is referred to as 2014 and other financial years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

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

Forward-looking statements

This report contains certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also 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.

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 13 under "Disclosure on Risk Factors".

Rounding of amounts

Pursuant to Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998, the Company has rounded off amounts in this report and the accompanying *Financial report* to the nearest million dollars, except where indicated.

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, funds management, life insurance and custodian, trustee and nominee services.

Significant changes in the state of affairs

On 1 October 2013, the Group implemented a new operating model and structure (announced in March 2013). The Group reports on this basis in 2014.

There are a number of changes to the composition of the Board which have occurred or been announced during the 2014 year, namely:

- Three independent non-executive director appointments: Ms Geraldine McBride, effective March 2014, Mr David Armstrong, effective August 2014 and Mr Peeyush Gupta, effective November 2014;
- Two non-executive director retirements: Mr John Thorn and Mr Geoff Tomlinson, scheduled for December 2014;
- One executive director appointment: Mr Andrew Thorburn, replacing Mr Cameron Clyne as Managing Director and Group Chief Executive Officer, effective August 2014; and
- Two executive director retirements: Mr Mark Joiner, effective January 2014, and Mr Cameron Clyne, effective August 2014.

On 1 August 2014, the Group CEO Mr Andrew Thorburn announced changes to the Executive Leadership Team, taking effect immediately:

- Ms Angela Mentis, appointed to the role of Group Executive Business Banking;
- Mr Antony Cahill, appointed to the role of Group Executive Product and Markets;
- Mr David Gall, appointed to the role of Group Chief Risk Officer; and;
- Mrs Renée Roberts, appointed to the role of Group Executive, Enterprise Services and Transformation.

Ms Michaela Healey, Mr Gavin Slater, Mr Andrew Hagger, Mr Anthony Healy and Mr Craig Drummond continue to be members of the Executive Leadership Team. Information on the current Executive Leadership Team is on the Group's website: http://www.nab.com.au/about-us/our-business/executive-leadership-team.

On 28 July 2014, the Group announced an agreement to sell a £625 million parcel of largely non-performing loans from the UK Commercial Real Estate (CRE) portfolio to an affiliate of Cerberus Global Investors. The sale was a result of a focus on opportunities to accelerate the run-off in the NAB UK CRE portfolio and reduces risk in the non-performing portion of this portfolio.

On 15 October 2014, the Group sold a minority stake (31.8%) in US-based Great Western Bancorp, Inc. through an initial public offering of shares in the US.

The Group's Business

The Group is a financial services organisation with over 42,800 employees, operating more than 1,750 stores and business banking centres, and has more than 529,500 shareholders.

The Group's main operations are based in Australia, with interests in New Zealand, Asia, the United Kingdom and the United States. The Group aims to have fair products and services, fair fees and charges and world-class relationships built on the principles of help, guidance and advice.

In 2014 the Group operated the following divisions:

- *Australian Banking* offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking comprises the Personal and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury;
- *NAB Wealth* provides superannuation, investments and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia;
- *NZ Banking* comprises the Retail, Business, Agribusiness, Corporate and Insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand. It excludes BNZ's Markets operations; and
- *UK Banking* operates under the Clydesdale and Yorkshire Bank brands offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker based channels.
- *NAB UK CRE* portfolio business was created on 5 October 2012 with the transfer of £5.6 billion of commercial real estate loan assets from Clydesdale Bank plc (Clydesdale Bank) to the Company, managed via its London branch.

Report of the Directors

Operating and Financial Review

Strategic Highlights

2014 was a challenging year for the Group. The additional provisioning for UK conduct related matters, combined with capitalised software and Deferred Tax Asset (DTA) provisions was disappointing. However, these issues are being dealt with transparently and appropriately, and the underlying performance of the Group remains strong.

The Group continued to better align the business to the changing economic landscape and customers' evolving needs. It continues to focus on enhancing the core Australian and New Zealand franchise.

At the same time the Group continues to manage its international portfolio for value.

In Australia, the Group has now fully implemented an integrated and simplified operating model that aligns the organisation to the external environment and evolving customer needs. The model features:

- More streamlined customer management divisions focused on managing and growing customer relationships;
- A single product house to effectively coordinate and manage all product offerings and drive innovation;
- A centralised operations, shared services and transformation division to drive greater scale and efficiency, and delivery of business-wide transformation; and
- Centralised support divisions, bringing together Risk, Finance & Strategy, People, Communications and Governance, to remove duplication and promote greater consistency.

Highlights of the Group's progress towards meeting its 2014 strategic priorities are outlined below.

Focus on the core Australian and New Zealand franchise

The Group focused on enhancing the Australian and New Zealand franchise by strengthening its relationship with customers in a number of ways during the year. For example, NAB Connect was upgraded with enhanced functionality to provide better direct relationships with customers. In Business Banking, centralised metro and regional fulfilment centres have been created to support improved customer relationships. While BNZ continues to focus on its mission of 'Being the Bank for New Zealand' by helping New Zealanders be good with money.

The Group introduced 98 wealth advisors across the Australian Banking network, providing professional advice and meeting the needs of banking customers.

The Group also continues to focus on improving cost and efficiency – optimising the core business and providing customers with a better experience. Examples of simplifying and digitalising the business include:

- Rebranding broker originated mortgages from Homeside to NAB to leverage the strength of the Group's main brand and reduce complexity;
- Upgrading the Australian Banking payments infrastructure to enable Intraday Settlement;
- Consolidating a number of product information databases into one, enabling staff to serve customers more quickly, and in turn drastically reducing both the number of branch support calls to customer contact centres and the average length of calls; and
- Rolling out of another two NAB 'Smart Stores'- interactive and intelligent branch formats in which customers can either use the self-service channels on site, or be supported with help, guidance and advice from a NAB staff member.

On the digital front, the Group continues to drive resilience and capacity upgrades across its digital channels to support the rapid uptake of digital services by NAB customers. Mobile internet banking logins have increased by more than one third since 2013.

Manage International Portfolio

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with historical redress issues in relation to Payment Protection Insurance and Interest Rate Hedging products, which negatively affected the results of the Group during the year (see specified items on page 8). Excluding these impacts, the returns in UK Banking improved in line with the economic growth in that region. The NAB UK CRE portfolio is being wound down in an orderly manner, with a $3.2 billion reduction in 2014 that was a function of run-off and the sale of part of the portfolio.

Similarly, the run-down of the Specialised Group Assets (SGA) portfolio continued in 2014, with total assets contracting from $17.4 billion as at September 2009 to $3.3 billion as at September 2014.

On 15 October 2014, the Group sold a minority stake (31.8%) in US-based Great Western Bancorp, Inc. through an initial public offering of shares in the US. The Group plans to sell 100% of Great Western Bancorp, Inc. over time, subject to market conditions.

Invest in people, culture and reputation

Key initiatives and highlights in 2014 included:

- To date, NAB has assisted more than 335,000 people with microfinance products through its partnership with Good Shepherd Microfinance, and has set an ambitious goal to reach one million people by 2018;
- NAB continues to make progress towards its Group gender diversity targets, with women now representing 32% of Group subsidiary board members; and
- NAB has committed to contributing one million employee volunteer hours by 2018. Since 2002, over 922,000 volunteer hours have been contributed by NAB employees to the community.

Maintain focus on risk and compliance

In 2014 the Group continued to embed risk awareness, accountability, management and compliance into all of it's daily business activities. Key highlights in 2014 included:

- Launching Risk Ready, a refreshed mandatory risk management training program for new employees; and
- Commencing the development of a customised 'RiskSmart' system to assist with management of operational risk and compliance. The new system is expected to be deployed across the Group in 2015.

Build balance sheet strength

The Group maintains a strong capital, funding and liquidity position, in line with its ongoing commitment to build balance sheet strength.

The Group's Common Equity Tier 1 (CET1) capital ratio was 8.63% at 30 September 2014, an increase of 20 basis points through the year.

During the year, the Group has accessed a diverse range of wholesale funding across senior and secured debt markets as well as the domestic retail hybrid market.

The Group is well placed to meet Basel III funding and liquidity reforms to be implemented on 1 January 2015.

The Group remains vigilant in its evaluation of the economic and regulatory environment, and continues to ensure the balance sheet remains strong to enable it to respond to changing market and regulatory conditions.

Report of the Directors

Operating and Financial Review

Business Developments

In 2015 the Group will focus on the following core priorities, with the goal of improving shareholder returns:

- Maintain a strong Australian and New Zealand franchise with an emphasis on:
  - Improving customer experience
  - Focusing in Australia on our most attractive customer segments
  - Building a culture of accountability, performance and delivery
- Maintain banking essentials of balance sheet strength, risk and technology; and
- Run-off low returning assets.

Within the core Australian and New Zealand franchise the Group is focused on improving customer experience which includes removing customer pain points, introducing a consistent way of measuring customer experience which is linked to advocacy, and digital enablement. In Australia the Group will invest more in segments where the Group has a competitive advantage and the returns are attractive including home lending customers and SME, including specialised businesses customers. There will also be a drive towards a more accountable and performance driven culture.

At the same time the Group will accelerate the run-off of low returning assets, including in the US and UK. The Group will examine a broader range of options, including those provided by public markets, to accelerate an exit from UK Banking. Consistent with this strategy, on 15 October 2014 the Group sold a 31.8% interest in US-based subsidiary Great Western Bancorp, Inc., and has plans to sell 100% over time, subject to market conditions.

Balance sheet strength, risk and technology remain essential elements of the Group strategy. The Group's technology program continues to progress with key deliverables including origination and fulfilment of personal banking products on the NextGen platform, completing the rollout of a single customer view for business bankers, and extending funds transfer pricing capability to meet Basel III liquidity obligations.

Financial performance summary

The following financial discussion and analysis discloses net profit on both a statutory and cash earnings basis. The statutory basis 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.

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and the Company'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 some items which are included within the statutory net profit attributable to owners of the Company. Many of the adjustments are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflects the performance of the business segment as it is managed.

Cash earnings does not purport to represent the cashflows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards nor audited or reviewed in accordance with Australian Auditing Standards.

A full reconciliation between statutory net profit and cash earnings including a description of each non-cash earnings item are included in *Note 2 'Segment information'* in the *Financial Report.*

Operating and Financial Review

5 Year Financial Performance Summary

	Group				
	2014 $m	2013 [(1)] $m	2012 [(2)] $m	2011 [(2)] $m	2010 [(2)] $m
Net interest income	**13,739**	13,351	13,242	13,034	12,256
Net life insurance income	**542**	479	740	360	813
Other income	**4,967**	4,373	3,733	3,449	3,939
Operating expenses	**(10,438)**	(8,305)	(8,822)	(8,365)	(8,541)
Charge to provide for bad and doubtful debts	**(855)**	(1,810)	(2,734)	(1,750)	(2,791)
Profit before income tax expense	**7,955**	8,088	6,159	6,728	5,676
Income tax expense	**(2,657)**	(2,725)	(2,076)	(1,508)	(1,451)
Net profit	**5,298**	5,363	4,083	5,220	4,225
Non- controlling interest in controlled entities	**(3)**	(8)	(1)	(1)	(1)
Net profit attributable to owners of the Company	**5,295**	5,355	4,082	5,219	4,224

Group performance indicators	Year to				
	Sep-14	Sep-13	Sep-12	Sep-11	Sep-10
Key Indicators					
Statutory earnings per share (cents) - basic	**222.1**	225.9	175.3	233.6	191.8
Statutory earnings per share (cents) - diluted	**218.3**	224.0	174.4	231.5	190.6
Statutory return on equity	**12.1%**	13.0%	10.3%	14.2%	11.8%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**198**	190	180	172	152
Net interest margin	**1.93%**	2.02%	2.10%	2.24%	2.24%
Capital					
Common Equity Tier 1 ratio [(3)]	**8.63%**	8.43%	7.90%	7.58%	6.80%
Tier 1 ratio	**10.81%**	10.35%	9.79%	9.70%	8.91%
Total capital ratio	**12.16%**	11.80%	11.58%	11.26%	11.36%
Risk-weighted assets [(4)] ($bn)	**367.7**	362.1	346.3	341.1	344.7
Volumes ($bn)					
Gross loans and acceptances [(4)] [(5)]	**545.4**	522.1	500.9	482.1	448.0
Average interest earning assets	**711.6**	661.6	630.0	580.6	546.6
Total average assets	**862.0**	802.5	758.4	700.7	666.1
Total deposits [(4)]	**458.6**	428.4	408.4	388.6	343.3
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**1.19%**	1.69%	1.78%	1.77%	1.88%
Collective provision to credit risk-weighted assets	**0.83%**	0.94%	1.00%	1.10%	1.14%
Collective provision including GRCL to credit risk-weighted assets	**1.08%**	1.16%	1.24%	1.41%	1.45%
Specific provision to gross impaired assets	**35.3%**	32.0%	30.3%	24.2%	25.2%
Other					
Funds under management and administration [(6)] ($bn)	**158.1**	145.1	124.7	110.3	116.1
Annual inforce premiums ($m)	**1,690.6**	1,611.4	1,523.5	1,466.3	1,406.7
Full Time Equivalent Employees (FTE) (spot)	**42,853**	42,164	43,336	44,645	45,198
Full Time Equivalent Employees (FTE) (average)	**42,602**	42,783	43,753	45,155	42,294

(1) *2013 year numbers have been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *2012, 2011 and 2010 numbers have not been restated for the impact of adopting new accounting standards, as detailed in Note 1 'Principal accounting policies' on page 81.*

(3) *Basel III Common Equity Tier 1 (CET1) from 2012 (proforma) to 2014, Basel II Core Tier 1 Ratio from 2010 to 2011.*

(4) *Spot balance as at reporting date.*

(5) *Including loans and advances at fair value.*

(6) *Excludes Trustee and Cash Management within NAB Wealth.*

Operating and Financial Review

On a statutory basis, net profit attributable to owners of the Company decreased by $60 million or 1.1% compared to 2013. This result was materially impacted by $1,504 million (detailed on page 8) taken in additional provisions in 2014 relating to legacy UK conduct related matters for payment protection insurance and interest rate hedging products ($1,410 million in 2014, $260 million in 2013), write-downs to the carrying value of software assets ($297 million), an accounting policy change for research and development tax offsets ($68 million increase in tax expense partially offset by a $40 million decrease in operating expense), and a deferred tax asset (DTA) provision for $132 million relating to the Group's US operations. The result also reflects lower charges for bad and doubtful debts, a favourable movement from the elimination of Treasury shares, and favourable movements in fair value and hedge ineffectiveness. These were partially offset by higher expenses.

Net interest income increased by $388 million or 2.9% compared to 2013. Excluding foreign exchange rate movements, net interest income decreased by $23 million or 0.2%. The decrease was largely driven by a lower earnings rate on capital and non-interest bearing deposits combined with the run-off of the UK CRE and SGA portfolios and lower lending margins. These decreases were partially offset by volume growth in housing lending and higher income associated with interest rate risk management activities within the funding and banking book of $144 million (offset in other operating income).

The Group's net interest margin fell 9 basis points from 2.02% in 2013 to 1.93% in 2014 largely as a result of competitive pressure on customer pricing and lower earnings on capital, partially offset by lower funding and deposit costs.

Net life insurance income increased by $63 million or 13.2% driven by increased earnings from growth in average Funds Under Management (FUM) and inforce premiums coupled with lower provisioning from actuarial assumption changes.

Total other income increased by $594 million or 13.6% compared to 2013. Excluding foreign exchange rate movements, total other income increased by $454 million or 10.4%. Excluding the offset of $144 million in net interest income, the underlying increase was due to favourable movements in fair value and hedge ineffectiveness coupled with higher Investment net income from higher average FUM balances in NAB Wealth. These were partially offset by a reduction in the sales of risk management products to the Group's customers and lower trading performance, following a strong performance in 2013.

Total operating expenses increased by $2,133 million or 25.7% compared to 2013. Excluding foreign exchange rate movements, total operating expenses increased by $1,636 million or 19.7%. This mainly reflects additional provisions for UK conduct related matters (detailed on page 8), write-downs to the carrying value of software assets (detailed on page 8), increased costs to support transformational and regulatory projects, and continued investment in the business. This increase was partially offset by restructuring costs in 2013, which did not repeat in 2014.

The charge to provide for bad and doubtful debts decreased by $955 million or 52.8% compared to 2013. Excluding foreign exchange rate movements, the charge to provide for bad and doubtful debts decreased by $983 million or 54.3%. This primarily reflects lower charges in Australian Banking, UK Banking and NAB UK CRE businesses reflecting improvements in asset quality.

Income tax expense decreased by $68 million or 2.5% compared to 2013 largely due to a decrease in profit before tax coupled with a lower income tax attributable to the statutory funds of the life insurance business and their controlled trusts, partially offset by the accounting policy change for tax offsets and the US DTA provision mentioned above (detailed on page 8).

Review of Group and Divisional Results

	Group	
	2014 $m	2013 (5) $m
Australian Banking (1)	**4,947**	4,942
NAB Wealth (2)	**365**	322
NZ Banking	**738**	649
UK Banking	**284**	124
NAB UK Commercial Real Estate	**42**	(375)
Corporate Functions and Other (3) (4)	**(1,012)**	273
Distributions	**(180)**	(188)
Cash earnings	**5,184**	5,747
Non-cash earnings items	**111**	(392)
Net profit attributable to owners of the Company	**5,295**	5,355

There have been the following changes to the presentation of divisional results.

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions & Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Corporate Functions and Others includes the impacts of provisions taken for the UK related payment protection insurance and interest rate hedging products.*

(5) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Group

Cash earnings decreased by $563 million or 9.8% compared to 2013. Excluding foreign exchange rate movements and specified items (detailed on page 8), cash earnings increased by $564 million or 9.5%. This was driven by lower charges for bad and doubtful debts partially offset by lower revenue largely due to lower earnings on capital and non-interest bearing deposits, the run-off of the UK CRE and SGA portfolios, combined with higher expenses to support transformational and regulatory projects and continued investment in the business.

Australian Banking

Cash earnings increased by $5 million or 0.1% in 2014 when compared to 2013, but decreased by $28 million or 0.6% when foreign exchange rate movements are excluded. This decrease was driven by lower net operating income and higher expenses, partially offset by a lower charge for bad and doubtful debts.

NAB Wealth

Cash earnings increased by $43 million or 13.4% compared to 2013. The increase was driven by higher Investments earnings, with strong FUM growth benefiting from positive client net fund flows and strong investment markets. Insurance results also improved over the period.

NZ Banking

Cash earnings increased by $89 million or 13.7% when compared to 2013 and increased $15 million or 2.3% excluding foreign exchange rate movements. This result was driven by improved revenue and reduced charges for bad and doubtful debts, partially offset by higher operating expenses.

UK Banking

Cash earnings increased by $160 million compared to 2013, up $123 million excluding foreign exchange rate movements, due to reduced expenses and lower bad and doubtful debt charges.

NAB UK Commercial Real Estate

The improvement in cash earnings of $417 million was largely due to a lower charge for bad and doubtful debts.

Operating and Financial Review

Corporate Functions

Cash earnings during 2014 decreased by $1,285 million when compared against 2013 due to higher UK conduct charges and write-downs to the carrying value of software assets and several other tax related items (detailed below). Excluding the impact of foreign exchange rate movements and these specified items, cash earnings decreased by $14 million driven by lower income, partially offset by lower expenses and lower charges for bad and doubtful debts.

Specified items

	Group	
	2014 $m	2013 $m
UK Conduct - IRHP	**(654)**	(56)
UK Conduct - PPI	**(756)**	(204)
Capitalised Software	**(297)**	-
R&D tax impact on opex	**40**	-
Operating expenses impact	**(1,667)**	(260)
Tax on Specified Items	**363**	54
NY DTA	**(132)**	-
R&D Tax credits	**(68)**	-
Income tax expense impact	**163**	54
Cash earnings impact	**(1,504)**	(206)

During the year ended 30 September 2014, several specified items had an impact on NAB's cash earnings, all of which have been reported in the Corporate Functions and Other division:

- UK Conduct charges IRHP – Additional provisions of $654 million (£365 million) in relation to customer redress for interest rate hedging products (IRHP) sold in the UK
- UK Conduct charges PPI – Additional provisions of $756 million (£420 million) in relation to customer redress for Payment Protection Insurance (PPI) sold in the UK
- Capitalised Software – Following an annual impairment assessment of capitalised software, an impairment charge of $297 million was taken against individually significant assets, predominantly in NAB Wealth and Australian Banking businesses and other smaller assets in the UK and NZ region. Included within the impairment charge is $106 million for certain assets relating to NextGen, other than the core banking platform assets where no impairment was required
- R&D Tax – As a result of a change in accounting policy for tax offsets, the Group is now recognising research and development (R&D) tax offsets as a reduction to the related software expense or carrying value of software assets. The impact of the changes is a $68 million increase in tax expense, a $40 million decrease in operating expenses, a $40 million reduction in the software assets and a $12 million decrease to the Deferred Tax Liability
- New York DTA – Following an assessment of regulatory changes and business model changes in the USA and their impact on projections of future taxable income, and in turn the recoverability of the DTA held in the New York (NY) branch, a DTA provision of $132 million (US$120 million) has been taken. The tax losses related to the DTA still remain available to the Group for up to 20 years.

Operating and Financial Review

Group Balance Sheet Review

	Group	
	2014 $m	2013 [1] $m
Assets		
Cash and liquid assets	**41,034**	35,666
Due from other banks	**39,088**	43,193
Trading derivatives	**57,389**	39,214
Trading securities	**44,212**	32,996
Investments – available for sale	**43,386**	34,886
Investments – held to maturity	**2,919**	4,758
Investments relating to life insurance business	**85,032**	77,587
Other financial assets at fair value	**84,488**	75,756
Loans and advances	**434,725**	412,301
Due from customers on acceptances	**23,437**	29,319
All other assets	**27,591**	24,194
Total assets	**883,301**	809,870
Liabilities		
Due to other banks	**45,204**	34,623
Trading derivatives	**55,858**	41,749
Other financial liabilities at fair value	**28,973**	26,431
Deposits and other borrowings	**476,208**	445,042
Liability on acceptances	**61**	3,228
Life policy liabilities	**71,701**	64,509
Bonds, notes and subordinated debt	**118,165**	110,717
Other debt issues	**4,686**	2,944
All other liabilities	**34,537**	34,251
Total liabilities	**835,393**	763,494
Total equity	**47,908**	46,376
Total liabilities and equity	**883,301**	809,870

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Total assets increased by $73,431 million or 9.1% in 2014 when compared to 2013. Excluding foreign exchange rate movements, total assets increased $62,171 million or 7.7% compared to 2013.

Excluding foreign exchange rate movements, the increase in total assets was mainly due to an increase in trading derivatives, loans and advances and trading securities, totalling $46,026 million or 9.5%. Growth in trading derivatives and trading securities was predominantly driven by foreign exchange and interest rate movements reflecting market conditions. Loans and advances grew following the continued momentum in housing lending with growth in balances and market share achieved in Australia and the UK. There was also growth in non-housing lending despite a challenging operating environment in the Group's key markets, partially offset by a decline in UK Banking due to subdued demand for credit, together with a focus on managing down commercial property and unsecured personal lending, and the decline in NAB UK CRE and Specialised Group Assets as these businesses are managed down.

Excluding foreign exchange rate movements, marketable debt securities (comprising trading securities, investments – available for sale, and investments – held to maturity) increased by $16,758 million or 23.1% in aggregate, reflecting the Group's continuing desire to maintain balance sheet flexibility and strength. These increases were partially offset by a decline in due from other banks and a decline in due from customer acceptances of $11,751 million or 16.2%.

Total liabilities increased by $71,899 million or 9.4% in 2014 when compared to 2013. Excluding foreign exchange rate movements, total liabilities increased $61,205 million or 8.0% compared to 2013. The increase in total liabilities was mainly due to an increase in deposits and other borrowings of $23,213 million or 5.2% reflecting the Group's continued focus on attracting and retaining sustainable customer deposits as a source of funding to meet business needs and strengthen the balance sheet. In addition, trading derivatives increased by $13,295 million or 31.8%, driven by movements in foreign exchange and interest rates reflecting market conditions. Due to other banks increased by $9,545 million or 27.6% and bonds, notes and subordinated debt increased by $6,457 million or 5.8% as the Group continues to explore opportunities to enhance and diversify its funding sources.

Total equity increased by $1,532 million or 3.3% in 2014 when compared to 2013. Excluding foreign exchange rate movements, total equity increased by $966 million or 2.1% compared to 2013. This increase was primarily due to current year earnings and shares issued through the dividend reinvestment plan, partially offset by a decrease in contributed equity due to the Company exercising its right to call the BNZ Income Securities 2 shares.

Capital Management and Funding Review

Balance Sheet Management Overview

The Group maintains strong capital, funding and liquidity positions in line with its ongoing commitment to building balance sheet strength.

During the second half of the year, the Group has accessed a diverse range of wholesale funding across senior and secured debt markets.

The Group remains vigilant in its evaluation of the economic and regulatory environment, and continues to ensure the balance sheet remains strong to enable it to respond to changing market and regulatory conditions.

Regulatory Reform

APRA finalised its liquidity standard APS 210 during the year which provided certainty in the Group's continued transition towards compliance.

The Group's Basel III liquidity transition strategy is focused on the quality of liquid assets and the stability of the funding that underpins the Liquidity Coverage Ratio (LCR).

The qualitative aspects of this standard came into force on 1 January 2014, while compliance with the LCR is set to commence from 1 January 2015.

The availability of the Reserve Bank of Australia's Committed Liquidity Facility remains central to APRA's liquidity standard.

Other Reform Proposals

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

- On 5 May 2014, the Group announced that it had received notification from APRA regarding the definition of "entities" to be included within the composition of a Level 2 Authorised Deposit-Taking Institution (ADI) group. The change is expected to remove over time the capital benefit that the Company gains from the debt on the National Wealth Management Holdings Limited (NWMH) balance sheet. As of 30 September 2014, NWMH has $1.75 billion of debt outstanding, which is equivalent to 47 basis points of Common Equity Tier 1 (CET1) capital. This is $225 million lower than at 31 March 2014, in line with the APRA approved transition period, which will allow the capital benefit of the majority of the outstanding debt to be progressively reduced through to December 2017;

Operating and Financial Review

- APRA's announcement of Level 3 Conglomerate Supervision requirements, which include a Level 3 prudential capital requirement. Final standards were released by APRA in August 2014 and the implementation date has been deferred, pending the release of recommendations from the Australian Federal Government's Financial System Inquiry (Financial System Inquiry). APRA has confirmed a minimum 12 month transition period will be provided once an implementation date is established, and has stated that quantitative impact analysis suggests that no potential Level 3 Group would be required to raise additional capital as a result of the implementation of the proposed Level 3 framework;
- APRA's consultation earlier this year on revisions to APRA Prudential Standard APS 120 "Securitisation", which is aimed at moving towards a more flexible and principles based securitisation framework in Australia;
- The Basel Committee on Banking Supervision (BCBS) endorsement of the leverage ratio framework and associated disclosure requirements, with migration to Pillar 1 treatment from 1 January 2018. APRA commenced consultation on the implementation of the leverage disclosure requirements, in conjunction with proposed public disclosure for LCR and the Global Systemically Important Banks indicators in September 2014. APRA is proposing compliance with the leverage ratio disclosure requirements from the date of lodgement of the ADI's first financial report, on or after 1 January 2015;
- The Financial System Inquiry which is charged with examining how Australia's financial system could be positioned to support evolving needs and economic growth. Both capital and funding are key considerations of the Inquiry, and recommendations for Government consideration are due to be released in November 2014;
- The enhanced prudential requirements for foreign banking organisations under Title I of the United States *Dodd-Frank Wall Street Reform and Consumer Protection Act 2010* (the 'Dodd-Frank Act'). The final rule is due to take effect in July 2016;
- The UK Government's *Financial Services (Bank Reform) Act 2013* (Banking Reform Act) was approved by the UK Parliament in December 2013. The Act is due to come into force on 1 January 2019. Amongst other requirements, it seeks to protect deposit holders and will affect the structure and the amount of capital held by many UK banks. As Clydesdale Bank is a retail bank, the proposed ring-fencing of retail banking (away from investment banking) is expected to be less onerous than for most large UK banks; and
- The European Union's final rules to implement Basel III were implemented in the UK from 1 January 2014. This implementation affects the Group's UK based businesses, principally Clydesdale Bank. The UK business has noted the changes in capital requirements under the implementation of Basel III and will work with the regulator to ensure it continues to meet capital requirements.

Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. In 2014 the Group held capital in excess of its internal risk-based assessment of required capital, met regulatory requirements and maintained capital consistent with the Group's balance sheet risk appetite. The Group CET1 was 8.63% as at 30 September 2014 and it remains well capitalised.

As announced at the Group's half year results, the Group's CET1 target has been revised to operate between 8.75% and 9.25% from 1 January 2016, based on current regulatory requirements, to reflect the new Domestic Systematically Important Banks (D-SIB) requirement of 1% announced by APRA in December 2013. The Group will continue to regularly review its operating target levels and aims to retain flexibility in executing capital initiatives, so that it is able to support balance sheet strength.

Funding

The Group continued to explore opportunities to enhance and diversify its funding sources.

Funding Indices

The Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. A key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and 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 one year.

The Group's funding indices have increased over the September 2014 year. With the Group CFI improving from 69.4% to 70.4% while the Group SFI increased from 89.2% to 90.4%. The SFI was supported by strong deposit growth in the Australian region, coupled with subdued credit growth. In addition, a weaker Australian dollar has raised the value of term wholesale funding in Australian dollar terms.

Customer Funding

The Group continued to grow deposits over the September 2014 year with an emphasis on funds with stable characteristics to support the transition to Basel III, whilst also taking into account current market conditions and funding requirements.

The Monthly Banking Statistics published by APRA show that for the 12 months ended August 2014:

- Australian domestic household deposits have grown by 10.8% (1.2x system growth);
- Business deposits (excluding deposits from financial corporations and households) have grown by 3.3% (0.5x system growth); and
- Financial corporation deposits have grown by 13.9% (1.5x system growth), noting financial corporation deposits include custodial, self-managed super funds and operational accounts which are a source of more stable deposits under the Basel III liquidity standard.

Term Wholesale Funding

Global funding conditions have been supportive of term issuance during the September 2014 year. Whilst conditions are reasonably stable, markets remain sensitive to ongoing macroeconomic, geopolitical and financial risks.

The Group maintained a well-diversified funding profile and raised $28,212 million in the September 2014 year.

The Company raised $24,879 million, including $18,943 million senior unsecured and $5,936 million of secured funding (comprising both covered bonds and residential mortgage backed securities (RMBS)) during the September 2014 year. In terms of subsidiaries, Bank of New Zealand raised $2,016 million, Clydesdale Bank raised $1,097 million and National Wealth Management Holdings Limited raised $220 million during the September 2014 year.

Operating and Financial Review

The weighted average maturity of term wholesale funding raised by the Group over the September 2014 year was approximately 5.1 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3 years (4.0 years for TFI qualifying debt, which only includes debt with more than 12 months remaining term to maturity). For the Company, the weighted average maturity of term wholesale funding raised over the September 2014 year was approximately 5.1 years to the first call date, compared to 4.9 years for the September 2013 financial year. Term wholesale funding raised in foreign currency is swapped to Australian dollar terms at the time of issuance. The average cost of term wholesale funding raised by the Company (including the cost of swapping back to Australian dollars and fees) during the September 2014 year was approximately 83 basis points over Bank Bill Swap Rate (BBSW), compared to an average cost of 95 basis points over BBSW in the September 2013 financial year. The average cost of the Company's outstanding term funding portfolio for the September 2014 year was 138 basis points over BBSW, compared to 145 basis points over BBSW for the previous financial year.

Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets over the September 2014 year. The focus for the Group has been on maintaining the weighted average issuance maturity of short-term wholesale funding to approximately 180 days to support the Group's liquidity position.

In addition, repurchase agreements entered into are materially offset by reverse repurchase agreements with similar maturity profiles as part of normal trading activities.

Liquid Asset Portfolio

The Group maintains well diversified and high quality liquid asset portfolios to support regulatory and internal requirements in the various countries in which it operates. Total liquid assets held at 30 September 2014 were $117,279 million (market value) excluding contingent liquidity, an increase of $10,502 million from 30 September 2013.

Holdings of liquid assets continue to support requirements for forthcoming regulatory changes. In particular, the Group held $104,126 million of regulatory liquid assets (including both HQLA and Committed Liquidity Facility eligible assets) as at end of September 2014.

In addition to these liquid assets, the Group holds internal securitisation pools of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity. Internal RMBS held at 30 September 2014 was $34,418 million.

Credit Ratings

The Group monitors rating agency developments closely and regularly communicates with them. Entities in the Group are rated by Standard and Poor's (S&P), Moody's Investor Service (Moody's) and Fitch Ratings (Fitch).

The Group's current long-term debt ratings are: National Australia Bank Limited AA-/Aa2/AA- (S&P/Moody's/Fitch); BNZ AA-/Aa3/AA-; Clydesdale Bank BBB+/Baa2/A; and National Wealth Management Holdings Limited A+ (S&P).

In May 2014, S&P changed the outlook of Clydesdale Bank from negative to stable and on August 8 it affirmed its 'BBB+/A-2' credit rating.

On 30 September 2014, S&P revised its credit ratings assessment criteria for hybrid instruments. Hybrid capital instruments issued by the Company prior to 1 January 2013 (Basel II instruments) are now rated BBB (previously BBB+) and hybrid capital instruments issued by the Company after 1 January 2013 (Basel III instruments) are now rated BBB- (previously BBB). The Company's Issuer Credit Rating remains AA- with a stable outlook. The Company's senior unsecured ratings and subordinated debt ratings are unchanged.

Dividends

The directors have declared a final dividend of 99 cents per fully paid ordinary share, 100% franked, payable on 16 December 2014. The Group will offer a Dividend Reinvestment Plan (DRP) at a 1.5% discount with no participation limit. The Group has entered into an agreement to have the DRP on the final dividend partially underwritten to an amount of $800 million over and above the participation in the DRP. The proposed payment amounts to approximately $2,342 million.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended 30 September 2013 of 97 cents per fully paid ordinary share, 100% franked, paid on 18 December 2013. The payment amount was $2,279 million; and
- The interim dividend for the year ended 30 September 2014 of 99 cents per fully paid ordinary share, 100% franked, paid on 8 July 2014. The payment amount was $2,330 million.

Information on the dividends paid and declared to date is contained in *Note 7 'Dividends and distributions'* in the *Financial Report*. 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%. Please note New Zealand imputation credits have also been attached to the dividend at a rate of NZ $0.10 per share.

The extent to which future dividends will be franked, for Australian taxation purposes, will depend on a number of factors, including the proportion of the Group's profits that will be subject to Australian income tax and any future changes to Australia's business tax system.

Review of, and Outlook for, Group Operating Environment

Global Business Environment

The performance of the global economy has been disappointing with 2014 likely to be another year of output expansion that is below trend and large variations between economies and regions. The pace of global economic growth picked up from 2.5% in early 2013 to 3.5% by the end of the calendar year, as a long-awaited upturn spread through the major advanced economies and there were hopes that global expansion could be consolidated at between 3.5% and 4%.

Weather-related setbacks to the US economy in early 2014 and June quarter weakness in Japan and the Euro-zone resulted in a loss of momentum in the major advanced economies, cutting their growth from 2.25% in late 2013 to 1.75% in mid-2014. This advanced economy slowdown was a major factor taking global growth back under 3% by mid-2014. Western Europe and Japan have been the main areas of weakness among the advanced economies, with mid-2014 output in the Euro-zone and Japan remaining below its early 2008 level, while UK GDP has risen only marginally above its pre-recession peak. The recovery from recession has been strongest in North America as output in the US and Canada has risen to well above its early 2008 level.

While advanced economies still account for around half of global output, the emerging market economies have been the main drivers of global growth in recent years, contributing over two-thirds of the increase in global output. The pace of emerging market economy growth has also slowed, from 6% in mid-2013 to 5.25% in mid-2014, reflecting the downward trend in Chinese output expansion along with weak results from other East Asian economies, India and Latin America.

Report of the Directors

Operating and Financial Review

Global growth looks likely to remain around 3% this year, before rising to a near trend 3.5% in the following two years. The below-trend growth experienced between 2012 and 2014 has had important consequences for key elements of the business environment in Group markets. By limiting the rate at which commodity demand expands, the below trend growth has resulted in lower global commodity prices. By contributing to the maintenance of higher unemployment and more idle capacity, it has eroded the pricing power of both firms and employees. This has ensured that inflation remains low and kept global interest rates low by historical standards.

Australian Economy

Although Australian economic growth is running at around trend, there are disparate conditions between regions and industries. The commodity boom that underpinned a large share of output expansion in recent years is moving from its labour-intensive investment phase to a period where export volumes come on stream from this increased mineral and energy producing capacity.

As a result, increased volumes of resource exports account for a large proportion of the 3% to 3.25% growth in GDP expected between 2014 and 2016. One consequence of the growth concentration on mining is that the rest of the economy is growing well below its long-term rate. Domestic demand is predicted to rise by 1.5% this year, slowing further to 1.25% in 2015 and 1% in 2016. Consequently large parts of the Australian economy will continue to face a low growth environment.

As mining investment scales back, resulting in large scale job losses and the prospect of a severe slowdown in aggregate business capital spending, the authorities' strategy is to stimulate investment elsewhere by keeping interest rates low by historical standards. So far, the investment response by non-mining business has been lacklustre. Investment spending volumes have risen slightly but a combination of the outlook for sluggish demand growth, along with idle capacity and an absence of profit growth in recent years, has made non-mining businesses take a cautious approach to investing and hiring.

Surveys show the prevailing mood in the household sector is also one of caution, with concern over job security, living costs and prospective retirement incomes weighing on sentiment. This has led to higher savings rates than seen before the global financial crisis, much slower growth in household credit and a focus on consumer essentials at the expense of discretionary items in household spending. The gloom should not be overdone, however, as higher house and equity prices have allowed the household sector to rebuild its balance sheet strength, low interest rates assist in debt servicing and although the jobless rate is rising, it is only rising gradually and should peak at around 6.5%, below the 7.3% advanced economy average.

The central bank's low policy interest rates do appear to be delivering their intended stimulus to crucial interest-sensitive parts of the economy. Although the main policy aim is to boost dwelling construction rather than house prices, the latter have risen by over 15% since mid-2012, boosting wealth. Dwelling approvals have also picked up considerably over the same period and the volume of construction activity started rising in early 2014. Retail sales of discretionary durable goods linked to housing also strengthened markedly in early 2014, but the pace of growth has softened since the middle of the year.

Australian commodity export prices have fallen by over one-third in world currency terms from their mid-2011 peak, which is expected to put downward pressure on the Australian dollar. Low interest rates are boosting demand and Australian dollar depreciation will increasingly provide a stimulus to traded goods industries such as tourism, which should help offset some of the income losses stemming from weaker commodity prices.

International competitiveness in recent years has been poor by historical standards, putting pressure on sectors like manufacturing and resulting in a series of factory closures. The depreciation of the A$ has delivered an improvement of around 10% in Australian industry competitiveness since early 2013, but competitiveness is still around 20% worse than its 45 year trend level. The US$ has been appreciating, reflecting the solid growth outlook of the US economy and an anticipated rise in its interest rates. Currency experts are expecting this trend to continue and to drive market sentiment away from currently higher yielding currencies like the Australian and New Zealand dollars.

New Zealand Economy

Economic growth in New Zealand is expected to reach a solid 3.8% this year, well above estimates of its long-run potential. The margin of spare capacity in the economy is eroding rapidly. Although a combination of sharply falling export prices in the key dairy industry and the impact of policy tightening on the housing market is now clearly slowing the pace of expansion, recent business and consumer surveys readings are still consistent with an above-trend pace of expansion and growth which should still reach 3.4% next year.

Although unemployment and spare capacity are falling, there is remarkably little inflation of either wages or prices, allowing the New Zealand central bank to take a gradual and measured approach in lifting its policy interest rate back to a more normal "neutral" level. The previously high local currency served to lower inflation along with the continuing positive impact of high investment and population growth on the economy's supply capacity. However, following New Zealand central bank announcements that it was over-valued, the New Zealand dollar has weakened against a background of falling commodity prices.

The slide in dairy prices looks likely to take back a large part of the $5 billion extra income that exceptionally high dairy prices previously injected into the economy. However prices for other important export commodities are faring better and the forecast rise in meat farm incomes should offset some of the predicted decline in dairy farm returns. Even though commodity prices are trending down, by historical standards New Zealand's terms of trade should remain high through the next few years.

After a long period of stagnation in the wake of the 2008 global financial crisis, domestic demand has been growing quite strongly through the last few years and national spending should grow by over 4% this calendar year, reflecting broad-based momentum across large parts of the economy. Retail spending has been growing at an annualised rate of almost 4% through the first half of 2014, household demand for unsecured credit has been rising and business investment has been growing rapidly. A combination of rebuilding of earthquake damaged buildings in Christchurch and an immigration-related upturn in the housing market in Auckland has underpinned strong housing investment.

Higher policy interest rates and restrictions on high loan to value mortgage lending are, however, already having an effect on the housing market. The rate of house price inflation has slowed, the volume of sales has dropped considerably, properties are no longer selling as quickly, the trend value and volume of housing loan approvals is declining and the growth in household credit has slowed.

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After a long period of de-leveraging between 2008 and 2011, New Zealand businesses started borrowing again as the economy picked up. This growth in business credit has, however, remained modest in comparison with pre-2008 experience. Even though business has been investing, capacity pressures are re-appearing and the business surveys show favourable readings on profits, business credit growth has struggled to get above 4% in the last few years. Thus, even in the Group's strongest market, the appetite for new borrowing in the business sector is far from strong and is not expected to improve much next year.

United Kingdom Economy

In the first half of 2013, the UK economy commenced a sustained and long awaited recovery from the severe 2008/9 recession and this upturn has gathered momentum through the subsequent period of almost two years, with the annualised pace of growth reaching 3.2% in the first three-quarters of 2014. In the September quarter of 2014, output was less than 3.5% above its early 2008 level, marking a six year period of minimal economic growth and the worst UK output performance for at least 90 years. The UK economic upturn looks set to continue with growth of around 3% in calendar 2014 and 2.5% in 2015.

The nature of this economic upturn has not followed the pattern initially expected by the government. The Euro-zone crisis has led to prolonged weakness in the UK's major export markets and a sluggish UK export performance. This impeded the anticipated rebalancing of UK growth from its previous reliance on consumer spending and housing toward a greater role for exports and business investment. While exports have remained soft, business investment was growing by around 11% in mid-2014, as the mood of risk aversion, caution and retrenchment that had been prevalent in business since 2008 began to improve. Business borrowing has, however, remained modest, with continued declines in the stock of lending to SMEs and only the first signs of resumption in corporate borrowing appearing in mid-2014.

Consumer spending and house price inflation, which had been expected to take a back seat in the UK's recovery from recession, have played a central role in driving growth. Consumer spending has been increasing, despite the fact that nominal wage growth has been modest, real wages have trended down and household incomes have fallen. Rising employment, a recovery in household wealth stemming from higher house and equity prices, and a lower household saving ratio have underpinned the rise in household spending. The volume of retail spending has risen by around 4% through the first half of 2014. Commercial property and house prices are both rising but the upturn in the housing market is not as strong as it was earlier in the year.

There are generally differences between UK regions in terms of their growth through the economic cycle. This recovery appears to be firmly established across the Group's key markets in Northern England and Scotland. Employment levels are growing and house prices rising in Yorkshire, and local business surveys show firms are optimistic about recent trends. In Scotland, first half 2014 GDP figures showed 1% quarterly growth, exceeding the UK average, while employment has also been growing and recent housing market surveys show Scotland has some of the best readings of house price growth and sales expectations. Other indicators of the Scottish economy show rising local demand, with 3% annual growth in retail sales volumes in mid-2014 and first quarter 2014 annual growth of 2.4% in manufactured export volumes.

With the economic upturn looking securely established and interest rates still at historically low levels, the Bank of England is considering when to start lifting its policy interest rates to more normal levels, how aggressive a tightening profile to set for monetary policy and where rates might end up, once the process of interest rate normalisation is completed. The UK central bank's current thinking is that low wage and price inflation mean there is no need to lift rates urgently or aggressively. Consequently, UK rates should rise gradually to a level that falls short of what was considered neutral prior to the onset of the financial crisis and recession.

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 as outlined above.

Disclosure on Risk Factors

Set out below are the principal risks and uncertainties associated with the Group. These risks and uncertainties are not listed in order of significance and in the event that one or more of these risks occur, the Group's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or become material. These may individually or in aggregate adversely impact the Group's future financial performance and position. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally not predictable and are often beyond the Group's direct control.

The Group may be adversely impacted by macroeconomic risks and financial market conditions.

The Group conducts business across a range of jurisdictions including Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of the Group are dependent on the level of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macroeconomic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors such as economic growth rates, cost and availability of capital, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Volatility or uncertainty in credit, currency and equity markets, and adverse economic conditions have led to, and in the future may lead to:

- Increased cost of funding or lack of available funding;
- Deterioration in the value and liquidity of assets (including collateral);
- Inability to price certain assets;
- Increased likelihood of counterparty default and credit losses (including the purchase and sale of protection as part of hedging strategies);
- Higher provisions for bad and doubtful debts;
- Mark to market losses in equity and trading positions;
- Lack of available or suitable derivative instruments for hedging purposes;
- Lower growth, business revenues and earnings. In particular, the Group's NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group; and

Operating and Financial Review

- Increased cost of insurance or lack of available or suitable insurance.

The following are examples of certain macroeconomic and financial market conditions that are currently relevant to the Group and may adversely impact its financial performance and position:

- There is widespread market expectation that central banks may tighten their monetary policy to lift interest rates back to levels that appear more 'neutral' and nearer to historical norms and reduce quantitative easing. A prolonged period of low interest rates carries the risk that market participants have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier and more rapid than expected tightening in monetary policy. In the past, periods of tightening monetary policy in the United States have been associated with greater volatility in the volume and pricing of capital flows into emerging market economies. Several emerging market economies, as well as the economies of Australia and New Zealand, remain vulnerable to a sudden or marked change in United States interest rates.
- The economies of Australia and New Zealand are increasingly integrated with those of East Asia and there is a notable exposure in both of these economies to changes in the pace of economic growth in China. The outlook for the Chinese economy is uncertain as the government is trying to re-balance the composition of growth toward a greater contribution from domestic consumption, with less reliance on export-driven foreign consumption and internal investment.
- As the United Kingdom economy has close trade links with other Western European nations, developments in the Eurozone influence the level of demand for United Kingdom goods and services. Governments in the Eurozone are heavily indebted and uncertainty remains over the financial strength of the banking sector. Unemployment also remains exceptionally high in several Eurozone nations.
- Outside of the Eurozone, increases in the level of sovereign debt in a number of countries have generally been reflected in a downgrading in the rating of their external liabilities by the various rating agencies. Both the gross level of Japanese sovereign debt and its ratio to gross domestic product have received particular attention, and the importance of low interest rates for the sustainable funding of that debt has also been widely recognised. Chinese growth has been reliant on rapid credit growth and the resulting build-up of sovereign debt, particularly through local government financing vehicles and across the shadow banking sector, has raised concern.

The Group is subject to extensive regulation. Regulatory changes may adversely impact the Group's operations, financial performance and position.

The Group is highly regulated in Australia and in the other jurisdictions in which it operates, trades or raises funds. The Group is subject to supervision by a number of regulatory authorities and industry codes of practice, which may have broad implications across the Group's businesses.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation 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 compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

Examples of current and potential regulatory changes impacting the Group are set out below:

- The BCBS's Basel III reforms are expected to be fully implemented by 2019 and are intended to strengthen the resilience of the banking sector. Implementation of these reforms will increase the quality and ratio of capital to risk weighted assets that the Group is required to maintain, will increase the quality and proportion of assets that the Group is required to hold as liquid assets, and is also expected to increase compliance costs. In Australia, APRA's revised capital requirements became effective from 1 January 2013, with additional requirements to take effect in future years as capital buffers and the leverage ratio are implemented. Revised liquidity requirements in Australia are taking effect progressively, with qualitative requirements having commenced on 1 January 2014. New liquidity coverage ratio and net stable funding ratio requirements are due to take effect from 1 January 2015 and 1 January 2018 respectively. These reforms will require the Group to hold more liquid assets and reshape the balance sheet, both in terms of how the Group is funded and how it utilises those funds. Other regulators have also implemented or are in the process of implementing Basel III and equivalent reforms. The BCBS is also expected to finalise revised securitisation and trading book capital requirements in the coming years.
- The Group has been identified as a D-SIB under APRA's framework for D-SIBs and is therefore subject to a one per cent higher loss absorbency requirement, effective from January 2016. In addition, APRA clarified during the year the definition of entities to be included in the composition of a Level 2 Authorised Deposit-taking Institution, which is expected to remove over time the capital benefit the Group gains from debt on the National Wealth Management Holdings Limited balance sheet. APRA has also now released final prudential standards associated with its framework for the supervision of conglomerate groups, including the Group. However, the implementation of the prudential standards relating to conglomerates has been deferred until the recommendations and response to the Australian Government's Financial System Inquiry is known.
- The United States Dodd-Frank Act imposes additional supervisory requirements and prudential standards on non-United States banking organisations, and their affiliates, with a United States banking presence and total global consolidated assets of at least US$50 billion (which includes the Company). The legislation and its implementing regulations include, among other things, additional liquidity and risk management requirements, and periodic capital stress testing. The Dodd-Frank Act also contains the Volcker Rule, which prohibits proprietary trading and the sponsorship of, and investment in, hedge, private equity or other similar funds by certain foreign banking organisations like the Company. Certain requirements under the Dodd-Frank Act have yet to become effective, and their specific impact on the Group's businesses and in the markets in which it operates continues to be assessed as part of implementation of the requirements.

Operating and Financial Review

- Over The Counter (OTC) derivative market reforms are being implemented in the United States through the Dodd-Frank Act, and in other countries including Australia and in Europe. During 2013, ASIC released rules and relevant regulatory guides for the licensing of derivative trade repositories. Derivative transaction reporting requirements for the Company in Australia commenced in October 2013. The reporting obligations are being phased in for various classes of entity. In early 2014, the Australian Government commenced a consultation on a central clearing mandate. The clearing mandate is not anticipated to come into force before early 2015. Australia has also committed to reforms to provide for centralised execution of standardised OTC derivatives on exchanges or electronic platforms. In Europe, the European Market Infrastructure Regulation (EMIR) has introduced new requirements to improve transparency and reduce the risks associated with the derivatives market, which are being progressively implemented. There is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, which adds to the cost and complexity of achieving regulatory compliance for the Group.
- Legislation (referred to as FATCA) was passed in the United States in March 2010, which will require certain foreign financial institutions to provide information regarding United States account holders to the United States tax authorities. Non-compliance with FATCA may subject a foreign financial institution to a 30% withholding tax applied on certain amounts derived from United States sources and certain payments attributable to such amounts. On 28 April 2014, the Australian Government entered into an intergovernmental agreement with the government of the United States in respect of FATCA, and has since enacted implementing legislation to give effect to the agreement. The governments of some other countries in which the Group operates have entered into or are considering entering into intergovernmental agreements with the government of the United States, and have enacted or are considering enacting law in respect of FATCA. Under such agreements, foreign financial institutions in such jurisdictions will generally be exempt from withholding under FATCA if they comply with requirements imposed by the relevant jurisdictions. As the full scope of the new legislative requirements is currently unclear, it is difficult to determine the compliance costs and potential impact on the Group's financial performance and position.
- The United Kingdom Banking Reform Act received Royal Assent on 18 December 2013 and has wide ranging implications, substantially enacting the recommendations of the Independent Commission on Banking. A key inclusion in the Banking Reform Act gives effect to structural reforms aimed at 'ring-fencing' retail banks of a certain size from investment and wholesale banking operations, and capitalising each separately. Retail ring-fencing must be implemented by 1 January 2019. Other key requirements include imposing higher standards of conduct on the banking industry, depositor preference in the event a bank enters insolvency, and introducing more onerous minimum capital and capital buffers based on the size of the banking entity. These requirements may impact the structure and operation of the Group's United Kingdom business.
- The Australian Government's Financial System Inquiry is currently underway. It is charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The Financial System Inquiry has released an interim report containing a number of observations and potential policy options, but has not made any recommendations for policy changes at this stage. The Financial System Inquiry's final report is expected to be released in November 2014. The Australian Government is also undertaking a Review of Competition Policy to ensure there is an effective competition framework that promotes a strong and innovative business sector and better outcomes for consumers across the Australian economy. The implementation of any recommendations from these reviews will ultimately be a decision for the Australian Government and its agencies.
- In addition to the aformentioned changes, other areas of ongoing regulatory change include additional prudential and conduct reforms, changes to accounting and reporting requirements, tax legislation, anti-money laundering / counter-terrorism financing regulations, payments, privacy laws and increased supervisory expectations around data quality and controls.

The full effect of these current and potential regulatory reforms on the Group's operations, business and prospects, or how any of the proposals discussed above will be implemented (if at all in some cases) is not known. Depending on the specific nature of any requirements and how they are enforced, they may have an adverse impact on the Group's operations, structure, compliance costs or capital requirements and ultimately its financial performance and position.

The Group faces intense competition, which may adversely impact its financial performance and position.

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 non-bank competitors with lower cost operating models. Increasing competition for customers can lead to compression in profit margins, increased advertising and other related expenses, decreased customer loyalty or loss of market share. As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by the Group to introduce new products or services to keep pace with industry developments and meet customer expectations. The Group's financial performance and position may be adversely affected by competitive market conditions and industry trends.

Risks specific to the Group

There are a number of risks which arise directly from the operations of the Group as a major participant in the banking and financial services industry and from the specific structure of the Group. The Group's financial performance and position have been, and in the future may continue to be, impacted by these risks.

The Group's business model and portfolio mix create a different risk profile compared to its Australian-based banking peers in a number of ways, including its higher proportion of business lending, a higher exposure to commercial real estate and the location of banking subsidiaries in the United Kingdom and United States.

The risks specific to the Group are set out below.

The Group is exposed to credit risk, which may adversely impact its financial performance and position.

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Lending activities account for most of the Group's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans, as well as the extension of commitments and guarantees and the settlement of transactions.

The Group's portfolio of credit risk is large and diverse. Major sub-segments within the Group's lending portfolio include:

- Residential housing loans, which at 30 September 2014 represented approximately 57% of gross loans and acceptances.

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- Commercial real estate loans, which at 30 September 2014 represented approximately 10.8% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's United Kingdom commercial real estate loan run-off portfolio continues to be managed separately from the rest of the Group's banking activities in the United Kingdom.
- The Group's United Kingdom banking business (excluding the United Kingdom's commercial real estate loan run-off portfolio), represented approximately 9% of gross loans and acceptances at 30 September 2014.

Adverse business or economic conditions, including deterioration in property valuations, employment markets or the political environment, may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. This may adversely impact the financial performance and position of the Group.

The Group may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years. This applies to interest only loans, which are a material component of the Australian and United Kingdom portfolios.

The continued high Australian and New Zealand Dollars (relative to their historical trading levels) place ongoing pressure on customers with businesses exposed to currency movements, including Australian and New Zealand based tourism, manufacturing, retail, wholesale and agriculture businesses. With a slowdown in mining investment and a fall in commodity prices in Australia, a number of sectors servicing the mining industry, as well as the mining industry itself, have also come under pressure.

The Group's relatively high business lending market share in Australia and New Zealand exposes the Group to potential losses should adverse conditions be experienced across this sector. Similarly, the Group has a large market share in the Australian and New Zealand agricultural sector (particularly, in New Zealand, the dairy sector). As a consequence, volatility in commodity prices, climatic events, disease, and other risks that may impact this sector, may have an adverse impact on the Group's financial results.

The Group provides for losses incurred in relation to loans, advances and other assets. Estimating losses incurred 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 information or the assumptions upon which assessments are made proves to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

See *Note 41 'Financial risk management'* in the *Financial Report* for discussion of how the Group manages credit risk.

The Group may suffer losses due to its exposure to operational risks.

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

Operational risks are a core component of doing business as they arise from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from operational risk events may adversely impact the Group's financial performance and position.

Examples of operational risk events include:

- Fraudulent acts by employees, contractors and external parties seeking to misappropriate funds or gain unauthorised access to customer data;
- Systems, technology and infrastructure failures, or cyber incidents, including denial of service and malicious software attacks;
- Process errors or failures arising from human error or inadequate design of processes or controls;
- Operational failures by third parties (including off-shored and outsourced service providers);
- Weaknesses in employment practices, including those with respect to diversity, discrimination and workplace health and safety;
- Deficiencies in product design or maintenance; and
- Business disruption and property damage arising from external events such as natural disasters, biological hazards or acts of terrorism.

In addition, the Group is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of any 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 strategic objectives.

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

The Group may be exposed to risk from non-compliance with laws or standards which may adversely impact its reputation, financial performance and position.

The Group is exposed to compliance risk arising from failure or inability to comply with laws, regulations, licence conditions, standards and codes applicable to the Group, and related internal policies. If the Group's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, or enforced suspension of operations or loss of licence to operate all or part of the Group's businesses. This may adversely impact the Group's reputation, corporate structure, financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations.

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Risk may arise through inappropriate conduct by employees in breach of Group policy and evolving regulatory standards, such as selling or coercing customers into inappropriate products and services, conducting inappropriate market practices and non-adherence to fiduciary requirements. In particular, and in common with the wider United Kingdom retail banking sector, Clydesdale Bank continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance, the sale of certain historic interest rate hedging products to small and medium businesses and other conduct-related matters. Since 1 April 2013, Clydesdale Bank has been regulated by the FCA and the PRA. Proactive regulation of conduct related matters by the FCA may impact the manner in which the Group's United Kingdom operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. For further details in relation to ongoing United Kingdom conduct matters that are material to the Group, refer to *Note 40 'Contingent liabilities and credit commitments'* in the *Financial Report*.

Provisions held in respect of conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of subjective judgement based on, where appropriate, external professional advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. These factors mean that the eventual costs of conduct and compliance related matters may differ materially from those estimated and further provisions may be required, adversely impacting the financial performance and position of the Group.

Disruption of technology systems or breaches of data security may adversely impact the Group's operations, reputation and financial position.

Most of the day-to-day operations of the Group are computer-based, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to its business. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other form of cyber-attack. These events may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, reputation damage and litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact the Group's financial performance and position.

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 new challenges in these areas.

The Group processes, stores and transmits large amounts of personal and confidential information through its computer systems and networks. The Group invests significant resources in protecting the confidentiality and integrity of this information. However, threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated. The Group may not be able to anticipate a security threat, or be able to implement effective measures to prevent or minimise the resulting damage. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft of customer data, or breach of applicable privacy laws, all of which may adversely impact the Group's reputation, financial performance and position.

As with other business activities, the Group uses select external providers (both in Australia and overseas) to continue to develop and provide its technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, including, for example, the appropriate management and control of confidential data. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers may adversely impact the Group's reputation, financial performance and position.

Transformation and change programs across the Group may not deliver some or all of their anticipated benefits.

In 2013, the Group implemented a new operating model and structure within Australia which aligns the organisation to the external environment and evolving customer needs. The Group is continuing to progress its enterprise-wide technology and infrastructure transformation and the upgrade of its core banking platform. These initiatives aim to reduce operational complexity and operational risk however, due to the scale and complexity of these projects, the Group's risk profile has increased in the near future. Changes of this magnitude require the Group to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, as changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of the Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

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

The 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. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the valuation of provisions, including conduct related matters, the valuation of goodwill and intangible assets, and the fair value of financial instruments.

If the judgements, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect there could be a significant loss to the Group beyond that anticipated or provided for, which could have an adverse effect on the Group's reputation, results of operations, financial condition or prospects.

Litigation and contingent liabilities arising from the Group's business conduct may adversely impact its reputation, financial performance and position.

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 in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's reputation, financial performance and position.

Refer to *Note 40 'Contingent liabilities and credit commitments'* in the *Financial Report* for details in relation to the Group's material legal proceedings and contingent liabilities.

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Insufficient capital may adversely impact the Group's operations, financial performance and position.

Capital risk is the risk that the Group does not have sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed, or protect against unexpected losses. The Group is required in all jurisdictions in which it undertakes regulated activities to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations. Any changes, including regulatory changes arising from the Basel capital adequacy reforms, may limit the Group's ability to manage capital across the entities within the Group or may require it to raise or use more, or higher quality, capital. Such changes may adversely impact the Group's operations, financial performance and position.

The Group's funding and liquidity position may be adversely impacted by dislocation in global capital markets.

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 Australian banking sector accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets, or a reduction in investor appetite for holding the Group's securities, may adversely affect the Group's ability to access funds or require the Group to access funds at a higher cost or on unfavourable terms.

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 borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes.

Any significant deterioration in the Group's liquidity position may lead to an increase in the cost of the Group's borrowings or constrain the volume of new lending. This may adversely impact the Group's profitability, financial performance and position.

A significant downgrade in the Group's credit ratings may adversely impact its borrowing costs, market access and competitive position.

Credit ratings are an important reference for market participants in evaluating the Group and its products, services and securities.

Credit rating agencies conduct ongoing review activity which can result in changes to credit rating settings and outlooks for the Group or for sovereign governments in countries in which the Group conducts business. Review activity is based on a number of factors including the Group's financial strength and outlook, the assumed level of government support for the Group in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies. For example, in October 2014 Standard and Poor's Rating Services revised its credit rating assessment criteria for hybrid instruments issued by banks across the Asia-Pacific region (excluding Japan), which led to a one notch downgrade of NAB's Tier 1 hybrid instruments.

A downgrade in the credit ratings within the Group or of the Group's securities, or a downgrade in the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's borrowing costs or limit its access to the capital markets. A downgrade may also trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers could also adversely impact the Group's competitive position.

Changes in interest rates may impact the Group's financial performance and position.

Interest rate risk is the risk to the Group's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, such exposure commonly arises from the mismatch between the maturity profile of a bank's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short and long-term interest rates may change in a way that the Group has not correctly anticipated, and this may have an adverse impact on the Group's financial performance and position.

The Group's exposure to defined benefit pension fund risk may adversely impact its financial performance and position.

Defined benefit pension fund risk is the risk that, at any point in time, a pension scheme is in deficit, meaning that the assets available to the scheme are at a value below its current and future pension obligations. Changes in the level of pension deficit also result in volatility for the Group's regulatory capital position, as the deficit amount results in a direct deduction from the Group's Common Equity Tier 1 Capital.

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members from 1 January 2004. Refer to *Note 32 'Defined benefit superannuation plan assets and liabilities'* in the *Financial Report* for the current position in relation to this scheme at 30 September 2014.

Asset values and liabilities are affected by a number of factors, including the discount rate used to calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality and morbidity rates) and the value of the investment portfolio.

A deficit may increase the amount that members of the Group are obliged to contribute to the scheme and adversely impact the Group's performance and position.

The Group is exposed to foreign exchange and translation risk, which may adversely impact its financial performance and position.

Foreign exchange and translation risk arises from the impact of currency movements on the value of the Group's cash flows, profit and loss, and assets and liabilities as a result of participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in different currencies, most frequently Australian, New Zealand and United States Dollars, British Pounds and Euros. The Group's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group's financial statements are prepared and presented in Australian Dollars, and any 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.

A material reduction in the fair value of an equity investment held by the Group may adversely impact its financial performance and position.

The Group carries equity investments in its banking book at fair value. Fair value represents mark to market valuations derived from market prices or independent valuations and methodologies. The fair value of an equity investment may be impacted by factors such as economic, operational, currency and market risk. A material reduction in the fair value of an equity investment in the Group's banking book may adversely impact the financial performance and position of the Group.

The Group may suffer significant losses from its trading activities.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

The Group is exposed to life insurance risk, which may adversely impact its financial performance and position.

Life insurance risk is the potential for losses when life insurance claims and other outgoings exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the Group. It also includes lapse risk, where a policy lapses before the upfront costs have been recouped from profit margins.

Provisions for mortality and morbidity claims are an estimate of the expected ultimate cost of such claims based on actuarial and statistical projections, rather than an exact calculation of liability. Provisions are affected by a range of factors, including unforeseen diseases or epidemics. Changes in any of these factors would necessitate a change in estimates of projected ultimate cost. Losses may occur when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies.

The Australian life insurance industry, in which the Group is a participant, is currently experiencing poor lapse and claims experience and lower underlying investment income. This may continue to adversely impact the Group's financial performance and position.

Damage to the Group's reputation may adversely impact its financial performance and position.

The Group's reputation may be damaged by the actions, behaviour or performance of the Group, its employees, affiliates, suppliers, counterparties or customers, or the financial services industry generally. A risk event, such as a compliance breach or an operational or technology failure, may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk event itself may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to the Company's share price. Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the Group, and also impact the cost of funding, its operations, or its financial condition.

Failure to sell down underwriting risk may result in losses to the Group.

As financial intermediaries, members of the Group underwrite or guarantee many different types of assets, risks and outcomes, including 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 suffer losses if it fails to sell down some or all of this risk to other market participants.

Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's financial performance and position.

There is a risk that the assumptions on which the Group's strategic decisions are based are, or may prove to be, incorrect, that the conditions underpinning those strategic decisions may change, or that execution of the Group's strategic initiatives proves ineffective.

The Group regularly examines a range of corporate opportunities (including acquisitions, joint ventures and divestments) and evaluates these opportunities against strategic priorities and risk appetite and considers their ability to enhance the Group's financial performance, position or prospects.

Any corporate opportunity that is pursued may change the Group's risk profile and capital structure. If an acquisition is funded by the issuance of additional equity, it may be dilutive to existing shareholders. Changes to the Group's risk profile or capital structure may contribute to negative sentiment or a negative impact on the Group's credit ratings.

Risks associated with the execution of a transaction may result from an over-valuation of an acquisition or joint venture, or an under-valuation of a divestment or joint venture. Risks may also arise through the Group's integration or separation of a business including failure to realise expected synergies, loss of customers, disruption to operations, application of additional regulation, diversion of management resources or higher than expected costs. Once commenced or executed, corporate actions or other strategic initiatives may be unable to be reversed. These factors may adversely impact the Group's financial performance and position.

A failure of the Group's risk management framework may adversely impact its financial performance and position.

The Group operates within a Risk Management Framework comprising systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and mitigate risks.

As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to address or rapidly adapt to unanticipated existing, changing or emerging risks. As such, perceived or actual ineffectiveness or inadequacies in the Risk Management Framework and its implementation may adversely impact the Group's reputation, financial performance and position.

Report of the Directors

Directors' Information

Directors

Details of Directors of the Company in office at the date of this report (or holding office during the year) and each director's qualifications, experience and special responsibilities are below:

Mr Michael A Chaney AO, BSc, MBA, Hon. LLD *W.Aust*, FAICD, FATSE

Age: 64

Term of office: Chairman since September 2005 and Director since December 2004.

Independent: Yes

Skills & Experience: Over 30 years of experience in a range of industries in executive, financial management and governance roles, including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, from 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia and the United States from 1972 to 1980.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman of International Education Advisory Council (since October 2011)
- Chairman of Woodside Petroleum Ltd (since August 2007, Director since November 2005)
- Chairman of Gresham Partners Holdings Limited (since July 2005, Director since November 1985)
- Director of Centre for Independent Studies (since October 2000)
- Chancellor of University of Western Australia (since December 2005)
- Member of Prime Minister's Business Advisory Council (since December 2013)
- Member of the Commonwealth Science Council (since October 2014)

Board Committee membership:

- Chairman of the Nomination Committee

Mr Andrew G Thorburn BCom, MBA

Age: 49

Term of office: Managing Director and Chief Executive Officer since August 2014

Independent: No

Skills & Experience: Over 28 years of experience in banking and finance. A career banker, Andrew joined the Company in January 2005, and from 2008 to 2014 was Managing Director and CEO of Bank of New Zealand, and was responsible for its strategic positioning and performance. Prior to joining the Company, he held senior roles at ASB Bank, Commonwealth Bank of Australia and St. George Bank.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director of Australian Bankers' Association Inc (since August 2014)
- Director of The Financial Markets Foundation for Children (since September 2014)

Board Committee membership:

- Member of the Information Technology Committee

Mr David Armstrong BBus, FCA, MAICD

Age: 56

Term of office: Director since August 2014

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director of the George Institute for Global Health (since October 2014)
- Director of the Opera Australia Capital Fund Limited (since May 2013)
- Trustee of the Lizard Island Reef Research Foundation (since May 2014)
- Trustee of the Australian Museum (since January 2014)

Board Committee membership:

- Member of the Audit Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Daniel T Gilbert AM, LLB

Age: 63

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 36 years of experience in commercial law. He is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988. He is Co-Chair of the Company's Indigenous Advisory Group.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman of National Museum of Australia (since March 2009)
- Chairman of University of Western Sydney Foundation (since January 2012)

Board Committee membership:

- Chairman of the Remuneration Committee
- Chairman of the Information Technology Committee
- Member of the Nomination Committee

Mr Peeyush Gupta BA, MBA, FAICD

Age:55

Term of office: Director since November 2014

Independent: Yes

Skills & Experience: Over 30 years of experience in wealth management. He 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. He also has extensive corporate governance experience, having served as a director on many corporate, not-for-profit, trustee and responsible entity boards since the 1990s. He is a Director of certain NAB Wealth subsidiaries.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Chairman of State Super Financial Services Australia Limited (since June 2010)
- Chairman of Charter Hall Direct Property Management Limited (since May 2010)
- Director of Safety, Return to Work and Support Board (NSW Workcover and Motor Transport Accidents Authority) (since August 2012)

Directors' Information

- Director of Crowe Horwath (since November 2013)
- Director of Securities Industry Research Centre of Asia Pacific (SIRCA) (since October 2009)
- Director of Quintessence Labs Pty Ltd (since June 2008)
- Director of Special Broadcasting Services Board (since October 2014)

Board Committee membership:
- Member of the Remuneration Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Dr Kenneth R Henry AC, FASSA, BCom (Hons), PhD, DB h.c

Age: 56

Term of office: Director since November 2011.

Independent: Yes

Skills & Experience: Dr Henry is an Australian economist and a former public servant having served as the Secretary of the Department of the Treasury from 2001 to 2011. From June 2011 until November 2012, he was Special Advisor to the Prime Minister with responsibility for leading the development of a White Paper on Australia in the Asian Century. He is a former member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators, the Defence Procurement Advisory Committee, the Council of Infrastructure Australia and was Chair of the Review into Australia's Future Tax System (the 'Henry Tax Review'). He was made a Companion of the Order of Australia in 2007 and received the Centenary Medal in 2001.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman of The Taxation Studies Institute at the ANU (since June 2013)
- Director of ASX Limited and some of its subsidiaries (since February 2013)
- Chairman of Sir Roland Wilson Foundation, (ANU) (since February 2013, Member since May 2001)
- Member of the Board of Reconciliation Australia (since July 2012)
- Chairman of the Advisory Council of the SMART Infrastructure Facility, (University of Wollongong) (since September 2011)

Board Committee membership:
- Member of the Audit Committee
- Member of the Nomination Committee

Ms Geraldine C McBride

Age: 53

Term of office: Director since March 2014.

Independent: Yes

Skills & Experience: Over 26 years in technology industry and international business. Former President of global software company SAP for North America. Founder and CEO of MyWave, a software and services company developing consumer and enterprise relationship solutions using personal cloud technology.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Sky Network Television Limited (since August 2013)
- Director of Fisher and Paykel Healthcare (Since July 2013)

Board Committee membership:
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Paul J Rizzo BCom, MBA

Age: 70

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 40 years of experience in banking and finance. Formerly Dean and Director of Melbourne Business School from 2000 to 2004, Group Managing Director, Finance and Administration, Telstra Corporation Limited from 1993 to 2000, senior roles at Commonwealth Bank of Australia from 1991 to 1993, Chief Executive Officer of State Bank of Victoria in 1990 and 24 years with Australia and New Zealand Banking Group Ltd from 1966 to 1990. He is a Member of the Group's Capital and Funding Sub-Committee.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of the Australian Submarine Corporation Pty Ltd (since December 2013)
- Chairman of The Rizzo Report Implementation Committee for Defence (since September 2011)
- Chairman of the Defence Audit and Risk Committee for the Australian Government Department of Defence (since February 2008)
- Chairman of the Foundation for Very Special Kids (since July 2004)

Board Committee membership:
- Chairman of the Risk Committee
- Member of the Audit Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

Ms Jillian S Segal AM, BA, LLB, LLM (Harvard), FAICD

Age: 59

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 20 years as a lawyer and regulator. From 1997 to 2002, she was a commissioner of ASIC and Deputy Chairman from 2000 to 2002. She was Chairman of the Banking & Financial Services Ombudsman Board from 2002 to 2004. Prior to that she was an environment and corporate partner and consultant at Allen Allen & Hemsley and worked for Davis Polk & Wardwell in New York. She is a Member of the Company's Advisory Council on Corporate Responsibility.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of ASX Limited (since July 2003)
- Director of ASX Compliance Pty Limited (since July 2006)
- Chairman of General Sir John Monash Foundation (since May 2010 and Director since February 2008)
- Director of the Garvan Institute of Medical Research (since June 2009)
- Director of the Australia-Israel Chamber of Commerce (since February 2013)
- Deputy Chancellor, University of New South Wales Council (since January 2010 and Member since February 2006)
- Member of Sydney Opera House Board of Trustees (since January 2014)
- Member of Australian War Memorial Council (since June 2014)

Board Committee membership:
- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Directors' Information

Mr John G Thorn FCA, FAICD

Age: 66

Term of office: Director since October 2003.

Independent: Yes

Skills & Experience: 37 years in professional services with PricewaterhouseCoopers (PwC), over 20 years as a partner responsible for significant international and Australian clients. A member of PwC's Global Audit Management Group and Australian National Managing Partner until 2003. He is a Member of the Group's Capital and Funding Sub-Committee.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Amcor Limited (since December 2004)
- Director of Salmat Limited (since September 2003)
- Former Director of Caltex Australia Limited (from June 2004 to June 2013)

Board Committee membership:
- Chairman of the Audit Committee
- Member of the Information Technology Committee
- Member of the Nomination Committee

Mr Geoffrey A Tomlinson BEc

Age: 67

Term of office: Director since March 2000.

Independent: Yes

Skills & Experience: 29 years with the National Mutual Group, six years as Group Managing Director and Chief Executive Officer until 1998. He is Chairman of certain NAB Wealth subsidiaries (all subsidiaries of the Company).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman of Growthpoint Properties Australia Ltd (since September 2013)
- Director of Calibre Global Limited (since May 2012)

Board Committee membership:
- Member of the Remuneration Committee
- Member of the Nomination Committee

Mr John A Waller BCom, FCA

Age: 62

Term of office: Director since February 2009.

Independent: Yes

Skills & Experience: Over 20 years in professional services with PwC, New Zealand. His roles at PwC included being a member of the firm's New Zealand Board and leader of its Advisory division. He was also a member of the New Zealand Takeovers Panel until February 2011. In addition to a wealth of valuable corporate and financial experience, he brings to the Board a deep understanding of the New Zealand market. He is Chairman of Bank of New Zealand (a subsidiary of the Company).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Fonterra Co-operative Group Limited (since Feb 2009)
- Director of Sky Network Television Limited (since April 2009)
- Director of Haydn & Rollett Limited (since February 2009)
- Director of Donaghys Limited (since March 2009)
- Director of Property for Industry Limited & subsidiary (formerly Direct Property Fund Limited) (since July 2013)
- Chairman of Eden Park Trust (since September 2009)
- Former director of Alliance Group Ltd (January 2009 to August 2014)
- Former Director of Yealands Wine Group Limited (from November 2011 to August 2013)

Board Committee membership:
- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Mr Anthony K T Yuen B.Soc.Scs & Law

Age: 64

Term of office: Director since March 2010.

Independent: Yes

Skills & Experience: Over 40 years in international banking and finance. Prior to taking on a strategic investment management role on behalf of The Royal Bank of Scotland plc with Bank of China in 2006, he held senior executive roles, having Asia wide regional responsibility with Bank of America Corporation, National Westminster Bank plc and The Royal Bank of Scotland plc. He is a member of the Company's Australia in Asia Management Council.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Member of Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006)

Board Committee membership
- Member of the Risk Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Directors' Information

Board changes

Mr Clyne resigned from the Board of the Company on 15 August 2014.

Mr Cameron A Clyne BA

Age: 46

Term of office: Managing Director and Group Chief Executive Officer from January 2009 to August 2014.

Independent: No

Skills & Experience: Over 23 years in financial services, including 12 years with PwC, culminating in leadership of the Financial Services Industry practice in Asia Pacific, prior to the acquisition of PwC Consulting by IBM. During his consulting career he worked with many of the world's leading banks in Australia, New Zealand, the United States, Europe and Asia. He was the Co-Chair of the Company's Advisory Council on Corporate Responsibility. He was a Director of National Australia Group Europe Limited, Clydesdale Bank plc and Bank of New Zealand (all subsidiaries of the Company).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director of Australian Rugby Union Ltd (since October 2013)
- Former Director of The Financial Markets Foundation for Children (from April 2009 to August 2014)

Board Committee membership (former):
- Member of the Information Technology Committee

Mr Joiner retired from the Board of the Company on 1 January 2014.

Mr Mark A Joiner ACA, MBA

Age: 56

Term of office: Executive Director, Finance from March 2009 to January 2014.

Independent: No

Skills & Experience: Over 27 years in commerce, banking and finance. He was appointed Group Chief Financial Officer in October 2007. Prior to joining the Group, he was Chief Financial Officer and Managing Director, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business, based in New York. Before entering banking, he was with strategy consulting firm Boston Consulting Group for 17 years, working out of various Australian and United States offices. He was Chairman of JBWere Pty Ltd, Invia Custodian Pty Ltd and I.C. Nominees Pty Ltd and Director of National Australia Group Europe Limited and Clydesdale Bank plc (all subsidiaries of the Company). He was appointed to the JANA Corporate Investment Services Limited board in July 2014 (a subsidiary of the Company).

Directorships of listed entities within the last three years, other directorships and offices (current & recent):

- Director of Aurora Vineyard Limited (since October 1999)
- Member of the Founders' Board of Flora and Fauna International (since March 2010)

Company Secretaries

Details of company secretaries of the Company 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 (Distinction), CA, 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 Company Secretary advises and supports the Board to enable the Board to fulfil its role.

Mr Nathan Butler LLB (Hons), LLM, BA (Jur), joined the Group in 2001 and was appointed as a company secretary in May 2008. Mr Butler is the General Counsel, Governance, Corporate and Enterprise Services, and advises the Group on a wide range of strategic, corporate, governance and regulatory matters. Mr Butler is a director on the board of Great Western Bancorp, Inc.

Ms Fiona Last BCom, LLB (Hons), joined the Group in 2005 and was appointed as a company secretary in May 2012. Ms Last is a Senior Corporate Lawyer who advises the Group on a wide range of corporate, governance and regulatory matters. She also manages the Group's Australian Secretariat.

Directors' Information

Directors' and officers' indemnity

The Company's constitution

Article 20.1 of the Company's constitution provides that to the maximum extent permitted by law and without limiting the Company's power, the Company may indemnify any current or former officer out of the property of the Company 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; and
- 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:
  - The Company is forbidden by law to indemnify the person against the liability or legal costs; or
  - An indemnity by the Company of the person against the liability or legal costs, if given, would be made void by law.

Under Article 20.2, the Company 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:

- The Company is forbidden by law to pay or agree to pay the premium; or
- The contract would, if the Company paid the premium, be made void by law.

The Company 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 the Company.

In the context of Article 20, 'officer' means a director, secretary or senior manager of the Company or of a related body corporate of the Company.

The Company has executed deeds of indemnity in favour of each director of the Company and certain directors of related bodies corporate of the Company. 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, the Company, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the Company and of each related body corporate of the Company. The contract does not provide cover for the independent auditors of the Company or of a related body corporate of the Company. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered.

Directors' attendances at meetings

The table below shows the number of directors' meetings held (including meetings of Board Committees noted below) and the number of meetings attended by each of the directors of the Company during the year.

	Board		Audit Committee		Risk Committee		Nomination Committee		Remuneration Committee		IT Committee		Directors' meetings of controlled entities [(1)]		Additional meetings [(2)]
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**Attended**
MA Chaney	13	13	3	3	11	11	6	6	9	9	3	3	7	7	4
D Armstrong	2	2	2	2	2	2	1	1	-	-	1	1	1	1	1
DT Gilbert	13	13	-	-	9	9	6	6	13	13	4	4	6	6	6
KR Henry	13	13	9	9	11	11	6	6	2	2	2	2	7	7	1
GC McBride	7	7	5	5	7	7	3	3	1	1	3	3	4	4	-
PJ Rizzo	13	13	9	9	11	11	6	6	2	2	4	4	6	6	10
JS Segal	12	13	9	9	11	11	6	6	3	3	4	4	6	6	2
AT Thorburn	2	2	-	-	2	2	-	-	2	2	1	1	23	25	1
JG Thorn	13	13	9	9	11	11	6	6	2	2	4	4	6	6	13
GA Tomlinson	13	13	1	1	10	10	6	6	13	13	1	1	56	56	1
JA Waller	13	13	7	9	9	11	6	6	2	2	4	4	33	35	1
AKT Yuen	13	13	1	1	11	11	6	6	13	13	3	3	6	6	1
CA Clyne [(3)]	11	11	1	1	9	9	2	2	9	9	3	3	30	39	3
MA Joiner [(3)]	5	5	3	3	3	3	-	-	1	1	-	-	7	7	10

[A] *Indicates the number of meetings (including meetings of Board committees) attended during the period.*

[B] *Indicates the number of directors' meetings (including meetings of Board committees) held during the year. Where a director is not a member of the relevant Board committee, this column reflects the number of meetings attended.*

[(1)] *Where a controlled entity holds board meetings in a country other than the country of residence of the Director, or where there may be a potential conflict of interest, then the number of meetings held is the number of meetings the director was expected to attend, which may not be every board meeting held by the controlled entity during the year.*

[(2)] *Reflects the number of additional formal meetings attended during the year by each Director, including committee meetings (other than Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee or Information Technology Committee) where any two Directors are required to form a quorum.*

[(3)] *As Mr Joiner ceased to be a Director of the Company in January 2014 and Mr Clyne ceased to be a Director of the Company in August 2014, the information above relates to the respective periods.*

Directors' Information

Directors' and executives' interests

The tables below show the relevant interests of each director and senior executive in the issued ordinary shares and National Income Securities of the Company, and in other shares and debentures of, and registered schemes made available by, the Group as at the date of this Report. No director or senior executive held an interest in Trust Preferred Securities, Trust Preferred Securities II, National Capital Instruments or Convertible Preference Shares of the Company.

	National Income Securities No.	Performance rights over fully paid ordinary shares of the Company [(1)] No.	Fully paid ordinary shares of the Company [(2)] No.
Directors			
MA Chaney (Chairman)	-	-	28,373
DH Armstrong	-	-	6,000
DT Gilbert	1,253	-	16,190
PK Gupta	-	-	2,000
KR Henry	-	-	2,000
GC McBride	-	-	2,000
PJ Rizzo	-	-	5,824
JS Segal	180	-	14,836
AG Thorburn	-	135,098	61,551
JG Thorn	-	-	17,333
GA Tomlinson	350	-	43,790
JA Waller	-	-	4,000
AKT Yuen	-	-	5,059
Senior executives			
AJ Cahill	-	30,226	14,221
CM Drummond	-	-	126,247
AD Gall	-	34,677	102,501
AP Hagger	-	136,255	127,959
MJ Healey	700	103,851	120,505
AJ Healy	-	24,126	22,647
A Mentis	-	34,632	13,967
RM Roberts	-	22,663	18,640
GR Slater	-	144,426	43,884

(1) *Further details of performance options and performance rights are set out in Note 37 'Shares, performance options and performance rights' in the Financial Report.*

(2) *Further information on shareholdings is disclosed in Section 5.4 of the Remuneration report.*

The directors from time-to-time invest in various debentures, registered schemes and securities offered by the Company and certain subsidiaries of the Company. The level of interests held directly and indirectly by a director as at 30 September 2014 were:

Director	Nature of product	Relevant interest (Units)
DT Gilbert	NAB Subordinated Notes	2,000
DH Armstrong	Convertible Preference Shares II	900

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 the Company 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 the Company and any such organisations.

Executive performance options and performance rights

Performance options and performance rights are granted by the Company under the National Australia Bank Executive Share Option Plan No. 2 (executive share option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). The executive share option plan was approved by shareholders at the Annual General Meeting (AGM) in January 1997, and the performance rights plan at the 2002 AGM. Each performance option or performance right is for one fully paid ordinary share in the Company. (Refer to the *Remuneration report* for a description of the key terms and conditions of the executive share option plan and the performance rights plan.)

Directors' Information

All performance options and performance rights that have not expired are detailed below.

The number and terms of performance options and performance rights granted by the Company during 2014 over ordinary shares under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2014, are shown in the following tables:

Exercise period [(1)]	Exercise price [(2)]	Number held at 30 September 2014	Number exercised from 1 October 2013 to 30 September 2014	Number granted since 1 October 2013
Performance options				
16 January 2013 - 16 July 2014	$19.89	-	109,443	-
16 January 2014 - 16 July 2014	$19.89	-	337,092	-

Exercise period [(1)]	Number held at 30 September 2014	Number exercised from 1 October 2013 to 30 September 2014	Number granted since 1 October 2013
Performance rights			
23 November 2012 - 23 May 2014	-	3,655	-
23 May 2013 - 23 November 2015	-	7,120	-
15 June 2013 - 15 December 2013	-	106	-
7 November 2013 - 7 May 2015	2,157	495,706	-
23 November 2013 - 23 May 2014	-	37,124	-
15 December 2013 - 15 June 2014	-	57,731	-
15 May 2014 - 15 November 2015	-	3,540	-
23 May 2014 - 23 November 2015	-	7,638	-
7 November 2014 - 7 May 2015	516,311	-	-
14 December 2014 - 14 June 2015	47,929	-	-
15 May 2015 - 15 November 2015	-	-	-
23 May 2015 - 23 November 2015	23,304	-	-
14 June 2015 - 14 December 2015	-	-	-
22 May 2016 - 22 November 2016	18,042	-	-
19 December 2016 - 19 June 2018	2,021,401	-	-
22 May 2017 - 22 November 2017	8,171	-	-
19 June 2017 - 19 December 2017	61,258	-	-
19 June 2017 - 19 December 2018	-	-	-
4 December 2014 - 4 June 2015	473	-	473
4 December 2014 - 4 June 2016	208,702	-	210,372
4 June 2015 - 4 December 2016	31,218	-	31,218
1 November 2015 - 1 May 2016	9,498	-	9,498
4 December 2015 - 4 June 2016	222,273	-	224,052
4 June 2016 - 4 December 2016	33,250	-	33,250
4 November 2016 - 4 May 2017	3,374	-	3,374
20 December 2017 - 20 June 2019	1,059,911	-	1,225,477
20 June 2018 - 20 December 2019	151,188	-	151,188

(1) *Performance options and performance rights generally expire on the last day of their exercise period. Refer to the Remuneration report for details of the relevant expiry dates applicable to performance options and performance rights.*

(2) *Further details of performance options and performance rights are set out in Note 37 'Shares, performance option and performance rights' in the Financial Report. All shares issued or transferred on exercise of performance options and performance rights are fully paid ordinary shares in the Company. The exercise price for performance options is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period on a relevant date, usually at or around the date of the grant.*

Performance options and performance rights on issue and number exercised

There are currently 3,923,444 performance rights which are exercisable, or may become exercisable in the future under the respective plans.

The Company has issued 431,697 fully paid ordinary shares of the Company since 30 September 2014 as a result of performance rights granted being exercised, for no consideration.

For the period 1 October 2013 to the date of this report, no performance options expired and 27,354 performance options lapsed before their expiry date. Similarly, during this period 660 performance rights expired as they were not exercised before their expiry date and 2,406,650 performance rights lapsed.

Persons holding performance options and performance rights are entitled to participate in certain capital actions by the Company (such as rights issues and bonus issues) in accordance with the terms of the ASX Listing Rules which govern participation in such actions by holders of options granted by listed entities. The terms of the performance options and the performance rights reflect the requirements of the ASX Listing Rules in this regard.

Report of the Directors

Other Matters

Litigation and disputes

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business. There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

On 16 December 2011, Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar actions against other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed, pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action was commenced in September 2010 and is effectively a 'test case' for exception fee claims against Australian banks. The proceeding is being defended.

In March 2013, a potential representative action against New Zealand banks (including, potentially, the Company's subsidiary, Bank of New Zealand (BNZ)) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the actions. On 20 August 2014, representative proceedings were filed against BNZ. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance (PPI). Clydesdale Bank remains in regular dialogue with the Financial Conduct Authority (FCA) regarding its approach to dealing with these issues and is subject to an enforcement process with the FCA in relation to its previous PPI complaints handling processes, the outcome of which is not yet known. As announced on 9 October 2014, the Group has determined that an additional provision is required as a result of various developments, including the implementation of a revised complaints handling process which has resulted in increased operational and administrative costs, higher than expected levels of new complaints, increased redress payments in respect of new complaints, costs associated with the ongoing enforcement process and additional operational and redress costs likely to be incurred as a result of reviewing previously handled complaints. At 30 September 2014, a provision of $957 million (£515 million) is held for this matter.

The provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies), the number of those claims that ultimately will be upheld, the amount that will be paid in respect of those claims, any requirements to undertake further proactive customer contact, any additional amounts that may need to be paid in respect to previously handled claims and the outcome of the FCA enforcement process, including the possibility of fines. These factors mean that the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation at each reporting date based upon experience and other relevant factors at that time.

On 29 June 2012 the UK Financial Services Authority (FSA) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium businesses. Clydesdale Bank agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan (TBLs) products as well as the standalone hedging products identified in the FSA's notice. Clydesdale Bank is also dealing with a number of claims by customers in relation to certain TBLs not currently in scope of the review.

The Group has determined that an additional provision is required, based on a number of factors relating to offers of redress, compensation, offers of alternative products and administrative costs for interest rate hedging products and in-scope TBLs, and the receipt and review of complaints on certain fixed rate TBLs. The extent of future complaints on TBLs is uncertain and further provision could be required. Accordingly a provision of $672 million (£362 million) is held for these matters.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation at each reporting date based upon experience and other relevant factors as matters develop.

Since 1 April 2013, Clydesdale Bank has been regulated by the FCA and the Prudential Regulation Authority (PRA). The FCA is a proactive regulator focused on conduct issues, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products (including out-of-scope TBLs), is $91 million (£49 million). The total cost associated with these and other conduct related matters is uncertain.

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 the Company

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

Report of the Directors

Other Matters

Events subsequent to reporting date

On 15 October 2014, an initial public offering was undertaken in respect of Great Western Bancorp, Inc., a US based subsidiary of the Group. The total offer comprised of 18.4 million shares or 31.8% of the outstanding common stock at a price of US$18 a share. Gross proceeds realised by the Company were US$331 million. A change in ownership without loss of control is treated as an equity transaction and as a result does not impact the income statement. The impact to the Group's Common Equity Tier 1 capital ratio remains subject to APRA's determination.

Other than the matter referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between end of the reporting period (30 September 2014) and the date of this report that, in the opinion of the directors, has 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 the Company have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the 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 of the role of the Board and its committees can be found in the *Corporate governance* section and on the Group's website at www.nabgroup.com.

Environmental regulation

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered as particular or significant environmental regulation under 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) as part of the legislative response to climate change in Australia. 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 basis of the year from 1 July to 30 June (the environmental reporting year). The Group's Australian vehicle fleet and building related net energy use reported under the NGER Act for the 2014 environmental reporting year was 668,816 gigajoules (GJ), which is approximately 60% of the Group's measured total energy use. The associated total greenhouse gas emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 145,022 tCO_2-e.

Due to the repeal of the *Energy Efficiency Opportunities Act 2006* (Cth) (EEO Act) on 11 September 2014, the Group's obligations under the EEO Program ceased on 29 June 2014. During the environmental reporting year to 30 June 2013, the Group continued to implement its energy efficiency program, including energy efficiency opportunity assessments which were pursuant to the EEO Act in Australia. This helped to produce greenhouse gas emissions savings and contributed to the Group's carbon neutral status. In total, during the period of the EEO Program from 1 July 2006 to 29 June 2014, the Group has identified 1,114 energy efficiency opportunities, of these 788 have been implemented and 18 are in progress or approved to proceed. As at 30 June 2014, the Group has implemented opportunities throughout the period of the EEO Program estimated to be more than 286,500 GJ of on-going annual energy savings. This equated to avoided costs of $15 million in 2014.

A key Australian energy efficiency project implemented during the 2014 environmental reporting year has been our retail store energy efficiency program. This was rolled out across Australia to 15 retail stores. Similar programs implemented in previous years along with improved store design and operation, have resulted in average energy savings of approximately 30% across all stores where such programs have been implemented. This program of work included lighting upgrades, de-lamping and re-zoning as well as the introduction of timer controls.

Additionally, the Group's main Melbourne-based data centre is subject to the reporting requirements of the National Pollutant Inventory (NPI) 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 the greenhouse gas emissions from the Group's tri-generation facilities operated at the data centre and has complied with this requirement.

In the United Kingdom, the Group is a participant in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EE Scheme). The Group's UK-based GHG emissions reportable under the Scheme for the 2013/2014 compliance year (year ending 31 March 2014) totalled 23,036 tCO_2-e. The Group's regulatory return was made in July 2014 as required by the CRC EE Scheme Order 2010. National Australia Group Europe Limited, on behalf of the Group's UK-based entities, purchased and surrendered 23,036 CRC Allowances by 31 October 2014, in accordance with CRC EE Scheme requirements.

In 2014, the Group's UK-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), which was introduced by the *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 must carry out ESOS assessments and notify the regulator, the UK Environment Agency, that these have been completed by 5 December 2015.

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 this risk is minimised and managed appropriately. In addition to responding to regulatory requirements, the Group can as a global provider of financial products and services play a key role in contributing to the environmental sustainability of the communities in which it operates. This includes financing of renewable energy generation projects and the provision of products such as Environmental Upgrade Agreements to assist clients with improving the energy efficiency of commercial buildings.

Further information about the Group's Environmental Agenda, resource efficiency targets and management approach is outlined in the Group's 2014 *Annual Review* and 2014 *Dig Deeper* paper available at www.nab.com.au/environment.

Other Matters

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2014. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2014 are as follows:

	Group 2014 $'000
Audit-related regulatory	
Guidance Statements (GS) 007 reports	1,786
APRA reporting	1,035
Audit of the Group's Australian Financial Services Licenses	317
Regulatory audit, reviews, attestations and assurances for Group entities:	
- Australia	1,078
- Overseas	590
Total audit-related regulatory	4,806
Other non-regulatory reviews, attestations and assurances for Group entities:	
- Australia	478
- Overseas	165
Total audit-related non-regulatory	643
All other non-audit services	
- Australia	585
- Overseas	10
Total all other non-audit services	595
Total non-audit services	6,044

Ernst & Young also provides audit and non-audit services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and to non-consolidated Group superannuation plans. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2014 total $4.5 million.

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to 30 September 2014 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are so satisfied because the Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Details of the services provided by Ernst & Young to the Group during 2014 and the fees paid or due and payable for those services are set out in *Note 47 'Remuneration of external auditor'* in the *Financial Report*. A copy of Ernst & Young's independence declaration is set out on the following page.

Building a better
working world

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

In relation to our audit of the financial report of National Australia Bank Limited and the entities it controlled during the year for the financial year ended 30 September 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

17 November 2014

Report of the Directors

Remuneration Report

Introduction from the Remuneration Committee

Dear Shareholder,

This year's Remuneration Report reflects the effect on the remuneration of our executives and other employees of the reduced profit result for the Group in 2014.

While a significant portion of the provisions taken at year-end relate to the sale of payment protection insurance policies, sold in the United Kingdom as early as the 1980s, the Remuneration Committee and Board recognised the need to align current rewards with shareholder outcomes. At the same time, the Remuneration Committee was keen to ensure that employees who have produced very positive results for the Group this year received appropriate rewards, notwithstanding a reduction in the overall incentive pool commensurate with the lower profits.

Taking account of these considerations, the Board determined to significantly reduce the 2014 short-term incentive pool available for distribution to:

- 60% of target for general employees;
- 50% of target for UK Banking employees;
- 40% of target for members of the former Executive Committee; and
- 20% of target for the outgoing and incoming Group Chief Executive Officers.

The Remuneration Committee has also undertaken a review of the Group's reward framework to better align executive remuneration with future shareholder returns. Accordingly, we have:

- Increased the long-term incentive component of executive remuneration with the aim of encouraging senior executives to achieve longer-term outcomes;
- Reduced senior executive potential earnings under the short term incentive plan from 260% to 175% of target, reinforcing the importance of the longer-term incentive component of total reward;
- Reduced the number of short-term scorecard objectives, focussing executives on the Group's long-term objectives; and
- Required senior executives to maintain a meaningful amount of Company equity, linking a portion of their wealth directly to shareholder value.

As shareholders will be aware, there were a number of new appointments to the Executive Leadership Team during 2014. It was pleasing to see that five of the six new senior executives were internal appointments, demonstrating the Group's strong succession planning and talent development programs.

You will also notice that this year's remuneration report has a different look to prior years. We have simplified the format and incorporated additional regulatory disclosures.

We continue to encourage shareholders and other interested parties to provide feedback on the development of our remuneration practices and thank you for your interest and continued support.

Yours sincerely,

Danny Gilbert

Remuneration Committee Chairman

Remuneration Report

This report details remuneration arrangements for Key Management Personnel (KMP) of both the Company and the Group during 2014. The report is prepared in accordance with section 300A of the *Corporations Act 2001* (Cth).

Remuneration Report

Section 1 – Remuneration overview

1.1. Remuneration outcomes

Remuneration outcomes during 2014 included:

- Overall short-term incentive (STI) awards for senior executives were reduced reflective of the Board's assessment of the Group's performance outcomes in 2014 (see **Section 2.1.** for more details); and
- The 2011 long-term incentive (LTI) was fully forfeited. The 2010 and 2009 LTI grants delivered partial vesting consistent with the Group's shareholder returns, when compared to peers, and financial performance over the relevant periods of the awards (see **Section 2.2.** for more details).

1.2. Changes made during 2014

A number of policy changes were made to the reward framework for 2014 to provide stronger alignment with the long-term interests of shareholders including:

- The maximum opportunity available under the STI plan was reduced for senior executives from 260% to 175% of STI target, lessening the focus on potential short-term earnings;
- The LTI opportunity granted in respect of 2014 was increased for senior executives - rebalancing the target reward mix so that the Group Chief Executive Officer (Group CEO) has approximately 40% of target reward based on LTI outcomes. The new policy increases the weighting of LTI and reduces the emphasis on STI to increase alignment with shareholders over the long-term (see **Figure 3** in **Section 3.4.**); and
- A minimum shareholding policy for senior executives (see Minimum shareholding policy in **Section 3.4.**) was introduced ensuring that shareholder and senior executives' interests are more closely aligned.

1.3. Changes for 2015

During the year a review of the Group's reward framework was undertaken. The focus of the review was to simplify the reward framework for all employees from 2015, including senior executives. Changes to the STI plan impacting senior executives will provide:

- Fewer scorecard objectives, consisting of performance measures that focus on delivering long-term value for the Group and shareholders. These are cash earnings, Return on Equity (ROE) and Net Promoter Score; and
- A simpler performance rating scale.

1.4. Key Management Personnel

The following table lists the KMP of both the Company and of the Group during 2014:

Table 1: Key management personnel

Name	Position	Term as KMP
Executive director		
AG Thorburn [(1)]	Group Chief Executive Officer and Managing Director	Full year
Other senior executives		
AJ Cahill	Group Executive, Product & Markets (from 1 August 2014)	Part year
CM Drummond	Group Executive, Finance & Strategy (from 23 October 2013)	Part year
AD Gall	Group Chief Risk Officer (from 1 August 2014)	Part year
AP Hagger	Group Executive, NAB Wealth	Full year
MJ Healey	Group Executive, People, Communications and Governance	Full year
AJ Healy	Managing Director and CEO, Bank of New Zealand (from 12 May 2014)	Part year
A Mentis	Group Executive, Business Banking (from 1 August 2014)	Part year
RM Roberts	Group Executive, Enterprise Services and Transformation (from 1 August 2014)	Part year
GR Slater	Group Executive, Personal Banking	Full year
Former executive directors		
CA Clyne	Executive Director, Group Chief Executive Officer (to 15 August 2014)	Part year
MA Joiner	Executive Director, Finance (to 1 January 2014)	Part year
Former senior executives		
LJ Gray	Group Executive, Enterprise Services and Transformation (to 31 July 2014)	Part year
JC Healy	Group Executive, Business Banking (to 31 July 2014)	Part year
BF Munro	Group Chief Risk Officer (to 31 July 2014)	Part year
RJ Sawers	Group Executive, Product & Markets (to 31 July 2014)	Part year
Non-Executive Directors		
MA Chaney	Non-Executive Director, Chairman	Full year
DH Armstrong	Non-Executive Director (from 5 August 2014)	Part year
DT Gilbert	Non-Executive Director	Full year
KR Henry	Non-Executive Director	Full year
GC McBride	Non-Executive Director (from 4 March 2014)	Part year
PJ Rizzo	Non-Executive Director	Full year
JS Segal	Non-Executive Director	Full year
JG Thorn	Non-Executive Director	Full year
GA Tomlinson	Non-Executive Director	Full year
JA Waller	Non-Executive Director	Full year
AKT Yuen	Non-Executive Director	Full year

(1) Mr Thorburn held the position of Group Executive, NZ and the US until 11 May 2014, Group CEO Designate from 12 May to 15 August 2014, and then Group CEO and Managing Director from 16 August 2014.

Remuneration Report

Other KMP changes after 30 September 2014

In June 2014, the Company announced:

- That Mr Thorn will retire as a director of the Company in December 2014; and
- The appointment of Mr Gupta as a non-executive director to the Board from 5 November 2014. Mr Gupta will succeed Mr Tomlinson who will retire as a director of the Company in December 2014.

1.5. Remuneration framework overview

The following table shows the components that make up reward at NAB.

Table 2: Reward components - senior executives

<table>
<tr><th>Fixed</th><th colspan="3">At Risk</th></tr>
<tr><th colspan="2">CASH</th><th colspan="2">DEFERRED EQUITY</th></tr>
<tr><th>Fixed Remuneration</th><th colspan="2">Short-Term Incentive</th><th>Long-Term Incentive</th></tr>
<tr><td>• Provided as cash and benefits (including employer superannuation).
• The Group targets median fixed remuneration for each position within the financial services industry in the relevant global markets in which it operates.
• Generally reviewed annually, based on individual performance, skills, expertise and experience.</td><td colspan="2">• STI targets and performance measures for senior executives are determined by the Board, following external advice.
• An STI target is set for each individual with reference to external and internal relativities.
• Reflects both individual and business performance for the current year that supports the longer term strategy of the Group and takes into account compliance and risk measures.</td><td>• Reflects relative Total Shareholder Return (TSR) outcomes over the longer term against two external peer groups.
• Provided in two equal tranches of performance rights subject to performance conditions which are tested at the end of four years (re-test at five years if required).
• Performance rights are restricted and cannot be exercised until they vest.
• Remains at risk until the performance rights vest.</td></tr>
<tr><td></td><td>• 50% is paid as cash after the financial year end.</td><td>• 50% is awarded as deferred performance rights.
• Half of the performance rights are subject to a 1 year vesting period and the other half a 2 year vesting period.
• Remains at risk until the performance rights vest.</td><td></td></tr>
<tr><td>Competitive with the market</td><td colspan="3">Encourages sustainable performance in the longer-term</td></tr>
</table>

Further detail on the 2014 STI and LTI arrangements is provided later in **Section 3.4.**

Report of the Directors

Remuneration Report

Section 2 – Linking performance and remuneration

The effects of the Group's reduced profit result are reflected in senior executives remuneration outcomes for 2014.

2.1. 2014 short-term incentive outcomes

Individual senior executive performance is assessed against a number of key measures supporting the Group's strategy and business objectives. Measures and targets are tailored to the individual's role. The table below details the key measures used in 2014 to assess individual senior executive performance outcomes, applied as appropriate to the individual.

Table 3: STI key measures

Key business driver	Measure [(1)]	Outcomes
Financial and risk management	Group cash earnings	• Group cash earnings[(2)] of $5,184 million for 2014, decreased by 9.8% compared to the September 2013 year. This result was materially impacted by $1,504 million taken in additional provisions relating to legacy UK conduct matters, write-downs to the carrying value of software assets and several other tax related items.
	Cash ROE	• Cash ROE of 11.8% decreased by 230 basis points.
	ROTAE	• Group Return on Total Allocated Equity (ROTAE) was below plan.
	Common Equity Tier 1 ratio	• The Common Equity Tier 1 capital ratio (Basel III) is 8.63%, an increase of 20 basis points from the prior year.
	Risk appetite	• The Group continues to embed risk awareness, accountability, management and compliance into all of its daily business activities. This included launching a refreshed mandatory risk management training program for new employees and development of a customised 'RiskSmart' system to assist with management of operational risk and compliance scheduled for deployment across the Group in 2015.
Strategic projects	Technology	• Upgraded the Australian Banking payments infrastructure to enable Intraday settlement. • NAB Connect upgraded with enhanced functionality to provide better direct relationships with customers.
	Customer model implementation	• Further resilience and capacity upgrades across the Group's digital channels to support the rapid uptake of digital services.
	Non-core business strategy	• Implementation of structural changes delivered planned benefits across the Australian businesses during 2014. • Good progress on legacy assets with acceleration of the Group's exit from non-core businesses with the orderly winding down of the NAB UK Commercial Real Estate portfolio and the initial public offering of 31.8% of shares for Great Western Bancorp, Inc.
Employees and culture	Employee engagement	• Group overall engagement score[(3)] is 2 percentage points higher than the global financial services norm.
	Diversity target	• Progress towards diversity targets continues (for more details see the *Diversity* section).
Customer and community	Customer satisfaction	• Improvement in customer satisfaction scores – improving from 68.9% in March 2009 to 82.1% in September 2014[(4)].
	Reputation	• The Group continues to advance its differentiation agenda to "do the right thing" for customers.

(1) *Refer to the Table of key terms for definitions of ROE and ROTAE and to the Glossary for definition of cash earnings and Common Equity Tier 1 ratio.*

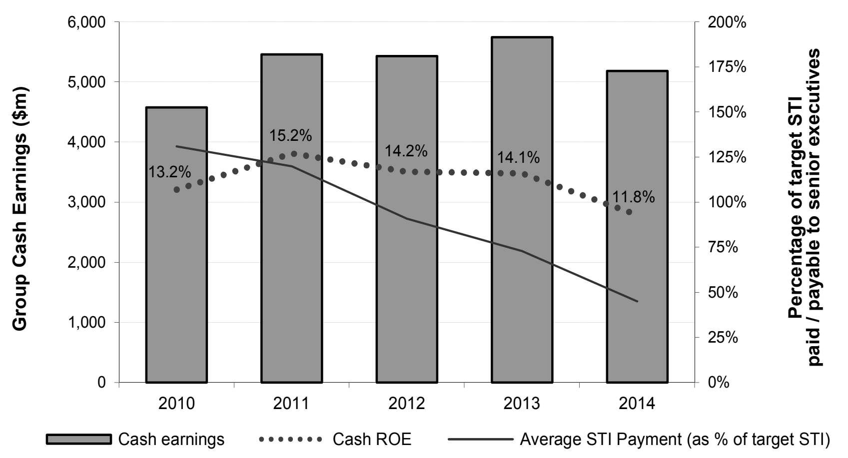
(2) *Refer to the Financial Report for statutory net profit attributable to owners of the Company, and to Note 2 'Segment information' in the Financial Report for a reconciliation between cash earnings and statutory net profit attributable to owners of the Company.*

(3) *Measured through an annual employee survey conducted by external consultants (Right Management) in May 2014.*

(4) *Roy Morgan Research, March 2009, September 2014, Australian Main Financial Institution personal customers, population aged 14+, six-month moving average.*

The following graph shows the average of the senior executives STI payment (including cash and deferred amounts) as a percentage of their STI target, and its relationship to the Group's cash earnings and ROE over the last five years. The 2013 cash earnings amounts and ROE have been restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in the Principal Accounting Policies on page 81. The average individual STI payment reflects both business and individual performance. The average STI payments in the graph include the senior executives in each of those years. The 2014 average in the graph is based on the total STI payable (including deferred amounts) for each of the 2014 senior executives.

Figure 1: Average senior executive STI payments



Remuneration Report

2.2. 2014 long-term incentive outcomes

During 2014 a number of LTI grants were tested with the following outcomes:

Table 4: LTI outcomes

Grant	Securities	Grant Date	Test Date	Result [(1)]	Tranche	Previously vested %	Previously lapsed %	Vested in 2014 %	Lapsed in 2014 %	Remaining [(2)] %
2011 long-term incentive	Rights	14/12/2011 [(3)]	30/09/2014	TSR 40th percentile - Financials	1	-	-	-	100	-
				Cash earnings and ROE targets not met	2	-	-	-	100	-
2010 long-term incentive	Shares/ Rights	15/12/2010 [(4)]	30/09/2013	TSR 60th percentile - Financials	1	-	-	70	30	-
				Cash earnings target not met	2	-	-	-	100	-
2009 CEO long-term incentive	Rights	18/06/2009	1/01/2014	TSR 73rd percentile - Financials	1	96	-	-	4	-
2009 Executive long-term incentive [(5)]	Options	16/01/2009	16/01/2014	TSR 78th percentile - ASX50	2	65	-	31	4	-
				TSR 73rd percentile - Financials	3	-	-	96	4	-

(1) *Refer to the Glossary for a definition of cash earnings and TSR, and the Table of key terms for a definition of ROE.*

(2) *All grants were forfeited on 30 September 2014, except for Mt Thorburn's grant which was fully forfeited on 9 October 2014.*

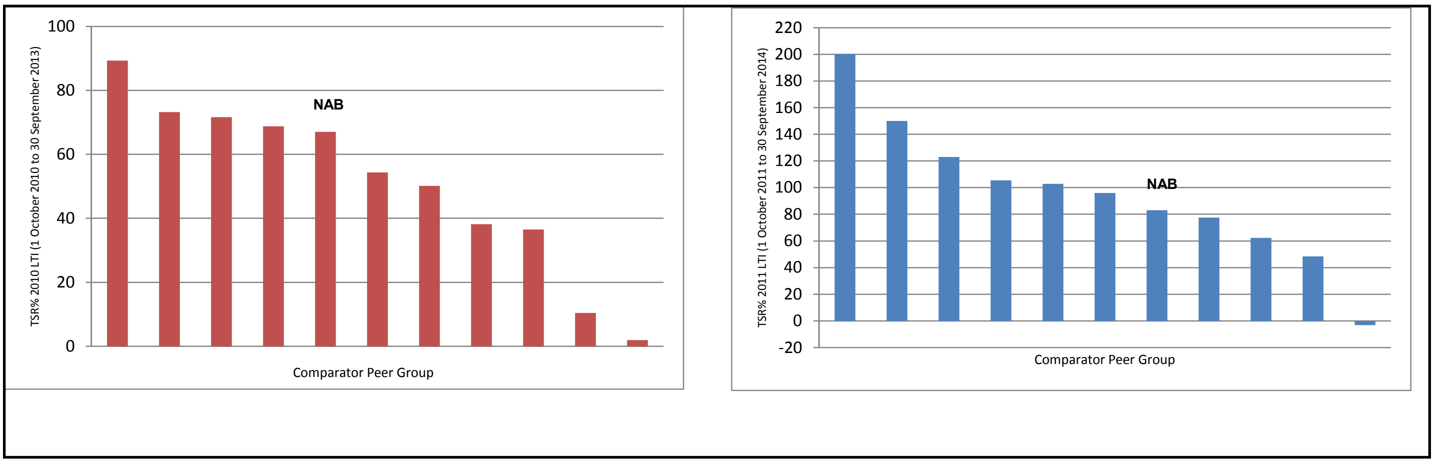
(3) *Granted on 19 December 2011, after the 2011 Annual General Meeting (AGM), for Mr Clyne and Mr Joiner.*

(4) *Granted on 23 December 2010, after the 2010 AGM, for Mr Clyne and Mr Joiner.*

(5) *The performance options delivered actual value to participants because they had an exercise price of $19.89 (meaning they were 'in-the-money'). The last test for Tranche 1 of this grant occurred in 2013.*

The graphs below show the Company's relative TSR performance against the comparator peer groups for the 2010 and 2011 LTI Tranche 1 performance hurdles. The Company was ranked 5th relative to the comparator peer group (60th percentile) for the 2010 LTI grant and ranked 7th relative to the comparator peer group (40th percentile) for the 2011 grant.

Figure 2: 2010 and 2011 LTI relative TSR performance



TSR is calculated by an independent external supplier. The companies in the peer groups are listed at www.nabgroup.com.

Prior year LTI grants

The LTI program has changed over time to reflect market practice, changes in regulation, and to progressively improve alignment with shareholders' experience. There have been no changes to the terms and conditions to prior LTI grants. Details of prior year LTI grants can be found in the Company's 2013 *Remuneration report* available online at www.nabgroup.com. The 2014 LTI award is described in **Section 3.4**.

Remuneration Report

2.3. Five year Group performance

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

Table 5: Five year Group performance

	2014	2013	2012	2011	2010
Basic earnings per share (cents)	222.1	225.9 [(1)]	175.3	233.6	191.8
Cash earnings	$5,184m	$5,747m [(1) (2)]	$5,433m	$5,460m	$4,581m
Dividends paid per share	$1.96	$1.83	$1.78	$1.62	$1.47
Company share price at start of year	$34.32	$25.49	$22.37	$25.34	$30.76
Company share price at end of year	$32.54	$34.32	$25.49	$22.37	$25.34
Absolute TSR for the year	**0.4%**	**42.9%**	**22.4%**	**(5.7%)**	**(13.3%)**

[(1)] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

[(2)] *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes.*

The *Glossary* of the *Financial report* contains a definition of cash earnings and *Note 8* '*Earnings per share'* in the *Financial Report* details the calculation of basic earnings per share. Refer to the *Financial Report* for details of statutory net profit attributable to owners of the Company, and to *Note 2* '*Segment information'* in the *Financial Report* for a reconciliation between cash earnings and statutory net profit attributable to owners of the Company.

Remuneration Report

Section 3 – Remuneration arrangements

3.1. Remuneration governance

The Remuneration Committee (the Committee) has been established by the Board. Its Charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee. The full Charter is available online at www.nabgroup.com. Information on the governance, operations and activities of the Committee are detailed in the *Corporate governance* section.

Committee members at the date of this report were Mr Gilbert (Chairman), Mr Tomlinson and Mr Yuen who were all members during 2014, and Mr Gupta who joined the Board and Committee in November 2014. All members are independent non-executive directors.

The Group operates a global remuneration policy that is reviewed by the Committee and approved by the Board at least annually to maintain alignment with business and regulatory requirements.

Committee decisions and recommendations are made as far as practicable to align remuneration with shareholder returns, in accordance with regional regulatory requirements and global regulatory trends. The Committee has established regional committees across the Group to assist with remuneration decisions. The Committee's remuneration decisions are based on a risk adjusted view of the Group's financial performance through:

Risk assessment – Risk is set and monitored through the risk appetite framework.

Performance assurance – The Committee reviews information on financial and risk performance, regulatory changes and market practices to assist in assessing the overall performance of the Group.

Determining remuneration outcomes – At the end of each year a formal report is provided by the Group CEO and Managing Director, Group Chief Risk Officer (CRO) and Group Executive Finance and Strategy to the Committee capturing the Group's risk and financial outcomes and assessing the overall health of the financial result. This information is provided by the Risk and Finance functions. A joint meeting of the Committee and the Board Risk Committee is held to review the report's findings. The Committee has discretion to recommend to the Board the adjustment of incentive outcomes for the current year and vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the vesting period. In addition, a qualitative overlay may be applied by the Committee that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

The Committee invites the Chairman of the Board and members of the management team, including the Group CRO, to assist in its deliberations (except concerning their individual remuneration). The Committee's decisions may vary from management recommendations. The Group CRO is required to attend meetings where risk-adjusted remuneration measures are discussed.

3.2. Use of external advisers

Where appropriate, the Committee seeks and considers advice directly from external advisers, who are independent of management.

The Committee retained Mr Walmsley of 3 degrees consulting to review and provide recommendations and advice on remuneration and governance matters.

Under the terms of the retainer arrangement, the Committee's external remuneration consultant provided remuneration advice to the Committee (inclusive of 'remuneration recommendations' as defined in section 9B of the *Corporations Act 2001* (Cth)). The Committee has established protocols for engaging with its external remuneration consultant to support compliance with the *Corporations Act 2001* (Cth). These protocols are reflected in the terms of engagement with 3 degrees consulting and have been adhered to. The Committee's external remuneration consultant provided a formal declaration confirming that the recommendations provided were free from 'undue influence' by the senior executives to whom the recommendations related. On this basis, the Board is satisfied that the recommendations were made free from undue influence by the senior executives to whom the recommendations related.

As at 30 September 2014, $92,000 (excluding GST) of fees had been paid to 3 degrees consulting during 2014.

3.3. Insider trading and derivatives policy

The Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested securities (including unvested LTI or deferred STI) with derivative instruments consistent with the *Corporations Act 2001* (Cth) requirements on hedging. Directors and employees can protect the value of vested securities in limited circumstances, as described in the Group Securities Trading Policy. Non-executive directors have not received securities as part of their remuneration arrangements since 2009. Further details on the Group Securities Trading Policy are set out in the *Corporate governance* section. The Group Securities Trading Policy is available online at www.nabgroup.com.

3.4. Remuneration policy for senior executives

The Group's remuneration policy uses a range of components to focus senior executives on achieving the Group's strategy and business objectives. The Group's overall philosophy is to adopt, where possible, a methodology which links remuneration directly to the performance and behaviour of an individual, the Group's results and shareholder outcomes. The Group's senior executive remuneration policy recognises and rewards performance consistent with general practices within the markets in which the Group operates.

The remuneration policy is designed to:

- Attract, recognise, motivate and retain high performers;
- Provide competitive, fair and consistent rewards, benefits and conditions;
- Reward achievement of short and long-term individual objectives and business strategy; and
- Align the interests of senior executives and shareholders through ownership of Company securities.

In setting an individual's target reward the Board considers:

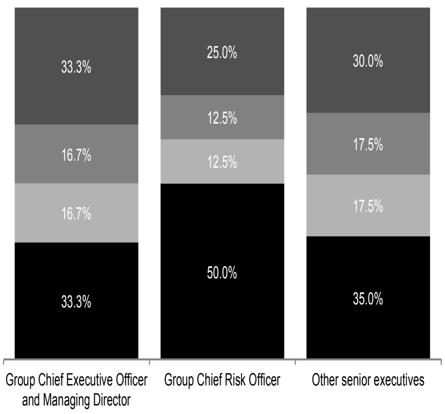
- Market data from comparable roles with companies listed on the Australian Securities Exchange (ASX) - the peer group of 16 companies chosen contains the Company's major competitors and is large enough to provide meaningful market data information;
- Individual and Group performance over the last year;
- Input from the Group CEO and Managing Director on the target reward for senior executives who report directly to the Group CEO and Managing Director;
- Internal relativities;
- Advice from the Committee's external remuneration consultant; and
- General remuneration market environment and trends.

Remuneration Report

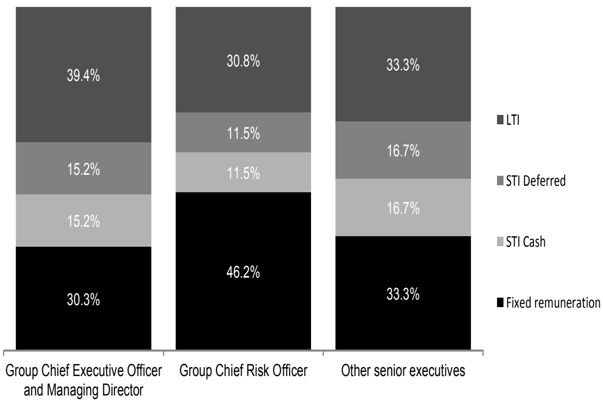
Target reward mix

During 2014, the Board approved an increase to the LTI component for senior executives providing closer alignment of senior executive remuneration to longer term shareholder outcomes. The current and new target reward mix is set out below:

Figure 3: Prior Target Reward mix



New Target Reward mix



The new LTI opportunity will apply to the 2014 LTI award for the Group CEO and Managing Director and senior executives who commenced as KMP prior to 1 July 2014. Senior executives who commenced as KMP on or after 1 July 2014, will receive a transitional target reward mix reflective of their time as a senior executive during 2014. The actual 2014 reward mix for each senior executive is shown in **Table 11**.

2014 short-term incentive arrangements for senior executives

SHORT-TERM INCENTIVE ARRANGEMENTS	
Purpose	• STI is a variable (at-risk) component of reward designed to: – Align annual employee rewards to business performance and sustainable returns for shareholders; – Instil an appropriate focus on business performance beyond the current year and allow for alignment with risk outcomes, through deferring a component of the STI reward; and – Appropriately capture the business risks related to achievement of business outcomes and reflect these in variable rewards.
Performance measures	• Approved by the Board. • Support the Group's annual business plan (set as part of the Group's long-term strategy). • Support four key business drivers: – Financial and risk management; – Strategic projects; – Employees and culture; and – Customer and community.
Impact of individual performance on STI rewards	• The Board reviewed the performance of each senior executive against their scorecard measures and demonstration of Enterprise Behaviours, taking into account input from the Group CEO and Managing Director and assigned an overall performance outcome. • Senior executives who fail the compliance expectations of their role will have their STI reduced in part, or in full, depending on the severity of the breach. No reductions were made to senior executives STIs in respect of 2014 due to not meeting compliance expectations. • An individual STI multiple of between 0 and 2 was awarded based on the individual's overall performance outcome. Only the most outstanding performers received an individual STI multiple of 2 and an individual would be awarded an STI multiple of 0 only if their performance was demonstrably below scorecard targets and/or their behaviour fell short of Enterprise Behaviour expectations.
Impact of business performance on STI rewards	• The financial performance of the Group for the purposes of calculating the STI pool was determined by a mix of growth in cash earnings (40%), ROE (30%) and ROTAE (30%). These measures reasonably capture the effects of a number of material risks and minimise actions that promote short-term results at the expense of longer-term business growth and success. • At the end of the performance period, the Committee, in consultation with the Board Risk Committee, recommended the size of the STI pool (i.e. the business STI multiple) to the Board, taking into account a qualitative overlay that reflected the Group's management of business risks, shareholder expectations and the quality of the financial results. • The STI multiple for each business can range from 0 up to 1.3 for exceptional business performance. The Board has absolute discretion to determine the business STI multiple.
STI reward	• An individual's actual STI for 2014 reflects their STI target multiplied by their individual STI multiple and by the business STI multiple, capped at 1.75 times STI target. • The total STI paid to all employees of the Group, including senior executives, is limited to the size of the funded STI pool. • Half of the STI will be provided as cash, except for former senior executives who will receive 75% of the award as cash. This portion of the award can be fully or partially forfeited for any reason, by the Board, subject to law, until paid in December 2014. The minimum amount is $0 and the maximum is the amount of the cash component shown in the column: 'Cash STI' (subject to footnote 2) in **Table 10.** • The remainder of the award is deferred in the form of performance rights (subject to any required shareholder approval for the executive director) or shares for former senior executives scheduled to be allocated. Senior executives who cease employment prior to the allocation, will receive deferred cash to be confirmed in January 2015. • The minimum amount of the deferred component of the award is $0 if the award does not vest. The maximum amount for senior executives is the amount shown in the column: 'Cash STI' (subject to footnote 2) in **Table 10**, if the deferred STI performance rights are released in full, subject to the value of the Company's shares at the time of vesting. For former senior executives, the maximum amount is one third of the amount shown in the column: 'Cash STI' in **Table 10** if provided as cash, or subject to the value of the Company's shares at the time of vesting if provided as shares, and released in full.

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2014 short-term incentive arrangements for senior executives (continued)

SHORT-TERM INCENTIVE ARRANGEMENTS	
Deferral and vesting	• For senior executives, half of the deferred STI performance rights will be restricted from being exercised and subject to lapsing and performance conditions for approximately 14 months following the end of 2014 (Tranche 1), and the remaining half for approximately 26 months (Tranche 2). • Any unexercised deferred STI performance rights expire in March 2016 for Tranche 1 and March 2017 for Tranche 2 at the end of an additional three month period allowed for exercise of any vested performance rights. • No dividends are received on deferred STI performance rights during the deferral periods. • For former senior executives the cash deferred STI or deferred STI shares will be restricted and subject to forfeiture and performance conditions for approximately 14 months following the end of 2014. • The cash deferred STI will be paid in December 2015.
Retention of STI	• If any deferred STI performance rights are retained on cessation of employment (see Forfeiture and lapsing of performance rights below), they remain subject to the performance hurdles and timetable of the award as described above.

2014 long-term incentive arrangements

LONG-TERM INCENTIVE ARRANGEMENTS	
Purpose	• LTI rewards help to align management decisions with the long-term prosperity of the Group through the use of challenging external performance hurdles.
LTI award value	• **Table 11** shows the LTI value which will be granted in respect of 2014 (in the column headed: 'LTI opportunity for 2014').
Life of LTI award	• Scheduled to be granted in December 2014 (and for the Executive Director, after the AGM, subject to shareholder approval, in February 2015) in two equal tranches. The LTI performance rights have a minimum life of approximately 4 years from 10 December 2014 with an additional retest over 5 years if required. • Any unexercised LTI performance rights expire in March 2020 at the end of an additional three month period allowed for exercise of any vested performance rights.
Performance hurdles	• The performance hurdles measure the Company's relative TSR performance against two different peer groups over the performance period: **For Tranche 1 (50% of grant value)** • The S&P/ASX Top 50 Index as at 1 October 2014. **For Tranche 2 (50% of grant value)** • The Top Financial Services companies (listed at www.nabgroup.com). • There is no substitution for de-listed companies during the performance period. • TSR is calculated as the value of the relevant shares on the start date and the end date of the relevant performance period, based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date.
Performance hurdle testing and vesting	• The performance hurdles for Tranche 1 and Tranche 2 will be assessed separately and therefore both hurdles do not need to be satisfied for some of the LTI performance rights to vest. • The performance hurdles are initially assessed over a four year period from 10 November 2014 to 10 November 2018. Any vested performance rights are exercisable from 21 December 2018. • The percentage of vesting is determined based on: **Company TSR result** – **Vesting outcome** Less than 50^{th} percentile of peer group – 0% vesting Between 50^{th} percentile and 75^{th} percentile – 50% plus 2% for every additional percentile above the 50th percentile (rounded to the nearest whole percentile) 75^{th} percentile or greater – 100% vesting • Any LTI performance rights not vested after the first test will not lapse. An additional test over the five year performance period from 10 November 2014 to 10 November 2019 will occur. If there is an increase in TSR performance from the first test to the second test, then any further vesting will be determined on a straight line scale as detailed above (taking into account any LTI performance rights which vested on the first test date). • The Board will assess TSR performance and the proportion of vesting in its absolute discretion, subject to compliance with law. • Any LTI performance rights that do not vest following the second test will lapse. • The minimum amount of the award is $0 if the award does not vest and the maximum amount is the grant value shown in **Table 11** (in the column headed: 'LTI opportunity for 2014'), subject to the value of the Company's shares at the time of vesting.
Retention of LTI	• If a senior executive ceases employment before 21 December 2018 and the Board has not exercised its discretion to lapse the LTI performance rights on cessation of employment (see Forfeiture and lapsing of performance rights below), some or all of the performance rights are retained based on the elapsed period of service during the four year performance period. • If cessation of employment is after 21 December 2018 but prior to 21 December 2019, any unvested LTI performance rights are fully retained. • Any performance rights that do not lapse remain subject to the performance hurdles and timetable of the award as described above.

Forfeiture and lapsing of performance rights

Unvested deferred STI and LTI performance rights will lapse on the first to occur of:

- The senior executive resigns;
- The senior executive fails to meet the Compliance Gateway;
- The Board determining that some or all of the performance rights will lapse on cessation of employment; or
- The Board, in its absolute discretion and subject to compliance with the law, determines that some or all of the performance rights will lapse.

On cessation of employment, unvested performance rights, that are not lapsed, will be retained under the relevant performance conditions and restrictions.

Malus

The Board has absolute discretion, subject to compliance with the law, to adjust any STI reward, LTI award and other performance-based components of remuneration downwards, or to zero, to protect the financial soundness of the Group. In addition, the Board may vary vesting of deferred incentives and long-term incentives if the Group's financial performance or risk management have significantly deteriorated over the vesting period. A qualitative overlay may be applied that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results. This discretion can be applied at any time and may impact unvested equity awards and performance-based rewards yet to be awarded, whether in cash or equity. In exercising its discretion, the Board will consider whether the rewards are appropriate given later individual or business performance. Malus may apply to any employees across the Group, by division, by role and / or individual, depending on circumstances.

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Conditions for retaining securities

In the majority of cases, securities only vest as a result of achieving the relevant performance hurdle.

In relation to certain events, including a takeover or scheme of arrangement, the Board has discretion to allow holders to exercise securities regardless of the normal criteria and the restriction period on the securities would end.

Minimum shareholding policy

Senior executives are required to accumulate and retain Company equity over a five year period from commencement in a KMP position, to the value of two times fixed remuneration for the Group CEO and Managing Director and one times fixed remuneration for other senior executives. (Details of senior executive shareholdings in the Company are set out in **Tables 15 to 17**).

Commencement, retention and guaranteed incentives

Commencement awards for senior executives are only entered into with the recommendation of the Committee and approval of the Board. These enable buy-out of unvested equity from previous employment. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The awards are primarily provided in the form of shares or performance rights, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation, unique to each offer. Guaranteed incentives or bonuses do not support the Group's performance-based culture and are not provided as part of the Group's remuneration policy.

Mr Drummond was compensated for deferred employment incentives which were forfeited on cessation of his previous employment, to the value of $6.5 million in a combination of cash and equity. The incentive progressively vests until 2016 subject to relevant performance hurdles. Details of the cash payment are provided in **Table 9** and the equity awards in **Table 12**.

The Group provides retention awards for key individuals in roles where retention is critical over a medium-term timeframe (two to three years). These are normally provided in the form of shares or performance rights, subject to a restriction period, achievement of individual performance standards and forfeiture conditions, including forfeiture on resignation.

No commencement or retention awards were made to Mr Cahill, Mr A Healy, Mr Gall, Ms Mentis or Mrs Roberts on commencement in their senior executive positions, or to any other senior executives during 2014.

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Section 4 – Non-executive director remuneration

4.1. Remuneration policy for non-executive directors

The fees paid to non-executive directors who serve on the Board are based on advice and market data from independent external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members. Non-executive director fees are not related to the performance of the Group. Generally, the Board annually reviews the fees paid to the Chairman and non-executive directors on the Board in line with general industry practice. Additional fees are paid, where applicable, for participation on Board committees and for serving on the boards of controlled entities and on internal advisory boards. The Chairman fee is inclusive of participation on Board committees. Since October 2005, the fees have included the Company's compulsory contributions to superannuation. Non-executive directors can elect to take part of their remuneration as additional Company superannuation contributions. Non-executive directors are not paid any performance or incentive payments.

Fees were reviewed during 2014. As a result of the review, the Board decided, having considered the advice of the Committee's external remuneration consultant, to increase the fees paid for the Audit and Remuneration Committees from 1 October 2014. The increases recognise the increase in responsibilities for these Committees over recent years due to additional regulatory requirements and to align with market. All other Board and Committee fees remain unchanged. The next review is scheduled for August 2015. There has been no increase to Board fees since 1 April 2008.

Non-executive directors must hold at least 2,000 fully paid ordinary shares in the Company within six months of appointment. (Details of non-executive director shareholdings in the Company are set out in **Table 17**).

There is no change to the maximum fee pool of $4.5 million per annum which was approved at the Company's February 2008 AGM.

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company's Constitution and the charters and policies approved by the Board from time-to-time, as set out in the *Corporate governance* section. Non-executive directors are not eligible for any payments on cessation of appointment.

The following table shows the annual fees paid to the Chairman and non-executive directors on the Board, and to non-executive directors who participate on Board committees.

Table 6: Board and committee fee schedule

	Chairman ($pa)	Director ($pa)
Board	770,000	220,000
Audit Committee[(1)]	60,000	30,000
Risk Committee	60,000	30,000
Remuneration Committee[(2)]	50,000	22,500
Information Technology Committee	30,000	15,000

(1) *The Chairman fee will increase to $65,000 pa and the non-executive director fee to $32,500 pa from 1 October 2014.*

(2) *The Chairman fee will increase to $55,000 pa and the non-executive director fee to $25,000 pa from 1 October 2014.*

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4.2. Non-executive director remuneration outcomes

The total fees paid by the Company to non-executive members of the Board, including fees paid for their involvement on (a) the Board; (b) Board committees; and (c) Boards of controlled entities, are kept within the total pool approved by shareholders from time-to-time. The following table sets out details of the components of non-executive directors' remuneration paid during 2014 in the form of Board and committee fees and other non-monetary benefits. This is a voluntary disclosure. The statutory disclosure is provided in **Table 8**.

Table 7: Non-executive director fees for 2014

Name	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Information Technology Committee $	Controlled Entities $	Total $
MA Chaney (Chairman)	770,000	-	-	-	-	-	**770,000**
DH Armstrong [(1)]	35,070	4,762	-	-	2,381	-	**42,213**
DT Gilbert	220,000	-	-	50,000	30,000	-	**300,000**
KR Henry	220,000	30,000	-	-	-	-	**250,000**
GC McBride [(2)]	127,531	-	-	-	8,691	-	**136,222**
PJ Rizzo	220,000	30,000	60,000	-	15,000	-	**325,000**
JS Segal	220,000	30,000	30,000	-	-	-	**280,000**
JG Thorn	220,000	60,000	-	-	15,000	-	**295,000**
GA Tomlinson [(3)]	220,000	-	-	22,500	-	277,500	**520,000**
JA Waller [(4)]	220,000	30,000	30,000	-	-	160,025	**440,025**
AKT Yuen [(5)]	220,000	-	30,000	22,500	-	25,000	**297,500**
Total	2,692,601	184,762	150,000	95,000	71,072	462,525	**3,655,960**

[(1)] *Mr Armstrong commenced as a director of the Company on 5 August 2014.*

[(2)] *Ms McBride commenced as a director of the Company on 4 March 2014.*

[(3)] *Mr Tomlinson received fees in respect of services performed as Chairman of a number of subsidiaries of the Company including National Wealth Management Holdings Limited, MLC Limited, MLC Investments Limited, MLC Wealth Management Limited, WM Life Australia Ltd and Navigator Australia Ltd.*

[(4)] *Mr Waller receives fees in respect of services performed as Chairman of Bank of New Zealand, which are paid in NZD.*

[(5)] *Mr Yuen receives fees in respect of services performed on the Australia in Asia Management Council.*

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The following table sets out the nature and amount of each element of remuneration of non-executive directors of the Company in relation to services they provided for 2014. No performance options or performance rights are granted to non-executive directors.

Table 8: Non-executive director statutory remuneration

		Short-term benefits	Post-employment benefits	Total
Name		Cash salary and fees (1) fixed $	Superannuation (2) Fixed $	$
MA Chaney (Chairman)	**2014**	**751,973**	**18,027**	**770,000**
	2013	753,204	16,796	770,000
DH Armstrong (for part year) (3)	**2014**	**39,082**	**3,131**	**42,213**
DT Gilbert	**2014**	**281,973**	**18,027**	**300,000**
	2013	260,287	16,796	277,083
KR Henry	**2014**	**231,973**	**18,027**	**250,000**
	2013	233,204	16,796	250,000
GC McBride (for part year) (4)	**2014**	**125,601**	**10,621**	**136,222**
PJ Rizzo	**2014**	**289,748**	**35,252**	**325,000**
	2013	297,500	27,500	325,000
JS Segal	**2014**	**261,973**	**18,027**	**280,000**
	2013	263,204	16,796	280,000
JG Thorn	**2014**	**276,973**	**18,027**	**295,000**
	2013	278,204	16,796	295,000
GA Tomlinson	**2014**	**501,973**	**18,027**	**520,000**
	2013	503,204	16,796	520,000
JA Waller	**2014**	**421,998**	**18,027**	**440,025**
	2013	407,220	16,796	424,016
AKT Yuen	**2014**	**293,656**	**3,844**	**297,500**
	2013	294,290	3,210	297,500
Former non-executive director				
PA Cross (for part year)	2013	273,844	16,270	290,114
Total	**2014**	**3,476,923**	**179,037**	**3,655,960**
Total	2013	3,564,161	164,552	3,728,713

(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 as set out in Table 7, received as cash. No non-monetary benefits were provided to the non-executive directors during 2014.*

(2) *Reflects compulsory Company contributions to superannuation and, where applicable, includes additional superannuation contributions made by the Company, in lieu of payment of fees, at the election of the non-executive director.*

(3) *Mr Armstrong commenced as a director of the Company on 5 August 2014.*

(4) *Ms McBride commenced as a director of the Company on 4 March 2014.*

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Section 5 – Data disclosures

5.1. Remuneration data for senior executives

The following table has been prepared in accordance with Section 300A of the *Corporations Act 2001* (Cth), using the required table headings and definitions. They show details of the nature and amount of each element of remuneration paid or awarded for services provided for the year (including STI amounts in respect of performance during the year which are paid following the end of the year).

In addition to remuneration benefits below, the Company paid an insurance premium for a contract insuring all senior executives 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.

Table 9: Statutory remuneration data

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary (1) $	Cash STI (2) $	Non-monetary (3) $	Superannuation (4) $	Other long-term benefits (5) $	Shares (6) $	Options and rights (7) $	Termination benefits $	Total $
Senior executives for the year ended 30 September										
Executive director										
AG Thorburn (8)	**2014**	**1,332,633**	**130,000**	**264,896**	**29,642**	**33,793**	**648**	**437,674**	**-**	**2,229,286**
	2013	1,015,022	368,460	51,084	25,030	12,187	650	1,120,408	-	2,592,841
Other senior executives										
AJ Cahill (for part year)	**2014**	**163,414**	**19,276**	**9,913**	**1,393**	**1,220**	**-**	**46,093**	**-**	**241,309**
CM Drummond (for part year)	**2014**	**1,169,552**	**2,270,345**	**3,906**	**20,904**	**4,980**	**3,143,850**	**169,746**	**-**	**6,783,283**
AD Gall (for part year)	**2014**	**198,508**	**28,420**	**58**	**5,195**	**2,175**	**-**	**57,336**	**-**	**291,692**
AP Hagger	**2014**	**982,744**	**240,000**	**63,330**	**19,581**	**10,846**	**(246,170)**	**583,144**	-	**1,653,475**
	2013	862,505	400,500	4,961	18,796	9,677	306,364	698,410	-	2,301,213
MJ Healey	**2014**	**822,022**	**170,000**	**1,936**	**19,529**	**10,434**	**(188,138)**	**470,458**	**-**	**1,306,241**
	2013	682,485	340,425	1,327	18,898	9,128	276,367	517,334	-	1,845,964
AJ Healy (for part year)	**2014**	**298,945**	**65,918**	**4,293**	**22,940**	**1,514**	**337**	**135,803**	**-**	**529,750**
A Mentis (for part year)	**2014**	**162,726**	**29,655**	**-**	**1,393**	**2,051**	**-**	**58,920**	**-**	**254,745**
RM Roberts (for part year)	**2014**	**167,631**	**12,009**	**2,585**	**4,228**	**5,548**	**70**	**30,124**	**-**	**222,195**
GR Slater	**2014**	**963,482**	**240,000**	**5,443**	**19,581**	**16,513**	**(283,431)**	**650,084**	**-**	**1,611,672**
	2013	883,359	400,500	17,440	18,796	16,249	372,759	750,525	-	2,459,628
Former executive directors										
CA Clyne (for part year) (9)(10)	**2014**	**2,382,502**	**473,793**	**1,044**	**47,984**	**36,246**	**(1,027,764)**	**2,358,025**	**1,706,897**	**5,978,727**
	2013	2,632,889	1,081,350	70,394	26,013	35,767	1,428,207	2,487,446	**-**	7,762,066
MA Joiner (for part year) (10)	**2014**	**324,025**	**720,600**	**257**	**7,370**	**-**	**(421,115)**	**212,044**	-	**843,181**
	2013	1,167,087	480,600	1,171	18,606	12,886	587,633	804,809	**-**	3,072,792
Former senior executives										
LJ Gray (for part year) (11)	**2014**	**805,333**	**212,989**	**3,434**	**18,188**	**13,902**	**(297,921)**	**329,181**	-	**1,085,106**
	2013	960,197	400,500	3,764	19,166	51,126	407,716	751,755	-	2,594,224
JC Healy (for part year) (11)	**2014**	**932,297**	**179,161**	**76**	**18,083**	-	**(349,888)**	**371,721**	-	**1,151,450**
	2013	1,056,622	440,550	91	18,601	11,812	484,352	903,386	-	2,915,414
BF Munro (for part year) (11)	**2014**	**1,068,050**	**105,868**	**10,252**	**17,979**	**16,631**	**(262,772)**	**217,823**	-	**1,173,831**
	2013	1,233,776	240,300	13,517	18,606	15,896	366,330	543,816	-	2,432,241
RJ Sawers (for part year) (12)	**2014**	**1,009,494**	**300,690**	**6,828**	**17,979**	**13,655**	**(252,865)**	**433,962**	-	**1,529,743**
	2013	981,937	480,600	8,463	18,905	14,446	416,961	914,280	-	2,835,592
SJ Tucker (for part year)	2013	396,180	-	2,598	47,721	8,279	464,946	356,052	1,410,128	2,685,904
Total senior executives	**2014**	**12,783,358**	**5,198,724**	**378,251**	**271,969**	**169,508**	**(185,159)**	**6,562,138**	**1,706,897**	**26,885,686**
Total senior executives	2013	11,872,059	4,633,785	174,810	249,138	197,453	5,112,285	9,848,221	1,410,128	33,497,879

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Table 9: Statutory remuneration data (continued)

(1) *Includes cash salary, cash allowances and short-term compensated absences, such as annual leave entitlements accrued but not taken during the year.*

(2) *The cash component of the STI received in respect of 2014 is scheduled to be paid on 20 November 2014 in NZ and 17 December 2014 in Australia. The amount reflects 50% of the STI to be provided to eligible current senior executives and the executive director. The amount reflects 75% of the STI to be provided to former executive directors and senior executives. The amount remains subject to performance hurdles until paid. The amount shown for Mr Clyne and Mr Joiner includes cash deferred STI (expected to be paid on 16 December 2015) in respect of 2014, which remains subject to the relevant performance hurdles and restriction periods. Under AASB 119, the value of the retained cash deferred STI has been fully accounted for on cessation. No amount is included for Ms Gray, Mr JC Healy or Mr Munro who will have the deferred STI fully forfeited on cessation of employment. The amount shown for Mr Drummond includes a portion of his commencement award to the value of $2 million paid in cash on 21 November 2013. The cash component of the STI received in respect of 2013 was paid in full on 7 November 2013 in NZ and 4 December 2013 in Australia as previously disclosed, with no adjustment.*

(3) *Includes any motor vehicle benefits, parking and other benefits. For international assignees this may include the provision of health fund benefits and personal tax advice. Any related fringe benefits tax is included.*

(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 NZ but such payments may be made as part of fixed remuneration.*

(5) *Includes long service leave entitlements accrued but not taken during the year. The long service leave entitlements are recognised as accruing on an annual basis subject to an actuarial calculation.*

(6) *The amount included in remuneration each year for share awards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Table of key terms for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2014 include portions of shares allocated under employee programs as follows:*

- *2011 deferred STI shares allocated in November 2011, or after the respective AGM for Executive Directors. The 2011 allocation is deferred STI shares, with half of the grant vesting 12 months after the date of allocation and the remaining half 24 months after the date of allocation. Tranche 2 of the 2011 deferred STI shares vested in November 2013. Forfeiture conditions apply during the deferral period.*
- *2014 deferred STI shares to be allocated to eligible former senior executives in February 2015, restricted for approximately 14 months after the end of the performance year. Due to Mr Clyne and Mr Joiner retiring during 2014, Mr Clyne and Mr Joiner will be provided the deferred STI portion in cash, restricted for 14 months after the end of the performance period.*
- *2010 LTI shares allocated in December 2010, or after the respective AGM for executive directors. This allocation did not fully meet the performance hurdle and was partially lapsed on 13 December 2013. The amount includes a reversal for 50% of the grant date fair value of the allocation in line with AASB 2.*
- *General Employee Offer shares granted in December 2011, 2012 and 2013 and to be granted in December 2014 to senior executives located in NZ at the relevant offer time. The shares vest after a three-year restriction period (with forfeiture conditions, including on resignation).*
- *Commencement shares allocated to Mr Drummond in November 2013 with 50% vesting in October 2014 and 50% vesting in October 2015, subject to performance and service hurdles.*

(7) *The amount included in remuneration each year for performance options and performance rights is the grant date fair value amortised on a straight line basis over the expected vesting period. Refer to the Table of key terms for an explanation of fair value basis used to determine equity-based benefits. Amounts shown for 2014 include portions of performance options and performance rights allocated under employee programs, as shown below:*

- *Deferred STI performance rights granted in November 2012, February 2014 and to be granted in February 2015. The 2012 performance rights are granted with half of each grant restricted for 12 months after the date of grant and the remaining half 24 months after the date of grant. The 2013 and 2014 performance rights are granted with half of each grant restricted for approximately 14 months after the end of the performance year and the remaining half for approximately 26 months after the end of the performance year.*
- *Performance rights granted to Mr Thorburn in November 2011 as an NZ-based participant, in lieu of 2011 deferred STI shares. The performance rights are granted with half of each grant restricted for 12 months after the date of grant and the remaining half 24 months after the date of grant.*
- *LTI performance rights granted in December 2011, December 2012, December 2013 (and for the former Group CEO, after the AGM subject to shareholder approval, in February 2014) and to be granted in December 2014 (and for the Executive Director, after the AGM subject to shareholder approval, in February 2015) under the Group's LTI program. The 2011 LTI grant did not meet the performance hurdles and was fully lapsed on 30 September 2014. The amount includes a reversal for 50% of the grant date fair value of the allocation in line with AASB 2.*
- *Performance rights granted to Mr Thorburn (in December 2010) as an NZ-based participant, in lieu of LTI shares. This grant did not fully meet the performance hurdle and was partially lapsed on 13 December 2013. The amount includes a reversal for 50% of the grant date fair value of the allocation in line with AASB2.*
- *Performance options granted to Mr Joiner in January 2009, as part of the Group's LTI program.*
- *Retention performance rights granted to Mr Slater in May 2013 on his appointment to the Group Executive, Personal Banking role. The performance rights are restricted for 4 years after the date of grant.*

(8) *Mr Thorburn was KMP for the full year. He was an Executive Director from 1 August 2014 on his appointment to the Board while Group CEO Designate.*

(9) *On cessation of employment, Mr Clyne received a termination payment in accordance with his employment contract of September 2008.*

(10) *On cessation of employment, Mr Clyne and Mr Joiner retained performance rights in accordance with the relevant terms and conditions of each grant which remain subject to the relevant performance hurdles and restriction periods. Under AASB 2, the value of retained equity has been fully accounted for on cessation. On separation, certain LTI performance grants were partially forfeited, and the associated expense was reversed. These arrangements are in line with the Group's policy and practice in such circumstances.*

(11) *Ms Gray, Mr JC Healy and Mr Munro ceased as KMP on 31 July 2014. They are expected to cease employment with the Group in December 2014. On cessation of employment, a termination payment will be paid in accordance with the terms of their employment contracts. Any 2014 deferred STI and all other unvested LTI and STI performance rights will be fully forfeited in accordance with the relevant terms and conditions of each grant on cessation of employment. These arrangements are in line with the Group's policy and practice in such circumstances.*

(12) *Mr Sawers ceased as KMP on 31 July 2014 and is expected to retire at the end of July 2015. The terms of his separation will be in accordance with his employment contract and unvested Performance rights will be retained in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. These arrangements are in line with the Group's policy and practice in such circumstances.*

Remuneration Report

Non-statutory remuneration outcomes for senior executives

The following table is a voluntary disclosure summarising the actual remuneration senior executives received, including fixed remuneration and the value of equity that vested during 2014. Additionally, equity that has lapsed during the year without providing any value to the senior executive is shown. The equity information is different to that provided in **Table 9** which shows accounting expensed amounts that reflect a portion of expected earnings from prior, current and future years. The data in **Table 9** is presented in accordance with statutory requirements. The below information is provided to show a clearer representation of actual remuneration received by senior executives for the current year. All values are shown in Australian dollars.

Table 10: Remuneration outcomes

Name	Fixed remuneration (1) $	Cash STI (2) $	Deferred STI vested during year (3) $	Equity related amounts during year (4) $	Termination benefits $	Remuneration actually earned for 2014 (5) $	Equity lapsed during 2014 (6) $
Executive director							
AG Thorburn	1,660,964	130,000	865,058	537,873	-	3,193,895	(2,215,939)
Other senior executives							
AJ Cahill (for part year)	175,940	19,276	154,812	332,032	-	682,060	(291,461)
CM Drummond (for part year)	1,199,342	2,270,345	-	242,844	-	3,712,531	-
AD Gall (for part year)	205,936	28,420	472,283	279,852	-	986,491	(518,797)
AP Hagger	1,076,501	240,000	562,370	500,535	-	2,379,406	(2,082,920)
MJ Healey	853,921	170,000	471,854	387,101	-	1,882,876	(1,464,814)
AJ Healy (for part year)	327,692	65,918	274,542	96,446	-	764,598	(325,404)
A Mentis (for part year)	166,170	29,655	363,582	110,516	-	669,923	(439,299)
RM Roberts (for part year)	179,992	12,009	69,915	6,287	-	268,203	(210,501)
GR Slater	1,005,019	240,000	598,772	569,619	-	2,413,410	(2,170,130)
Former executive directors							
CA Clyne (for part year) (7)	2,467,776	355,345	2,319,755	2,106,288	1,706,897	8,956,061	(19,134,731)
MA Joiner (for part year)	331,652	180,000	925,292	1,799,311	-	3,236,255	(5,953,967)
Former senior executives							
LJ Gray (for part year)	840,857	212,989	665,247	607,867	-	2,326,960	(2,397,545)
JC Healy (for part year)	950,456	179,161	831,271	715,633	-	2,676,521	(2,896,197)
BF Munro (for part year)	1,112,912	105,868	538,417	536,414	-	2,293,611	(1,953,552)
RJ Sawers (for part year)	1,047,956	300,690	888,551	607,867	-	2,845,064	(2,397,545)

(1) *The total amount received by the executive during the year including cash salary, cash value of non-monetary benefits such as motor vehicles and parking, superannuation and annual leave and long service leave entitlements. This definition is consistent with Table 9 and pro-rated as appropriate.*

(2) *The cash component of the STI received for the eligible senior executives in respect of 2014. The remaining portion of the STI for 2014 is deferred as disclosed in Table 9 and pro-rated as appropriate. The amount shown for Mr Drummond includes a portion of his commencement award to the value of $2 million paid in cash on 21 November 2013.*

(3) *Deferred STI amounts from the 2011 Tranche 2 and 2012 Tranche 1 STI program fully vested in November 2013. The value is calculated using the closing share price of Company shares on the vesting date.*

(4) *Equity related amounts provided to senior executives during 2014. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3)) that have vested and/or been exercised during 2014. The value was calculated using the closing share price of Company shares on the vesting date for shares and performance rights. For performance options, the value is the market value less the exercise price on the day the senior executive exercises the performance options. Dividends received during 2014 for unvested STI and LTI share awards are also included. These awards were the 2011 Tranche 2 deferred STI, 2010 LTI, commencement and retention awards. The amount is calculated for the 2013 final dividend of 97 cents (record date of 13 November 2013) and the 2014 interim dividend of 99 cents (record date of 16 May 2014). Both dividends were fully franked.*

(5) *Total value of remuneration received during 2014. This is the total of the previous columns.*

(6) *Includes LTI securities that have been forfeited or lapsed, unvested and/or unexercised on their expiry date. The value is calculated using the closing share price of Company shares on the expiry/forfeiture date (with the exercise price subtracted in the case of any lapsed performance options).*

(7) *On cessation of employment, Mr Clyne received a termination payment under his contract entered into in September 2008.*

Performance related remuneration

The design of the share, performance option and performance rights plans (and the expected outcome for senior executives) seeks to comply with ASX Corporate Governance Principles and Recommendations, and those set out in the Investment and Financial Services Association's (IFSA) 'Executive Equity Plan Guidelines', Guidance Note 12. The main departure from the IFSA guidelines is that performance rights issued by the Company have no exercise price, and that any performance options whose exercise price is set at a date other than at the date of grant could potentially have an exercise price lower (or higher) than the market price prevailing at or around the date of grant.

The following table analyses the amounts shown in **Table 9**, as a proportion of each individual's total remuneration. This shows actual reward mix, based on the achievement of individual and business performance under the STI and LTI programs, consistent with the statutory remuneration data.

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Table 11: Performance related remuneration

	Fixed salary (not linked to Group performance) [(1)] %	Performance-related remuneration: Cash-based: Cash STI at risk %	Equity-based: Shares at risk %	Equity-based: Options and rights at risk %	Total %	Actual STI as % of STI Target %	LTI opportunity for 2014 [(2)] $
Senior executives for the year ended 30 September 2014							
Executive director							
AG Thorburn	74	6	-	20	100	26	2,860,000
Other senior executives							
AJ Cahill	73	8	-	19	100	60	156,000
CM Drummond	18	33	46	3	100	48	1,200,000
AD Gall	71	10	-	19	100	60	172,500
AP Hagger	65	15	(15)	35	100	48	1,000,000
MJ Healey	65	13	(14)	36	100	40	850,000
AJ Healy	62	12	-	26	100	40	843,357
A Mentis	65	12	-	23	100	60	180,000
RM Roberts	81	5	-	14	100	66	132,536
GR Slater	62	15	(17)	40	100	48	1,000,000
Former executive directors							
CA Clyne	58	11	(24)	55	100	20	-
MA Joiner	39	85	(49)	25	100	78	-
Former senior executives							
LJ Gray	77	20	(27)	30	100	34	-
JC Healy	83	15	(30)	32	100	26	-
BF Munro	95	9	(23)	19	100	26	-
RJ Sawers	69	20	(17)	28	100	40	-

(1) *Fixed salary is the total of the following columns from the Statutory remuneration data table: cash salary, non-monetary benefits, superannuation and other long-term benefits.*

(2) *The 2014 LTI will be granted in December 2014 (and in February 2015, after the AGM subject to shareholder approval, for the Executive Director).*

5.2. Value of shares, performance options and performance rights

Table 12 shows the value of shares, performance options and performance rights issued to each senior executive as part of their remuneration that were granted, lapsed or vested during the year to 30 September 2014. No performance options or performance rights are granted to non-executive directors.

The value of shares, performance options and performance rights is the fair value at grant date multiplied by the total number of shares, performance options or performance rights, and therefore represents the full value to be amortised over the vesting period, which is greater than one year. All shares issued or transferred upon the exercise of performance options are paid for in full by the senior executive based on the relevant exercise price. No amounts were paid per ordinary share by senior executives for any performance rights that were vested and exercised during 2014. The number of shares provided on the exercise of performance options and performance rights are on a one to one basis. No amounts are unpaid on any shares provided on the exercise of performance options or performance rights. There have been no changes to the terms and conditions of these awards since the grant dates.

For awards allocated for the year to 30 September 2014, the maximum amount that may vest (if no portion is forfeited) is shown for each senior executive. The minimum amount for these equity awards is zero if the equity is fully lapsed.

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Table 12: Value of shares, performance options and performance rights

		Granted (1) No.	Grant date	Lapsed (2) No.	Vested (3) No.	Granted $	Lapsed $	Vested $
Executive director								
AG Thorburn	LTI rights	36,071	15/12/2010	(19,870)	16,201	-	(335,446)	180,641
	Deferred STI rights	14,649	9/11/2011	-	14,649	-	-	318,762
	Deferred STI rights	10,540	7/11/2012	-	10,540	-	-	248,639
	LTI rights	50,834	11/12/2013	-	-	782,013	-	-
	General employee shares	26	11/12/2013	-	-	884	-	-
	Deferred STI rights	11,614	19/02/2014	-	-	368,494	-	-
Other senior executives								
AJ Cahill	Commencement shares	7,233	23/02/2011	-	7,233	-	-	190,011
	LTI rights	8,957	14/12/2011	(8,957)	-	-	(135,025)	-
	Recognition shares	2,181	22/02/2012	-	2,181	-	-	50,010
	Deferred STI rights	4,464	7/11/2012	-	4,464	-	-	105,306
	LTI rights	9,362	11/12/2013	-	-	144,022	-	-
	Deferred STI rights	6,383	19/02/2014	-	-	202,523	-	-
CM Drummond	Commencement shares	123,900	1/11/2013	-	-	4,500,048	-	-
AD Gall	Recognition shares	4,092	4/03/2010	-	4,092	-	-	102,546
	LTI shares	8,547	15/12/2010	(4,876)	3,671	-	(102,345)	55,138
	STI deferred shares	5,483	9/11/2011	-	5,483	-	-	137,514
	LTI rights	10,946	14/12/2011	(10,946)	-	-	(165,007)	-
	Deferred STI rights	8,227	7/11/2012	-	8,227	-	-	194,075
	LTI rights	11,214	11/12/2013	-	-	172,512	-	-
	Deferred STI rights	6,117	19/02/2014	-	-	194,083	-	-
AP Hagger	LTI shares	32,319	15/12/2010	(18,442)	13,877	-	(387,080)	208,433
	STI deferred shares	8,731	9/11/2011	-	8,731	-	-	218,973
	LTI rights	45,110	14/12/2011	(45,110)	-	-	(680,011)	-
	Deferred STI rights	7,631	7/11/2012	-	7,631	-	-	180,015
	LTI rights	55,255	11/12/2013	-	-	850,025	-	-
	Deferred STI rights	12,624	19/02/2014	-	-	400,540	-	-
MJ Healey	LTI shares	24,909	15/12/2010	(14,213)	10,696	-	(298,320)	160,654
	STI deferred shares	8,075	9/11/2011	-	8,075	-	-	202,521
	LTI rights	30,449	14/12/2011	(30,449)	-	-	(459,004)	-
	Deferred STI rights	5,666	7/11/2012	-	5,666	-	-	133,661
	LTI rights	46,966	11/12/2013	-	-	722,509	-	-
	Deferred STI rights	10,730	19/02/2014	-	-	340,447	-	-
AJ Healy	LTI rights	6,365	15/12/2010	(3,506)	2,859	-	(59,188)	31,878
	General employee shares	46	15/12/2010	-	46	-	-	1,096
	Deferred STI rights	3,920	9/11/2011	-	3,920	-	-	85,299
	LTI rights	6,423	14/12/2011	(6,423)	-	-	(96,823)	-
	Deferred STI rights	4,062	7/11/2012	-	4,062	-	-	95,823
	LTI rights	8,470	11/12/2013	-	-	130,300	-	-
	General employee shares	26	11/12/2013	-	-	884	-	-
	Deferred STI rights	5,478	19/02/2014	-	-	173,809	-	-
A Mentis	LTI shares	6,919	15/12/2010	(3,948)	2,971	-	(82,865)	44,624
	STI deferred shares	5,327	9/11/2011	-	5,327	-	-	133,601
	LTI rights	9,454	14/12/2011	(9,454)	-	-	(142,515)	-
	Deferred STI rights	5,246	7/11/2012	-	5,246	-	-	123,753
	LTI rights	10,239	11/12/2013	-	-	157,514	-	-
	Deferred STI rights	9,309	19/02/2014	-	-	295,361	-	-

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Table 12: Value of shares, performance options and performance rights (continued)

		Granted [1] No.	Grant date	Lapsed [2] No.	Vested [3] No.	Granted $	Lapsed $	Vested $
RM Roberts	Restricted shares	184	15/12/2010	-	184	-	-	4,385
	LTI rights	6,469	14/12/2011	(6,469)	-	-	(97,520)	-
	Deferred STI rights	2,016	7/11/2012	-	2,016	-	-	47,557
	LTI rights	7,758	11/12/2013	-	-	119,346	-	-
	General employee shares	26	11/12/2013	-	-	884	-	-
	Deferred STI rights	3,335	19/02/2014	-	-	105,814	-	-
GR Slater	LTI shares	36,903	15/12/2010	(21,057)	15,846	-	(441,969)	238,007
	STI deferred shares	7,975	9/11/2011	-	7,975	-	-	200,013
	LTI rights	45,110	14/12/2011	(45,110)	-	-	(680,011)	-
	Deferred STI rights	9,424	7/11/2012	-	9,424	-	-	222,312
	LTI rights	55,255	11/12/2013	-	-	850,025	-	-
	Deferred STI rights	12,624	19/02/2014	-	-	400,540	-	-
Former executive directors								
CA Clyne	LTI rights	100,969	18/06/2009	(4,038)	-	-	(51,242)	-
	LTI shares	135,676	23/12/2010	(77,420)	58,256	-	(1,624,968)	875,005
	LTI rights	179,109	19/12/2011	(179,109)	-	-	(2,699,977)	-
	Deferred STI shares	41,838	19/12/2011	-	41,838	-	-	1,012,480
	LTI rights	271,490	17/12/2012	(158,369)	-	-	(1,574,990)	-
	Deferred STI rights	25,752	17/12/2012	-	25,752	-	-	607,490
	LTI rights	175,511	19/02/2014	(146,259)	-	2,700,003	(2,249,999)	-
	Deferred STI rights	34,083	19/02/2014	(2)	-	1,081,403	(64)	-
MA Joiner	LTI options	104,166	16/01/2009	(4,062)	66,302	-	(14,522)	235,171
	LTI shares	55,355	23/12/2010	(31,587)	23,768	-	(662,980)	356,995
	LTI rights	67,663	19/12/2011	(67,663)	-	-	(1,019,984)	-
	Deferred STI shares	15,495	19/12/2011	-	15,495	-	-	374,979
	LTI rights	102,563	17/12/2012	(74,784)	-	-	(743,731)	-
	Deferred STI rights	11,445	17/12/2012	-	11,445	-	-	269,988
Former senior executives								
LJ Gray	LTI shares	39,210	15/12/2010	(22,374)	16,836	-	(469,608)	252,877
	Deferred STI shares	11,215	9/11/2011	-	11,215	-	-	281,272
	LTI rights	50,749	14/12/2011	(50,749)	-	-	(765,019)	-
	Deferred STI rights	8,155	7/11/2012	-	8,155	-	-	192,376
	LTI rights	55,255	11/12/2013	-	-	850,025	-	-
	Deferred STI rights	12,624	19/02/2014	-	-	400,540	-	-
JC Healy	LTI shares	46,129	15/12/2010	(26,322)	19,807	-	(552,474)	297,501
	Deferred STI shares	13,707	9/11/2011	-	13,707	-	-	343,772
	LTI rights	21,892	14/12/2011	(21,892)	-	-	(330,014)	-
	LTI rights	40,135	22/02/2012	(40,135)	-	-	(605,014)	-
	Deferred STI rights	10,492	7/11/2012	-	10,492	-	-	247,506
	LTI rights	60,780	11/12/2013	-	-	935,019	-	-
	Deferred STI rights	13,886	19/02/2014	-	-	440,581	-	-
BF Munro	LTI shares	34,596	15/12/2010	(19,741)	14,855	-	(414,343)	223,122
	Deferred STI shares	9,969	9/11/2011	-	9,969	-	-	250,023
	LTI rights	39,803	14/12/2011	(39,803)	-	-	(600,013)	-
	Deferred STI rights	5,723	7/11/2012	-	5,723	-	-	135,006
	LTI rights	39,003	11/12/2013	-	-	600,008	-	-
	Deferred STI rights	7,575	19/02/2014	-	-	240,343	-	-
RJ Sawers	LTI shares	39,210	15/12/2010	(22,374)	16,836	-	(469,608)	252,877
	Deferred STI shares	11,215	9/11/2011	-	11,215	-	-	281,272
	LTI rights	50,749	14/12/2011	(50,749)	-	-	(765,019)	-
	Deferred STI rights	14,594	7/11/2012	-	14,594	-	-	344,272
	LTI rights	66,305	11/12/2013	-	-	1,020,014	-	-
	Deferred STI rights	15,149	19/02/2014	-	-	480,655	-	-

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Table 12: Value of shares, performance options and performance rights (continued)

(1) The following securities have been granted during 2014:

- *Commencement shares granted to Mr Drummond in November 2013.*
- *LTI performance rights allocations in December 2013 and February 2014 for Mr Clyne (in respect of 2013).*
- *General Employee Share Offer granted to Mr Thorburn, Mr A Healy and Mrs Roberts in December 2013.*
- *Deferred STI performance rights allocations in February 2014 (in respect of 2013).*

(2) The following securities have lapsed during 2014:

- *Partial lapsing of Tranche 2 and Tranche 3 Executive performance options granted to Mr Joiner in January 2009. The performance options have an exercise value of $19.89 and were 'in-the-money' on the lapsing date providing a forfeited value (closing share price on lapsing date less exercise price) by the lapsed number of units) of $57,680.*
- *Partial lapsing of CEO performance rights granted to Mr Clyne in June 2009 as approved by shareholders at the December 2008 AGM.*
- *Partial lapsing of 2010 Tranche 1 LTI shares or performance rights granted in December 2010 in December 2013.*
- *2010 Tranche 2 LTI shares or performance rights granted in December 2010, fully lapsed in December 2013.*
- *2011 LTI performance rights granted in December 2011 to Mr Clyne and Mr Joiner, partially lapsed on cessation of employment based on the period of service. The remainder of the grant has been retained in accordance with the relevant terms and conditions of the grant and remained subject to the relevant performance hurdles and restriction periods until the award was tested in September 2014. The retained performance rights were fully forfeited in September 2014.*
- *2011 LTI performance rights granted in December 2011 and in February 2012 to Mr J Healy (including 2011 performance rights retained by Mr Clyne and Mr Joiner on cessation of employment) fully lapsed in September 2014 for senior executives. Mr Thorburn's 2011 LTI performance rights were lapsed in October 2014 and not included in the above table.*
- *2012 LTI rights granted in December 2012 to Mr Clyne and Mr Joiner, partially lapsed on cessation of employment, based on the period of service. The remainder of the grant has been retained in accordance with the relevant terms and conditions of the grant and remain subject to the relevant performance hurdles and restriction periods until the award is tested in December 2016, or if required re-tested in December 2017.*
- *2013 LTI performance rights granted in February 2014 to Mr Clyne, partially lapsed on cessation of employment, based on the period of service. The remainder of the grant has been retained in accordance with the relevant terms and conditions of the grant and remain subject to the relevant performance hurdles and restriction periods until the award is tested in December 2017, or if required re-tested in December 2018.*

(3) The following securities have vested during 2014:

- *Partial vesting of Tranche 2 and Tranche 3 Executive performance options granted in January 2009 to Mr Joiner. These options had an exercise price of $19.89. Mr Joiner exercised these options during 2014. The value of the options on exercise (based on the market value less the exercise price) was $941,488.*
- *2010 Tranche 1 LTI shares or performance rights partially vested in December 2013.*
- *General Employee Share Offer granted to Mr A Healy in December 2010, fully vested in December 2013.*
- *2010 Restricted Share Plan shares granted to Mrs Roberts in December 2010, fully vested in December 2013.*
- *2011 Tranche 2 deferred STI shares or performance rights allocated in November 2011, and for executive directors in December 2011, fully vested in November 2013.*
- *2012 Tranche 1 deferred STI shares or performance rights allocated in November 2012, and for executive directors in December 2012, fully vested in November 2013.*
- *Commencement shares granted to Mr Cahill in February 2011, fully vested in November 2013.*
- *Recognition shares granted to Mr Cahill in February 2012, fully vested in November 2013.*
- *Recognition shares granted to Mr Gall in March 2010, fully vested in December 2013.*

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Fair value basis used to determine equity remuneration

The grant date fair value of shares, performance options and performance rights in the previous tables is calculated in accordance with AASB 2, amortised on a straight line basis over the vesting period and included in each senior executive's remuneration for disclosure purposes. The fair value per share and performance right (at grant) are set out below for grants provided to senior executives during 2014. No performance options have been granted during the year. Shares and performance rights granted during 2014 have a zero exercise price.

Table 13: Fair value of securities granted to senior executives

		Shares		Performance rights		
Type of allocation	Grant date	Fair value $	Restriction period end	Fair value $	Exercise period From	Exercise period To [(1)]
Deferred STI	19 February 2014			$32.76	4 December 2014	4 June 2016
Deferred STI	19 February 2014			$30.76	4 December 2015	4 June 2016
Long-Term Incentive	11 December 2013			$16.11	20 December 2017	20 June 2019
Long-Term Incentive	11 December 2013			$14.72	20 December 2017	20 June 2019
NZ Year End Share Offer	11 December 2013	$33.99	11 December 2016			
Long-Term Incentive [(2)]	19 February 2014			$16.11	20 December 2017	20 June 2019
Long-Term Incentive [(2)]	19 February 2014			$14.72	20 December 2017	20 June 2019
Commencement [(3)]	1 November 2013	$36.32	23 October 2014			
Commencement [(3)]	1 November 2013	$36.32	23 October 2015			

(1) *The end of the exercise period for each performance rights allocation is also the expiry date.*

(2) *LTI allocation (in respect of 2013) for the former Group CEO as approved by shareholders at the December 2013 AGM.*

(3) *Mr Drummond received a commencement grant on his appointment to the role of Group Executive, Finance and Strategy. If Mr Drummond fails to meet individual compliance requirements, resigns, retires or his employment is terminated by the Company, prior to the end of the restriction period the shares will be forfeited. If Mr Drummond's employment ceases in any other circumstances or the Board exercises its discretion, subject to compliance with the law, that the shares not be forfeited, the shares are retained subject to the performance and restriction period of the grant. The Board may, in its absolute discretion, subject to compliance with the law, determine that some or all of the shares be forfeited in other circumstances. Mr Drummond will receive any dividends during the restriction period.*

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5.3. Senior executive contractual arrangements

All senior executives are employed on contracts with no fixed term. The following table shows the position and contract terms for all senior executives.

Table 14: Contractual arrangements

		Termination arrangements [1]		
		Notice period (weeks)		
Executive directors	Position	Employee	Company	Termination payment [2]
Executive director				
AG Thorburn	Group Chief Executive Officer and Managing Director	26	26	1,000,000
Other senior executives				
AJ Cahill	Group Executive, Product & Markets	12	26	454,545
CM Drummond	Group Executive, Finance and Strategy	1	26	545,455
AD Gall	Group Chief Risk Officer	12	26	545,455
AP Hagger	Group Executive, NAB Wealth	4	26	454,545
MJ Healey	Group Executive, People, Communication & Governance	4	26	386,364
AJ Healy	Managing Director and Chief Executive Officer, BNZ	13	13	205,691
A Mentis	Group Executive, Business Banking	12	26	454,545
RM Roberts	Group Executive, Enterprise Services and Transformation	12	26	454,545
GR Slater	Group Executive, Personal Banking	4	52	909,091
Former executive directors				
CA Clyne [3]	Executive Director, Group Chief Executive Officer	52	52	n/a
MA Joiner [4]	Executive Director, Finance	13	52	n/a
Former senior executives				
LJ Gray [5]	Group Executive, Enterprise Services and Transformation	4	26	454,545
JC Healy [5]	Group Executive, Business Banking	26	52	1,000,000
BF Munro [5]	Group Chief Risk Officer	13	52	1,300,000
RJ Sawers [6]	Group Executive, Product & Markets	4	52	454,545

(1) *Employment may be terminated by either the senior executive or the Company giving the applicable notice. Notice periods have been reduced over time to align with the Group's Enterprise Agreement and legislative requirements as new or revised contracts have been agreed.*

(2) *Calculated as the Company notice period multiplied by either the current Total Employment Compensation (TEC) or Total Remuneration Package (TRP) as defined in the Table of key terms. These are paid, subject to law, if the Company terminates the senior executive's employment agreement on notice and without cause, and makes payment in lieu of notice. Termination payments are not generally paid on resignation, summary termination or unsatisfactory performance, although the Board may determine exceptions to this. The retention or forfeiture of shares, performance options and performance rights on cessation of employment depends on applicable law and the terms and conditions of each grant including Board discretion. The amount shown is the termination payment payable, based on the senior executive's current TEC or TRP if the Company were to give notice. The value does not include any value for equity holdings which may be retained, or other statutory payments that would be payable on termination.*

(3) *Mr Clyne ceased employment with the Group on 15 August 2014 and received a proportion of his termination payment, in accordance with his employment contract of September 2008. On cessation of employment, shares and performance rights were retained or forfeited in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. These arrangements are in line with the Group's policy and practice in such circumstances.*

(4) *Mr Joiner retired from the Group on 1 January 2014. He did not receive a termination payment on cessation of employment. On cessation of employment, shares, performance options and performance rights were retained or forfeited in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. These arrangements are in line with the Group's policy and practice in such circumstances.*

(5) *Ms Gray, Mr JC Healy and Mr Munro ceased as KMP on 31 July 2014 and are scheduled to cease employment with the Group in December 2014. On cessation they will receive a proportional termination payment, for the period not worked. All unvested equity will be fully forfeited on cessation of employment, including deferred STI in respect of 2014.*

(6) *Mr Sawers ceased to be KMP on 31 July 2014, when he commenced in the role of Enterprise Executive. Mr Sawers is expected to retire in July 2015. Mr Sawers is not eligible for a termination payment on retirement.*

Remuneration Report

5.4. Equity instrument holdings of key management personnel and related parties

The following tables detail equity instrument holdings for KMP for the year ended 30 September 2014. No performance options or performance rights are granted to non-executive directors or related parties. No performance options or performance rights held by KMP were vested but not exercisable at 30 September 2014.

Table 15: Performance options holdings

Name	Balance at beginning of year No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
Former executive director							
MA Joiner [(1)]	70,364	-	(66,302)	(4,062)	-	66,302	-

[(1)] *Mr Joiner retired from the Group on 1 January 2014.*

Table 16: Performance rights holdings

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
Executive director							
AG Thorburn	193,187	62,448	(41,390)	(19,870)	194,375	41,390	-
Other senior executives							
AJ Cahill [(2)]	32,709	15,745	(4,464)	(8,957)	35,033	4,464	-
CM Drummond [(3)]	-	-	-	-	-	-	-
AD Gall [(2)]	45,377	17,331	(8,227)	(10,946)	43,535	8,227	-
AP Hagger	129,333	67,879	(7,631)	(45,110)	144,471	7,631	-
MJ Healey	88,370	57,696	(5,666)	(30,449)	109,951	5,666	-
AJ Healy [(4)]	38,977	13,948	(14,496)	(9,929)	28,500	10,841	-
A Mentis [(2)]	35,433	19,548	(5,246)	(9,454)	40,281	5,246	-
RM Roberts [(2)]	22,226	11,093	(2,016)	(6,469)	24,834	2,016	-
GR Slater	141,228	67,879	(9,424)	(45,110)	154,573	9,424	-
Former executive directors							
CA Clyne [(5)]	508,116	209,594	(25,752)	(487,777)	204,181	25,752	-
MA Joiner [(6)]	193,994	-	(11,445)	(142,447)	40,102	11,445	-
Former senior executives [(7)]							
LJ Gray	144,608	67,879	(8,155)	(50,749)	153,583	8,155	-
JC Healy	177,833	74,666	(10,492)	(62,027)	179,980	10,492	-
BF Munro	112,020	46,578	(5,723)	(39,803)	113,072	5,723	-
RJ Sawers	157,979	81,454	(14,594)	(50,749)	174,090	14,594	-

[(1)] *Balance may include performance rights granted prior to individuals becoming KMP.*

[(2)] *Mr Cahill, Mr Gall, Ms Mentis and Mrs Roberts commenced as KMP on 1 August 2014.*

[(3)] *Mr Drummond commenced as KMP on 23 October 2013.*

[(4)] *Mr A Healy commenced as KMP on 12 May 2014.*

[(5)] *Mr Clyne retired from the Group on 15 August 2014.*

[(6)] *Mr Joiner retired from the Group on 1 January 2014.*

[(7)] *Ms Gray, Mr J Healy, Mr Munro and Mr Sawers ceased to be KMP on 31 July 2014.*

Remuneration Report

Table 17: Shareholdings

The numbers of shares in the Company held (directly and nominally) by each KMP of the Company and 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:

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration [(2)] No.	Received during year on exercise of performance options or rights No.	Other changes during year No.	Balance at end of year [(2)] No.
Executive director					
AG Thorburn	50,297	26	41,390	(41,390)	50,323
Other senior executives					
AJ Cahill [(3)]	19,612	-	4,464	(14,662)	9,414
CM Drummond [(4)]	2,347	123,900	-	-	126,247
AD Gall [(3)]	98,292	-	8,227	(12,876)	93,643
AP Hagger	130,554	-	7,631	(18,442)	119,743
MJ Healey	123,154	-	5,666	(14,213)	114,607
AJ Healy [(5)]	3,751	26	14,496	-	18,273
A Mentis [(3)]	24,404	-	5,246	(21,332)	8,318
RM Roberts [(3)]	14,429	26	2,016	484	16,955
GR Slater	83,699	-	9,424	(59,386)	33,737
Former executive directors					
CA Clyne [(6)]	586,287	-	25,752	(397,420)	214,619
MA Joiner [(7)]	465,016	-	77,747	(418,062)	124,701
Former senior executives [(8)]					
LJ Gray	129,243	-	8,155	(25,374)	112,024
JC Healy	59,836	-	10,492	(70,328)	-
BF Munro	146,616	-	5,723	(31,225)	121,114
RJ Sawers	161,651	-	14,594	(40,924)	135,321
Non-executive directors					
MA Chaney	28,373	-	-	-	28,373
DH Armstrong [(9)]	5,600	-	-	4,425	10,025
DT Gilbert	19,190	-	-	-	19,190
KR Henry	2,000	-	-	-	2,000
GC McBride [(10)]	-	-	-	2,000	2,000
PJ Rizzo	5,824	-	-	-	5,824
JS Segal	16,986	-	-	-	16,986
JG Thorn	17,333	-	-	-	17,333
GA Tomlinson	43,740	-	-	1,065	44,805
JA Waller	4,000	-	-	-	4,000
AKT Yuen	5,059	-	-	-	5,059

(1) *Balance may include shares held prior to individuals becoming KMP. Some opening balances have been restated to include additional related party shares.*

(2) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company. Balance may include shares held after an individual ceases to be KMP.*

(3) *Mr Cahill, Mr Gall, Ms Mentis and Mrs Roberts commenced as KMP on 1 August 2014.*

(4) *Mr Drummond commenced as KMP on 23 October 2013.*

(5) *Mr A Healy commenced as KMP on 12 May 2014.*

(6) *Mr Clyne retired from the Group on 15 August 2014.*

(7) *Mr Joiner retired from the Group on 1 January 2014.*

(8) *Ms Gray, Mr J Healy, Mr Munro and Mr Sawers ceased to be KMP on 31 July 2014.*

(9) *Mr Armstrong commenced as KMP on 5 August 2014.*

(10) *Ms McBride commenced as KMP on 4 March 2014.*

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Table 18: Other equity instrument holdings

Holdings and transactions involving equity instruments, other than equity-based compensation, with KMP of the Company and Group or their related parties are set out below:

Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
National Income Securities			
DT Gilbert	1,253	-	1,253
MA Joiner	5,439	(2,732)	2,707
MJ Healey	700	-	700
JS Segal	180	-	180
GA Tomlinson	350	-	350

KMP holdings and transactions involving equity instruments, other than equity-based compensation, are made on similar terms and conditions generally available to other employees of the Group.

5.5. Loans to KMP and related parties

Loans made to directors of the Company are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to other KMP of the Company and Group may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of the Company and Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth).

Table 19: Aggregated loans to KMP and their related parties

Company and Group	Terms and conditions	Balance at beginning of year [1] $	Interest charged [2] $	Interest not charged $	Write-off $	Balance at end of year [1] $	KMP in Group during year [3] No.
KMP							
2014	**Normal**	**14,963,894**	**505,252**	**-**	**-**	**13,638,548**	**16**
	Employee	**6,793,808**	**271,565**	**-**	**-**	**4,937,790**	**8**
2013	Normal	12,314,593	537,939	-	-	14,883,700	12
	Employee	2,199,621	52,008	-	-	480,190	6
Other related parties [4]							
2014	**Normal**	**35,338,461**	**1,496,950**	**-**	**-**	**34,430,384**	**11**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2013	Normal	33,561,125	1,370,525	-	-	31,408,771	7
	Employee	-	-	-	-	-	-

(1) *Balance relates to KMP who held office during the year ending 30 September 2014.*

(2) *The interest charged may include the impact of interest offset facilities.*

(3) *This number represents the KMPs included in the balance at the end of the year. Loans to KMP of the Company and Group at year end may, in some instances, be an estimate of the 30 September statement balances. Where estimates have been used at the end of 2013, the balance at the beginning of 2014 reflects the actual opening balance and, therefore, may differ from the prior year closing balance.*

(4) *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.*

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Table 20: Aggregate loans to KMP and their related parties above $100,000 at any time during 2014

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged (1) $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year (2) $
KMP for the year ended 30 September 2014							
Executive directors							
CA Clyne (3)	Normal	3,297,604	56,141	-	-	1,259	3,297,604
MA Joiner (4)	Normal	3,065,772	110,921	-	-	4,518,909	3,043,989
AG Thorburn	Employee	8,515	-	-	-	17,508	
	Normal	1,780,196	98,091	-	-	1,784,121	36,000
Other senior executives							
AJ Cahill	Employee	4,298,057	192,724	-	-	3,044,183	4,298,057
AD Gall	Employee	817,223	37,783	-	-	815,754	
	Normal	1,825,829	55,431	-	-	1,765,148	1,443,052
LJ Gray (5)	Employee	3,187	-	-	-	4,287	
	Normal	796,335	43,254	-	-	801,515	809,304
MJ Healey	Employee	461,000	22,325	-	-	1,050,500	
	Normal	-	-	-	-	11,200	1,057,251
AJ Healy	Normal	2,192,738	117,508	-	-	2,074,649	14,490
JC Healy (5)	Employee	4,313	54	-	-	15	
	Normal	3,228,572	52,176	-	-	877,788	3,232,885
A Mentis	Employee	1,201,442	13,752	-	-	3,487	
	Normal	550,024	46,442	-	-	2,320,977	1,940,000
BF Munro (5)	Normal	71	4,927	-	-	2,057	562,932
RM Roberts	Normal	1,110,618	87,481	-	-	2,098,630	2,098,630
RJ Sawers (5)	Normal	387,406	31,157	-	-	785,649	15,226
GR Slater	Normal	1,350,000	78,750	-	-	1,363,620	1,363,620
Non-executive directors							
DT Gilbert (6)	Normal	29,682,958	1,212,729	-	-	28,562,951	599,600
GC McBride	Normal	1,034,305	14,121	-	-	1,092,318	1,097,588

(1) *The interest charged may include the impact of interest offset facilities.*

(2) *Represents aggregate highest indebtedness of the KMP during 2014. All other items in this table relate to the KMP and their related parties.*

(3) *Mr Clyne ceased employment with the Group on 15 August 2014.*

(4) *Mr Joiner ceased employment with the Group on 1 January 2014.*

(5) *Ceased to be a KMP of the Company and Group from 1 August 2014.*

(6) *Includes business loans to persons and entities other than Mr Gilbert but over which Mr Gilbert has significant influence including the law firm Gilbert + Tobin. The loans provided are on terms equivalent to those that prevail in arm's length transactions.*

Other financial instrument transactions

During the year ended 30 September 2014, a related party of Mr Armstrong subscribed to 900 Convertible Preference Shares II (CPS II) and a related party of Mr Gall subscribed to 700 CPS II. CPS II were issued by the Company, each with an issue price of $100, and these instruments were still held as at 30 September 2014 by the relevant KMP's related party. 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.

Remuneration Report

Appendices

Table of key terms

The following key terms and abbreviations are used in the *Remuneration report*. Key terms not defined here can be found in the *Glossary* of the *Financial report*.

Term Used	Description
Compliance Gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Deferred STI performance rights	Deferred STI performance rights are restricted for at least one year and may be fully or partially lapsed if individual or business performance warrants. They are provided in respect of prior year(s) performance and are subject to service and performance conditions.
Deferred STI shares	Deferred STI shares are Company ordinary shares, allocated at no charge to the employee, in respect of prior year(s) performance, which provide dividend income to the employee from allocation. The shares are held on trust for at least one year, are restricted from trading and may be fully or partially forfeited if individual or business performance warrants. The shares are forfeited if the participant fails to meet the Compliance Gateway, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances. Deferred STI shares have no exercise price.
Enterprise Behaviours	The Enterprise Behaviours are the foundation of the Group's culture and define how employees relate to one another, work together and interact with customers and communities. They are to: · Be authentic and respectful; · Work together; and · Create value through excellence.
Executive Leadership Team (ELT)	Most senior leaders of the Group, including the Group CEO and Managing Director. They are responsible for planning, directing and controlling the activities of the Group. Current members of the ELT are listed in **Table 1.**
Fair value basis	The fair value of each share is determined by the market value of the share as at the grant date, and is generally a five day weighted average share price. The fair value of each performance option and performance right is determined using an appropriate numerical pricing model depending on the type of security, and whether there is a market-based performance hurdle (Black Scholes, Monte Carlo simulation, and/or a discounted cash flow methodology). These models take account of factors including: the exercise price; the current level and volatility of the underlying share price; the risk-free interest rate; expected dividends on the underlying share; current market price of the underlying share; and the expected life of the securities. For market-based performance hurdles, the probability of the performance hurdle being reached is taken into consideration in valuing the securities. For further details, refer to *Note 1(ag) 'Equity-based compensation'* in the *Financial Report.*
Key management personnel (KMP)	Key executives of the Group and Company who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise). This is the definition used in AASB 124 "Related Party Disclosures" and the *Corporations Act 2001* (Cth).
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long-term performance of the Group. LTI is allocated under the Group's LTI program in the form of LTI shares or performance rights. The 2014 LTI program is described in **Section 3.4**.
LTI performance rights	An LTI performance right is a performance right granted under an LTI plan which is subject to long-term performance hurdles.
LTI shares	LTI shares are Company ordinary shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least three years on the employee's behalf, are restricted from trading and are forfeited if the performance hurdles are not achieved, if the participant fails to meet the Compliance Gateway, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances (unless the Board determines otherwise) with vesting still subject to the performance hurdles. LTI shares are issued under: the National Australia Bank New Zealand Staff Share Allocation Plan; the National Australia Bank Staff Share Allocation Plan; the National Australia Bank Staff Share Ownership Plan; and the National Australia Bank Limited Share Incentive Plan. Shares have no exercise price. LTI shares have not been provided to senior executives since 2010.
Net promoter score	Net Promoter Score (NPS) is an industry recognised customer advocacy measure used in many industries, including financial services. It is based on a simple question: 'on a 0-10 scale, how likely would you be to recommend NAB to your friends, family or colleagues?' Detractors are people who score 0-6, Advocates are people who score 9-10. NPS is the % of Advocates minus the % of Detractors. Research shows that companies with positive scores are more likely to attract and retain customers. The score will be derived using industry provided survey data from Roy Morgan for Consumer Customers and the Business Financial Services Monitor provided by DBM Consulting for Business Customers.
Performance options	A performance option is a right to acquire one Company ordinary share, once the performance option has vested based on achievement of the related performance hurdle or at the Board's discretion. Each performance option entitles the holder to be provided with one Company ordinary share subject to adjustment for capital actions. The performance option is issued at no charge to the employee. To acquire a share, the holder must pay the exercise price, which is generally the weighted average price at which Company ordinary shares traded on the Australian Securities Exchange over the one week up to and including the grant date of the performance options. The terms and conditions, including lapsing, will vary for each particular grant. Performance options are issued by the Company under the National Australia Bank Executive Share Option Plan No. 2. Shares will be issued on exercise of performance options. All shares issued or transferred upon the exercise of performance options are paid for in full by the senior executive based on the relevant exercise price. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance options are exercised. Performance options have not been provided to senior executives since 2010.

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Term Used	Description
Performance rights	A performance right, such as an LTI performance right (as described above), is a right to acquire one Company ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. Each performance right entitles the holder to be provided with one Company ordinary share subject to adjustment for capital actions. A performance right is similar to a performance option as described above, except that there is no exercise price to be paid to exercise the performance right. Performance rights may be used instead of shares due to jurisdictional reasons including awards such as deferred STI and commencement and other retention programs. The terms and conditions, including lapsing, will vary for each particular grant. Performance rights are issued by the Company under the National Australia Bank Performance Rights Plan. Shares will be issued on exercise of performance rights. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Return on equity (ROE)	ROE is calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. It allows for risk to the extent that actual equity aligns with target equity and Risk Weighted Assets (RWA). RWA measures the risk exposure of the Group's assets that are used to determine quantitative minimum capital requirements. ROE also measures inorganic growth. For senior executives, the STI and LTI programs use ROE performance for the consolidated Group.
Return on total allocated equity (ROTAE)	ROTAE is the return of cash earnings over an allocation of regulatory capital. This regulatory capital consists of Divisional Risk Weighted Assets priced at an internal capital allocation rate (based on target capital ratios) and regulatory deductions (including Wealth regulatory deductions). The benefit of allocated equity is that it is set at points in time and is not sensitive to management capital actions such as capital raising or DRPs.
Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Restricted Share Plan (RSP)	The RSP was a long-term incentive plan provided to senior managers of the Group. The RSP was an annual share grant up to a target value of $3,000 of Company shares offered to each eligible employee based on Group performance. Eligibility was based on service, threshold performance and compliance outcomes. The shares are held on trust, and restricted from dealing, for three years. An employee forfeits shares for voluntary cessation of employment or failure to meet compliance requirements during the three year restriction period. The program ceased at the end of 2013.
Senior executives	Persons who are (or were) members of the Executive Leadership Team, including executive directors.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive annual performance-based reward. Each employee has a short-term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 100% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in **Section 3.4**.
S&P/ASX Top 50 Index	A Standard & Poors (S&P)/ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia. Used as a measure for the LTI performance hurdle.
Top Financial Services	The top financial services companies in the ASX200 (approximately 10 companies) by market capitalisation, excluding the Company, determined on or around the effective date of the LTI award. Used as a measure for the LTI performance hurdle.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions (where applicable), but does not include STI or LTI. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Group, subject to any overriding legislation prevailing at the time including the *Corporations Act 2001* (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions (where applicable).

Report of the Directors

Directors' signatures

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

Michael A Chaney
Chairman

17 November 2014

Andrew G Thorburn
Group Chief Executive Officer

Corporate governance

The Board of directors of the Company is responsible for the governance of the Company and its controlled entities (the Group). Good corporate governance is a fundamental part of the culture and business practices of the Group. The key aspects of the Group's corporate governance framework and primary corporate governance practices for the 2014 year are outlined below.

ASX Corporate Governance Principles and Recommendations

The Company has complied with the second edition of the ASX Corporate Governance Principles and Recommendations (ASX Corporate Governance Principles and Recommendations) for the 2014 year.

The third edition of the ASX Corporate Governance Principles and Recommendations, which was released on 27 March 2014, will apply to the Group from the 2015 year.

Assurance provided to the Board

In accordance with Recommendation 7.2 of the ASX Corporate Governance Principles and Recommendations, management has reported to the Board on the effectiveness of the Company's management of its material business risks.

The Board has received:

- The relevant declarations required under section 295A of the *Corporations Act 2001* (Cth); and
- The relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles and Recommendations.

jointly from the Group Chief Executive Officer and the Group Executive, Finance and Strategy.

The *Diversity and inclusion* section, which follows this Corporate Governance Statement, contains the diversity disclosures required under the ASX Corporate Governance Principles and Recommendations.

Further information regarding the Company's compliance with the ASX Corporate Governance Principles and Recommendations is set out in a checklist available at www.nabgroup.com.

The Board of directors

The role and responsibilities of the Board

The Board has adopted a formal charter that details the functions and responsibilities of the Board. A copy of the charter is available in the Corporate governance section of the Group's website at www.nabgroup.com.

The Board's most significant responsibilities are:

Stakeholder interests

- Guiding the Group with a view to long-term returns for shareholders having regard to the interests of other stakeholders, including customers, regulators, staff and the communities in the regions in which the Group operates;
- Providing strategic direction to the Group with a focus on consistent business performance, behaviour, transparency and accountability; and
- Reviewing and monitoring corporate governance and corporate responsibility throughout the Group.

Strategy

- Reviewing, approving and monitoring corporate strategy and plans;
- Making decisions concerning the Group's capital structure and dividend policy; and
- Reviewing, approving and monitoring major investment and strategic commitments.

Performance

- Reviewing business results; and
- Monitoring budgets.

Integrity of external reporting

- Reviewing and monitoring the processes, controls and procedures which are in place to maintain the integrity of the Group's accounting and financial records and statements with the guidance of the Audit Committee; and
- Reviewing and monitoring reporting to shareholders and regulators, including the provision of objective, comprehensive, factual and timely information to the various markets in which the Company's securities are listed.

Risk management and compliance

- Monitoring and reviewing the Group's risk management processes, risk profile and processes for compliance with prudential regulations and standards and other regulatory requirements; and
- Reviewing and monitoring processes for the maintenance of adequate credit quality with the guidance of the Risk Committee.

Executive review, succession planning and culture

- Approving key executive appointments and remuneration, and monitoring and reviewing executive succession planning and diversity;
- Reviewing and monitoring the performance of the Group Chief Executive Officer and senior management; and
- Monitoring and influencing the Group's culture, reputation and ethical standards.

Board performance

- Monitoring Board composition, director selection, Board processes and performance with the Nomination Committee's guidance.

The Board has reserved certain powers for itself and delegated authority and responsibility for day-to-day management of the Company to the Group Chief Executive Officer. Delegations are subject to strict limits. The Group Chief Executive Officer's authorities and responsibilities include:

- Development and implementation of Board approved strategies;
- Setting operational plans within a comprehensive risk management framework; and
- Sound relationship management with the Group's stakeholders.

All delegated authorities provided by the Board to the Group Chief Executive Officer are reviewed and reconfirmed annually or as required.

Composition of the Board

The current members of the Board and the period each member has been in office are set out in the *Report of the Directors*.

The composition of the Board is driven by the following principles:

- The Board will be of an appropriate size to allow efficient decision making;
- The Chairman of the Board should be an independent non-executive director;
- The Chairman must not be a former executive officer of the Group;
- The Board should comprise a majority of independent non-executive directors; and
- The Board should consist of directors with a broad range of expertise, skills and experience from a diverse range of backgrounds, including sufficient skills and experience appropriate to the Group's business.

Corporate governance

The Chairman is an independent non-executive director and is not a former executive of the Group. The roles of the Chairman and Group Chief Executive Officer are not exercised by the same individual.

The Company's Constitution provides that the Company is to have not less than five, nor more than fourteen directors.

There have been a number of changes to the composition of the Board which have occurred or been announced during the 2014 year, namely:

- Three independent non-executive director appointments: Ms Geraldine McBride, effective March 2014, Mr David Armstrong, effective August 2014 and Mr Peeyush Gupta, effective November 2014;
- Two non-executive director retirements: Mr John Thorn and Mr Geoff Tomlinson, scheduled for December 2014;
- Two executive director retirements: Mr Mark Joiner effective January 2014, and Mr Cameron Clyne, effective August 2014; and
- One executive director appointment: Mr Andrew Thorburn, replacing Mr Clyne as Managing Director and Group Chief Executive Officer, effective August 2014.

Subsequent to all of these changes being effective, the Board will comprise ten independent non-executive directors, including the Chairman, and one executive director.

At the date of this report, the Board consisted of thirteen directors, comprising:

- Twelve independent non-executive directors, including Mr Thorn and Mr Tomlinson who are scheduled to retire in December 2014; and
- One executive director, being the Managing Director and Group Chief Executive Officer.

The Board requires that each of its directors possess unquestionable integrity and good character. The Nomination Committee identifies other appropriate skills and characteristics required by the Board and individual directors in order for the Company to fulfil its goals and its responsibilities to shareholders and other key stakeholders.

The Company has established a Board approved 'Fit and Proper' Policy (Policy) that meets the requirements of Prudential Standard CPS 520 "Fit and Proper" (the Standard) issued by the Australian Prudential Regulation Authority (APRA). The Policy requires all 'responsible persons', as defined by the Standard, to be assessed as meeting the criteria to ensure that they are 'Fit and Proper'. The Standard requires directors, senior management and auditors of an authorised deposit-taking institution to be assessed to determine whether or not they have the appropriate skills, experience and knowledge to perform their role. They also need to be able to establish that they have acted with honesty and integrity.

The skills, experience, expertise and commencement dates of the directors are set out in the *Report of the Directors*.

Chairman

The Chairman of the Company is responsible for leading the Board and ensuring that it is operating to the appropriate governance standards.

The Company's Chairman is Mr Chaney. Mr Chaney has been Chairman of the Company since 2005 and a non-executive director since 2004.

Mr Chaney has skills and experience across a broad portfolio of industries and companies, including corporate, mining, investment and general banking. A detailed list of his positions outside the Company and prior experience can be found in the *Report of the Directors*.

The Board considers that none of Mr Chaney's positions held outside the Company interfere with his ability to execute and fulfil all of his obligations and responsibilities to the Board and the Company.

Independence of directors

Directors are expected to bring independent views and judgement to Board deliberations. An independent director must be independent of management and able to exercise unfettered and independent judgement, free of any business or other relationship that could materially interfere with the exercise of the director's ability to act in the best interests of the Company.

A register of directors' material interests is maintained and is regularly sent to each director for their review. If a director is involved with another company or professional firm that may have dealings with the Company, such dealings are at arm's length and on normal commercial terms.

In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Principles and Recommendations. To assist the Board in determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board.

The Board has undertaken an assessment and determined that all non-executive directors of the Company are independent.

Ms McBride, who joined the Board in March 2014, is the founder and CEO of a private information technology (IT) company incorporated in New Zealand. The Company has engaged Ms McBride's company to conduct a small, short-term IT development project for the Group. The Board is satisfied that, having regard to the independence standards adopted by the Board, this project does not materially interfere with the independent exercise of Ms McBride's judgement as a non-executive director of the Company.

More information on the Company's independent directors (including the period they have been in office) is provided in the *Report of the Directors*.

The Board has procedures in place to ensure it operates independently of management. This is assisted by the non-executive directors meeting together in the absence of management at each scheduled Board and Board Committee meeting.

Tenure

The Board renewal that has occurred or is planned for the 2014 calendar year, as outlined in the *Composition of the Board* section above, will result in the following mix of tenure on the Board, bringing fresh perspectives to the Board while retaining directors with a deep understanding of the business:

- Four non-executives with tenure of ten or more years;
- Three non-executives with three to five years tenure; and
- Three non-executives with tenure of less than one year.

The tenure of a director is a factor taken into account by the Board in assessing the independence of a director but is not determinative. As a guide, most directors would not stand for re-election after serving 10 years on the Board. The Board nevertheless considers that a director may continue to bring valuable expertise, independent judgement and the ability to act in the best interests of the Company beyond the term of 10 years.

The Board is satisfied that, irrespective of their period of service, each non-executive director that has served on the Board during the 2014 year has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to fulfil their role as an independent director.

Corporate governance

Succession Planning

Managed succession planning has been and continues to be a focus for the Board. Given the complexity of the Group's portfolio and the regulatory environment, it is important to retain a core of directors with long-standing knowledge of the Group while implementing appropriate succession plans. The changes to the composition of the Board during the year form part of an orderly multi-year transition plan that is designed to maintain an appropriate mix of skills, experience and diversity on the Board at all times, and ensure the Board's continual effectiveness.

Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group. This is a matter for ongoing consideration by all directors, and any director who has a material personal interest in a matter relating to the Group's affairs must notify the other directors of that interest.

The *Corporations Act 2001* (Cth), together with the Company's Constitution, require that a director who has a material personal interest in a matter that is being considered at a directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

- The directors without a material personal interest in the matter have passed a resolution that identifies the director, the nature and extent of the director's interest in the matter and its relation to the affairs of the Company, which states that the remaining directors are satisfied that the interest should not disqualify the director from voting or being present;
- ASIC has made a declaration or order under the *Corporations Act 2001* (Cth), which permits the director to be present and vote even though the director has a material personal interest;
- There are not enough directors to form a quorum for a directors' meeting because of the disqualification of the interested directors, in which event one or more of the directors (including a director with a material personal interest) may call a general meeting to address the matter; or
- The matter is of a type which the *Corporations Act 2001* (Cth) specifically permits the director to vote upon and to be present at a directors' meeting during consideration of the matter notwithstanding the director's material personal interest.

Even though the *Corporations Act 2001* (Cth) and the Company's Constitution allow these exceptions, the Group's corporate governance standards dictate that when a potential conflict of interest arises, the director concerned will not receive copies of the relevant Board papers and will not be present at the Board meeting while such matters are considered. Accordingly, in such circumstances, the director concerned takes no part in discussions and exercises no influence over other members of the Board. If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his or her resignation.

The provision of financial services to directors by the Company is subject to any applicable legal or regulatory restrictions, including the *Corporations Act 2001* (Cth). Financial services are provided to directors on arm's length terms and conditions.

Refer to *Note 46 'Related party disclosures'* in the *Financial Report* for further information, including details of related party dealings and transactions.

Appointment and re-election of Board members

The Nomination Committee, using a skills matrix that enables the Committee to assess the skills and the experience of each director and the combined capabilities of the Board, undertakes an annual review of Board composition and skills. The results of this review are considered in the context of the Group's operations and strategy and the need for diversity on the Board and are then incorporated into the selection process for new directors.

When a Board vacancy is anticipated, the Nomination Committee assesses the skills and experience required and then identifies suitable candidates, using external consultants as appropriate. The most suitable candidate is appointed by the Board after appropriate checks are undertaken, including an assessment in accordance with the Board approved 'Fit and Proper' Policy. This is the process that was undertaken in appointing Ms McBride, Mr Armstrong and Mr Gupta.

The appointed director must then stand for election by shareholders at the next Annual General Meeting of the Company. The Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Company has formal letters of appointment for each of its directors, setting out the key terms and conditions of the appointment.

The process of election and re-election of a director is in accordance with Article 10.3 of the Company's Constitution. Article 10.3 requires that at each Annual General Meeting directors who have held office without re-election for at least three years, or beyond the third Annual General Meeting following their appointment (whichever is the longer period), and any new directors appointed during the year, are required to retire from office at the Annual General Meeting and are eligible to stand for re-election and election respectively. Article 10.3 does not apply to the Group Chief Executive Officer.

Before each Annual General Meeting, the Board assesses the performance of each director due to stand for re-election and election, and the Board decides whether to recommend to shareholders that they vote in favour of the re-election or election of each relevant director.

The commencement dates of the directors are set out in the *Report of the Directors*.

Induction and continuing education

Management, working with the Board, provides an orientation program for new directors. The program includes discussions with executives and management, reading material, tutorials and workshops. These cover the Group's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its management structure, its internal and external audit programs, its Codes of Conduct, its Enterprise Behaviours (which provide the foundation of the culture of the Group and its brands) and director's rights, duties and responsibilities. Management periodically conducts additional presentations and tutorial sessions for directors about the Group, and the factors impacting, or likely to impact, on its businesses. The Company provides continuing education to the Board through a combination of internal and external presentations, workshops with management and excursions. These education activities assist non-executive directors to gain a broader understanding of the Group. Directors are also encouraged to keep up-to-date on topical issues.

Board meetings

Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Board Committees. Directors are also expected to attend site visits. The Board aims to meet once a year in each of the United Kingdom and New Zealand, where the Company has significant business interests. This allows directors to meet customers, employees and other stakeholders in those regions.

The number of Board meetings and each director's attendance at those meetings are set out in the *Report of the Directors*. Members of the Board also meet with key regulators in various jurisdictions throughout the year.

Corporate governance

Performance of the Board, its Committees and individual directors

The Board conducts an annual assessment of the performance and effectiveness of the Board as a whole and of its Committees and individual directors. Performance of each Committee of the Board is initially discussed and reviewed within each Committee and then subsequently reviewed as part of the Board's annual assessment.

Each director participates in individual interviews with the Chairman. External experts are engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance the overall effectiveness of the Board. When external experts are engaged, the results of the evaluations are compiled to produce a quantitative and qualitative analysis and a written report is provided to the Chairman. The external expert's report disclosing the overall results, and the various issues for discussion and recommendations for initiatives, are presented to the Board for discussion.

This process is designed to assist the Board in fulfilling its functions and ensuring that it remains an effective decision-making body. The annual performance evaluation for the Board, its Committees and the individual directors in respect of the 2014 year has taken place in accordance with the process disclosed in this report.

Remuneration arrangements

The remuneration policy for the Board and the remuneration of each director is set out in both the *Remuneration report*, which forms part of the *Report of the Directors*, and in *Note 46 'Related party disclosures'* in the *Financial Report*.

Access to management

Board members have complete and open access to management through the Chairman, Group Chief Executive Officer or Group Company Secretary at any time. In addition to regular presentations by management to Board and Board Committee meetings, directors may seek briefings from management on specific matters. The Board also consults with other Group employees and advisers and seeks additional information, where appropriate.

The Group Company Secretary also provides advice and support to the Board, is responsible for managing the Group's day-to-day governance framework, and is accountable to the Board, through the Chairman, on all matters relating to the proper functioning of the Board.

Access to independent professional advice

Written guidelines entitle each director to seek independent professional advice at the Company's expense, with the prior approval of the Chairman.

The Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time-to-time to perform its duties.

Shareholding requirements

The Company's Constitution requires that within six months of appointment, a director must hold at least 2,000 fully paid ordinary shares in the Company. Executive directors may receive shares, performance options and performance rights, as approved by shareholders. Non-executive directors do not receive any securities via incentive schemes.

Details of directors' shareholdings in the Company are set out in the *Report of the Directors*.

The Company has minimum shareholding requirements in place for the Group Chief Executive Officer and the Executive Leadership Team. The minimum shareholding requirement for the Group Chief Executive Officer is two times his or her fixed remuneration, and the minimum shareholding requirement for each other member of the Executive Leadership Team is one times their respective fixed remuneration. The Group Chief Executive Officer and members of the Executive Leadership Team are required to maintain these minimum shareholding requirements during the period that they remain a member of the Executive Leadership Team. New appointments to the Executive Leadership Team are required to accumulate the minimum shareholding requirement over a 5 year period from commencement.

Company secretaries

All company secretaries are appointed and removed by the Board. Further detail on each company secretary is provided in the *Report of the Directors*.

Senior executives

Information on the performance evaluation and structure of remuneration for the Company's senior executives can be found in the *Remuneration report*, which forms part of the *Report of the Directors*.

Corporate governance

Board and Committee operations

To help it carry out its responsibilities, the Board has established the following Committees:
- Audit Committee;
- Risk Committee;
- Remuneration Committee;
- Nomination Committee; and
- Information Technology Committee.

The Board has adopted charters for each Committee setting out the matters relevant to the composition, responsibilities and administration of each Committee. The Board has also created a standing sub-committee to assist the Board in the oversight of the Group's capital and funding activities (refer to the *Other Committees* section).

Following each Committee meeting, the Board receives a copy of the minutes of meeting from the relevant Committee. Further, on an annual basis, the Board receives a report from each Committee on its activities undertaken during the year. The qualifications of each Committee's members and the number of meetings they attended during the 2014 year are set out in the *Report of the Directors*.

The Office of the Company Secretary provides secretariat support for the Board and each of the Committees. The Group Company Secretary is responsible for advising the Board on governance matters and ensuring compliance with Board and Board Committee procedures.

Board Committee membership during the 2014 year

	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee	Information Technology Committee [(1)]
Members [(2)]	Mr John Thorn (Chairman) Mr David Armstrong Dr Kenneth Henry Mr Paul Rizzo Ms Jillian Segal Mr John Waller	Mr Paul Rizzo (Chairman) Ms Jillian Segal Mr John Waller Mr Anthony Yuen	Mr Daniel Gilbert (Chairman) Mr Geoff Tomlinson Mr Anthony Yuen	Mr Michael Chaney (Chairman) Mr David Armstrong Mr Daniel Gilbert Dr Kenneth Henry Ms Geraldine McBride Mr Paul Rizzo Ms Jillian Segal Mr John Thorn Mr Geoff Tomlinson Mr John Waller Mr Anthony Yuen	Mr Daniel Gilbert (Chairman) Mr David Armstrong Ms Geraldine McBride Mr Paul Rizzo Mr John Thorn Mr Andrew Thorburn
Composition	Minimum three All members are non-executive directors One member must also be a member of the Risk Committee	Minimum three All members are independent non-executive directors One member must also be a member of the Audit Committee	Minimum three All members are independent non-executive directors	Minimum three All members are independent non-executive directors	As determined from time to time by the Board

(1) Ms McBride became a member of the Information Technology Committee in March 2014, and Mr Armstrong and Mr Thorburn both became members of the Information Technology Committee in August 2014.

(2) Mr Thorn and Mr Tomlinson will retire as non-executive directors of the Company following the Company's 2014 Annual General Meeting. It is proposed that Mr Armstrong, who joined the Audit Committee in August, will replace Mr Thorn as chair of the Audit Committee. Mr Gupta became a member of the Remuneration, Risk and Nomination Committees in November 2014.

Key Responsibilities:

Audit Committee

- Integrity of the accounting and financial statements, and the financial and statutory reporting processes of the Group;
- Group's external audit;
- Group's internal audit;
- Compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group;
- Oversight of management in the preparation of the Group's financial statements and financial disclosures;
- Oversight of the work of the external auditor; and
- Setting, approval and regulation of the annual fee limit for each type of audit or non-audit service to be provided by the external auditor.

Risk Committee

- Oversight of the risk profile of the Group within the context of the Board approved risk appetite;
- Making recommendations to the Board concerning the Group's current and future risk appetite and particular risks or risk management practices;
- Review of management's plans for mitigation of material risks faced by the Group;
- Oversight of the implementation and operation of the risk management framework and internal compliance and control systems throughout the Group;
- Oversight of stress testing of the Group risk portfolio including both scenario analysis and sensitivity analysis; and
- Promoting awareness of a risk-based culture throughout the Group and the establishment by management of a balance between risk and reward for risks accepted.

Remuneration Committee

- Oversee the Group's general performance and reward strategy;
- Review and make recommendations to the Board concerning:
  - Remuneration policy and Total Reward packages for the Group Chief Executive Officer, direct reports and other persons whose activities may affect the financial soundness of the Company or its subsidiaries;
  - Remuneration arrangements for non-executive directors (as detailed in the *Remuneration report*);
  - Arrangements for recruiting, retaining and terminating senior executives; and
- Support the Board with monitoring the application of the principles and framework required for measuring the compliance, culture and behavioural requirements of the Group.

Nomination Committee

- Board performance and the methodology for Board performance reviews;
- Board and Committee membership and composition; and
- Succession planning for the Board.

Information Technology Committee

- Monitoring significant technology projects.

Audit Committee

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

The Audit Committee assists the Board in carrying out its responsibility to exercise due care, diligence and skill by maintaining oversight of the Group's:

- Internal control systems;
- Compliance with applicable laws and regulations; and
- Accounting policies and procedures designed to safeguard company assets and maintain financial disclosure integrity in relation to external financial reporting.

All members of the Audit Committee must be independent, non-executive directors. Independence for these purposes is determined in accordance with the standard adopted by the Board, which reflects the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Principles and Recommendations.

It is a requirement that all members of the Audit Committee be financially literate and have a range of different backgrounds, skills and experience, having regard to the operations and financial and strategic risk profile of the Group. The experience and qualifications of members of the Audit Committee are detailed in the *Report of the Directors*. The Board recognises the importance of the Audit Committee having at least one member with appropriate accounting or financial expertise, as required by applicable laws, ASX Corporate Governance Principles and Recommendations and listing standards.

The Chairman of the Board cannot be a member of the Audit Committee.

The Audit Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time-to-time in the performance of its duties.

The Audit Committee relies on the information provided by management and the external auditor. The Audit Committee does not plan or conduct audits, or make determinations that the Group's financial statements and disclosures are complete and accurate.

Access to the Audit Committee

To draw appropriate matters to the attention of the Audit Committee, the following individuals have direct access to the Audit Committee: Group Chief Executive Officer; Group Executive Finance & Strategy; Executive General Manager Finance; Group Chief Risk Officer; General Counsel Governance, Corporate & Enterprise Services; Executive General Manager, Internal Audit; and the external auditor and the appointed Chief Actuary. 'Direct access' means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols.

Other employees of the Group may have access to the Audit Committee through the 'Whistleblower Protection Program'. Refer to the *Codes of conduct* section for further information on the 'Whistleblower Protection Program'.

Audit Committee finance professional

Although the Board has determined that Mr Thorn (as the current Chairman of the Audit Committee) and Mr Armstrong (as the proposed incoming Chairman of the Audit Committee) have the requisite attributes defined under applicable governance principles and recommendations, their responsibilities as Chairman of the Audit Committee are the same as those of the other Audit Committee members. The Chairman of the Audit Committee is not an auditor or accountant for the Company, does not perform 'field work' and is not an employee of the Company.

Activities during the year

Key activities undertaken by the Audit Committee during the year include:

- Review of the scope of the annual audit plans for 2014 of the external auditor and internal auditor, and oversight of the work performed by the auditors throughout the year;
- Review of significant accounting, financial reporting and other issues raised by management, and the internal and external auditors;
- Review of the performance and independence of the external auditor and internal auditor, together with their assurances that all applicable independence requirements were met;
- Holding of separate meetings, without the presence of management, with Internal Audit and key partners from the external auditor, Ernst & Young;
- Consideration and recommendations to the Board on significant accounting policies and areas of accounting judgement;
- Review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements; and
- Regular review of minutes and updates from subsidiary board audit committee meetings.

The Audit Committee met nine times during the 2014 year. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. The Chairs of each main subsidiary board audit committee met twice during the 2014 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. This meeting is chaired by the Chairman of the Board Audit Committee.

External auditor

The Audit Committee is responsible for the selection, evaluation, compensation and, where appropriate, replacement of the external auditor, subject to shareholder approval where required.

The Audit Committee ensures that the external audit engagement partner and lead review partner rotate off that role every five years or, if they have acted in that capacity for five out of the last seven successive financial years, will be subject to a two year 'cooling off' period following rotation. The Audit Committee and the Board may resolve to extend the five year period by not more than two successive years, subject to compliance with the *Corporations Act 2001* (Cth).

The Audit Committee meets with the external auditor, Ernst & Young, throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the effectiveness, performance and independence of the audit.

The Audit Committee receives assurances from the external auditor that they meet all applicable independence requirements in accordance with the *Corporations Act* 2001 (Cth) and the rules of relevant professional accounting bodies. This independence declaration forms part of the *Report of the Directors*.

The external auditor attends the Group's Annual General Meeting and is available to answer shareholder questions regarding aspects of the external audit and their report.

Details of all services provided by Ernst & Young to the Group and the fees paid or due and payable for those services are set out in the *Report of the Directors* and *Note 47 'Remuneration of external auditor'* in the *Financial Report*.

Internal audit

The Internal Audit function carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management framework and internal control environment.

The Audit Committee is responsible for assessing whether the Internal Audit function is independent of management and is adequately resourced and funded. The Audit Committee also assesses the performance of the Executive General Manager, Internal Audit and may recommend to the Board the appointment and dismissal of this officer. Internal Audit and External Audit operate, perform and report as separate, independent functions.

Audit Committee pre-approval policies and procedures

The Audit Committee is responsible for the appointment, compensation and oversight of the work of the external auditor. To assist it in discharging its oversight responsibility, the Audit Committee has adopted a Group External Auditor Independence Policy which requires, among other things, pre-approval of all audit and non-audit services to be provided by the external auditor. The Group External Auditor Independence Policy incorporates auditor independence requirements of applicable laws, rules and regulations as they apply to the Group.

In accordance with the Group External Auditor Independence Policy, the external auditor may only provide a service to the Group if:

- The external auditor is not prohibited from providing that service by applicable auditor independence laws, rules and regulations;
- In the opinion of the Audit Committee or its delegate, the service does not otherwise impair the independence of the external auditor;
- In the opinion of the Audit Committee or its delegate, there is a compelling reason for the external auditor to provide the service; and
- The service is specifically pre-approved by the Audit Committee or its delegate.

In accordance with the Group External Auditor Independence Policy, the Group will not employ, or permit to serve as a member of a board of directors or similar management or governing body, any current or former partner, principal, shareholder or professional employee of the external auditor or their family members if, in doing so, the external auditor's independence would be impaired or perceived to be impaired.

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year. Details of the non-audit services provided by Ernst & Young to the Group and the fees paid or due and payable for non-audit services are set out in the *Report of the Directors* and *Note 47 'Remuneration of external auditor'* in the *Financial Report*.

The Audit Committee may delegate to one or more of its members or to management as it sees fit, the authority to approve services to be provided by the external auditor. The decision of any delegate to specifically pre-approve any audit or audit related service is presented to the Audit Committee on a quarterly basis. The Audit Committee has delegated the authority to pre-approve services to the Audit Committee Chairman and certain members of management where the services meet specific requirements and fee limits as approved by the Audit Committee.

Risk Committee

The Risk Committee's authority, responsibilities, composition and membership requirements are documented in the Risk Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Activities during the year

At each scheduled meeting, the Risk Committee received a report from the Group Chief Risk Officer and updates in relation to key matters from the General Managers of the Group's key risk functions. The Group's capital and liquidity position was also reviewed on a regular basis with the Group Treasurer. These are in addition to presentations provided on topical issues by senior management as required.

The Group has continued to strengthen its risk management processes. Key activities undertaken by the Risk Committee during the year include:

- Review of the Group's key risks and risk management framework as developed by management;
- Review of the Group's internal capital adequacy assessment process;
- Ongoing critical review of the credit portfolio, asset quality and provisioning;
- Approval of the budget and headcount of the Group's risk management function;
- Review of the Group's 2014 risk appetite statement;
- Review of the certifications from management in relation to the Group's compliance with applicable prudential standard obligations;
- Review of the certifications and assurances from Internal Audit and management in relation to the effectiveness of the Group's internal controls and risk management framework; and
- Regular review of minutes and updates from subsidiary board risk committee meetings.

The Risk Committee met eleven times during the 2014 year. Senior representatives from the Company's external auditor, as well as Internal Audit, were invited to attend every scheduled meeting of the Risk Committee throughout the period.

The Group Chief Risk Officer attends every Risk Committee meeting, and meets regularly with the Chairman of the Risk Committee outside of the scheduled Board program.

The Chairs of each main subsidiary board risk committee met regularly in the 2014 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United

Kingdom, the United States, Australia and New Zealand. This meeting is chaired by the Chairman of the Board Risk Committee. During the year, members of the Committee have met with regulators in certain jurisdictions.

More comprehensive details in relation to the Group's risk oversight and management of its material business risks are available in the Annual Review and the Corporate governance section of the Group's website at www.nabgroup.com.

Remuneration Committee

The Remuneration Committee's role, responsibilities, composition and membership requirements are documented in the Remuneration Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com. The skills, experience and qualifications of members of the Remuneration Committee are detailed in the *Report of the Directors*.

During the 2014 year, one member of the Remuneration Committee was also a member of the Risk Committee, recognising the importance of aligning remuneration and risk.

Information in relation to the Group's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Group performance) can be found in the *Remuneration report* which forms part of the *Report of the Directors*, together with details of the remuneration paid to Board members and senior executives who were the key management personnel of the Company during the 2014 year.

Recognising the increased focus and responsibilities associated with remuneration related risks, the Group's Chief Risk Officer has a standing invitation to attend meetings and the Committee Chairman will specifically invite the Group's Chief Risk Officer to attend meetings where matters specific to risk-adjusted reward measures are discussed.

Activities during the year

Key activities undertaken by the Remuneration Committee during the year include:

- Approval of the 2014 *Remuneration report*;
- Review and recommendation to the Board of the remuneration package for the Group Chief Executive Officer;
- Review and recommendation to the Board of the remuneration packages for other senior executives including the new Executive Leadership Team members;
- Review and recommendation to the Board on award values for the long-term incentive plan for 2014;
- Review and recommendation to the Board on the incentives payable to senior executives based on performance and risk criteria structured to increase shareholder value;
- Review and recommendation to the Board of the termination arrangements for exiting Group Executives;
- Review and recommendation to the Board of remuneration structures for categories of persons across the Group, as required by applicable regulators;
- Review and recommendation to the Board of the non-executive director fees;
- Monitoring global regulatory and legislative reform in relation to remuneration, market trends and stakeholder views on remuneration and reward in the financial services industry;
- Meeting with regulators to discuss the Group's remuneration frameworks;
- Monitoring executive director terminations across the Group;
- Oversight of superannuation guarantee obligations of the Company;
- Review, approval and determination of vesting outcomes of employee equity plans and allocations, including the long-term incentive program;
- Oversight of the Company's compliance framework and management of underperformance and impact on remuneration outcomes; and
- Review of remuneration of non-executive directors of subsidiary companies.

The Remuneration Committee met thirteen times during the 2014 year.

As part of the review process for approval of incentive payments, the Remuneration Committee held a joint meeting with the Risk Committee to ensure that risk impacts had been taken into account in the determination of the allocation and calculation of short and long-term incentive payments.

Nomination Committee

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in the Nomination Committee charter approved by the Board, which is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Activities during the year

Key activities undertaken by the Nomination Committee during the year include:

- Assessment of the appropriate size and composition of the Board;
- Succession planning for non-executive directors;
- Consideration of diversity, including gender diversity, in director succession planning;
- Review of the methodology for the annual Board performance review;
- Oversight of the induction program for new directors; and
- Review of Nomination Committee composition and memberships.

The Nomination Committee met six times during the 2014 year.

Information Technology Committee

The purpose of the Information Technology Committee is to assist the Board in monitoring the Group's strategic technology projects and initiatives, including the Group's technology transformation programs.

The Information Technology Committee met four times during the 2014 year.

Other Committees

The Board establishes sub-committees from time to time to support the Board in carrying out its responsibilities. This includes a standing Capital and Funding Sub-Committee to exercise delegated authority on behalf of the Board in relation to particular Group capital and funding activities. This sub-committee consists of two members, being any one of the Group Executive, Finance & Strategy, the Chair of the Audit Committee or the Chair of the Risk Committee, together with one other non-executive director (who may be the Chair of the Audit Committee or the Chair of the Risk Committee), depending on availability at the relevant time.

Controlled entities

The activities of each company in the Group are overseen by its own respective board of directors. The Board's confidence in the activities of its controlled entities stems from the quality of the chairs and directors on each of its major subsidiary boards and their commitment to the Group's objectives. There is a standing invitation to the Company's directors to attend any board meeting of a major subsidiary board through consultation with the relevant Chairman.

Corporate governance

Such visits are undertaken to develop a broader understanding of the Group's total operations.

Communicating with shareholders

The Group aims to be open and transparent with all stakeholders, including shareholders. Information is communicated to shareholders regularly through a range of forums and publications. These include:

- The Company's Annual General Meeting;
- Notices and explanatory memoranda of Annual General Meetings;
- The Annual Financial Report;
- The Annual Review;
- Regular trading updates and market/investor briefings;
- Letters from the Chairman to inform shareholders of key matters of interest; and
- The Shareholder Centre and Media sections of the Group's website at www.nabgroup.com, which provide access to Company announcements, media releases, financial reports, previous years' financial results and investor presentations.

The Group employs a range of communication approaches, including direct written communication with shareholders, publication of all relevant Group information and webcasting of significant market briefings and meetings (including the Annual General Meeting for shareholders).

The Group is committed to maintaining a level of disclosure that provides all investors with timely and equal access to information. To allow as many shareholders as possible to participate in the Annual General Meeting, the location of the meeting rotates around Australian capital cities and a webcast is available to view online in the Shareholder Centre located on the Group's website at www.nabgroup.com.

Shareholders are able to contact the Company or its share registrar, Computershare Investor Services Limited, by mail, telephone, email or online via the Computershare Investor Centre portal. Shareholders may choose to receive communications from, and send communications to, the Company and Computershare electronically.

Continuous disclosure

The *Corporations Act 2001* (Cth) and the ASX Listing Rules require that the Group promptly discloses to the market matters which could be expected to have a material effect on the price or value of the Company's securities. In compliance with these continuous disclosure requirements, the Company's policy is that shareholders are informed in a timely manner of all major developments that impact the Group. There is a detailed disclosure policy in place, which has been formed to provide advice on the requirements for disclosure of information to the market and is intended to maintain the market integrity and market efficiency of the Company's securities.

The Company has established written guidelines and procedures to supplement the disclosure policy. These guidelines and procedures are designed to manage the Company's compliance with the continuous disclosure obligations of the various stock exchanges on which the Company's securities are listed, including the ASX, and to attribute accountability at a senior executive level for that compliance.

Pursuant to the disclosure policy and supplementary guidelines and procedures, all material matters which may potentially require disclosure are promptly reported to a Disclosure Committee of executives. The Disclosure Committee may refer matters to other senior executives or the Board, to make an assessment and determination as to disclosure.

Where appropriate the Board will be consulted on the most significant or material disclosures. All members of the Executive Leadership Team are responsible for reporting matters qualifying for disclosure to the General Counsel Governance, Corporate & Enterprise Services and/or the Group Company Secretary. Routine administrative announcements will be made by the Group Company Secretary without requiring approval from the Disclosure Committee. The Disclosure Committee reports annually to the Board on activities and decisions taken throughout the year.

The Group Company Secretary is responsible for all communications with all relevant stock exchanges.

The Group Disclosure and External Communications Policy is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Corporate responsibility

The Group's approach to corporate responsibility

The Group's approach to corporate responsibility (CR) seeks to ensure that the Group's beliefs and behaviours are embedded into everyday decision making and long term planning in order to achieve the Group's goal to deliver sustainable, satisfactory returns to shareholders. This approach is based on the principles of creating shared value – that is, creating economic value through the Group as a financial institution whilst also creating value for society by understanding and addressing key social needs and challenges. This approach is centred around the following core commitments:

- Getting the fundamentals right for customers;
- Being a good employer - through investing in the skills and capabilities of employees; and
- Addressing a broader responsibility to society - by investing in communities, managing the Group's environmental impact and having a positive impact through the Group's supply chain.

We ensure our CR approach continues to be relevant by:

- Engaging with stakeholders in each of these commitment areas to inform the Group of current and emerging material issues, challenging the Group to develop mutually beneficial solutions and helping the Group to define its strategic direction;
- Developing a CR strategy that sets clear objectives, establishes appropriate policies, procedures and activities and includes measuring and reporting on progress;
- Integrating CR management and reporting into the Company's governance structures and internal communications to ensure that CR is understood by the Board, Executive Leadership Team and our people; and
- Focussing on three key areas where we are well placed to create a positive impact, being; (i) help people develop a healthy relationship with money; (ii) build prosperous communities; and (iii) support a future focussed nation.

The NAB Advisory Council on Corporate Responsibility, co-chaired by Dr Chris Sarra and the Group Chief Executive Officer, comprises a range of experienced internal and external advisors, who help guide the Company with strategic advice and feedback in relation to the Group's CR strategy and activities.

In 2011, a CR Council was established, consisting of the Executive Leadership Team and chaired by the Group Executive, Finance & Strategy. This Council meets twice a year. The Group's CR performance is reported to this committee and to the NAB Advisory Council on Corporate Responsibility on a half yearly basis, and an update on CR strategy is provided to the Board on an annual basis.

Corporate responsibility performance

Further information on the Group's CR approach, scorecard and performance is provided in the 2014 Annual Review and on the Group's website at www.nabgroup.com. External assurance is provided over the CR data contained in the 2014 Annual Review.

Corporate governance

Codes of conduct

The Group maintains Codes of Conduct in all regions in which the Group operates, which require the observance of strict ethical guidelines. The Codes of Conduct apply to all employees and directors of the Group, together with everyone working on our behalf, including contractors and consultants. The conduct of the Board and each director is also governed by the Board Charter.

The Codes of Conduct cover, amongst other things:
- Personal conduct;
- Honesty, integrity and fairness;
- Prevention of fraud and corruption;
- Conflicts of interest and relations with customers and/or third party providers; and
- Confidentiality, access and disclosure.

The Group's Enterprise Behaviours, together with the Group's Codes of Conduct, take into account the Company's legal obligations and the reasonable expectations of the Group's stakeholders, and emphasise the practices necessary to maintain confidence in the Group's integrity. Copies of the Group's Enterprise Behaviours and Codes of Conduct are available on the Group's website at www.nabgroup.com.

The Group also supports the Code of Banking Practice 2004 of the Australian Bankers' Association, which includes:
- Major obligations and commitments to customers;
- Principles of conduct; and
- The role and responsibilities of an independent external body, the Code Compliance Monitoring Committee, which investigates complaints about non-compliance with this code.

Escalation

The Group has clear and established procedures and a culture that encourages the escalation of complaints and notification of incidents to management and the Board. This ranges from escalation of daily business or management concerns, up to serious financial, cultural or reputational matters. Employees are provided with various avenues for escalation of complaints or concerns, including general and confidential email alert addresses and telephone lines, as well as a comprehensive Whistleblower program.

Whistleblower protection

The Group has a Whistleblower Protection Program for confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by the Group's employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, directly to the Audit Committee. The Group does not tolerate incidents of fraud, corrupt conduct, bribery, adverse behaviour, legal or regulatory non-compliance, or questionable accounting and auditing matters by its employees.

There are established procedures for the receipt, retention and independent treatment of all complaints. Complaints regarding accounting, internal accounting controls or auditing matters are escalated to the Audit Committee if there is a prima facie case.

Employees are also encouraged to escalate any issues they believe could have a material impact on the Group's profitability, reputation, governance or regulatory compliance. It is a responsibility of the Audit Committee to oversee that employees can make confidential, anonymous submissions regarding such matters.

The Company will take all reasonable steps to protect a person who discloses unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) for any person taking reprisals against them.

Restrictions on dealing in securities

Directors, officers and employees are subject to the *Corporations Act 2001* (Cth) restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so) if they are in possession of inside information. Inside information is information which is not generally available, and which if it were generally available a reasonable person would expect it to have a material effect on the price or value of the securities in, or other relevant financial products of, the Group. There are also legal restrictions on insider trading imposed by the laws of other jurisdictions that apply to the Group and its directors, officers and employees. The Company has an established policy relating to trading in the Company's securities by directors, officers and certain other employees of the Group. For more detail, refer to the *Remuneration report*.

Diversity and inclusion

The Group is committed to creating and maintaining an inclusive culture and diverse workforce that is representative of its customers and communities, and in which individual differences are valued and respected. In August 2014, the Board approved an updated enterprise diversity and inclusion strategy for 2015-2017, including an updated Diversity and Inclusion Policy.

The Group's diversity and inclusion strategy is aligned with business strategy in order to recognise the changing needs and expectations of its customers and shareholders. The three imperatives of the strategy are inclusion, life stage and gender equity. These are underpinned by two key enablers: leadership and flexibility.

As part of this updated strategy, the Group aims to attract, develop and retain talented people from all life stages, and help them to realise their potential. Gender diversity also continues to be a key priority for the Group. The Company is committed to building strong female representation at all levels within the Group, including executive management.

The Executive Leadership Team has direct accountability for execution of this strategy. The Board receives regular updates on diversity and inclusion from senior executives of the Group.

The Company has complied with its reporting requirements under the *Workplace Gender Equality Act 2012* (Cth) for the period from 1 April 2013 to 31 March 2014, and has achieved the inaugural 2014 Workplace Gender Equality Agency Employer of Choice for Gender Equality citation.

The Company makes the following disclosures in relation to the ASX Corporate Governance Principles and Recommendations relating to diversity:

Diversity and Inclusion Policy (Recommendation 3.2)

The revised Group Diversity and Inclusion Policy is available in the Corporate governance section of the Group's website at www.nabgroup.com.

Measurable objectives and progress (Recommendation 3.3)

The measurable objectives for achieving gender diversity which have been set by the Board in accordance with the Group Diversity and Inclusion Policy, and the Company's progress towards achieving them, are set out in the table below.

Measurable objectives	Progress
Increase the proportion of women in executive management [(1)], from 23% to 33% by 2015, 34% by 2016 and 35% by 2017.	As at 30 September 2014, 30% of the Group's executive management were women.
Increase the proportion of women on Group subsidiary boards from 14% to 30% by 2015, and 35% by 2017.	The Company has actively encouraged women to join Group subsidiary boards during the year. Of the total number of subsidiary directors, the proportion of women has increased to 32% as at 30 September 2014.
Increase the number of female non-executive directors on the Board of directors of the Company, as vacancies and circumstances allow, with the aim of achieving a representation of at least 30% by 2017.	Diversity, including gender diversity, continues to be an important consideration of the Board in its director succession planning. The proportion of female non-executive directors on the Board as at 30 September 2014 was 18%. The proportion of female non-executive directors on the Board is anticipated to increase to 20% following the Company's 2014 Annual General Meeting in December 2014 (see the Composition of the Board section above for further details).
Strengthen the talent pipeline by targeting a 50/50 gender balance in the Australian graduate program intake and an even representation of women and men on the Company's core Australian talent development programs from 2011 onwards.	Graduate program (Australia): As at 30 September 2014, 46% of the graduates who have accepted positions in the Company's 2015 graduate program are women. Core talent development programs (Australia): For the 2014 financial year, 47% of the Australian talent development program participants, on an aggregated basis across the Company's core talent development programs (Elevate, Ignite and Accelerate) were women.

Proportion of women employees and Board members (Recommendation 3.4)

Recommendation 3.4 requirement	Disclosure
Proportion of women employees in the whole organisation.	As at 30 September 2014, 57% of the Group's employees were women.
Proportion of women in senior executive positions (executive management positions) within the Group [(1)]	As at 30 September 2014, 30% of the senior executive positions within the Group were held by women.
Proportion of women on the Board of the Company.	As at 30 September 2014, 16% of the Company's Board of directors (including executive directors) were women. The Company is committed to ensuring that the composition of its Board continues to be appropriate. The Board's charter clearly states that it should comprise directors with a broad range of skills, experience and diversity. The proportion of women on the Board is anticipated to increase to 18% following the Company's 2014 Annual General Meeting in December 2014 (see the Composition of the Board section above for further details).

(1) *Executive management positions (also known as senior executive positions) are those held by Executive Leadership Team members, Executive Leadership Team members' direct reports, and their direct reports. Note: Support roles reporting in to these roles (for example, Executive Manager and Executive Assistant) are not included in the data.*

Diversity and inclusion

The Group's gender diversity initiatives and awards during the 2014 year include:

- **Workplace Gender Equality Agency Employer of Choice for Gender Equality citation:** this inaugual citation recognises organisations that are leaders in creating gender inclusive workplaces in Australia.
- **Hiring and promotion:** the Group strives to ensure that a mix of men and women are short-listed for all executive management roles, and that hiring decisions are made by interview panels comprised of both men and women where possible.
- **Realise program:** the Group offers a range of learning and development programs in Australia and New Zealand including the 'Realise' and 'Senior Realise' programs, which aim to equip female employees with the skills, knowledge and tools to transition into senior and executive management roles. A virtual Realise program is also offered to support regional Australia and offshore employees in Singapore, India and Hong Kong. For the second year a tailored program has been extended to not-for-profit and business customers with limited access to development programs.
- **NAB Board Ready program:** this is a program designed to educate and prepare women in management positions to become directors of Group companies. The program focuses on building competence and confidence by providing the training and development needed to successfully pursue positions on Group subsidiary boards as well as not-for-profit boards. During 2014 the Company was recognised by Catalyst, a global organisation that supports the advancement of women, as a Catalyst 2014 Practices Recognition Program Organisation for NAB Board Ready.
- **Women's Agenda Leadership Award:** in 2012 the Company joined forces with Women's Agenda to launch the inaugural NAB Women's Agenda Leadership Award. These awards celebrate and recognise inspiring female talent in business and the community as well as the men and women who help women achieve.
- **Women in Boards program:** this is a Clydesdale and Yorkshire Bank program which aims to educate, prepare and support women on their path to joining an internal or external board. Clydesdale and Yorkshire Bank received a Silver Award from Opportunity Now for its work to support women's progression to more senior roles in the workplace. Opportunity Now aims to create a better gender balance for leadership progression; unbiased recognition, reward for all and agile work cultures that are fit for the future.

In addition, the Group's broader diversity and inclusion initiatives during the 2014 year include:

Parental Leave

Two new initiatives that apply to Australian employees under the 2014 NAB Enterprise Agreement:

- Upon returning from parental leave, employees receive a remuneration review to ensure the terms of the Agreement have been applied; and
- Up to 40 weeks of unpaid primary carer's leave, which continues to attract employer superannuation contributions and is recognised for Long Service Leave accrual

The Company has also introduced a newsletter for those on parental leave in Australia called 'Keeping in Touch'.

The Accessibility Action Plan 2012-2014

The Australian Network on Disability reviewed the Company's activities under its Accessibility Action Plan 2012-2014, which highlighted significant progress since the plan was launched in December 2012.

Corporate Champions Program

The Company participated in the Australian Government's *Corporate Champions Program*, reinforcing its commitment to employing talented mature age staff.

Asian Leaders New Zealand

BNZ is a major sponsor of the Asian Leaders New Zealand program, which aims to maximise the country's successful business interface with Asia. The program is also designed to help existing and emerging Asian leaders become future CEOs.

Stonewall Recognition

Vibrant, Clydesdale Bank's lesbian, gay, bisexual and transgender (LGBT) network, was recognised as the Stonewall Scottish Employee Network Group of the Year in 2014.

Please refer to the Group's website at www.nabgroup.com for additional information about the Group's diversity and inclusion initiatives.

Financial Report

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Financial Report

Income statements

For the year ended 30 September	Note	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 $m
Interest income	3	**30,778**	31,289	**26,570**	26,905
Interest expense	3	**(17,039)**	(17,938)	**(17,126)**	(17,169)
Net interest income		**13,739**	13,351	**9,444**	9,736
Premium and related revenue		**1,632**	1,511	**-**	-
Investment revenue		**7,387**	11,449	**-**	-
Fee income		**576**	546	**-**	-
Claims expense		**(961)**	(909)	**-**	-
Change in policy liabilities		**(5,918)**	(9,072)	**-**	-
Policy acquisition and maintenance expense		**(945)**	(928)	**-**	-
Investment management expense		**(13)**	(4)	**-**	-
Movement in external unitholders' liability		**(1,216)**	(2,114)	**-**	-
Net life insurance income		**542**	479	**-**	-
Gains less losses on financial instruments at fair value	4	**999**	769	**1,599**	1,205
Other operating income	4	**3,968**	3,604	**3,657**	2,726
Total other income		**4,967**	4,373	**5,256**	3,931
Personnel expenses	5	**(4,532)**	(4,394)	**(3,111)**	(3,113)
Occupancy-related expenses	5	**(645)**	(600)	**(502)**	(405)
General expenses	5	**(5,261)**	(3,311)	**(2,842)**	(1,830)
Total operating expenses		**(10,438)**	(8,305)	**(6,455)**	(5,348)
Charge to provide for doubtful debts	5	**(855)**	(1,810)	**(604)**	(1,523)
Profit before income tax expense		**7,955**	8,088	**7,641**	6,796
Income tax expense	6	**(2,657)**	(2,725)	**(2,039)**	(1,758)
Net profit for the year		**5,298**	5,363	**5,602**	5,038
Attributable to:					
Owners of the Company		**5,295**	5,355	**5,602**	5,038
Non-controlling interest in controlled entities		**3**	8	**-**	-
Net profit for the year		**5,298**	5,363	**5,602**	5,038
Basic earnings per share (cents)	8	**222.1**	225.9		
Diluted earnings per share (cents)	8	**218.3**	224.0		

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Statements of comprehensive income

For the year ended 30 September	Note	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 $m
Net profit for the year		**5,298**	5,363	**5,602**	5,038
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans	36	**49**	51	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	36	**(44)**	-	**(43)**	-
Revaluation of land and buildings	35	**3**	6	**-**	-
Exchange differences on translation of other contributed equity		**81**	221	**54**	93
Tax on items transferred directly from equity	36	**(6)**	(68)	**-**	-
Total items that will not be reclassified to profit or loss		**83**	210	**11**	93
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges					
Losses on cash flow hedging instruments	35	**(119)**	(438)	**(111)**	(102)
(Gains)/losses transferred to the income statement	35	**(84)**	11	**6**	(5)
Exchange differences on translation of foreign operations		**493**	1,158	**(22)**	(27)
Investments - available for sale					
Revaluation gains/(losses)	35	**263**	(18)	**232**	-
Gains from sale transferred to the income statement	35	**(94)**	(38)	**(16)**	(11)
Impairment transferred to the income statement	35	**4**	13	**-**	6
Tax on items transferred directly (from)/to equity		**(34)**	61	**(43)**	38
Total items that will be reclassified subsequently to profit or loss		**429**	749	**46**	(101)
Other comprehensive income for the year, net of income tax		**512**	959	**57**	(8)
Total comprehensive income for the year		**5,810**	6,322	**5,659**	5,030
Attributable to:					
Owners of the Company		**5,807**	6,314	**5,659**	5,030
Non-controlling interest in controlled entities		**3**	8	**-**	-
Total comprehensive income for the year		**5,810**	6,322	**5,659**	5,030

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Balance sheets

As at 30 September	Note	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 [1] $m
Assets					
Cash and liquid assets	9	**41,034**	35,666	**34,665**	29,834
Due from other banks	10	**39,088**	43,193	**28,318**	31,628
Trading derivatives	11	**57,389**	39,214	**58,001**	39,778
Trading securities	12	**44,212**	32,996	**40,470**	29,132
Investments - available for sale	13	**43,386**	34,886	**39,273**	31,309
Investments - held to maturity	14	**2,919**	4,758	**1,668**	3,163
Investments relating to life insurance business	15	**85,032**	77,587	**-**	-
Other financial assets at fair value	16	**84,488**	75,756	**55,830**	49,038
Hedging derivatives	11	**5,488**	3,926	**5,413**	3,839
Loans and advances	17	**434,725**	412,301	**340,814**	324,460
Due from customers on acceptances		**23,437**	29,319	**23,427**	29,311
Current tax assets	23	**-**	63	**74**	-
Property, plant and equipment	20	**1,952**	1,993	**506**	709
Due from controlled entities		**-**	-	**87,053**	64,152
Investments in controlled entities	21	**-**	-	**19,691**	18,720
Goodwill and other intangible assets	22	**7,720**	7,641	**1,546**	1,431
Deferred tax assets	23	**1,617**	1,624	**1,343**	1,720
Other assets	24	**10,814**	8,947	**8,293**	6,200
Total assets		**883,301**	809,870	**746,385**	664,424
Liabilities					
Due to other banks		**45,204**	34,623	**41,677**	32,648
Trading derivatives	11	**55,858**	41,749	**55,803**	40,475
Other financial liabilities at fair value	25	**28,973**	26,431	**6,594**	5,841
Hedging derivatives	11	**3,445**	3,431	**4,374**	3,942
Deposits and other borrowings	26	**476,208**	445,042	**374,538**	347,829
Liability on acceptances		**61**	3,228	**52**	3,220
Life policy liabilities	27	**71,701**	64,509	**-**	-
Current tax liabilities	28	**729**	922	**718**	933
Provisions	29	**2,914**	1,636	**809**	812
Due to controlled entities		**-**	-	**93,860**	69,935
Bonds, notes and subordinated debt	30	**118,165**	110,717	**109,010**	101,605
Other debt issues	31	**4,686**	2,944	**4,106**	2,365
Defined benefit superannuation plan liabilities	32	**12**	354	**-**	-
External unitholders' liability		**14,123**	14,077	**-**	-
Other liabilities	33	**13,314**	13,831	**6,647**	8,190
Total liabilities		**835,393**	763,494	**698,188**	617,795
Net assets		**47,908**	46,376	**48,197**	46,629
Equity					
Contributed equity	34	**28,380**	27,944	**27,856**	27,297
Reserves	35	**(866)**	(1,420)	**811**	668
Retained profits	36	**20,377**	19,793	**19,530**	18,664
Total equity (parent entity interest)		**47,891**	46,317	**48,197**	46,629
Non-controlling interest in controlled entities		**17**	59	**-**	-
Total equity		**47,908**	46,376	**48,197**	46,629

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Cash flow statements

For the year ended 30 September	Note	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 [1] $m
Cash flows from operating activities					
Interest received		**30,369**	31,232	**26,117**	27,014
Interest paid		**(17,146)**	(18,304)	**(17,225)**	(17,548)
Dividends received		**16**	10	**1,855**	995
Life insurance:					
Premiums and other revenue received		**13,261**	9,139	**-**	-
Investment revenue received		**2,159**	2,060	**-**	-
Policy and other payments		**(10,769)**	(9,210)	**-**	-
Fees and commissions paid		**(508)**	(496)	**-**	-
Net trading revenue (paid)/received		**(2,430)**	2,577	**(2,521)**	2,600
Other operating income received		**4,251**	3,971	**2,089**	1,858
Payments to employees and suppliers:					
Personnel expenses paid		**(4,304)**	(4,210)	**(2,945)**	(2,973)
Other operating expenses paid		**(5,763)**	(3,862)	**(4,586)**	(1,335)
Goods and services tax received/(paid)		**30**	(15)	**17**	(8)
Income taxes paid		**(2,709)**	(1,845)	**(2,192)**	(1,459)
Cash flows from operating activities before changes in operating assets and liabilities		**6,457**	11,047	**609**	9,144
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with supervisory central banks that are not part of cash equivalents		**(4,733)**	(313)	**(4,733)**	(293)
Net funds received from/(advanced to) other banks with maturity greater than three months		**2,965**	(4,518)	**2,511**	(4,346)
Net receipts from acceptance transactions		**2,732**	3,061	**2,732**	3,061
Net funds advanced to customers for loans and advances		**(18,868)**	(8,001)	**(16,138)**	(6,186)
Net acceptance from deposits and other borrowings		**23,028**	8,388	**22,959**	3,879
Net movement in life insurance business investments		**(3,212)**	(659)	**-**	-
Net movement in other life insurance assets and liabilities		**221**	(93)	**-**	-
Net receipts from treasury bills and other eligible bills held for trading and not part of cash equivalents		**132**	921	**-**	245
Net payments for trading securities		**(9,992)**	(4,957)	**(10,808)**	(3,535)
Net (payments for)/receipts from trading derivatives		**(448)**	(692)	**1,229**	(602)
Net funds advanced for hedging derivative assets and other financial assets at fair value		**(9,728)**	(7,714)	**(7,933)**	(9,132)
Net receipts from hedging derivative liabilities and other financial liabilities at fair value		**3,745**	390	**4,587**	152
Net (increase)/decrease in other assets		**(795)**	414	**(935)**	221
Net increase in other liabilities		**1,261**	3,890	**1,638**	3,804
Changes in operating assets and liabilities arising from cash flow movements		**(13,692)**	(9,883)	**(4,891)**	(12,732)
Net cash (used in)/provided by operating activities	38(a)	**(7,235)**	1,164	**(4,282)**	(3,588)
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(29,871)**	(24,673)	**(28,869)**	(24,105)
Proceeds from disposal		**7,164**	2,309	**6,499**	1,819
Proceeds on maturity		**15,148**	16,245	**15,074**	16,108
Movement in investments - held to maturity					
Purchases		**-**	(1,831)	**-**	(409)
Proceeds on disposal and maturity		**1,504**	6,326	**1,183**	4,327
Net cash flow movement in amounts due from controlled entities		**-**	-	**322**	6,334
Net cash flow movement in shares in controlled entities		**-**	-	**(943)**	(390)
Purchase of property, plant, equipment and software		**(1,243)**	(1,232)	**(902)**	(865)
Proceeds from sale of property, plant, equipment and software, net of costs		**256**	104	**474**	525
Net cash (used in)/provided by investing activities		**(7,042)**	(2,752)	**(7,162)**	3,344
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(24,884)**	(24,442)	**(23,265)**	(21,388)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**28,211**	25,777	**24,900**	22,771
Proceeds from issue of ordinary shares, net of costs		**9**	20	**9**	20
Repayments of BNZ income securities		**(203)**	(380)	**-**	-
Proceeds from other debt issues, net of costs		**1,699**	1,496	**1,699**	1,496
Purchase of shares for dividend reinvestment plan neutralisation		**(309)**	(300)	**(309)**	(300)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(3,973)**	(3,480)	**(3,954)**	(3,441)
Net cash provided by/(used in) financing activities		**550**	(1,309)	**(920)**	(842)
Net decrease in cash and cash equivalents		**(13,727)**	(2,897)	**(12,364)**	(1,086)
Cash and cash equivalents at beginning of year		**37,341**	36,212	**21,482**	20,079
Effects of exchange rate changes on balance of cash held in foreign currencies		**2,903**	4,026	**2,096**	2,489
Cash and cash equivalents at end of year	38(b)	**26,517**	37,341	**11,214**	21,482

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Statements of changes in equity

Group	Contributed equity [1] [3] $m	Reserves [2] $m	Retained profits [3] [4] $m	Total [3] $m	Non-controlling interest in controlled entities $m	Total equity [3] $m
Year to 30 September 2013						
Balance at 1 October 2012	27,373	(2,319)	18,702	43,756	47	**43,803**
Restated for adoption of new accounting standards	(187)	-	9	(178)	-	**(178)**
Net profit for the year	-	-	5,355	5,355	8	**5,363**
Other comprehensive income for the year	-	976	(17)	959	-	**959**
Total comprehensive income for the year	-	976	5,338	6,314	8	**6,322**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	843	-	-	843	-	**843**
Exercise of executive share options	20	-	-	20	-	**20**
Conversion of other debt issues	500	-	-	500	-	**500**
Buyback of BNZ Income Securities	(380)	-	-	(380)	-	**(380)**
Transfer from equity-based compensation reserve	195	(195)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	(120)	-	-	(120)	-	**(120)**
On market purchase of shares for dividend reinvestment plan neutralisation	(300)	-	-	(300)	-	**(300)**
Transfer (to)/from retained profits	-	(67)	67	-	-	**-**
Equity-based compensation	-	185	-	185	-	**185**
Dividends paid	-	-	(4,135)	(4,135)	-	**(4,135)**
Distributions on other equity instruments	-	-	(188)	(188)	-	**(188)**
Changes in ownership interests [5]						
Movement of non-controlling interest in controlled entities	-	-	-	-	4	**4**
Balance at 30 September 2013	**27,944**	**(1,420)**	**19,793**	**46,317**	**59**	**46,376**
Year to 30 September 2014						
Net profit for the year	-	-	5,295	5,295	3	**5,298**
Other comprehensive income for the year	-	513	(1)	512	-	**512**
Total comprehensive income for the year	-	513	5,294	5,807	3	**5,810**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	677	-	-	677	-	**677**
Exercise of executive share options	9	-	-	9	-	**9**
Buyback of BNZ Income Securities	(203)	-	-	(203)	-	**(203)**
Transfer from equity-based compensation reserve	182	(182)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	80	-	-	80	-	**80**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	-	**(309)**
Transfer from/(to) retained profits	-	60	(60)	-	-	**-**
Equity-based compensation	-	163	-	163	-	**163**
Dividends paid	-	-	(4,470)	(4,470)	-	**(4,470)**
Distributions on other equity instruments	-	-	(180)	(180)	-	**(180)**
Changes in ownership interests [5]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(45)	**(45)**
Balance at 30 September 2014	**28,380**	**(866)**	**20,377**	**47,891**	**17**	**47,908**

(1) *Refer to Note 34 'Contributed equity' for further details.*

(2) *Refer to Note 35 'Reserves' for further details.*

(3) *Prior periods have been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(4) *Refer to Note 36 'Retained profits' for further details.*

(5) *Change in ownership interest in controlled entities that does not result in a loss of control.*

Statements of changes in equity

Company	Contributed equity [1] $m	Reserves [2] $m	Retained profits [3] $m	Total $m	Total equity $m
Year to 30 September 2013					
Balance at 1 October 2012	26,039	760	17,836	44,635	**44,635**
Net profit for the year	-	-	5,038	5,038	**5,038**
Other comprehensive income for the year	-	(8)	-	(8)	**(8)**
Total comprehensive income for the year	-	(8)	5,038	5,030	**5,030**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	843	-	-	843	**843**
Exercise of executive share options	20	-	-	20	**20**
Conversion of other debt issues	500	-	-	500	**500**
Transfer from equity-based compensation reserve	195	(195)	-	-	**-**
On market purchase of shares for dividend reinvestment plan neutralisation	(300)	-	-	(300)	**(300)**
Transfer (to)/from retained profits	-	(74)	74	-	**-**
Equity-based compensation	-	185	-	185	**185**
Dividends paid	-	-	(4,196)	(4,196)	**(4,196)**
Distributions on other equity instruments	-	-	(88)	(88)	**(88)**
Balance at 30 September 2013	**27,297**	**668**	**18,664**	**46,629**	**46,629**
Year to 30 September 2014					
Net profit for the year	-	-	5,602	5,602	**5,602**
Other comprehensive income for the year	-	100	(43)	57	**57**
Total comprehensive income for the year	-	100	5,559	5,659	**5,659**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	677	-	-	677	**677**
Exercise of executive share options	9	-	-	9	**9**
Transfer from equity-based compensation reserve	182	(182)	-	-	**-**
On market purchase of shares for dividend reinvestment plan neutralisation	(309)	-	-	(309)	**(309)**
Transfer from/(to) retained profits	-	62	(62)	-	**-**
Equity-based compensation	-	163	-	163	**163**
Dividends paid	-	-	(4,553)	(4,553)	**(4,553)**
Distributions on other equity instruments	-	-	(78)	(78)	**(78)**
Balance at 30 September 2014	**27,856**	**811**	**19,530**	**48,197**	**48,197**

(1) *Refer to Note 34 'Contributed equity' for further details.*

(2) *Refer to Note 35 'Reserves' for further details.*

(3) *Refer to Note 36 'Retained profits' for further details.*

Notes to the financial statements

1 Principal accounting policies

The financial report of National Australia Bank Limited (Company) and its controlled entities (Group) for the year ended 30 September 2014 was authorised for issue on 17 November 2014 in accordance with a resolution of the directors.

National Australia Bank Limited is a for-profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth) and accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB). The financial report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards. Accounting policies have been consistently applied to all periods presented, unless otherwise stated, throughout the Group.

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Group are discussed in *Note 1 (aj) 'Critical accounting assumptions and estimates.'*

Comparative information has been restated to accord with changes in presentations made in the current year, except where otherwise stated. Certain key terms used in this report are defined in the glossary.

(b) Statement of compliance

The financial report of the Company and the Group complies with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 Australian Securities and Investments Commission Class Order 10/654 dated 26 July 2010.

(c) New and amended accounting standards and interpretations

(i) Changes in accounting policy and disclosure

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 October 2013 that required a restatement of comparatives provided in previous financial statements. The total impact of these changes to net profit was a $97 million decrease, taking net profit from $5,452 million to $5,355 million for the 30 September 2013 year. The nature and impact of each new standard and amendment is described below. The Group published a restatement document on 24 April 2014 illustrating the financial impacts of the restatement to comparative information.

Amended AASB 119 'Employee Benefits' (and consequential amendment AASB 2011-10)

The amended accounting standard requires the amounts recorded in profit or loss to be limited to current and past service costs, gains or losses, settlements and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses, will be recognised in other comprehensive income with no subsequent recycling to profit or loss. The expected return on plan assets is no longer recognised in profit or loss. Instead, interest income is now measured using the same discount rate used to measure the defined benefit obligation.

The impact was a decrease in net profit of $26 million for the period ended 30 September 2013. When combined with an offsetting increase to other comprehensive income for the same amount, there was no overall impact to retained earnings.

AASB 10 'Consolidated Financial Statements' (and consequential amendments AASB 2011-7 and 2012-10)

This standard introduces a single control model to determine which investees should be consolidated. It defines control as consisting of three elements: power, exposure to variable returns, and an investor's ability to use power to affect its amount of variable returns. This requires an analysis of all facts and circumstances and the application of judgement in making the control assessment.

The impact of adopting this new standard has resulted in the Group consolidating some entities that were previously not consolidated and some other entities are no longer required to be consolidated. Entities that are newly consolidated are primarily due to instances where the Group has reassessed its involvement with a managed investment scheme, for example through their role as responsible entity, trustee or in some instances, fund manager.

The overall net impact for 30 September 2013 was an increase in total assets of $1,443 million, an increase in total liabilities of $1,687 million and a decrease in total equity of $244 million. There was a reduction in net profit for the period ended 30 September 2013 of $71 million. This was mainly attributable to the elimination of marked-to-market movements arising from changes in the Company share price, dividend income and realised profits and losses on the disposal of shares that relate to treasury shares that have arisen from consolidating new entities.

AASB 12 'Disclosure of Interests in Other Entities'

AASB 12 includes new disclosures relating to the Group's interests in subsidiaries and structured entities. New disclosures are required relating to the nature of risks and interests in structured entities. The new disclosures can be found in *Note 39 'Interests in subsidiaries and other entities'.* In accordance with the transitional provisions, comparatives have not been presented.

AASB 13 'Fair Value Measurement' (and consequential amendment AASB 2011-8)

AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. AASB 13 applies to both financial instrument items and non-financial instrument items for which other accounting standards require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions, leasing transactions, and measurements that have some similarities to fair value but are not fair value (e.g. value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. AASB 13 also includes extensive disclosure requirements.

Notes to the financial statements

1 Principal accounting policies (continued)

The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements, however additional disclosures have been incorporated in *Note 42 'Fair value of financial instruments'*. In accordance with the transitional provisions, comparatives have not been presented.

Other new standards and interpretations

The Group has adopted the following new and amended standards and interpretations as of 1 October 2013 with no material impact:

- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' has been amended to clarify the conditions for offsetting financial assets and liabilities. These amendments do not have an impact on the Group's current accounting practice for offsetting arrangements. However, additional disclosures have been included in *Note 41 'Financial risk management'*;
- AASB 11 'Joint Arrangements' (and consequential amendments AASB 2011-7, 2010-10 and amendments to AASB 128) introduces a revised model for accounting for joint arrangements;
- AASB 1053 'Application of Tiers of Australian Accounting Standards' establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The Group is considered Tier 1;
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' removes the requirements to include individual key management personnel disclosures in the notes to the financial statements, although does not change the *Corporations Act 2001* (Cth) requirements in respect of the Remuneration report;
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from annual improvements 2009-2011 cycle' provides clarification of the requirements for comparative information and other financial instrument presentation changes;
- AASB 2012-9 'Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039' amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia; and
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'. Part A of the amendment makes consequential amendments arising from the issuance of AASB CF 2013-1 'Amendment to the Australian Conceptual Framework' which replaces the guidance in the Framework on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, as an integral part of the Framework. It also withdraws Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting.

Research and development expenditure tax offsets

The Group has changed its accounting policy for tax offsets related to research and development expenditure. The Group previously recognised such tax offsets as a reduction in income tax expense in the period in which the related expenditure was made. Under the revised accounting policy, the tax benefit from research and development expenditure is recognised as a reduction in the related asset or operating expenses, depending on the nature of the expenditure.

It is considered that the revised accounting policy provides more relevant information with matching of the tax benefit to the underlying expenditure. The revised accounting policy has been applied from when tax offsets in respect of research and development expenditure were introduced, with the cumulative impact recognised fully in the current year. The impact for the year ended 30 September 2014 was a decrease in total assets of $28 million (consisting of a decrease in intangible assets of $40 million, offset by an increase in deferred tax assets of $12 million), and a decrease in net profit after tax of $28 million (consisting of a decrease in general expenses of $40 million, offset by an increase in income tax expense of $68 million).

(ii) Early adoptions

The Group has elected to early adopt the following new or amended accounting standards or interpretations in the current year:

Interpretation 21 'Levies'

This interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. The Group has early adopted this interpretation from 1 October 2013. There is no material impact to the financial statements as a result of this early adoption.

AASB 9 'Financial Instruments' – Own credit risk

The Group has elected to early adopt the 'own credit' provisions in AASB 9 from 1 October 2013. These provisions require the Group to present in other comprehensive income the fair value gains and losses attributable to changes in the Group's own credit risk for financial liabilities designated and measured at fair value through profit or loss. In accordance with the transition requirements of these provisions, comparatives have not been restated.

The credit risk adjustment for the period ended 30 September 2014 was a $31 million (after tax) loss.

(iii) New and amended accounting standards and interpretations issued but not yet effective

The following issued, but not yet effective, new and amended Australian Accounting Standards and AASB Interpretations have not been applied in preparing this financial report:

Applicable for the year commencing 1 October 2014, with no material impact:

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities' adds application guidance to AASB 132 'Financial Instruments Presentation' to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement;
- AASB 2013-3 'Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets' amends the disclosure requirements of AASB 136 to include additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal;
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting' amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations;
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities' defines an investment entity and requires that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 when it obtains control of another entity. This amendment will only affect some subsidiaries of the

1 Principal accounting policies (continued)

Group deemed to be investment entities that prepare separate financial statements;

- AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy holders'. AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities;
- AASB 2014-1 'Part A Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle'. These standards include amendments to standards and the related basis for conclusions and guidance made during the IASB's Annual Improvement process. These amendments have not yet been adopted by the AASB;
- AASB 1031 'Materiality' and consequential amendments AASB 2013-9 Part B. The revised AASB 1031 is an interim standard that cross references to other standards and the Framework (issued in December 2013) that contains guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all standards and interpretations have been removed;
- AASB 2014-1 'Part B Amendments to AASB 119'. Part B makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service; and
- AASB 2014-4 'Clarification of Acceptable Methods of Depreciation and Amortisation'. AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified the use of certain methods to calculate depreciation is not appropriate.

Applicable to the Group for the year commencing after 1 October 2015:

- IFRS 9 'Financial Instruments' contains new requirements for classification and measurement, impairment and hedge accounting for financial assets and liabilities. The standard is effective for the Group in the year commencing 1 October 2018. Early adoption is permitted if the complete version of IFRS 9 is adopted in its entirety for reporting periods after 24 July 2014.

  It is expected that the AASB will issue AASB 9 'Financial Instruments' (AASB 9) in the fourth quarter of 2014, with early application provisions equivalent to IFRS 9. If issued as expected, the Group intends to early adopt AASB 9 with an application date of 1 October 2014. AASB 9 will replace the corresponding requirements in AASB 139 'Financial Instruments: Recognition and Measurement' and all previous versions of AASB 9. It will introduce significant changes in the way that the Group accounts for financial instruments.

  The areas of most significant impact and the known estimable transitional differences from application of IFRS 9 are summarised below.

  Classification and measurement

  The classification and measurement of financial assets is determined on the basis of the contractual cashflow characteristics and the objective of the business model associated with holding the asset. Key changes include:

  - The Held to Maturity (HTM) and Available for Sale (AFS) asset categories will be removed;

  - A new asset category measured at Fair Value through Other Comprehensive Income (FVOCI) is introduced. This applies to financial asset debt instruments with contractual cashflow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cashflows and selling financial assets. A significant portion of the Group's AFS debt instruments will be classified in this category;

  - A new asset category for non-traded equity investments measured at FVOCI is introduced. A significant portion of the Group's AFS equity instruments will be classified in this category;

  - Upon transition, the Group will elect to revoke previous fair value option designations that currently measure specific lending portfolios at Fair Value through Profit or Loss (FVTPL). These portfolios will be subsequently accounted at amortised cost;

  - Classification of financial liabilities will remain largely unchanged for the Group. The Group has already early adopted the 'own credit risk' provisions of AASB 9 pertaining to financial liabilities from 1 October 2013.

Impairment

The IFRS 9 impairment requirements are based on an expected credit loss model (ECL) that replaces the incurred loss model under the current accounting standard. The Group will be generally required to recognise either a 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model will apply to debt instruments accounted for at amortised cost or at FVOCI. IFRS 9 will change the Group's current methodology for calculating the provision for doubtful debts, in particular for collective provisioning.

Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of groups of items as the hedged items are possible. The Group will elect an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements under AASB 139.

Transition impact

The overall impact of transitioning to IFRS 9 on the Group's financial statements will be a decrease in net assets of approximately $870 million, arising from:

- A decrease of $180 million from the re-measurement of financial asset classification changes described above;

- An increase in provisioning for doubtful debts on assets held at amortised cost of $1,010 million; and

- An increase in net deferred tax assets of approximately $320 million.

The credit risk adjustment included in the carrying value of financial assets at fair value will decrease by approximately $285 million, due to reclassifications between amortised cost and fair value. Therefore, the net increase in provisioning for doubtful debts on assets held at amortised cost and fair value will be approximately $725 million.

Any adjustments that arise as a result of the transition process will be recognised in either retained earnings or an appropriate equity reserve at the date of transition. Opening retained earnings is expected to decrease by $320 million (post-tax), after the release of $550 million to the General reserve for credit losses.

The transitional impact is based on best estimates as at the reporting date. The information provided in this note is focused upon material items; it does not represent a complete list of expected adjustments.

1 Principal accounting policies (continued)

- IFRS 15 'Revenue from Contracts with Customers' establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers. The impact of this standard is still being assessed, and is not applicable until 1 October 2017.

(d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(e) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(f) Principles of consolidation

(i) Controlled entities

The consolidated financial report comprises the financial report of the Company and its 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 is shown as non-controlling interest in controlled entities in the equity section of the consolidated balance sheet.

Statutory funds of the Group's life insurance business are consolidated in the financial report. The financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective of whether they are designated as relating to policyholders or shareholders. In addition, where the Group's life insurance statutory funds have the capacity to control managed investment schemes, the Group consolidates all of the assets, liabilities, revenues and expenses of these managed investment schemes. External interest in the units and results of the managed investment schemes that are controlled by the statutory funds is shown as external unitholders' liability in the liability section of the consolidated balance sheet.

Investments in controlled entities are recorded at cost less any provision for impairment in the financial statements of the Company.

(ii) Joint operations

A joint operation is a joint arrangement by venturers with joint control who use their own assets in pursuit of the joint operation. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(g) Business combinations

The acquisition method of accounting is used for all business combinations. Consideration is measured at fair value and is calculated as the sum of the acquisition date fair value of assets transferred, liabilities incurred to former owners of the acquiree and equity instruments issued. Acquisition related costs are expensed as incurred.

When a non-controlling interest is present in an entity over which the Group gains control, the non-controlling interest is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. This choice of accounting treatment is applied on a transaction by transaction basis. Any put and call instruments transacted concurrently with a business combination to acquire the remaining non-controlling interest are assessed to determine whether there is creation of a forward purchase agreement to acquire the remaining outstanding equity at a future date.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the carrying amount of contingent consideration are recognised either in the income statement or in equity depending on the nature of the payment.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the income statement. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Group Companies

The results and financial position of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are normally translated at average exchange rates for the period, unless average is not a reasonable approximation; and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the income statement.

When a foreign operation is disposed, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Notes to the financial statements

1 Principal accounting policies (continued)

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

Loan origination fees are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred until the commitment is exercised and are recognised over the life of the loan as an adjustment of yield or, if unexercised, recognised as income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as income over the commitment period.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as income over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

(ii) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction.

When the Group acts in the capacity of an agent, revenue is recognised as the net amount of fees and commissions made by the Group.

Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time. Account keeping charges, credit card fees, money transfer fees and loan servicing fees are recognised in the period the service is provided. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

(iii) Gains less losses on financial instruments at fair value

Gains less losses on financial instruments at fair value comprise fair value gains and losses from:

- trading derivatives;
- trading securities;
- instruments designated in hedge relationships; and
- other financial assets and liabilities designated at fair value through profit or loss.

In general, gains less losses on trading derivatives recognise the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where a trading derivative is economically offsetting movements in the fair value of a financial asset or liability designated at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are recognised within net interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness from both fair value and cash flow hedge relationships. Interest income and expense on both hedging instruments and instruments designated at fair value through profit or loss are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss recognises fair value movements (excluding interest) on those items designated as fair value through profit or loss. Interest income and expense on financial assets and liabilities designated at fair value through profit or loss are recognised within net interest income. Changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the Group's own credit quality are presented separately in other comprehensive income.

(iv) Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Group's right to receive the dividend is established.

(j) Life insurance

The Group conducts its life insurance business, comprising of insurance and investment contracts, through a number of controlled entities including MLC Limited and BNZ Life Insurance Limited.

(i) Allocation of profit

Life insurance contracts
Profits are brought to account in the statutory funds on a Margin on Services (MoS) basis in accordance with Actuarial Standards. Under MoS, profit is recognised as fees are received and services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When fees are received but the service has not been provided, profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of life insurance policies to be charged to the income statement over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable.

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act 1995* (Cth) and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the income statement.

1 Principal accounting policies (continued)

Life investment contracts
Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested over operating expenses.

(ii) Premium and related revenue

Life insurance contracts
Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the reporting date but not received at reporting date are included as outstanding premiums receivable. Premiums due after but received before the reporting date are accounted for as premiums in advance.

Life investment contracts
The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as fee income. Premiums are recognised as an increase in policy liabilities.

(iii) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income. Net realised profits and losses and changes in the measurement of fair values in respect of all investments recognised at fair value are recognised in the income statement in the period in which they occur.

(iv) Claims expense

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components.

Life insurance contracts
Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

Life investment contracts
Claims incurred in respect of investment contracts, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

(v) Basis of expense apportionment

All expenses charged to the income statement are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act 1995* (Cth) as follows:

- Expenses and other outgoings that relate specifically to a particular statutory fund are directly charged to that fund; and
- Expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) are apportioned between each statutory fund and shareholders' fund.

Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including sales support and marketing, new business processing and policyholder servicing. Expenses are then allocated to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit.

Investment income, gains and losses on sale of property, plant and equipment, gains and losses on sale of investments, and appreciation and depreciation of investments are directly credited or charged to the appropriate statutory fund or shareholders' fund.

(vi) Deferred acquisition costs

The extent to which policy acquisition costs are deferred varies according to the classification of the contract acquired (either life insurance or life investment).

Life insurance contracts
The costs incurred in selling or generating new business include adviser fees, commission payments, application processing costs, relevant advertising costs and costs for promotion of products and related activities. These costs are deferred to the extent they are deemed recoverable from premiums or policy charges (as appropriate for each policy class). Deferred acquisition costs are amortised over the period that they will be recovered from premiums or policy charges.

Life investment contracts
The incremental costs incurred in selling or generating new business are expensed as incurred.

(k) Income tax

Income tax expense (or benefit) is the tax payable (or receivable) on the current period'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 related to items recognised directly in other comprehensive income, in which case it is recognised in the Statement of Comprehensive Income. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

For life insurance business, taxation is not based on the concept of profit. Legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business

1 Principal accounting policies (continued)

to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- Superannuation policies – 15%;
- Annuity policies – 0%; or
- Other policies – 30%.

The life insurance business shareholders' funds in Australia are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies less deductible expenses.

(i) Tax consolidation

The Group and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 October 2002 and are taxed as a single entity from that date. The head entity within the tax-consolidated group is National Australia Bank Limited.

Current tax expense (or benefit) and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the Group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group under the tax funding arrangement. Any difference between the amounts assumed and amounts receivable/payable under the tax funding agreement are recognised by the Company as an equity contribution to or distribution from its subsidiaries.

The members of the tax-consolidated group have entered into a tax funding arrangement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant taxation authority.

(ii) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included in other assets or other liabilities. Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

(l) Cash and liquid assets

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

(m) Due from other banks

Due from other banks includes loans, deposits with central banks and other regulatory authorities and settlement account balances due from other banks. Amounts due from other banks are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

(n) Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction. Securities lent to counterparties are also retained in their respective balance sheet categories.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as due from other banks or cash and liquid assets.

Securities borrowed are not recognised in the financial statements unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value.

(o) Financial instruments

(i) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

The Group classifies its financial assets as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available for sale securities. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial liabilities as liabilities at fair value through profit or loss, liabilities at amortised cost or derivative liabilities.

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 on 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.

A financial liability is derecognised from the balance sheet when the Group has discharged its obligation or the contract is cancelled or expires.

(ii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

1 Principal accounting policies (continued)

(iii) Items at fair value through profit or loss

Items at fair value through profit or loss comprise both items held for trading and items specifically designated as fair value through profit or loss on initial recognition. Financial instruments held at fair value through profit or loss 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 and losses are recognised in the income statement as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Where a financial liability is measured at fair value, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates.

Upon initial recognition, financial instruments may be designated as fair value through profit or loss. Restrictions are placed on the use of the designated fair value option and the classification can only be used:

- In respect of an entire contract if a host contract contains one or more embedded derivatives;
- If designating the financial instruments eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial instruments held for trading

A financial instrument is classified as held for trading, if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

(iv) Investments - available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of fair value through profit or loss, loans and receivables or held to maturity. Available for sale investments primarily comprise debt securities.

Available for sale investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until disposal, when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated change in fair value in the available for sale investments reserve is recognised in the income statement.

(v) Investments - held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, net of any provision for impairment.

Any sale or reclassification of a more than insignificant amount of held to maturity investments would result in a reclassification of all held to maturity investments as available for sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held to maturity investments to available for sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held to maturity in the financial year of the sale or reclassification and the following two financial years.

(p) Assets relating to life insurance business

All assets held in statutory funds are considered to back policy liabilities and are classified at fair value through profit or loss.

Assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act 1995* (Cth) and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund 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.

(q) Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are separated from the host contract and accounted for separately; if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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. The Group designates certain derivatives as:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges); or
- Hedges of net investments in foreign operations.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

1 Principal accounting policies (continued)

The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis.

(i) Fair value hedges

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item affects the income statement (e.g. when the forecast hedged variable cash flows are recognised in the income statement).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the income statement.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are transferred to the income statement when the foreign operation is disposed.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- The derivative is held for the purpose of short-term profit taking; or
- The derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

In both of these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(r) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

In certain circumstances the Group applies the fair value measurement option to loans and advances. This option is applied to loans and advances where there is an embedded derivative within the loan contract or the assets are managed on a fair value basis. The loan is designated as fair value through profit or loss to offset the movements in the fair value of the hedging derivatives in the income statement. When this option is applied, the asset is included in other financial assets at fair value.

Where a loan is measured at fair value, a credit valuation adjustment to reflect the credit worthiness of the counterparty is included.

(s) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are not carried at fair value through profit or loss, is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances and held to maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

1 Principal accounting policies (continued)

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured. Such amounts accrue interest as long as the loan performs in accordance with the restructured terms.

In the case of equity instruments classified as available for sale, the Group seeks evidence of a significant or prolonged decline in the fair value of the instrument below its cost to determine whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for other financial assets not carried at fair value through profit or loss. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt instruments classified as available for sale are recognised in the income statement. Reversals of impairment of equity instruments classified as available for sale are not recognised in the income statement, but rather directly in equity.

(t) Acceptances

The Group's liability arising from the acceptance of bills of exchange and the asset under acceptance representing the claims against its customer are measured initially at fair value and subsequently at amortised cost. When the Group discounts its own acceptance, the acceptance liability is derecognised. When the Group rediscounts its own acceptance, an acceptance liability is re-recognised and the asset remains recognised as an acceptance. The difference between the purchase and sale of the Group's own acceptance gives rise to realised profits and losses that are recognised in the income statement. Bill acceptance fees are deferred and amortised on an effective yield basis over the life of the instrument.

(u) Leases

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. At inception or upon reassessment of an arrangement, the Group separates payment and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leases where the Group assumes substantially all risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) As lessee

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the income statement in the period of termination. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As lessor

For finance leases, the net investment in the lease, which comprises of the present value of lease payments including any guaranteed residual value and initial direct costs, is recognised within loans and advances. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax), reflecting a constant periodic rate of return.

For operating leases, assets leased are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(v) Property, plant and equipment

Land and buildings are measured at fair value and are revalued on a rolling three year cycle, effective 31 July, by directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date. Newly acquired property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months.

Revaluation increments are credited directly to the asset revaluation reserve, net of tax. However, the increment is recognised in the income statement to the extent it reverses a revaluation decrement previously recognised as an expense for a specific asset. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset. Any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Other items of plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of plant and equipment includes an obligation for removal of the asset or restoration of the site where such an obligation exists and if that cost can be reliably estimated.

With the exception of freehold land, all items of property, plant and equipment are depreciated using the straight-line method at rates appropriate to their estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation are:

- Buildings - 3.3%;
- Furniture, fixtures and fittings and other equipment - from 10% to 20%;
- Motor vehicles - 20%;
- Personal computers - 33.3%; and
- Other data processing equipment - from 20% to 33.3%; and

1 Principal accounting policies (continued)

- Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives and the remaining expected term of the lease.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of disposal are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained profits.

(w) Goodwill and other intangible assets

(i) Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the Group's share of the identifiable net assets at the date of the acquisition. If the Group's interest in the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition. Each cash generating unit or group of cash generating units to which goodwill is allocated is the lowest level within the Group at which goodwill is monitored by management. Impairment is assessed by comparing the carrying amount of the cash generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash generating unit or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Software costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method over their expected useful lives which are between three and ten years.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably, and are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition.

Subsequent to acquisition, finite life intangible assets are stated at cost less amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives which vary from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

Subsequent to acquisition, indefinite life intangible assets are stated at cost less impairment losses, if any. Indefinite life intangible assets are assessed for impairment annually or more frequently if there is indication that the intangible asset may be impaired.

(x) Impairment of non-financial 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 inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units (which are determined according to the lowest level of aggregation for which an active market exists, as this evidences the assets involved that create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

(y) Due to other banks

Due to other banks includes deposits, repurchase agreements and settlement account balances due to other banks. Amounts due to other banks are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other borrowings. Deposits and other borrowings are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost.

(aa) Life policy liabilities

Life insurance liabilities consist of life insurance contract liabilities and life investment contract liabilities.

(i) Life insurance contracts

Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future and discounted back to their net present value using best estimate assumptions. When the benefits under a contract are linked to the supporting assets, the discount rate applied is based on the expected future earning rate of those assets. In other cases a discount rate based on an appropriate risk-free rate is used.

The assumptions used in the calculation of policy liabilities are reviewed at the end of each reporting period.

Life policy liabilities in the Group's balance sheet and the change in policy liabilities in the Group's income statement have been calculated in accordance with Prudential Standard LPS340 'Valuation

1 Principal accounting policies (continued)

of Policy Liabilities' issued by the Australian Prudential Regulation Authority (APRA).

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations. Where the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

For reinsurance contracts, the Group retains the primary obligation of the underlying life insurance contract.

(ii) Life investment contracts

Policy liabilities relating to life investment contracts are measured at fair value. As the value of these liabilities is closely linked to the performance and value of the assets that support the liabilities, the fair value of such liabilities is the same as the fair value of those assets.

(ab) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary 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.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

(i) Operational risk events

Provisions for operational risk event losses are raised 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, frauds and the correction of operational issues.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

(ii) Restructuring costs

Provisions for restructuring costs include provisions for costs incurred but not yet paid and future costs that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that the Group has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

(ac) Employee benefits

(i) Annual leave, long service leave and other employee benefits

Wages and 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.

Employee entitlements to long service leave are accrued using an actuarial calculation, including assumptions regarding staff departures, leave utilisation and future salary increases.

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.

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.

(ii) Superannuation plans

Employees of the Group are entitled to benefits on retirement, disability or death, from the Group's superannuation plans. The Group operates superannuation plans which have both defined benefit and defined contribution components.

The defined contribution plans receive fixed contributions and the obligation for contributions to these plans are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. An asset or liability in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the superannuation plan's assets at the reporting date.

The present value of the defined benefit obligation for each plan is discounted by either the government bond rate, or the average AA credit rated bond rate for bonds that have maturity dates approximating the terms of the obligation. The present value of the defined benefit obligations is calculated every three years using the projected unit credit method and updated on an annual basis for material movements in the plan position.

The Group does not offset plan assets and liabilities arising from different defined benefit plans. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses, settlements and net interest income/(expense). All other changes in the net

1 Principal accounting policies (continued)

defined benefit asset/(liability), including actuarial gains and losses, are recognised in other comprehensive income with no subsequent recycling to profit or loss. Future taxes that are funded by the entity, and are part of the provision of existing benefit obligations, are taken into account in measuring the net asset or liability.

(ad) Bonds, notes, subordinated debt and other debt issues

Bonds, notes, subordinated debt and other debt issues are short and long-term debt issues including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues.

Bonds, notes, subordinated debt and other debt issues are generally 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 to accrete the carrying value of securities to redemption values by maturity date. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument.

In certain circumstances the Group applies the fair value measurement option to bonds, notes and subordinated debt issues and other debt issues. This option is applied where an accounting mismatch is significantly reduced or eliminated that would occur if the liability was measured on another basis. 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) are recognised in the income statement as they arise.

(ae) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. A financial guarantee contract is initially recorded at fair value which is equal to the premium received or receivable, unless there is evidence to the contrary. Subsequently, financial guarantee contracts are measured at the higher of:

- The liability for the estimated amount of the loss payable where it is likely that a loss will be incurred as a result of issuing the contract; and
- The amount initially recognised less, when appropriate, amortisation of the fee over the life of the guarantee.

(af) Equity

(i) 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 declared 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.

(ii) Treasury shares

If a controlled entity acquires shares in the Company (treasury shares), the cost of the acquired shares is recognised as a deduction from issued capital. Dividends on treasury shares are not credited to income, but eliminated on consolidation. Gains and losses on the sale of treasury shares are accounted for as adjustments to issued capital and not as part of income.

Shares in the Company held by certain statutory funds of the Group's life insurance business (which are consolidated in the financial report) are accounted for as treasury shares. Additionally, shares purchased on market to meet the requirements of employee incentive schemes and held in trust are accounted for as treasury shares.

(iii) Reserves

Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

Foreign currency translation reserve

The foreign currency translation reserve records foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

Cash flow hedge reserve

The cash flow hedge reserve records the fair value revaluation of derivatives designated and effective as cash flow hedging instruments.

Equity-based compensation reserve

The equity-based compensation reserve records the value of equity benefits provided to employees as part of their remuneration.

Share capital tainting rules contained in Australian tax legislation apply prospectively from 26 May 2006 to discourage companies from distributing profits to shareholders as preferentially taxed capital rather than dividends. The focus of the tax legislation is on the transfer of amounts to a share capital account from another account.

The tainting rules are inconsistent with AASB 2 'Share-based Payment' which allows transfers between equity accounts upon the vesting of employee equity-based payments (i.e. when all conditions have been met by the employee).

During 2009, the Group received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of the Company's share capital account for tax purposes.

The share capital tainting rules and private binding ruling have no impact on the regulatory capital of the Group.

General reserve for credit losses

APRA Prudential Standard APS 220 'Credit Quality' requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves.

(ag) Equity-based compensation

The Group provides equity-based compensation to employees in respect of services received. The value of the services received is measured by reference to the grant date fair value of the shares, performance options and performance rights provided to employees.

The expense for each tranche of shares, performance options or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that

1 Principal accounting policies (continued)

the services are received (the vesting period), with a corresponding increase in the equity-based compensation reserve.

The grant date fair value of shares is generally determined by reference to the weighted average price of the Company's shares in the week up to, and including, the date on which the shares are granted. Employee share plans are linked to internal performance, market performance and/or service conditions. The fair value of shares with a market performance condition is determined using a Monte Carlo simulation.

The grant date fair value of the performance options and performance rights is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance options or performance rights, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and 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 simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance options or 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, performance options and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares, performance options and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares, performance options or performance rights that actually vest.

(ah) Trustee and funds management activities

The Group acts as trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. Where the Group does not have direct or indirect control of these funds and trusts, the assets and liabilities are not included in the consolidated financial statements of the Group. When controlled entities, as responsible entities or trustees, incur liabilities in respect of their activities, a right of indemnity exists against the assets of the applicable trusts and funds. Where these assets are determined to be sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the Group does not include the liabilities in the consolidated financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the income statement.

(ai) Securitisation

Through its loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. 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.

In addition to its loan securitisation program, the Group has various contractual relationships with entities that undertake securitisation of third party assets. The Group sponsors, manages and provides liquidity facilities and derivative contracts to these securitisation conduits.

(aj) Critical accounting assumptions and estimates

The application of the Group's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

Assumptions made at each reporting date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgment, estimates and assumptions are included in the policies below.

(i) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

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 is also incorporated into the fair value as appropriate.

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.

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 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).

(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial

1 Principal accounting policies (continued)

situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in *Note 18 'Provision for doubtful debts'* and *Note 19 'Asset quality disclosures'.*

(iii) Goodwill

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. The assumptions applied to determine if any impairment exists are outlined in *Note 22 'Goodwill and other intangible assets'*.

(iv) Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and litigation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimate future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions. 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.

(v) Life insurance policyholder liabilities

The measurement of life insurance and life investment contract liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each reporting date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date. Deferred acquisition costs are presented as an offset in policy liabilities.

(vi) Superannuation obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer to *Note 32 'Defined benefit superannuation plan assets and liabilities'* for the assumptions used.

vii) UK conduct provisions

Provisions are held for UK conduct related matters including the potential mis-selling of Payment Protection Insurance, certain interest rate hedging products and other UK conduct related matters. The provisions are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs. Refer to *Note 40 'Contingent liabilities and credit commitments'* for further information.

2 Segment information

The Group's reportable segments are business units engaged in providing either different products or services, or similar products and services in different geographical areas. The businesses are managed separately as each requires a strategy focused on the specific services provided for the economic, competitive and regulatory environment in which it operates.

Following the Group's organisational realignment of the Australian business announced in March 2013, the Group's business now consists of the following reportable segments: Australian Banking; NAB Wealth and NZ Banking.

In addition, information on the following segments that do not meet the threshold to be reportable segments are also included in this note to reconcile to Group information: UK Banking; NAB UK Commercial Real Estate and Corporate Functions and Other.

As a result of these changes, the presentation of segment information for the year ended 30 September 2013 has been amended and includes the following changes:

- Financial information previously presented for Personal Banking, Business Banking and Wholesale Banking is now presented on a combined basis as Australian Banking;
- Financial information for NAB Wealth no longer includes the NAB Private Wealth business which is now reported in Australian Banking; and
- Financial information presented for Corporate Functions and Other reflects changed attributions between Corporate Functions, Australian Banking and NAB Wealth.

Following the initial public offering of a minority shareholding in Great Western Bancorp, Inc. in the United States (US), Great Western Bank's operations have been included in Corporate Functions and Other. Great Western Bank's results will be separately reported to the market in line with their reporting obligations in the US.

The accounting policies of the reportable segments are consistent with those described in *Note 1 'Principal accounting policies'*.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain non-cash items, distributions and significant items.

Revenues, expenses and tax directly associated with each reportable segment are included in determining their result. Transactions between reportable segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

Major customers

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

Reportable segments

For the year ended 30 September 2014	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,277	-	1,382	1,367	37	712	-	13,775
Other operating income	2,640	1,406	449	376	31	261	(59)	5,104
IoRE	-	34	-	-	-	-	-	34
Net operating income	12,917	1,440	1,831	1,743	68	973	(59)	18,913
Operating expenses	(5,267)	(950)	(737)	(1,233)	(57)	(1,995)	59	(10,180)
Underlying profit/(loss)	7,650	490	1,094	510	11	(1,022)	-	8,733
(Charge to provide for)/write-back of bad and doubtful debts	(741)	-	(80)	(145)	43	46	-	(877)
Cash earnings/(deficit) before tax and distributions	6,909	490	1,014	365	54	(976)	-	7,856
Income tax expense	(1,962)	(125)	(276)	(81)	(12)	(36)	-	(2,492)
Cash earnings/(deficit) before distribution	4,947	365	738	284	42	(1,012)	-	5,364
Distributions	-	-	-	-	-	-	(180)	(180)
Cash earnings/(deficit)	4,947	365	738	284	42	(1,012)	(180)	5,184

For the year ended 30 September 2013	Australian Banking [1] [4] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking [4] $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] [5] $m	Distributions & Eliminations $m	Group Cash Earnings $m
Net interest income	10,096	-	1,207	1,177	61	866	-	13,407
Other operating income	3,001	1,339	411	368	(17)	124	(101)	5,125
IoRE	-	31	-	-	-	-	-	31
Net operating income	13,097	1,370	1,618	1,545	44	990	(101)	18,563
Operating expenses	(5,080)	(949)	(651)	(1,130)	(56)	(645)	101	(8,410)
Underlying profit/(loss)	8,017	421	967	415	(12)	345	-	10,153
Charge to provide for bad and doubtful debts	(1,114)	-	(81)	(247)	(477)	(15)	-	(1,934)
Cash earnings/(deficit) before tax and distributions	6,903	421	886	168	(489)	330	-	8,219
Income tax expense	(1,961)	(99)	(237)	(44)	114	(57)	-	(2,284)
Cash earnings/(deficit) before distribution	4,942	322	649	124	(375)	273	-	5,935
Distributions	-	-	-	-	-	-	(188)	(188)
Cash earnings/(deficit)	4,942	322	649	124	(375)	273	(188)	5,747

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions & Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units. It includes the impacts of provisions taken for UK related payment protection insurance and interest rate hedging products, capitalised software impairments, R&D tax credits and DTA provision.*

(4) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(5) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes.*

2 Segment information (continued)

Reportable segment assets	Australian Banking [1] $m	NAB Wealth [2] $m	NZ Banking $m	UK Banking $m	NAB UK Commercial Real Estate $m	Corporate Functions & Other [3] $m	Eliminations $m	Group Total Assets $m
30 September 2014	**702,266**	**96,886**	**59,872**	**69,972**	**4,663**	**21,071**	**(71,429)**	**883,301**
30 September 2013 [4]	633,591	89,648	56,856	64,314	6,600	38,803	(79,942)	809,870

(1) *Australian Banking includes the Australian banking operations, offshore branches and New Zealand markets operations.*

(2) *Excludes Private Wealth (formerly part of NAB Wealth).*

(3) *Corporate Functions & Other includes Group Funding, Specialised Group Assets, Great Western Bank and other supporting units.*

(4) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Reconciliations between reportable segment information and statutory results

The tables below reconcile the information in the segment tables presented above, which have been prepared on a cash earnings basis, to the relevant statutory information presented in the Financial Report. In addition to the sum of the reportable segments, the cash earnings basis includes the segments that do not meet the threshold to be reportable segments and intra group eliminations. The NAB Wealth adjustment represents a reallocation of the income statement of the NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income statement lines.

	Group	
	2014	2013 [1]
	$m	$m
Net interest income		
Net interest income on a cash earnings basis	**13,775**	13,407
NAB Wealth adjustment	**(36)**	(56)
Net interest income on a statutory basis	**13,739**	13,351
Total other income and IoRE		
Other operating income on a cash earnings basis [2]	**5,104**	5,125
IoRE	**34**	31
Total other operating income and IoRE	**5,138**	5,156
NAB Wealth adjustment	**342**	667
Treasury shares	**(22)**	(467)
Fair value and hedge ineffectiveness	**96**	(313)
DAC discount rate variation	**(29)**	32
Amortisation of acquired intangible assets	**(16)**	(19)
PPI and Customer redress provision	**-**	(204)
Total other income and Net life insurance income on a statutory basis	**5,509**	4,852
Operating expenses		
Operating expenses on a cash earnings basis [2]	**10,180**	8,410
NAB Wealth adjustment	**159**	75
Litigation expense/recovery	**-**	(55)
Amortisation of acquired intangible assets	**99**	79
PPI and Customer redress provision	**-**	(204)
Operating expenses on a statutory basis	**10,438**	8,305
Charge to provide for bad and doubtful debts		
Charge to provide for bad and doubtful debts on a cash earnings basis	**877**	1,934
Fair value and hedge ineffectiveness	**(22)**	(124)
Charge to provide for doubtful debts on a statutory basis	**855**	1,810
Income tax expense		
Income tax expense on a cash earnings basis	**2,492**	2,284
Income tax benefit/(expense) on non-cash earnings items:		
NAB Wealth adjustment	**144**	528
Treasury shares	**21**	(54)
Fair value and hedge ineffectiveness	**35**	(38)
DAC discount rate variation	**(9)**	10
Litigation expense/recovery	**-**	16
Amortisation of acquired intangible assets	**(26)**	(21)
Income tax expense on a statutory basis	**2,657**	2,725

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Includes eliminations and distributions.*

2 Segment information (continued)

	Group	
	2014 $m	2013 (1) $m
Cash earnings		
Group cash earnings (2)	**5,184**	5,747
Non-cash earnings items (after tax):		
Distributions	**180**	188
Treasury shares	**(43)**	(413)
Fair value and hedge ineffectiveness	**83**	(151)
DAC discount rate variation	**(20)**	22
Litigation expense/recovery	**-**	39
Amortisation of acquired intangible assets	**(89)**	(77)
Net profit attributable to owners of the Company	**5,295**	5,355

(1) *Restated to include Payment Protection Insurance provision charges in operating expenses for cash earnings purposes and for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Includes eliminations and distributions.*

Geographical information

The Group has operations in Australia (the Company's country of domicile), Europe, New Zealand, the United States and Asia. The allocation of income and non-current assets is based on the geographical location in which transactions are booked.

	Income		Non-current assets (1)	
	2014 $m	2013 (2) $m	**2014 $m**	2013 $m
Australia	**14,120**	13,953	**8,687**	8,537
Europe	**2,357**	1,930	**878**	856
New Zealand	**1,932**	1,554	**567**	610
United States	**635**	633	**918**	893
Asia	**256**	208	**17**	34
Total before inter-geographic eliminations	**19,300**	18,278	**11,067**	10,930
Elimination of inter-geographic items	**(52)**	(75)	**-**	-
Total	**19,248**	18,203	**11,067**	10,930

(1) *Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the reporting date. They do not include financial instruments, deferred tax assets, post-employment benefits assets or rights under insurance contracts.*

(2) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

2 Segment information (continued)

Non-cash Earnings Items

Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in *Note 7 'Dividends and distributions'*. The effect of this in the September 2014 full year is to reduce cash earnings by $180 million.

Treasury Shares

For statutory reporting purposes, the Group eliminates the effect on statutory income of the Group's life insurance business investment in National Australia Bank Limited shares. The elimination includes unrealised mark-to-market movements arising from changes in the Company's share price, dividend income and realised profits and losses on the disposal of shares. In determining cash earnings in the September 2014 year, a net gain of $22 million ($43 million after tax) attributable to these adjustments has been included to ensure there is no asymmetric impact on profit because the treasury shares relate to life policy liabilities which are revalued in deriving income.

Fair Value and Hedge Ineffectiveness

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.

In the September 2014 year there was an increase in statutory profit of $118 million ($83 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in the fair value of derivatives used to manage the Group's long-term funding from movements in spreads between Australian and overseas interest rates, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions. In particular, the impact of interest rate and foreign exchange movements has resulted in mark-to-market gains on these derivatives and term funding issuances.

DAC Discount Rate Variation

The DAC discount rate variation represents the impact on earnings of the change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in inflation and the risk free discount rate. This item resulted in a pre-tax loss of $29 million ($20 million after tax).

Amortisation of Acquired Intangible Assets

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as core deposit intangibles, mortgage servicing rights, brand names, value of business and contracts in force.

The following non-cash earnings item was reported for 30 September 2013.

Litigation Expense and Recovery

Following the agreement to settle the Bell Resources litigation, the Group recognised an $80 million receivable during the 2013 financial year relating to settlement proceeds. The recovery was partially offset by litigation expenses of $25 million relating to the final settlement of a class action against the Group, generating a net recovery of $55 million ($39 million after tax).

3 Net interest income

	Group		Company	
	2014 $m	2013 [(1)] $m	**2014 $m**	2013 [(1)] $m
Interest income				
Due from other banks	**492**	479	**389**	386
Marketable debt securities	**2,386**	2,062	**2,180**	1,877
Loans and advances [(2)]	**25,815**	26,027	**19,303**	20,253
Due from customers on acceptances	**1,540**	2,143	**1,540**	2,143
Due from controlled entities	**-**	-	**2,702**	1,735
Other interest income	**545**	578	**456**	511
Total interest income	**30,778**	31,289	**26,570**	26,905
Interest expense				
Due to other banks and official institutions	**708**	593	**652**	546
Deposits and other borrowings [(3)]	**10,729**	11,345	**8,637**	9,471
Liability on acceptances	**228**	487	**228**	487
Bonds, notes and subordinated debt [(4)]	**5,076**	5,440	**4,382**	4,789
Due to controlled entities	**-**	-	**2,916**	1,816
Other debt issues	**61**	62	**54**	56
Other interest expense	**237**	11	**257**	4
Total interest expense	**17,039**	17,938	**17,126**	17,169
Net interest income	**13,739**	13,351	**9,444**	9,736

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Includes $4,635 million (2013: $4,156 million) of interest income on loans and advances accounted for at fair value for the Group, and $3,182 million (2013: $2,933 million) for the Company.*

(3) *Includes $201 million (2013: $128 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and $6 million (2013: $11 million) for the Company.*

(4) *Includes $531 million (2013: $436 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $131 million (2013: $82 million) for the Company.*

4 Other income

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Gains less losses on financial instruments at fair value				
Trading securities	**812**	162	**794**	204
Trading derivatives	**243**	1,391	**630**	1,217
Assets, liabilities and derivatives designated in hedge relationships [(1)]	**251**	93	**287**	154
Assets and liabilities designated at fair value	**(270)**	(900)	**(85)**	(400)
Impairment of investments - available for sale	**(4)**	(13)	**-**	(6)
Other	**(33)**	36	**(27)**	36
Total gains less losses on financial instruments at fair value	**999**	769	**1,599**	1,205
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**1,835**	981
Other entities	**16**	10	**20**	14
Gains from sale of investments, loans, property, plant and equipment and other assets	**130**	38	**45**	11
Banking fees	**943**	969	**728**	752
Money transfer fees	**673**	654	**472**	476
Fees and commissions [(2)]	**1,798**	1,734	**430**	410
Investment management fees	**238**	204	**-**	-
Fleet management fees	**30**	29	**30**	29
Rentals received on leased vehicle assets	**11**	12	**4**	6
Other income [(3)]	**129**	(46)	**93**	47
Total other operating income	**3,968**	3,604	**3,657**	2,726

(1) *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.*

(2) *Included in fees and commissions is $121 million (2013: $113 million) of fee income from trust and other fiduciary activities for the Group, and $109 million (2013: $103 million) for the Company.*

(3) *Other income (Group) includes the charge for an additional provision in relation to UK payment protection insurance of $204 million for the September 2013 full year.*

5 Operating expenses

	Group		Company	
	2014 $m	2013 [1] $m	**2014 $m**	2013 $m
Personnel expenses				
Salaries and related on-costs	**3,404**	3,242	**2,341**	2,235
Superannuation costs - defined contribution plans	**277**	266	**211**	205
Superannuation costs - defined benefit plans	**51**	63	**-**	-
Performance-based compensation [2]				
Cash	**382**	312	**250**	207
Equity-based compensation	**153**	174	**124**	149
Other expenses	**265**	337	**185**	317
Total personnel expenses	**4,532**	4,394	**3,111**	3,113
Occupancy-related expenses				
Operating lease rental expense	**501**	447	**440**	338
Other expenses	**144**	153	**62**	67
Total occupancy-related expenses	**645**	600	**502**	405
General expenses				
Fees and commission expense	**322**	285	**67**	55
Depreciation and amortisation of property, plant and equipment	**306**	301	**97**	177
Amortisation of intangible assets	**396**	330	**153**	128
Depreciation on leased vehicle assets	**7**	8	**3**	5
Operating lease rental expense	**28**	30	**13**	14
Advertising and marketing	**247**	205	**162**	134
Charge to provide for operational risk event losses [3]	**1,536**	146	**703**	51
Communications, postage and stationery	**307**	295	**181**	176
Computer equipment and software	**605**	559	**520**	478
Data communication and processing charges	**110**	134	**37**	68
Transport expenses	**92**	86	**59**	57
Professional fees	**422**	373	**269**	216
Travel	**87**	79	**55**	49
Loss on disposal of property, plant and equipment and other assets	**6**	16	**4**	8
Impairment losses/(reversals) recognised	**294**	8	**238**	(2)
Other expenses	**496**	456	**281**	216
Total general expenses	**5,261**	3,311	**2,842**	1,830
Charge to provide for doubtful debts				
Investments - held to maturity [4]	**(8)**	11	**(8)**	11
Loans and advances	**863**	1,799	**612**	1,512
Total charge to provide for doubtful debts	**855**	1,810	**604**	1,523

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Performance-based compensation includes deferred compensation that is expensed over the vesting period. Performance-based compensation expense in each year also includes prior period over/under accruals and for the full year 2014 does not include the impact of decisions made by the Board Remuneration Committee subsequent to balance date. The impact of any over/under accrual will be reflected in the full year 2015 financial statements.*

(3) *The Group charge to provide for operational risk event losses includes an additional provision in relation to UK payment protection insurances of $756 million and for interest rate hedging products (IRHP) of $654 million (Company $654 million) for the September 2014 full year. The September 2013 Group comparatives includes $56 million for IRHP.*

(4) *The September 2013 financial year includes provisions for impairment of intercompany loans to securitisation conduits held by the company.*

6 Income tax expense

	Group		Company	
	2014 $m	2013 (1) $m	**2014 $m**	2013 $m
Income tax expense				
Current tax	**2,731**	2,149	**2,012**	1,773
Deferred tax	**(74)**	576	**27**	(15)
Total income tax expense	**2,657**	2,725	**2,039**	1,758

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

	Group		Company	
	2014 $m	2013 (1) $m	**2014 $m**	2013 $m
Profit before income tax expense	**7,955**	8,088	**7,641**	6,796
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**(464)**	(885)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	**7,491**	7,203	**7,641**	6,796
Prima facie income tax at 30%	**2,247**	2,161	**2,292**	2,039
Add/(deduct) tax effect of amounts not deductible/(assessable):				
Assessable foreign income	**8**	8	**5**	5
Foreign tax rate differences	**51**	30	**32**	43
Deferred tax asset no longer recognised	**142**	-	**142**	-
Foreign branch income not assessable	**(98)**	(103)	**(98)**	(103)
(Over)/under provision in prior years	**(37)**	(13)	**(4)**	1
Offshore banking unit income	**(35)**	(49)	**(29)**	(42)
Restatement of deferred tax balances for UK and US tax rate changes	**42**	13	**36**	18
Treasury shares adjustment	**27**	86	**-**	-
Non-deductible hybrid distributions	**35**	10	**35**	10
Dividend income adjustments	**-**	-	**(409)**	(202)
Other	**52**	(40)	**37**	(11)
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	**2,434**	2,103	**2,039**	1,758
Income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**223**	622	**-**	-
Total income tax expense	**2,657**	2,725	**2,039**	1,758

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Notes to the financial statements

7 Dividends and distributions

Dividends on ordinary shares recognised by the Group and Company for the year ended 30 September:

	Amount per share cents	Total amount $m
2014		
Final dividend declared in respect of the year ended 30 September 2013	97	2,279
Interim dividend declared in respect of the year ended 30 September 2014	99	2,330
Deduct: Bonus shares in lieu of dividend	n/a	(56)
Dividends paid by the Company during the year ended 30 September 2014		4,553
Deduct: Dividends on treasury shares		(95)
Total dividends paid by the Group during the year ended 30 September 2014		4,458
2013		
Final dividend declared in respect of the year ended 30 September 2012	90	2,070
Interim dividend declared in respect of the year ended 30 September 2013	93	2,179
Deduct: Bonus shares in lieu of dividend	n/a	(53)
Dividends paid by the Company during the year ended 30 September 2013		4,196
Deduct: Dividends on treasury shares [(1)]		(88)
Total dividends paid by the Group during the year ended 30 September 2013		4,108

[(1)] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Franked dividends declared or paid during the year were fully franked at a tax rate of 30% (2013: 30%).

Final dividend

On 30 October 2014, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend declared in respect of the year ended 30 September 2014	99	2,342	100

The final 2014 ordinary dividend is payable on 16 December 2014. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2014 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2014, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as receivable at reporting date, are estimated to be $1,182 million (2013: $1,047 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $1,004 million (2013: $976 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

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$0.10 per share will be attached to the final 2014 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	
	2014 $m	2013 $m	**2014 $m**	2013 $m
National Income Securities	**78**	88	**78**	88
Trust Preferred Securities [(1)]	**40**	35	**-**	-
Trust Preferred Securities II [(1)]	**48**	44	**-**	-
National Capital Instruments	**14**	21	**-**	-
Total distributions on other equity instruments	**180**	188	**78**	88

[(1)] *$A Equivalent.*

Dividends on preference shares

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
BNZ Income Securities	**-**	13	**-**	-
BNZ Income Securities 2	**12**	14	**-**	-
Total dividends on preference shares [(1)]	**12**	27	**-**	-

[(1)] *$A Equivalent.*

8 Earnings per share

	Group			
	2014		2013	
	Basic	**Diluted**	Basic	Diluted
Earnings ($m)				
Net profit attributable to owners of the Company [(1)]	**5,295**	**5,295**	5,355	5,355
Distributions on other equity instruments	**(192)**	**(192)**	(215)	(215)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	**-**	**-**	-	6
Interest expense on convertible preference shares	**-**	**124**	-	36
Adjusted earnings	**5,103**	**5,227**	5,140	5,182
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares) [(1)]	**2,297,139**	**2,297,139**	2,275,030	2,275,030
Potential dilutive weighted average ordinary shares				
Performance options and performance rights	**-**	**6,799**	-	5,676
Partly paid ordinary shares	**-**	**49**	-	60
Employee share plans	**-**	**4,480**	-	5,274
Convertible notes	**-**	**-**	-	3,550
Convertible preference shares	**-**	**85,803**	-	23,978
Total weighted average ordinary shares	**2,297,139**	**2,394,270**	2,275,030	2,313,568
Earnings per share (cents)	**222.1**	**218.3**	225.9	224.0

(1) *Prior period has been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issue of potential ordinary shares since 30 September 2014, and before the completion of this Financial report.

9 Cash and liquid assets

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Coins, notes and cash at bank	**5,560**	5,010	**859**	838
Securities purchased under agreements to resell [(1)]	**34,185**	29,257	**33,603**	28,659
Other (including bills receivable and remittances in transit)	**1,289**	1,399	**203**	337
Total cash and liquid assets	**41,034**	35,666	**34,665**	29,834

(1) *The fair values of the securities accepted under agreements to resell are based on quoted market prices at reporting date (Level 1 of the fair value hierarchy as defined in Note 42 ' Fair value of financial instruments').*

Reverse repurchase and securities borrowing agreements

As part of the reverse repurchase and securities borrowing agreements included within 'Cash and liquid assets' and 'Due from other banks' (*Note 10 'Due from other banks'*) , the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2014 amounts to $44,804 million (2013: $39,512 million) for the Group and $43,787 million (2013: $38,907 million) for the Company, of which $19,164 million (2013: $15,161 million) for the Group and $19,055 million (2013: $15,097 million) for the Company has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short-sale transactions.

The Group is obliged to return equivalent securities. The obligation to return securities for short-sale transactions is included in 'Other financial liabilities at fair value' *(Note 25 'Other financial liabilities at fair value')*. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing activities.

10 Due from other banks

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Central banks and other regulatory authorities	**19,973**	14,749	**9,691**	3,594
Other banks	**19,115**	28,444	**18,627**	28,034
Total due from other banks	**39,088**	43,193	**28,318**	31,628

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting.

Derivative financial instruments held for hedging purposes

The operations of the Group are subject to risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held or issued for the purpose of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors this non-trading interest rate risk by simulating future net interest income requirements, through the application of a range of possible future interest rate scenarios to its projected balance sheet.

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than the Australian dollar.

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The tables below set out the fair value of both trading and hedging derivatives including notional principal values:

Trading derivative financial instruments

	Group					
	Notional principal 2014 $m	**Fair value assets 2014 $m**	**Fair value liabilities 2014 $m**	Notional principal 2013 $m	Fair value assets 2013 $m	Fair value liabilities 2013 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**495,839**	**8,912**	**7,750**	389,404	5,996	6,807
Cross currency swaps	**684,321**	**20,789**	**20,758**	533,623	10,228	11,580
Options/swaptions purchased	**11,404**	**157**	**55**	14,653	208	57
Options/swaptions written	**10,368**	**40**	**135**	14,530	72	183
Total foreign exchange rate-related contracts	**1,201,932**	**29,898**	**28,698**	952,210	16,504	18,627
Interest rate-related contracts						
Forward rate agreements	**77,494**	**6**	**5**	211,144	12	16
Swaps	**3,117,168**	**26,152**	**25,704**	2,377,354	21,790	21,915
Futures	**1,791,317**	**484**	**669**	1,251,252	161	362
Options/swaptions purchased	**61,780**	**310**	**41**	40,340	294	83
Options/swaptions written	**63,655**	**151**	**265**	39,302	39	181
Total interest rate-related contracts	**5,111,414**	**27,103**	**26,684**	3,919,392	22,296	22,557
Credit derivatives	**33,069**	**85**	**235**	30,825	116	222
Commodity derivatives	**2,418**	**169**	**156**	2,609	66	126
Other derivatives	**2,600**	**134**	**85**	2,428	232	217
Total trading derivative financial instruments	**6,351,433**	**57,389**	**55,858**	4,907,464	39,214	41,749

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Company					
	Notional principal 2014 $m	**Fair value assets 2014 $m**	**Fair value liabilities 2014 $m**	Notional principal 2013 $m	Fair value assets 2013 $m	Fair value liabilities 2013 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**467,474**	**8,528**	**7,490**	363,101	5,891	6,379
Cross currency swaps	**685,646**	**20,430**	**21,046**	531,348	10,216	11,282
Options/swaptions purchased	**12,143**	**161**	**74**	16,136	211	111
Options/swaptions written	**9,080**	**39**	**120**	12,468	72	140
Total foreign exchange rate-related contracts	**1,174,343**	**29,158**	**28,730**	923,053	16,390	17,912
Interest rate-related contracts						
Forward rate agreements	**75,471**	**9**	**5**	208,473	12	16
Swaps	**3,057,581**	**27,473**	**25,448**	2,305,810	22,439	21,370
Futures	**1,673,036**	**484**	**669**	1,242,401	161	362
Options/swaptions purchased	**62,234**	**334**	**204**	39,846	327	77
Options/swaptions written	**63,879**	**149**	**265**	39,581	34	183
Total interest rate-related contracts	**4,932,201**	**28,449**	**26,591**	3,836,111	22,973	22,008
Credit derivatives	**33,866**	**85**	**235**	31,173	117	222
Commodity derivatives	**2,255**	**169**	**156**	2,005	66	126
Other derivatives	**2,600**	**140**	**91**	2,429	232	207
Total trading derivative financial instruments	**6,145,265**	**58,001**	**55,803**	4,794,771	39,778	40,475

Hedging derivative financial instruments

	Group					
	Notional principal 2014 $m	**Fair value assets 2014 $m**	**Fair value liabilities 2014 $m**	Notional principal 2013 $m	Fair value assets 2013 $m	Fair value liabilities 2013 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**44,843**	**4,308**	**385**	50,862	2,404	985
Total foreign exchange rate-related contracts	**44,843**	**4,308**	**385**	50,862	2,404	985
Interest rate-related contracts						
Swaps	**67,752**	**564**	**2,342**	48,788	719	1,703
Total interest rate-related contracts	**67,752**	**564**	**2,342**	48,788	719	1,703
Total derivatives held for hedging - fair value hedges	**112,595**	**4,872**	**2,727**	99,650	3,123	2,688
Derivatives held for hedging - cash flow hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**466**	**-**	**33**	-	-	-
Total foreign exchange rate-related contracts	**466**	**-**	**33**	-	-	-
Interest rate-related contracts						
Swaps	**147,993**	**616**	**633**	119,027	803	709
Total interest rate-related contracts	**147,993**	**616**	**633**	119,027	803	709
Total derivatives held for hedging - cash flow hedges	**148,459**	**616**	**666**	119,027	803	709
Derivatives held for hedging - net investment hedges						
Foreign exchange rate-related contracts						
Forward rate agreements [(1)]	**1,471**	**-**	**52**	361	-	34
Total foreign exchange rate-related contracts	**1,471**	**-**	**52**	361	-	34
Total derivatives held for hedging - net investment hedges	**1,471**	**-**	**52**	361	-	34
Total hedging derivative financial instruments	**262,525**	**5,488**	**3,445**	219,038	3,926	3,431

[(1)] *Refer to Note 41 'Financial risk management' for further details on the net investment hedge.*

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Company					
	Notional principal 2014 $m	**Fair value assets 2014 $m**	**Fair value liabilities 2014 $m**	Notional principal 2013 $m	Fair value assets 2013 $m	Fair value liabilities 2013 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Spot and forward contracts	**551**	**-**	**9**	-	-	-
Cross currency swaps	**55,286**	**4,308**	**1,715**	58,473	2,404	1,863
Total foreign exchange rate-related contracts	**55,837**	**4,308**	**1,724**	58,473	2,404	1,863
Interest rate-related contracts						
Swaps	**54,900**	**552**	**2,163**	41,787	707	1,515
Total interest rate-related contracts	**54,900**	**552**	**2,163**	41,787	707	1,515
Total derivatives held for hedging - fair value hedges	**110,737**	**4,860**	**3,887**	100,260	3,111	3,378
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**87,190**	**553**	**487**	75,213	728	564
Total interest rate-related contracts	**87,190**	**553**	**487**	75,213	728	564
Total derivatives held for hedging - cash flow hedges	**87,190**	**553**	**487**	75,213	728	564
Total hedging derivative financial instruments	**197,927**	**5,413**	**4,374**	175,473	3,839	3,942

In certain instances, the Group has applied cash flow hedge accounting to hedge highly probable cash flows, which primarily vary with interest rates. These cash flows are expected to occur and impact the income statement in the following periods:

Group

As at 30 September 2014	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	**1,555**	**887**	**558**	**329**	**132**	**25**	**3,486**
Forecast payable cash flows	**969**	**700**	**686**	**131**	**69**	**57**	**2,612**

As at 30 September 2013	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,455	1,064	621	407	232	113	3,892
Forecast payable cash flows	770	609	359	153	96	143	2,130

Company

As at 30 September 2014	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	**1,272**	**625**	**347**	**257**	**118**	**25**	**2,644**
Forecast payable cash flows	**810**	**506**	**234**	**87**	**50**	**57**	**1,744**

As at 30 September 2013	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,231	849	492	319	190	89	3,170
Forecast payable cash flows	658	542	335	126	63	96	1,820

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Gains/(losses) arising from fair value hedges				
(Losses)/gains on hedging instruments	**841**	3,405	**107**	3,577
Gains/(losses) on the hedged items attributable to the hedged risk	**(584)**	(3,300)	**186**	(3,428)
(Losses)/gains arising from cash flow hedges				
(Losses)/gains on hedge ineffectiveness	**(6)**	(11)	**(6)**	5

12 Trading securities

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Government bonds, notes and securities	**17,244**	10,771	**14,906**	9,027
Semi-government bonds, notes and securities	**5,525**	2,374	**5,126**	1,987
Corporate/financial institution bonds, notes and securities	**20,779**	19,327	**19,774**	17,676
Other bonds, notes and securities	**664**	524	**664**	442
Total trading securities	**44,212**	32,996	**40,470**	29,132

13 Investments - available for sale

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Government bonds, notes and securities	**5,344**	5,826	**1,677**	2,580
Semi-government bonds, notes and securities	**22,309**	18,630	**22,309**	18,630
Corporate/financial institution bonds, notes and securities	**8,125**	4,989	**8,061**	4,945
Other bonds, notes and securities	**7,608**	5,441	**7,226**	5,154
Total investments - available for sale	**43,386**	34,886	**39,273**	31,309

14 Investments - held to maturity

	Group		Company	
	2014 $m	2013 [(1)] $m	**2014 $m**	2013 $m
Corporate/financial institution bonds, notes and securities	**780**	1,864	**780**	1,864
Other bonds, notes and securities [(2)]	**2,165**	2,971	**914**	1,299
Deduct: Provision for impairment	**(26)**	(77)	**(26)**	-
Total investments - held to maturity	**2,919**	4,758	**1,668**	3,163
Provision for impairment				
Balance at beginning of year	**77**	80	**77**	2
Charge/(write-back) to the income statement	**(8)**	11	**(8)**	(2)
Amounts written off	**(49)**	(11)	**(49)**	-
Foreign currency translation adjustments	**6**	(3)	**6**	-
Balance at end of year	**26**	77	**26**	-

(1) Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.

(2) In 2013, the Company purchased held to maturity securities with a carrying value of $ 1,374 million from a controlled entity. This transaction had no impact on the Group's consolidated balance sheet.

15 Investments relating to life insurance business

	Group		Company	
	2014 $m	2013 [(1)] $m	**2014 $m**	2013 $m
Equity security investments				
Direct	**197**	223	**-**	-
Indirect	**53,605**	49,874	**-**	-
Total equity security investments	**53,802**	50,097	**-**	-
Debt security investments				
Direct	**2,466**	2,351	**-**	-
Indirect	**24,533**	21,515	**-**	-
Total debt security investments	**26,999**	23,866	**-**	-
Units held in property trusts				
Indirect	**4,231**	3,624	**-**	-
Total units held in property trusts	**4,231**	3,624	**-**	-
Total investments relating to life insurance business	**85,032**	77,587	**-**	-

(1) Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

16 Other financial assets at fair value

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Loans at fair value	**82,968**	75,012	**55,830**	49,038
Other financial assets at fair value	**1,520**	744	**-**	-
Total other financial assets at fair value	**84,488**	75,756	**55,830**	49,038

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets at fair value through profit or loss (designated on initial recognition) is $82,968 million (2013: $75,012 million) for the Group and $55,830 million (2013: $49,038 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a $806 million loss (2013: $795 million loss) for the Group and a $460 million loss (2013: $455 million loss) for the Company and the change for the current year is a $11 million loss (2013: $117 million loss) for the Group and a $5 million loss (2013: $236 million loss) for the Company.

17 Loans and advances

	Group		Company	
	2014 **$m**	2013 [(1)] $m	**2014** **$m**	2013 [(1)] $m
Housing loans	**312,039**	289,363	**245,306**	228,978
Other term lending	**88,233**	86,990	**69,142**	68,481
Asset and lease financing	**11,729**	13,069	**10,467**	11,299
Overdrafts	**10,521**	13,534	**6,022**	8,530
Credit card outstandings	**7,998**	7,867	**6,129**	5,972
Other lending	**8,436**	6,925	**7,277**	5,752
Total gross loans and advances	**438,956**	417,748	**344,343**	329,012
Deduct:				
Unearned income and deferred net fee income	**(1,113)**	(1,429)	**(1,104)**	(1,349)
Provision for doubtful debts	**(3,118)**	(4,018)	**(2,425)**	(3,203)
Total net loans and advances	**434,725**	412,301	**340,814**	324,460

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or inter-locking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

Loans and advances by credit quality

	Group		Company	
	2014 **$m**	2013 [(1)] $m	**2014** **$m**	2013 [(1)] $m
Gross loans and advances				
Neither past due nor impaired	**424,483**	400,545	**332,922**	315,185
Past due but not impaired	**10,568**	11,419	**8,399**	9,069
Impaired	**3,905**	5,784	**3,022**	4,758
Total gross loans and advances	**438,956**	417,748	**344,343**	329,012

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Loans and advances past due but not impaired

	Group		Company	
	2014 **$m**	2013 $m	**2014** **$m**	2013 $m
1 to 7 day(s) past due	**4,491**	5,171	**3,819**	4,380
8 to 29 days past due	**1,936**	1,962	**1,419**	1,436
30 to 59 days past due	**1,171**	1,158	**883**	846
60 to 89 days past due	**630**	665	**503**	495
Past due over 90 days	**2,340**	2,463	**1,775**	1,912
Total loans and advances past due but not impaired	**10,568**	11,419	**8,399**	9,069

Loans and advances that are past due but are not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

17 Loans and advances (continued)

Investment in finance lease receivables

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Due within one year	**1,552**	1,884	**1,178**	1,486
Due after one but no later than five years	**2,183**	2,671	**1,654**	2,084
Due after five years	**458**	934	**53**	44
Total investment in finance lease receivables	**4,193**	5,489	**2,885**	3,614

Investment in finance lease receivables, net of unearned income

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Due within one year	**1,408**	1,686	**1,034**	1,289
Due after one but no later than five years	**2,005**	2,441	**1,511**	1,892
Due after five years	**442**	915	**48**	44
Total investment in finance lease receivables, net of unearned income	**3,855**	5,042	**2,593**	3,225

18 Provision for doubtful debts

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Specific provision for doubtful debts	**1,358**	1,840	**1,022**	1,437
Collective provision for doubtful debts	**1,760**	2,178	**1,403**	1,766
Total provision for doubtful debts	**3,118**	4,018	**2,425**	3,203

		2014	
Group	**Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	**1,840**	**2,178**	**4,018**
Transfer to/(from) specific/collective provision	**1,299**	**(1,299)**	**-**
Bad debts recovered	**185**	**-**	**185**
Bad debts written off	**(1,760)**	**-**	**(1,760)**
Charge to income statement [(1)]	**-**	**863**	**863**
Disposals	**(221)**	**(18)**	**(239)**
Foreign currency translation and other adjustments	**15**	**36**	**51**
Balance at end of year	**1,358**	**1,760**	**3,118**

[(1)] *Excludes $8 million of impairment write-backs on investments - held to maturity. Refer to Note 14 'Investments - held to maturity'*

		2013	
Group	Specific $m	Collective $m	Total $m
Balance at beginning of year	1,875	2,346	4,221
Transfer to/(from) specific/collective provision	2,045	(2,045)	-
Bad debts recovered	160	-	160
Bad debts written off	(2,298)	-	(2,298)
Charge to income statement [(1)]	-	1,799	1,799
Foreign currency translation and other adjustments	58	78	136
Balance at end of year	1,840	2,178	4,018

[(1)] *Excludes $11 million of impairment charges on investments - held to maturity. Refer to Note 14 'Investments - held to maturity'*

		2014	
Company	**Specific $m**	**Collective $m**	**Total $m**
Balance at beginning of year	**1,437**	**1,766**	**3,203**
Transfer to/(from) specific/collective provision	**974**	**(974)**	**-**
Bad debts recovered	**142**	**-**	**142**
Bad debts written off	**(1,316)**	**-**	**(1,316)**
Charge to income statement [1)]	**-**	**612**	**612**
Disposals	**(221)**	**(18)**	**(239)**
Foreign currency translation and other adjustments	**6**	**17**	**23**
Balance at end of year	**1,022**	**1,403**	**2,425**

[(1)] *Excludes $8 million of impairment write-backs on investments - held to maturity. Refer to Note 14 'Investments - held to maturity'*

		2013	
Company	Specific $m	Collective $m	Total $m
Balance at beginning of year	1,065	1,653	2,718
Transfer to/(from) specific/collective provision	1,716	(1,716)	-
Bad debts recovered	114	-	114
Bad debts written off	(1,912)	-	(1,912)
Charge to income statement [(1)]	-	1,512	1,512
Transfer between entities	481	312	793
Foreign currency translation and other adjustments	(27)	5	(22)
Balance at end of year	1,437	1,766	3,203

[(1)] *Excludes $13 million impairment charges on intercompany loans to securitisation conduits, and $2 million of impairment write backs on investments - held to maturity. Refer to Note 14 'Investments - held to maturity'*

19 Asset quality disclosures

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

The following table provides an analysis of the asset quality of the Group's loans and advances. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Gross impaired assets [(1)]	**4,122**	6,347	**3,120**	5,090
Specific provision for doubtful debts [(2)]	**(1,454)**	(2,030)	**(1,058)**	(1,557)
Net impaired assets [(3)]	**2,668**	4,317	**2,062**	3,533

[(1)] *Gross impaired assets include $187 million (2013: $533 million) for the Group and $77 million (2013: $304 million) for the Company of gross impaired other financial assets at fair value, $23 million (2013: $30 million) of impaired off-balance sheet credit exposures for the Group and $21 million (2013: $28 million) for the Company, and $7 million (2013: nil) for the Group and nil for the Company (2013: nil) of restructured loans at fair value.*

[(2)] *Specific provision for doubtful debts includes $96 million (2013: $190 million) for the Group and $36 million (2013: $120 million) for the Company of fair value credit adjustments on other financial assets at fair value.*

[(3)] *The fair value of security in respect of impaired assets is $2,517 million (2013: $3,790 million) for the Group and $1,972 million (2013: $3,207 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.*

20 Property, plant and equipment

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Land and buildings				
Freehold				
At cost (acquired subsequent to previous valuation date)	**43**	44	**-**	-
At directors' valuation	**210**	219	**-**	-
Leasehold				
At cost (acquired subsequent to previous valuation date)	**6**	5	**-**	-
At directors' valuation	**12**	11	**-**	-
Deduct: Accumulated depreciation on buildings	**(17)**	(14)	**-**	-
Total land and buildings	**254**	265	**-**	-
Leasehold improvements				
At cost	**1,131**	1,389	**110**	636
Deduct: Accumulated amortisation	**(442)**	(603)	**(86)**	(360)
Deduct: Accumulated impairment losses	**(4)**	(3)	**(3)**	(2)
Total leasehold improvements	**685**	783	**21**	274
Furniture, fixtures and fittings and other equipment				
At cost	**730**	700	**49**	90
Deduct: Accumulated depreciation and amortisation	**(341)**	(328)	**(40)**	(72)
Deduct: Accumulated impairment losses	**(4)**	(6)	**(1)**	-
Total furniture, fixtures and fittings and other equipment	**385**	366	**8**	18
Data processing equipment				
At cost	**1,499**	1,389	**1,227**	1,082
Under finance lease	**149**	133	**135**	120
Deduct: Accumulated depreciation and amortisation	**(1,098)**	(1,031)	**(893)**	(802)
Deduct: Accumulated impairment losses	**(7)**	(5)	**(5)**	(5)
Total data processing equipment	**543**	486	**464**	395
Leased assets held as lessor				
At cost	**130**	133	**34**	42
Deduct: Accumulated amortisation	**(42)**	(36)	**(18)**	(16)
Deduct: Accumulated impairment losses	**(3)**	(4)	**(3)**	(4)
Total leased assets held as lessor	**85**	93	**13**	22
Total property, plant and equipment	**1,952**	1,993	**506**	709

Included within land and buildings are freehold and leasehold land and buildings that are carried at directors' valuation. Had these land and buildings been recognised under the cost model, as at 30 September 2014, the carrying amount for the Group and the Company would have been $127 million and $nil respectively (2013: $141 million and $nil respectively).

As at 30 September 2014 the Group and the Company had data processing equipment held under finance lease with a net carrying value of $34 million and $31 million respectively (2013: $44 million and $40 million respectively).

As at 30 September 2014 the Group and the Company had contractual commitments to acquire property, plant and equipment of $65 million and $59 million respectively (2013: $58 million and $56 million).

The fair value of the land and buildings of $254 million as at the reporting date was determined using the valuation approach outlined in *Note 1(v) 'Property, plant and equipment'*, including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings (Level 3 of the fair value hierarchy as defined in *Note 42 'Fair value of financial instruments'*).

There has been no change to the valuation technique during the year. There were no transfers between Level 1, 2 and 3 during the year.

20 Property, plant and equipment (continued)

Reconciliations of movements in property, plant and equipment

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Land and buildings				
Balance at beginning of year	**265**	259	**-**	12
Additions	**4**	2	**1**	-
Disposals [(1)]	**(18)**	(7)	**(2)**	(12)
Net amount of revaluation increments/(decrements) to asset revaluation reserve	**3**	6	**-**	-
Net amount of revaluation (decrements) to income statement	**(1)**	(2)	**-**	-
Depreciation	**(7)**	(8)	**-**	-
Foreign currency translation adjustments	**8**	15	**1**	-
Balance at end of year	**254**	265	**-**	-
Leasehold improvements				
Balance at beginning of year	**783**	714	**274**	558
Additions	**204**	184	**151**	133
Disposals [(1)]	**(202)**	(22)	**(401)**	(363)
Amortisation	**(107)**	(101)	**(3)**	(54)
Impairment losses recognised	**(1)**	(1)	**(1)**	-
Foreign currency translation adjustments	**8**	9	**1**	-
Balance at end of year	**685**	783	**21**	274
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**366**	411	**18**	157
Additions	**96**	73	**57**	26
Disposals [(1)]	**(16)**	(73)	**(64)**	(143)
Depreciation and amortisation	**(66)**	(63)	**(3)**	(23)
Impairment (losses)/reversals recognised	**2**	(3)	**(1)**	-
Foreign currency translation adjustments	**3**	21	**1**	1
Balance at end of year	**385**	366	**8**	18
Data processing equipment				
Balance at beginning of year	**486**	419	**395**	349
Additions	**187**	202	**163**	155
Disposals	**(8)**	(11)	**(2)**	(9)
Depreciation and amortisation	**(126)**	(129)	**(91)**	(100)
Impairment losses recognised	**(2)**	-	**-**	-
Foreign currency translation adjustments	**6**	5	**(1)**	-
Balance at end of year	**543**	486	**464**	395
Leased assets held as lessor				
Balance at beginning of year	**93**	98	**22**	30
Disposals	**(8)**	(3)	**(8)**	(3)
Depreciation	**(7)**	(8)	**(3)**	(5)
Impairment (losses)/reversals recognised	**1**	(4)	**1**	(4)
Foreign currency translation adjustments	**6**	10	**1**	4
Balance at end of year	**85**	93	**13**	22

[(1)] *During the year the Company transferred property assets with a carrying value of $264 million (2013: $501 million) to a controlled entity. Subsequently, under a cancellable lease agreement the Company leased back the property assets. The transfer had no material impact on the Company and no impact on the Group.*

21 Investments in controlled entities

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Gross carrying amount	**-**	-	**19,858**	18,885
Deduct: Provision for diminution in value	**-**	-	**(167)**	(165)
Total investments in controlled entities	**-**	-	**19,691**	18,720

Refer to *Note 39 'Interests in subsidiaries and other entities'* for further details in relation to controlled entities.

22 Goodwill and other intangible assets

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Goodwill				
Total goodwill (at cost less impairment losses)	**5,394**	5,347	**-**	**-**
Internally generated software				
At cost	**3,750**	3,341	**2,628**	2,172
Deduct: Accumulated amortisation	**(1,443)**	(1,422)	**(1,012)**	(892)
Deduct: Accumulated impairment losses	**(362)**	(91)	**(227)**	-
Total internally generated software	**1,945**	1,828	**1,389**	1,280
Acquired software				
At cost	**546**	570	**423**	389
Deduct: Accumulated amortisation	**(365)**	(400)	**(266)**	(238)
Total acquired software	**181**	170	**157**	151
Other acquired intangible assets [(1)]				
At cost	**696**	685	-	-
Deduct: Accumulated amortisation	**(496)**	(389)	**-**	-
Total other acquired intangible assets	**200**	296	**-**	-
Total goodwill and other intangible assets	**7,720**	7,641	**1,546**	1,431

[(1)] *Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and the value of business and contracts in force.*

As at 30 September 2014 the Group and the Company had contractual commitments to acquire software of $57 million and $54 million respectively (2013: $117 million and $108 million respectively).

Reconciliation of movements in goodwill and other intangible assets

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Goodwill				
Balance at beginning of year	**5,347**	5,266	**-**	-
Foreign currency translation adjustments	**47**	81	**-**	-
Balance at end of year	**5,394**	5,347	-	-
Internally generated software				
Balance at beginning of year	**1,828**	1,305	**1,280**	885
Additions from internal development	**689**	696	**502**	497
Disposals and write-offs	**(338)**	(3)	**(268)**	(3)
Amortisation	**(260)**	(208)	**(125)**	(99)
Foreign currency translation adjustments	**26**	38	**-**	-
Balance at end of year	**1,945**	1,828	**1,389**	1,280
Acquired software				
Balance at beginning of year	**170**	149	**151**	133
Additions	**49**	58	**35**	47
Disposals and write-offs	**(2)**	(1)	**(1)**	-
Amortisation	**(37)**	(37)	**(28)**	(29)
Foreign currency translation adjustments	**1**	1	**-**	-
Balance at end of year	**181**	170	**157**	151
Other acquired intangible assets				
Balance at beginning of year	**296**	368	**-**	-
Additions	**2**	9	**-**	-
Amortisation	**(99)**	(85)	**-**	-
Foreign currency translation adjustments	**1**	4	**-**	-
Balance at end of year	**200**	296	**-**	-

22 Goodwill and other intangible assets (continued)

Impairment and cash generating units

For the purpose of undertaking impairment testing, cash generating units (CGUs) are identified and determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. 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.

Impairment testing compares the carrying value of a CGU with its recoverable amount as 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 three year management approved forecasts which are then extrapolated using a constant growth rate for up to a further seven 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.

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 value growth rate per annum	
Segment	**2014 $m**	2013 $m	**2014 %**	2013 %	**2014 %**	2013 %
Australian Banking	**279**	279	**11.3**	11.2	**6.0**	5.5
NZ Banking	**258**	258	**11.6**	11.6	**4.4**	4.4
NAB Wealth	**4,068**	4,068	**11.5**	11.2	**5.0**	5.5
Great Western Bank [(1)]	**789**	742	**9.4**	10.3	**4.6**	4.9
Total Goodwill	**5,394**	5,347	**n/a**	n/a	**n/a**	n/a

(1) *The recoverable amount of Great Western Bank currently exceeds its carrying amount. If management applies a sensitivity analysis to the discount rate, a 100 basis point increase in the post-tax discount rate would result in Great Western Bank's recoverable amount being equal to its carrying value.*

23 Current and deferred tax assets

	Group		Company	
	2014 $m	2013 [1] $m	**2014 $m**	2013 [1] $m
Current tax assets	**-**	63	**74**	-
Deferred tax assets	**1,617**	1,624	**1,343**	1,720
Total income tax assets	**1,617**	1,687	**1,417**	1,720
Deferred tax assets				
Life company statutory funds	**592**	657	**-**	-
Specific provision for doubtful debts	**237**	299	**159**	229
Collective provision for doubtful debts	**441**	505	**378**	434
Employee entitlements	**270**	232	**239**	202
Tax losses	**638**	524	**177**	269
Defined benefit superannuation plan liabilities	**(6)**	90	**12**	22
Other	**789**	603	**501**	707
Total deferred tax assets	**2,961**	2,910	**1,466**	1,863
Set-off of deferred tax liabilities pursuant to set-off provisions	**(1,344)**	(1,286)	**(123)**	(143)
Net deferred tax assets	**1,617**	1,624	**1,343**	1,720
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**(80)**	(99)	**(113)**	(103)
Employee entitlements	**46**	(21)	**47**	(11)
Tax losses	**142**	109	**(92)**	48
Defined benefit superannuation plan liabilities	**(91)**	(6)	**(11)**	(14)
Other	**(14)**	(8)	**(43)**	16
Total deferred tax asset amounts recognised in the income statement	**3**	(25)	**(212)**	(64)
Deferred tax asset amounts recognised in equity				
Available for sale investment reserve	**-**	20	**1**	2
Cash flow hedge reserve	**27**	29	**25**	33
Asset revaluation reserve	**(1)**	-	**-**	-
Retained profits	**(20)**	(77)	**(5)**	(5)
Other	**1**	-	**(1)**	-
Total deferred tax asset amounts recognised in equity	**7**	(28)	**20**	30
Total deferred tax asset amounts recognised during the year	**10**	(53)	**(192)**	(34)

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

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	
	2014 $m	2013 [1] $m	**2014 $m**	2013 [1] $m
Capital gains tax losses	**734**	766	**734**	759
Income tax losses	**326**	173	**322**	110

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

24 Other assets

	Group		Company	
	2014 **$m**	2013 [(1)] $m	**2014** **$m**	2013 [(1)] $m
Accrued interest receivable	**2,972**	2,937	**2,358**	2,231
Prepayments	**267**	236	**178**	130
Receivables	**881**	862	**538**	569
Other life insurance assets	**625**	708	**-**	-
Investment properties carried at fair value	**81**	109	**-**	-
Other [(2)]	**5,988**	4,095	**5,219**	3,270
Total other assets	**10,814**	8,947	**8,293**	6,200

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Other includes receivables relating to collateral paid and settlements clearing.*

25 Other financial liabilities at fair value

	Group		Company	
	2014 **$m**	2013 $m	**2014** **$m**	2013 $m
Bonds, notes and subordinated debt	**16,626**	15,137	**3,556**	2,517
Deposits and other borrowings				
On-demand and short-term deposits	**260**	265	**-**	-
Certificates of deposit	**1,444**	1,534	**-**	-
Term deposits	**4,545**	2,865	**433**	727
Borrowings	**2,984**	3,401	**-**	-
Securities sold short	**2,453**	2,485	**2,453**	2,485
Other financial liabilities	**661**	744	**152**	112
Total other financial liabilities at fair value	**28,973**	26,431	**6,594**	5,841

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 year of $43 million (2013: $133 million loss) for the Group and $43 million (2013: $16 million loss) 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 $253 million (2013: $210 million loss) for the Group and $65 million loss (2013: $22 million loss) for the Company. The contractual amount to be paid at maturity of the bonds, notes and subordinated debt is $15,832 million (2013: $14,573 million) for the Group and $3,337 million (2013: $2,498 million) for the Company.

26 Deposits and other borrowings

	Group		Company	
	2014 **$m**	2013 [(1)] $m	**2014** **$m**	2013 [(1)] $m
Deposits				
Term deposits	**161,116**	166,748	**129,073**	135,214
On-demand and short-term deposits	**191,073**	167,193	**141,976**	121,583
Certificates of deposit	**66,127**	61,150	**65,908**	60,491
Deposits not bearing interest	**34,060**	28,917	**26,713**	22,427
Other borrowings	**14,389**	13,483	**1,425**	563
Securities sold under agreements to repurchase	**9,443**	7,551	**9,443**	7,551
Total deposits and other borrowings	**476,208**	445,042	**374,538**	347,829

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

27 Life policy liabilities

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**9,527**	9,293	**-**	-
Value of future expenses	**1,609**	1,241	**-**	-
Future charges for acquisition costs	**(27)**	(24)	**-**	-
Value of future revenues	**(12,173)**	(11,183)	**-**	-
Total best estimate liabilities for life insurance contracts	**(1,064)**	(673)	**-**	-
Value of future profits				
Value of policyholder bonuses	**294**	308	**-**	-
Value of future shareholder profit margins	**2,784**	2,336	**-**	-
Total value of future profits	**3,078**	2,644	**-**	-
Unvested policyholder benefits	**105**	105	**-**	-
Net policy liabilities for life insurance contracts	**2,119**	2,076	**-**	-
Policy liabilities ceded under reinsurance	**358**	334	**-**	-
Gross policy liabilities for life insurance contracts	**2,477**	2,410	**-**	-
Life investment contracts				
Life investment contract liabilities	**69,224**	62,099	**-**	-
Total life policy liabilities	**71,701**	64,509	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *Note 48 'Life insurance business disclosures'*. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund (refer to *Note 1(aa) 'Life policy liabilities'*).

In respect of life insurance contracts with a discretionary participating feature, there are $1,281 million (2013: $1,584 million) of liabilities that relate to the guaranteed element and $39 million (2013: $46 million) in total value of declared bonuses. In respect of life investment contracts with a discretionary non-participating feature that was reclassified from life insurance contracts, there are $247 million (2013: nil) of liabilities that relate to the guaranteed element. In respect of life investment contracts, there are $3,481 million (2013: $3,882 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group	
	2014 $m	2013 $m
Life insurance contract policy liabilities		
Balance at beginning of year	**2,410**	2,284
Increase reflected in the income statement	**327**	126
Reclassification to life investment contract liabilities	**(260)**	-
Balance at end of year	**2,477**	2,410
Life investment contract liabilities		
Balance at beginning of year	**62,099**	54,300
Increase reflected in the income statement	**5,615**	9,003
Premiums recognised in policy liabilities	**11,052**	7,067
Claims recognised in policy liabilities	**(9,802)**	(8,271)
Reclassification from life insurance contract policy liabilities	**260**	-
Balance at end of year	**69,224**	62,099
Total gross policy liabilities at end of year	**71,701**	64,509
Liabilities ceded under reinsurance		
Balance at beginning of year	**(334)**	(277)
Increase reflected in the income statement	**(24)**	(57)
Balance at end of year [(1)]	**(358)**	(334)
Net policy liabilities at end of year	**71,343**	64,175

(1) *The $358 million (2013: $334 million) reinsurance balance is included within 'Other life insurance assets'.*

28 Current and deferred tax liabilities

	Group		Company	
	2014 $m	2013 (1) $m	**2014 $m**	2013 $m
Current tax liabilities	729	922	718	933
Deferred tax liabilities	-	-	-	-
Total income tax liabilities	**729**	922	**718**	933
Deferred tax liabilities				
Intangible assets	**42**	68	**-**	-
Depreciation	**(8)**	5	**(83)**	(126)
Life company statutory funds	**1,112**	908	**-**	-
Defined benefit superannuation plan assets	**9**	6	**6**	6
Other	**189**	299	**200**	263
Total deferred tax liabilities	**1,344**	1,286	**123**	143
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(1,344)**	(1,286)	**(123)**	(143)
Net deferred tax liability	**-**	-	**-**	-
Deferred tax liability amounts recognised in the income statement				
Intangible assets	**(22)**	(17)	**-**	-
Depreciation	**(99)**	(43)	**(20)**	(3)
Life company statutory funds	**203**	728	**-**	-
Other	**(154)**	(117)	**(165)**	(76)
Total deferred tax liability amounts recognised in the income statement	**(72)**	551	**(185)**	(79)
Deferred tax liability amounts recognised in equity				
Available for sale investment reserve	**65**	5	**67**	4
Cash flow hedge reserve	**(16)**	(54)	**-**	-
Asset revaluation reserve	**(2)**	1	**-**	-
Retained profits	**1**	6	**-**	-
Total deferred tax liability amounts recognised in equity	**48**	(42)	**67**	4
Total deferred tax liability amounts recognised during the year	**(24)**	509	**(118)**	(75)

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

29 Provisions

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Employee entitlements	**946**	916	**726**	713
Operational risk event losses	**1,775**	119	**30**	29
Restructuring	**70**	113	**28**	54
Other	**123**	488	**25**	16
Total provisions	**2,914**	1,636	**809**	812

Reconciliations of movements in provisions

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Employee entitlements				
Balance at beginning of year	**916**	955	**713**	754
Provisions made [(1)]	**637**	565	**453**	409
Payments out of provisions	**(589)**	(568)	**(445)**	(428)
Provisions no longer required and net foreign currency movements	**(18)**	(36)	**5**	(22)
Balance at end of year	**946**	916	**726**	713
Operational risk event losses [(2)]				
Balance at beginning of year	**119**	258	**29**	120
Provisions made	**1,536**	146	**46**	51
Payments out of provisions	**(296)**	(304)	**(45)**	(141)
Transfer In/(Out) of provisions [(3)]	**374**	-	**-**	-
Provisions no longer required and net foreign currency movements	**42**	19	**-**	(1)
Balance at end of year	**1,775**	119	**30**	29
Restructuring				
Balance at beginning of year	**113**	224	**54**	26
Provisions made	**24**	97	**16**	96
Payments out of provisions	**(61)**	(238)	**(32)**	(69)
Provisions no longer required and net foreign currency movements	**(6)**	30	**(10)**	1
Balance at end of year	**70**	113	**28**	54
Other [(4)]				
Balance at beginning of year	**488**	383	**16**	6
Provisions made	**454**	615	**151**	84
Payments out of provisions	**(480)**	(552)	**(142)**	(75)
Transfer In/(Out) of provisions [(3)]	**(374)**	-	**-**	-
Provisions no longer required and net foreign currency movements	**35**	42	**-**	1
Balance at end of year	**123**	488	**25**	16

(1) *Provisions made does not include the impact of decisions made by the Board Remuneration Committee subsequent to balance date. The impact of any over/under accrual will be reflected in the full year 2015 financial statements.*

(2) *Operational risk event losses includes claims relating to UK customer redress. Refer to Note 40 'Contingent liabilities and credit commitments' for further details.*

(3) *Transfer in/(out) reflects the classification change to include UK customer redress within 'operational risk event losses'.*

(4) *Other provisions include provisions for contributions tax on superannuation funds and legal and other business claims.*

30 Bonds, notes and subordinated debt

	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 $m
Medium-term notes	**84,108**	83,498	**84,108**	83,498
Other senior notes	**28,413**	21,608	**19,620**	12,855
Subordinated medium-term notes	**5,397**	5,364	**5,397**	5,364
Other subordinated notes	**363**	359	**-**	-
Total bonds, notes and subordinated debt	**118,281**	110,829	**109,125**	101,717
Net discounts	**(116)**	(112)	**(115)**	(112)
Total net bonds, notes and subordinated debt	**118,165**	110,717	**109,010**	101,605

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Issued bonds, notes and subordinated debt by currency

	Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 $m
AUD	**30,958**	30,777	**28,242**	27,314
USD	**33,670**	33,769	**32,527**	32,359
EUR	**26,531**	23,510	**25,443**	22,564
GBP	**15,255**	11,974	**11,046**	8,682
Other	**11,751**	10,687	**11,752**	10,686
Total bonds, notes and subordinated debt	**118,165**	110,717	**109,010**	101,605

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Subordinated medium term notes
Other subordinated notes

			Group 2014 $m	Group 2013 $m	Company 2014 $m	Company 2013 $m
AUD	2,123m	Floating due 2017	**2,119**	2,126	**2,119**	2,126
GBP	350m	Fixed due 2018	**739**	717	**739**	717
EUR	500m	Fixed due 2018	**856**	866	**856**	866
EUR	1,000m	Fixed due 2020	**1,630**	1,605	**1,630**	1,605
AUD	20m	Fixed due 2027	**26**	25	**26**	25
AUD	20m	Fixed due 2028	**27**	25	**27**	25
TOTAL			**5,397**	5,364	**5,397**	5,364

			Group 2014 $m	Group 2013 [1] $m	Company 2014 $m	Company 2013 $m
AUD	100m	Floating due 2016	**100**	100	**-**	-
AUD	200m	Fixed due 2016	**200**	200	**-**	-
USD	54m	Floating due 2033	**61**	57	**-**	-
USD	2m	Floating due 2035	**2**	2	**-**	-
TOTAL			**363**	359	-	-

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

The Group operates a number of funding programs which feature either senior or subordinated debt status.

The Group has designated certain debt issues as being carried at fair value, which are included within other financial liabilities at fair value on the balance sheet. Refer to *Note 25 'Other financial liabilities at fair value'* for further information.

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 11 'Trading and hedging derivative assets and liabilities'* for further information on the Group's trading and hedging derivative assets and liabilities.

Refer to *Note 41 'Financial risk management'* for a description of the Group's risk management practices in relation to market risks such as interest rate, foreign currency and liquidity risk.

31 Other debt issues

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Perpetual floating rate notes	**191**	180	**191**	180
National capital instruments	**580**	579	**-**	-
Capital notes	**716**	689	**716**	689
Convertible preference shares	**3,199**	1,496	**3,199**	1,496
Total other debt issues	**4,686**	2,944	**4,106**	2,365

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued US$250 million undated subordinated floating rate notes. Interest is payable semiannually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The floating rate notes are unsecured and have no final maturity. All or some of the floating rate notes may be redeemed at the option of the Group with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million floating rate notes, which were subsequently cancelled by the Group.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments Euro LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The Euro NCIs are unsecured and all or some of them may be redeemed at the option of the Group with the prior consent of APRA.

Capital Notes

On 24 September 2009, the Group issued US$600 million hybrid tier 1 capital notes. The capital notes are perpetual capital instruments. The capital notes initially carry a fixed distribution of 8.0% per annum, payable semi-annually in arrears, from and including 24 September 2009, up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the seven year US Treasury benchmark rate of 3.06% per annum (the base rate) plus an initial margin of 4.94% per annum. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the capital notes are redeemable at the Group's option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

Convertible Preference Shares

On 20 March 2013, the Group issued $1.51 billion of convertible preference shares (NAB CPS) and on 17 December 2013, the Group issued $1.72 billion of convertible preference shares (NAB CPS II). The convertible preference shares will mandatorily convert into ordinary shares on the mandatory conversion dates, 22 March 2021 (NAB CPS) and 19 December 2022 (NAB CPS II). With prior written approval from APRA, the Company has the option to convert, redeem or resell NAB CPS on 20 March 2019 and NAB CPS II on 17 December 2020 or on the occurrence of particular events, provided certain conditions are met. NAB CPS and NAB CPS II may also convert in certain circumstances if required by prudential regulatory requirements. Interest on both issuances is payable quarterly in arrears at a rate of 3.20% per annum above the 90 day BBSW for NAB CPS and 3.25% per annum above the 90 day BBSW for NAB CPS II. Both issuances have supported the Group's Tier 1 capital position.

32 Defined benefit superannuation plan assets and liabilities

(a) Superannuation plans

The Group maintains several defined benefit superannuation plans in different geographies including some superannuation plans which have defined benefit and defined contribution components. Defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit plans are closed to new members. An asset (surplus) or liability (deficit) in respect of defined benefit plans is recognised on the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the plan's assets. Surpluses and deficits depend on various factors and can vary significantly over time having regard, for example, to movements in investment markets, future salaries and changes in employment patterns.

All defined benefit plans are registered and regulated by their respective regions and governed under their trust deed and rules. The trustee is responsible for the operation and governance of the defined benefit plan, including making decisions regarding the plan's funding and investment strategy. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

This note sets out details of defined benefit plans only, and is based on the most recent information available prior to the reporting date.

(b) Balance sheet amounts

The defined benefit net asset and net liability recognised on the balance sheet are comprised of the following:

	Group	
	2014 $m	2013 $m
Net asset on the balance sheet (plans in surplus)		
Fair value of plan assets	**6,165**	105
Present value of funded obligations	**(6,051)**	(92)
Net asset before adjustment for contribution tax	**114**	13
Adjustment for contribution tax	**1**	-
Net asset included in other assets on the balance sheet (1)	**115**	13

(1) *During the period September 2013 to September 2014, the UK Defined Benefit Pension Scheme improved from a deficit to a surplus position.*

Net liability on the balance sheet (plans in deficit)		
Fair value of plan assets	**1**	4,716
Present value of partly funded obligations	**(13)**	(5,070)
Net liability on the balance sheet (1)	**(12)**	(354)

(1) *During the period September 2013 to September 2014, the UK Defined Benefit Pension Scheme improved from a deficit to a surplus position.*

(c) Plan assets by asset category

The fair value of plan assets (for both the plans in surplus and deficit), by assets categories, including the percentage of the total plan assets as at 30 September is as follows:

	Group							
	2014				2013			
	Quoted market price in an active market $m	**No quoted market price in active market $m**	**Total $m**	**%**	Quoted market price in an active market $m	No quoted market price in active market $m	Total $m	%
Cash	**26**	**-**	**26**	**0.4**	159	-	159	3.3
Equity instruments	**1,626**	**-**	**1,626**	**26.4**	1,393	21	1,414	29.3
Debt instruments								
Senior investment grade	**2,550**	**-**	**2,550**	**41.4**	1,769	-	1,769	36.7
Investment grade	**1,489**	**-**	**1,489**	**24.1**	1,315	-	1,315	27.3
Property								
Australia	**-**	**2**	**2**	**-**	-	3	3	0.1
Europe	**-**	**204**	**204**	**3.3**	-	161	161	3.3
Other assets	**245**	**24**	**269**	**4.4**	-	-	-	-
Fair value of plan assets	**5,936**	**230**	**6,166**	**100.0**	4,636	185	4,821	100.0

The fair value of plan assets includes land and buildings occupied by the Group with a fair value of $29 million (2013: $26 million).

32 Defined benefit superannuation plan assets and liabilities (continued)

(d) Reconciliations

Reconciliation of the defined benefit obligation and fair value of plan assets for the plan in a net surplus.

	Group 2014 $m	Group 2013 $m
Reconciliation of the defined benefit obligation and fair value of plan assets for the plan in a net surplus		
Balance at beginning of year	**(92)**	(33)
Present value of defined benefit obligations for plan no longer in (deficit)	**(5,058)**	(66)
Current service cost	**(35)**	(4)
Interest cost	**(241)**	(3)
Actuarial (losses) from demographic assumptions	**(43)**	(1)
Actuarial (losses)/gains from changes in financial assumptions	**(442)**	6
Actuarial gains from changes in other assumptions	**62**	1
Benefits paid	**161**	10
Past service cost	**(3)**	-
Foreign currency translation adjustments	**(360)**	(2)
Balance at end of year [(1)]	**(6,051)**	(92)
Reconciliation of the fair value of plan assets		
Balance at beginning of year	**105**	35
Fair value of assets for plan no longer in deficit	**4,715**	60
Interest income	**237**	5
Actuarial gains from changes in other assumptions	**472**	8
Contributions by Group companies	**456**	4
Benefits paid	**(161)**	(10)
Plan expenses	**(8)**	-
Foreign currency translation adjustments	**349**	3
Balance at end of year	**6,165**	105

(1) *The weighted average duration of the defined benefit obligation for the plan in a net surplus is 22 years.*

Reconciliation of the defined benefit obligation and fair value of plan assets for those plans in a net deficit.

	Group 2014 $m	Group 2013 $m
Reconciliation of the defined benefit obligation and fair value of plan assets for the plan in a net deficit		
Balance at beginning of year	**(5,070)**	(4,405)
Present value of defined benefit obligations for plan no longer in deficit	**5,058**	66
Current service cost	**-**	(46)
Interest cost	**-**	(185)
Actuarial gains from demographic assumptions	**-**	2
Actuarial (losses) from changes in financial assumptions	**-**	(106)
Actuarial gains from changes in other assumptions	**-**	6
Benefits paid	**-**	143
Past service cost	**-**	(21)
Foreign currency translation adjustments	**(1)**	(524)
Balance at end of year [(2)]	**(13)**	(5,070)
Reconciliation of the fair value of plan assets		
Balance at beginning of year	**4,716**	3,924
Fair value of assets for plan no longer in (deficit)	**(4,715)**	(60)
Interest income [(1)]	**-**	173
Actuarial gains from changes in other assumptions [(1)]	**-**	135
Contributions by Group entities	**-**	209
Benefits paid	**-**	(143)
Foreign currency translation adjustments	**-**	478
Balance at end of year	**1**	4,716

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *The weighted average duration of the defined benefit obligation for the plan in a net deficit is 10 years.*

32 Defined benefit superannuation plan assets and liabilities (continued)

The following tables present a historic summary of the aggregate fair values of plan assets and present values of plan obligations before contribution tax and experience adjustments for all of the Group's defined benefit superannuation plans for the last five years as at 30 September:

	Group				
	2014 $m	2013 (1) $m	2012 $m	2011 $m	2010 $m
Fair value of plan assets	**6,166**	4,821	3,959	6,605	6,338
Present value of plan obligation	**(6,064)**	(5,162)	(4,438)	(6,887)	(6,845)
Surplus/(deficit)	**102**	(341)	(479)	(282)	(507)
Experience adjustments:					
Plan assets - actuarial gains/(losses)	**472**	143	181	(108)	132
Plan obligations - actuarial (losses)/gains	**(423)**	(92)	(716)	188	(246)

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(e) Amounts recognised in the income statement

The amounts recognised in the income statement in the line item personnel expenses are in *Note 5 'Operating expenses'* as follows:

	Group	
	2014 $m	2013 (1) $m
Current service cost	**35**	50
Net interest income	**4**	10
Past service cost (2)	**3**	3
Other	**8**	-
Contributions tax expense	**1**	-
Total defined benefit plan expense	**51**	63

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *During year ended 30 September 2013, a number of members retired from the Yorkshire and Clydesdale Bank Pension Scheme. The past service cost relating to these early retirements of $21 million was offset in the income statement by a corresponding release from the restructure provision.*

The total cumulative amount of actuarial losses recognised directly in retained profits for the Group is $1,046 million (2013: $1,095 million). Actuarial gains and losses are translated at the closing spot rate and have been grossed up for contribution taxes.

(f) Principal actuarial assumptions

The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the Group for the year ended 30 September 2015 is $74 million (2014: $167 million).

The assets of all the plans are held independently of the Group's assets in separate administered plans. Defined benefit plans are valued every year by independent actuaries for accounting purposes using the projected unit credit method. The latest actuarial valuations were made by applying the following principal actuarial assumptions at 30 September (weighted averages):

	Group	
	2014 %	2013 %
Discount rate (per annum)	**4.1**	4.6
Rate of compensation increase (per annum)	**3.1**	3.2
Future superannuation increases (per annum)	**3.0**	3.1

	Group	
Expected future lifetime at the age of 60	**2014 Years**	2013 Years
Male retired	**27.4**	27.9
Female retired	**29.3**	28.4
Male non-retired	**28.7**	29.1
Female non-retired	**30.7**	29.8

Sensitivity analysis

The table below sets out the impacts of the defined benefit obligations to the following sensitivities in principal actuarial assumptions.

		Group	
	Change in variables	**2014 %**	2013 %
Discount rate	0.25% increase in discount rate	**(4.66)**	(4.34)
Compensation rate	1% increase in compensation rate	**0.04**	0.06
Mortality	10% increase in mortality rates	**(2.40)**	(1.95)

33 Other liabilities

	Group		Company	
	2014 $m	2013 [1] $m	**2014 $m**	2013 $m
Accrued interest payable	**4,525**	4,559	**3,568**	3,607
Payables and accrued expenses	**1,998**	2,973	**1,125**	2,370
Notes in circulation	**3,400**	2,942	**-**	-
Other life insurance liabilities [2]				
Unsettled investment liabilities	**-**	2	**-**	-
Outstanding policy claims	**123**	120	**-**	-
Other	**159**	51	**-**	-
Other [3]	**3,109**	3,184	**1,954**	2,213
Total other liabilities	**13,314**	13,831	**6,647**	8,190

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to Note 1(p) 'Assets relating to life insurance business').*

(3) *Other includes payables relating to collateral received and settlements clearing.*

34 Contributed equity

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid [(1)]	**24,049**	23,410	**24,500**	23,941
Issued and paid-up preference share capital				
BNZ Income Securities 2	**-**	203	**-**	-
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II	**1,014**	1,014	**1,014**	1,014
National Capital Instruments	**397**	397	**397**	397
Total contributed equity	**28,380**	27,944	**27,856**	27,297

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Ordinary Shares

Reconciliation of movement in contributed equity

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Ordinary share capital				
Balance at beginning of year	**23,410**	22,459	**23,941**	22,683
Restated for adoption of new accounting standards	**-**	(187)	**-**	-
Shares issued				
Dividend reinvestment plan	**677**	843	**677**	843
Exercise of executive share options	**9**	20	**9**	20
Conversion of other debt issues	**-**	500	**-**	500
Transfer from equity-based compensation reserve	**182**	195	**182**	195
Treasury shares adjustment relating to life insurance business [(1)]	**80**	(120)	**-**	-
On market purchase of shares for dividend reinvestment plan neutralisation	**(309)**	(300)	**(309)**	(300)
Balance at end of year	**24,049**	23,410	**24,500**	23,941

(1) *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Preference share capital				
Balance at beginning of period	**203**	583	**-**	-
Buyback of BNZ Income Securities	**(203)**	(380)	**-**	-
Balance at end of period	**-**	203	**-**	-

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company	
	2014 No. '000	2013 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,348,903**	2,297,247
Shares issued		
Dividend reinvestment plan	**19,971**	32,278
Bonus share plan	**1,674**	2,075
Conversion of other debt issues	**-**	21,242
Employee share plans	**3,175**	5,593
Performance options and performance rights	**1,065**	805
Paying up of partly paid shares	**20**	15
On market purchase of shares for dividend reinvestment plan neutralisation	**(9,017)**	(10,352)
Total ordinary shares, fully paid	**2,365,791**	2,348,903
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**89**	104
Paying up of partly paid shares	**(20)**	(15)
Total ordinary shares, partly paid to 25 cents	**69**	89
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,365,860**	2,348,992
Deduct: Treasury shares [(1)]	**(55,689)**	(61,264)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,310,171**	2,287,728

(1) *Prior period has been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

34 Contributed equity (continued)

	Group		Company	
	2014 $m	2013 [(1)] $m	**2014 $m**	2013 $m
Treasury shares				
Balance at beginning of year	**1,562**	1,273	**7**	25
Restated for adoption of new accounting standards	**-**	187	**-**	-
Treasury shares adjustment relating to life insurance business	**(80)**	120	**-**	-
Transfer from equity-based compensation reserve - purchased shares	**(1)**	(18)	**(1)**	(18)
Balance at end of year	**1,481**	1,562	**6**	7

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

BNZ Income Securities 2

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate of 9.10% per annum. The dividend rate is reset five yearly.

In accordance with the terms of the BNZIS 2 shares, the Company exercised its right to call the BNZIS 2 shares for their issue price (plus any accrued but unpaid distributions) of $203 million on 30 June 2014.

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. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

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 Australian Securities Exchange (ASX).

Trust Preferred Securities

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

Trust Preferred Securities II

On 23 March 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 23 March 2015 equal to 5.486%. For all distribution periods ending after 23 March 2015, each Trust Preferred Security earns a non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month London Interbank Offered Rate (LIBOR).

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on or after 23 March 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the unpaid distributions for the last distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

National Capital Instruments

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after 30 September 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior written consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or earlier in certain circumstances.

35 Reserves

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Asset revaluation reserve	**81**	79	**-**	-
Foreign currency translation reserve	**(1,936)**	(2,501)	**(185)**	(217)
Cash flow hedge reserve	**(55)**	105	**(35)**	45
Equity-based compensation reserve	**277**	296	**277**	296
General reserve for credit losses	**601**	539	**601**	539
Available for sale investments reserve	**166**	62	**153**	5
Total reserves	**(866)**	(1,420)	**811**	668

Reconciliations of movements in reserves

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Asset revaluation reserve				
Balance at beginning of year	**79**	75	**-**	8
Revaluation of land and buildings	**3**	6	**-**	-
Transfer to retained profits	**(2)**	(1)	**-**	(8)
Tax on revaluation adjustments	**1**	(1)	**-**	-
Balance at end of year	**81**	79	**-**	-
Foreign currency translation reserve				
Balance at beginning of year	**(2,501)**	(3,828)	**(217)**	(283)
Currency translation adjustments	**574**	1,379	**32**	66
Tax on foreign currency translation reserve	**(9)**	(52)	**-**	-
Balance at end of year	**(1,936)**	(2,501)	**(185)**	(217)
Cash flow hedge reserve				
Balance at beginning of year	**105**	446	**45**	119
Losses on cash flow hedging instruments	**(119)**	(438)	**(111)**	(102)
(Gains)/losses transferred to the income statement	**(84)**	11	**6**	(5)
Tax on cash flow hedging instruments	**43**	86	**25**	33
Balance at end of year	**(55)**	105	**(35)**	45
Equity-based compensation reserve				
Balance at beginning of year	**296**	319	**296**	319
Equity-based compensation	**163**	185	**163**	185
Transfer to contributed equity	**(182)**	(195)	**(182)**	(195)
Transfer of shares, options and rights lapsed to retained profits	**-**	(13)	**-**	(13)
Balance at end of year	**277**	296	**277**	296
General reserve for credit losses				
Balance at beginning of year	**539**	592	**539**	592
Transfer from/(to) retained profits	**62**	(53)	**62**	(53)
Balance at end of year	**601**	539	**601**	539
Available for sale investments reserve				
Balance at beginning of year	**62**	77	**5**	5
Revaluation gains/(losses)	**263**	(18)	**232**	-
Gains from sale transferred to the income statement	**(94)**	(38)	**(16)**	(11)
Impairment transferred to the income statement	**4**	13	**-**	6
Tax on available for sale investments	**(69)**	28	**(68)**	5
Balance at end of year	**166**	62	**153**	5

36 Retained profits

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Balance at beginning of year	**19,793**	18,702	**18,664**	17,836
Restated for adoption of new accounting standards	**-**	9	**-**	-
Actuarial gains on defined benefit superannuation plans [(1)]	**49**	51	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk	**(44)**	-	**(43)**	-
Tax on items taken directly from equity [(1)]	**(6)**	(68)	**-**	-
Net profit attributable to owners of the Company [(1)]	**5,295**	5,355	**5,602**	5,038
Transfer (to)/from general reserve for credit losses	**(62)**	53	**(62)**	53
Transfer from asset revaluation reserve	**2**	1	**-**	8
Transfer of options and rights lapsed from equity-based compensation reserve	**-**	13	**-**	13
Dividends paid [(1)]	**(4,470)**	(4,135)	**(4,553)**	(4,196)
Distributions on other equity instruments	**(180)**	(188)	**(78)**	(88)
Balance at end of year	**20,377**	19,793	**19,530**	18,664

[(1)] *September 2013 has been restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

37 Shares, performance options and performance rights

The Group's employee equity plans provide Company shares, performance options and performance rights to employees of the Group. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand (NZ) staff share allocation plan, United Kingdom (UK) share incentive plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula used in calculating the fair value per instrument. Each plan provides that the total number of shares issued in the last five years under the Company's employee share, performance option or performance right plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, must not exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. The calculation does not include offers or grants made of shares, performance options or performance rights acquired as a result of an offer made to a person situated outside Australia at the time of the offer or offers which did not require disclosure under section 708 of the *Corporations Act 2001* (Cth), otherwise than as a result of relief granted by ASIC. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration strategy in rewarding current and future contributions to the Group's performance and strengthening the link between value created for shareholders and rewards for employees.

Under the terms of most offers, there is a minimum holding period during which the shares are held on trust (or performance rights or options cannot be exercised) and cannot be dealt with by the employee. There may be forfeiture conditions particular to each program as described below if the employee leaves during this period. Shares allocated under the programs below are eligible for any cash dividends paid from the time they are allocated to the trustee on an employee's behalf.

Short-term incentives (STI) may be provided under the STI Deferral program. Employees become eligible for these shares based on their individual or business performance (or both).

The STI deferral model for employees based in Australia, Asia, NZ, the UK and the United States (US) allows for a proportion of an employee's STI reward to be deferred. The deferred amount is commensurate with the level of risk and responsibility within a role and the length of deferral, ranging from 6 to 42 months, aligns with both the level of risk and impact of the role on business performance and results. A threshold is in place whereby deferral only applies to STI deferred amounts of $1,000 or more.

Generally, STI shares (or performance rights granted to senior executives or for jurisdictional reasons) are forfeited during the deferral period if the employee resigns or fails to pass the Compliance Gateway during the following financial year(s) or, subject to certain exclusions, if the employee is terminated from the Group. In determining the release of an employee's STI shares from restrictions during the deferral period, the Board may in its absolute discretion, subject to compliance with the law, forfeit some or all of the STI Deferral shares. For further details on STI awards granted to the executive directors of the Company, refer to the *Remuneration report*.

Commencement and recognition / retention shares (or performance rights granted for jurisdictional reasons) respectively enable the buy-out of equity from previous employment, based on evidentiary information, for significant new hires or provide retention awards for key individuals in roles where retention is critical over a medium to long-term time frame. The shares may be subject to individual and business performance hurdles, including meeting minimum compliance, behaviour and performance thresholds, regional Return on Equity (ROE) and cash earnings, and internal qualitative measures. The shares are subject to forfeiture, or staggered forfeiture, if the participant resigns or retires before specified key dates or key milestones are achieved, if the individual fails to pass the Compliance Gateway or if their employment is terminated.

General employee shares up to a target value of $1,000 of Company shares are offered to each eligible employee. These shares are held on trust, are restricted from dealing for three years and, in Australia and Asia, are not subject to forfeiture. In NZ and the US, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years. In the UK, the shares are forfeited if an employee is summarily dismissed prior to the end of three years.

Salary sacrifice shares are allocated on a monthly basis to UK employees when they nominate to contribute a portion of their gross salary to receive Company shares.

Other employee share offers include various other offers made to employees of the Group from time to time. These include MLC Ownership shares, which were provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. These shares are forfeited for termination due to serious misconduct involving dishonesty. The MLC Ownership plan ceased in 2013.

Long-term incentives (LTI) taking the form of shares, performance options or performance rights, help to drive management decisions focused on the long-term prosperity of the Company through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. A LTI target is set with reference to external and internal relativities for each executive who must also meet minimum performance and compliance thresholds. Performance hurdles (both internal and external) are measured at the end of a three to five year restriction period and during the restriction period an executive's performance rights or performance options will lapse (or their shares will be forfeited) for cessation of employment (if the Board so determines) or, if compliance requirements or performance hurdles are not met.

For historical awards, a variety of performance measures are used for different grants of long-term incentives including Total Shareholder Return (TSR) compared against peer companies, and regional or Group ROE and cash earnings. The measures used depend on the level and impact of the participant's role, the business or region in which they work and the relevant program.

Vesting of an LTI award generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). The performance options and performance rights generally have an expiry date between three and six years from the effective date, if they remain unexercised.

37 Shares, performance options and performance rights (continued)

Each performance option or performance right is exchanged for one fully paid ordinary share in the Company upon exercise, subject to standard adjustments for capital actions. The exercise price for performance options is generally the market price for the Company's fully paid ordinary shares as at the date the performance option was granted or such other relevant date determined by the Board Remuneration Committee. No exercise price is payable by the holder on exercise of performance rights.

All other Group senior employees participate in the Restricted Share Plan where a $3,000 target award is granted based on Group performance. Eligibility is based on service and threshold performance and compliance outcomes. An employee forfeits shares for voluntary cessation of employment or failure to meet compliance requirements within the three year restriction period. The Restricted Share Plan ceased in 2013 and no new grants have been made in 2014.

Details of shares, performance options and performance rights are set out in the following tables:

Employee share plans

	2014		2013	
Employee share plans	**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 $
Salary sacrifice shares	**66,413**	**34.54**	71,495	28.30
Short-term incentive shares	**2,939,097**	**34.41**	3,648,305	25.51
Commencement and recognition shares	**475,895**	**35.24**	708,198	29.28
General employee shares	**1,009,476**	**33.99**	1,424,916	24.36
Long-term incentive shares	**9,100**	**20.02**	566,659	23.61
Other employee shares	-	-	57,800	28.63

The closing market price of the Company's shares at 30 September 2014 was $32.54 (2013: $34.32). The volume weighted average share price during the year ended 30 September 2014 was $33.74 (2013: $28.82).

Performance options and performance rights movements

	Performance options		Performance rights	
	No.	Weighted average exercise price $	No.	Weighted average exercise price $
Equity instruments outstanding as at 30 September 2012	1,934,271	18.02	2,239,876	-
Granted	-	-	3,939,791	-
Forfeited	(424,593)	30.94	(559,492)	-
Exercised	(697,933)	27.00	(107,384)	-
Expired	(337,856)	31.70	(26,622)	-
Equity instruments outstanding as at 30 September 2013	473,889	19.89	5,486,169	-
Granted	-	-	1,888,902	-
Forfeited	(27,354)	19.89	(2,343,331)	-
Exercised	(446,535)	19.89	(612,620)	-
Expired	-	-	(660)	-
Equity instruments outstanding as at 30 September 2014	**-**	**-**	**4,418,460**	**-**
Equity instruments exercisable as at 30 September 2014	**-**	**-**	**2,157**	**-**
Equity instruments exercisable as at 30 September 2013	-	-	10,881	-

37 Shares, performance options and performance rights (continued)

Executive share option plan and performance rights outstanding

Terms and conditions	2014 Outstanding at 30 Sep No.	2014 Range of exercise prices $	2014 Weighted average remaining life Months	2013 Outstanding at 30 Sep No.	2013 Range of exercise prices $	2013 Weighted average remaining life Months
Performance options						
External hurdle (1)	**-**	**-**	**-**	473,889	19.89	10
Performance rights						
External hurdle (1)	**3,262,184**	**-**	**49**	3,568,663	-	46
Internal hurdle (2)	**79,503**	**-**	**32**	749,297	-	23
Individual hurdle (3)	**1,076,773**	**-**	**15**	1,168,209	-	20

(1) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as cash earnings and ROE compared to business plan.*

(3) *Vesting is determined by individual performance or time-based hurdles.*

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. No performance options were 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 following table shows a 'no hurdle' value where the grant includes performance rights which have non-market based performance hurdles attached.

For further details on the fair value methodology, refer to *Note 1(ag)* '*Equity-based compensation*'.

	2014	2013
Weighted average values		
Contractual life (years)	**4.7**	4.7
Risk-free interest rate (per annum)	**3.3%**	2.66%
Expected volatility of share price	**21%**	23%
Closing share price on grant date	**$33.88**	$24.89
Dividend yield (per annum)	**6.3%**	7.4%
Fair value of performance rights	**$15.33**	$9.94
'No hurdle' value of performance rights	**$31.59**	$22.72
Expected time to vesting (years)	**3.32**	3.34

38 Notes to the cash flow statements

(a) Reconciliation of net profit attributable to owners of the Company to net cash provided by operating activities

	Group		Company	
	2014 $m	2013 [(1)] $m	**2014 $m**	2013 [(1)] $m
Net profit attributable to owners of the Company	**5,295**	5,355	**5,602**	5,038
Add/(deduct) non-cash items in the income statement:				
Decrease/(increase) in interest receivable	**5**	446	**(118)**	486
Decrease in interest payable	**(90)**	(348)	**(47)**	(371)
Decrease in unearned income and deferred net fee income	**(345)**	(523)	**(266)**	(387)
Fair value movements on assets, liabilities and derivatives held at fair value	**(3,433)**	1,795	**(4,120)**	1,389
Increase/(decrease) in personnel provisions	**21**	(62)	**8**	(47)
Increase/(decrease) in other operating provisions	**1,149**	(329)	**(37)**	(55)
Equity-based compensation recognised in equity or reserves	**163**	185	**163**	185
Superannuation costs - defined benefit plans	**51**	63	**-**	-
Impairment losses/(reversals) on non-financial assets	**294**	8	**238**	(2)
Impairment losses on financial assets	**4**	13	**-**	6
Gain on disposal of loans and advances	**(51)**	-	**(51)**	-
Charge to provide for bad and doubtful debts	**855**	1,810	**604**	1,523
Depreciation and amortisation expense	**709**	639	**253**	310
Movement in life insurance policyholder liabilities	**7,163**	7,853	**-**	-
Unrealised gain on investments relating to life insurance business	**(4,034)**	(8,490)	**-**	-
Decrease in other assets	**321**	1,490	**145**	140
(Decrease)/increase in other liabilities	**(1,473)**	276	**(1,600)**	633
Increase/(decrease) in income tax payable	**23**	304	**(180)**	314
(Increase)/decrease in deferred tax assets	**(75)**	584	**27**	(15)
Operating cash flow items not included in profit	**(13,692)**	(9,883)	**(4,891)**	(12,732)
Investing or financing cash flows included in profit:				
Gain on investments classified as available for sale	**(94)**	(38)	**(16)**	(11)
(Gain)/loss on sale of property, plant, equipment and other assets	**(1)**	16	**4**	8
Net cash (used in)/provided by operating activities	**(7,235)**	1,164	**(4,282)**	(3,588)

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(b) Reconciliation of cash and cash equivalents

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	
Cash and cash equivalents	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Assets				
Cash and liquid assets	**41,034**	35,666	**34,665**	29,834
Treasury and other eligible bills	**885**	81	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**27,479**	33,809	**16,788**	22,432
Total cash and cash equivalent assets	**69,398**	69,556	**51,453**	52,266
Liabilities				
Due to other banks	**(42,881)**	(32,215)	**(40,239)**	(30,784)
Total cash and cash equivalents	**26,517**	37,341	**11,214**	21,482

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $2,099 million (2013: $1,912 million) which are subject to restrictions imposed under the *Life Insurance Act 1995* (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

(c) Non-cash financing and investing activities

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
New share issues				
Dividend reinvestment plan	**677**	843	**677**	843
Debt to equity conversion	-	500	-	500

39 Interests in subsidiaries and other entities

The following table presents the material controlled entities of the Group as at 30 September 2014 and 30 September 2013[(2)]. 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 [(1)]	100	Australia
National Americas Holdings LLC	100	United States of America
Great Western Bancorporation, Inc.	100	United States of America
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
National Australia Group Europe Limited	100	England
Clydesdale Bank PLC	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
NBA Properties Limited [(1)]	100	Australia
ARDB Limited [(1)]	100	Australia
National HK Investments Limited	100	Hong Kong

(1) *These controlled entities and C.B.C. Holdings Limited, C.B.C. Properties Limited and NAB Properties Australia Limited have entered into a deed of cross guarantee (refer to Note 40(d) 'Contingent liabilities and credit commitments' for details) with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report.*

(2) *MLC Lifetime Company Limited, National Australia Trustees Limited, National Australia Group Services Limited, National Australia Corporate Services Limited and National Australia Finance (Asia) Limited previously disclosed as material controlled entities as at 30 September 2013 have been removed as they have not been assessed as material controlled entities as at 30 September 2014.*

Section 323D(3) of the *Corporations Act 2001* (Cth) requires the Company to ensure that its controlled entities have the same financial year as the Company. Pursuant to Australian Securities and Investments Commission (ASIC) instrument 06/480 dated 5 June 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

In addition, pursuant to ASIC instrument 12-1140 dated 21 September 2012, the Company is relieved from this requirement in respect of certain securitisation structured entities (Customer Trusts) to which the Group provides liquidity facilities and which are consolidated by the Company. With respect to each Customer Trust, relief is granted until 30 September 2015.

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 41 'Financial risk management'* and capital adequacy requirements in *Note 49 'Capital adequacy'*.

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds which are subject to restrictions imposed under the *Life Insurance Act 1995* (Cth). Refer to *Note 38 'Notes to the cash flow statements'* for further details.

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 are created through contractual arrangements.

Depending on the Group's power over the relevant activities of the structured entity and its exposure to and ability to influence its own returns, it may or may not consolidate the entity.

(a) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Securitisation

The Group engages in securitisation activities for funding and liquidity 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 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 2014 is $1,680 million.

Covered bonds

The Group issues covered bonds for funding purposes. Housing loans are assigned to a bankruptcy remote structured entity to provide security for the obligations payable on the covered bonds issued by the Group. Similar to securitisation programs, 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 cover pool assets.

39 Interests in subsidiaries and other entities (continued)

Investment funds

The Group undertakes fund management activities through its role as responsible entity, trustee, or manager for investment funds and trusts. The Group's interests include holding units and receiving fees for services which could include elements of performance fees.

(b) Unconsolidated structured entities

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 entity. 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; and
- 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.

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, receiving fees for services, and providing investment commitments.

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities as at 30 September 2014.

2014	Securitisations $m	Other financing $m	Investment funds $m	Total $m
Trading securities	503	-	-	503
Investments relating to life insurance business	-	-	6,576	6,576
Investments - available for sale	7,027	-	5	7,032
Investments - held to maturity	1,272	-	-	1,272
Loans and advances	4,134	1,708	-	5,842
Total carrying value of assets in unconsolidated structured entities	12,936	1,708	6,581	21,225
Commitment/Contingencies	3,376	306	1,031	4,713
Total maximum exposure to loss in unconsolidated structured entities	16,312	2,014	7,612	25,938

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, 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. Exposure to loss is managed as part of the enterprise Group-wide risk management framework. Refer to *Note 41 'Financial risk management'* for further details.

Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements, fees and commissions.

39 Interests in subsidiaries and other entities (continued)

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 as at 30 September 2014:

2014	Securitisations $m	Other financing $m	Total $m
Senior investment grade	12,361	262	12,623
Investment grade	432	1,242	1,674
Sub-investment grade	48	193	241
Not rated	95	11	106
Total (1)	12,936	1,708	14,644

(1) *Of the total, $14,641 million represents Group's interest in senior notes and $3 million in subordinated notes.*

40 Contingent liabilities and credit commitments

(a) 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 43 'Financial asset transfers and securitisations'*.

(b) Contingent liabilities

The Group's exposure to potential loss in the event of non-performance by a counterparty in respect of commitments to extend credit, letters of credit and financial guarantees written is represented by the contractual notional principal amount of those instruments less any amounts that may be recovered under recourse provisions. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off balance sheet risks as it does for on-balance sheet loan assets.

The following table shows details of the Group's contingent liabilities for the last two years as at 30 September:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Contingent liabilities				
Bank guarantees	**4,245**	4,802	**4,431**	4,802
Standby letters of credit	**2,960**	2,147	**2,960**	2,147
Documentary letters of credit	**676**	752	**280**	336
Performance-related contingencies	**5,679**	5,508	**5,160**	4,897
Total contingent liabilities	**13,560**	13,209	**12,831**	12,182

(i) Guarantees

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. It is the credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- Bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- Standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- Documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- Performance-related contingencies – a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

(ii) Clearing and settlement obligations

The Company is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited 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 Company 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.

(iii) Inter-bank deposit agreement

The Company is a party to an inter-bank deposit agreement between the four major Australian banks. Each participant, including the Company, has a maximum commitment to provide a deposit of an amount of up to $2,000 million, for a period of 30 days, to any other participant experiencing liquidity problems. Repayment of the deposit by the recipient bank may be by cash or by transfer of mortgages securing eligible housing loans to the value of the deposit. The agreement is certified by the Australian Prudential Regulation Authority as an industry support contract under section 11CB of the *Banking Act 1959* (Cth).

(iv) Legal proceedings

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

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

40 Contingent liabilities and credit commitments (continued)

(v) Contingent liability – Class actions

On 16 December 2011, Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar actions against other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed, pending the resolution of the exception fees class action against ANZ Banking Group Limited (ANZ). The ANZ action was commenced in September 2010 and is effectively a "test case" for exception fee claims against Australian banks. The proceeding is being defended.

In March 2013, a potential representative action against New Zealand banks (including, potentially, the Company's subsidiary, Bank of New Zealand (BNZ)) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the actions. On 20 August 2014, representative proceedings were filed against BNZ. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

(vi) Contingent liability - United Kingdom Financial Services Compensation Scheme

The United Kingdom (UK) Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions in the UK, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits.

During 2014, the FSCS also invoiced institutions for the second of three annual levies to cover capital repayments to the UK Government, together with an interim levy to contribute to the costs of resolution in respect of Dunfermline Building Society. The principal of these borrowings, which remains after the three annual levies have been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2015 and an accrual of $13 million (£7 million) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

(vii) Claims for potential mis-selling of payment protection insurance

In common with the wider UK retail banking sector, Clydesdale Bank continues to deal with complaints and redress issues arising out of historic sales of payment protection insurance (PPI). Clydesdale Bank remains in regular dialogue with the Financial Conduct Authority (FCA) regarding its approach to dealing with these issues and is subject to an enforcement process with the FCA in relation to its previous PPI complaints handling processes, the outcome of which is not yet known. As announced on 9 October 2014, the Group has determined that an additional provision is required as a result of various developments, including the implementation of a revised complaints handling process which has resulted in increased operational and administrative costs; higher than expected levels of new complaints; increased redress payments in respect of new complaints; costs associated with the ongoing enforcement process and additional operational and redress costs likely to be incurred as a result of reviewing previously handled complaints. At 30 September 2014 a provision of $957 million (£515 million) is held for this matter.

The provision is based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain risks and uncertainties in relation to these assumptions and consequently in relation to ultimate costs of redress and related costs, including the number of PPI claims (including the extent to which this is influenced by the activity of claims management companies), the number of those claims that ultimately will be upheld, the amount that will be paid in respect of those claims, any requirements to undertake further proactive customer contact, any additional amounts that may need to be paid in respect to previously handled claims and the outcome of the FCA enforcement process including the possibility of fines. These factors mean that the eventual costs of PPI redress and complaint handling may therefore differ materially from that estimated and further provision could be required. Accordingly, the final amount required to settle the Group's potential PPI liabilities remains uncertain.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

(viii) Review of sales of certain interest rate hedging products

On 29 June 2012 the UK Financial Services Authority (FSA) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium businesses. Clydesdale Bank agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan (TBLs) products as well as the standalone hedging products identified in the FSA's notice. Clydesdale Bank is also dealing with a number of claims by customers in relation to certain TBLs not currently in scope of the review.

The Group has determined that an additional provision is required, based on a number of factors relating to offers of redress, compensation, offers of alternative products and administrative costs for interest rate hedging products and in-scope TBLs, and the receipt and review of complaints on certain fixed rate TBLs. The extent of future complaints on TBLs is uncertain and further provision could be required. A provision of $672 million (£362 million) is held for these matters.

The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as matters develop.

40 Contingent liabilities and credit commitments (continued)

(ix) Other UK conduct related matters

Since 1 April 2013, Clydesdale Bank has been regulated by the FCA and the Prudential Regulation Authority (PRA). The FCA is a proactive regulator focused on conduct issues, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products (including out-of-scope TBLs), is $91 million (£49 million). The total cost associated with these and other conduct related matters is uncertain.

(c) Credit-related commitments

Binding 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. Refer to *Note 17 'Loans and advances'* for a description of collateral held as security and other credit enhancements.

The following tables show details of the notional amount of credit-related commitments as at 30 September:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Credit-related commitments				
Underwriting facilities	**2**	2	**2**	2
Binding credit commitments	**126,422**	121,215	**96,681**	92,006
Total credit-related commitments	**126,424**	121,217	**96,683**	92,008

The following table shows the geographical concentrations of credit-related commitments as at 30 September:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Australia	**89,327**	85,990	**89,327**	85,990
Europe	**18,810**	18,396	**3,316**	3,205
New Zealand	**13,126**	13,136	**-**	-
United States	**3,778**	2,564	**2,657**	1,682
Asia	**1,383**	1,131	**1,383**	1,131
Total	**126,424**	121,217	**96,683**	92,008

(d) 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.

- Commercial paper issued by National Australia Funding (Delaware) Inc. of $12,824 million (2013: $12,725 million), of which up to $22,832 million of issuances will be guaranteed by the Company;
- The Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer;
- The Company and National Wealth Management Services Limited (NWMSL) 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 NWMSL no longer continue as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- The Company has issued letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries continue to meet their obligations; and
- Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (*Note 39 'Interests in subsidiaries and other entities'*, footnote (1)) from the *Corporations Act 2001* (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act 2001* (Cth). If a winding-up occurs under other provisions of the *Corporations Act 2001* (Cth), the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

40 Contingent liabilities and credit commitments (continued)

Closed group

The tables below presents the consolidated proforma income statement and balance sheet for the Company and controlled entities which are party to the deed of cross guarantee (referred to as a closed group).

The effects of transactions between entities to the deed are eliminated in full in the consolidated proforma income statement and balance sheet.

	2014 $m	2013 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**7,814**	6,907
Income tax expense	**(2,082)**	(1,755)
Net profit for the year	**5,732**	5,152
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**34,685**	29,839
Due from other banks	**28,318**	31,628
Trading derivatives	**57,712**	39,481
Trading securities	**40,470**	29,132
Investments - available for sale	**39,292**	31,326
Investments - held to maturity	**1,668**	3,163
Other financial assets at fair value	**55,830**	49,038
Hedging derivatives	**5,413**	3,839
Loans and advances (1)	**340,814**	324,460
Due from customers on acceptances	**23,427**	29,311
Current tax assets	**74**	-
Property, plant and equipment	**1,368**	1,378
Investments in controlled entities	**19,181**	18,279
Goodwill and other intangible assets	**1,546**	1,431
Deferred tax assets	**1,374**	1,758
Other assets (1)	**94,560**	69,585
Total assets	**745,732**	663,648
Liabilities		
Due to other banks	**41,677**	32,648
Trading derivatives	**55,521**	40,223
Other financial liabilities at fair value	**6,594**	5,841
Hedging derivatives	**4,416**	3,975
Deposits and other borrowings	**374,538**	347,829
Liability on acceptances	**52**	3,220
Current tax liabilities	**718**	933
Provisions	**809**	812
Bonds, notes and subordinated debt	**109,010**	101,605
Other debt issues	**4,106**	2,365
Deferred tax liabilities	**-**	1
Other liabilities	**100,442**	78,049
Total liabilities	**697,883**	617,501
Net assets	**47,849**	46,147
Equity		
Contributed equity	**27,856**	27,297
Reserves	**784**	561
Retained profits	**19,209**	18,289
Total equity (parent entity interest)	**47,849**	46,147
Total equity	**47,849**	46,147

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

41 Financial risk management

The Group is a major participant in the banking and financial services industry. The financial risks associated with these activities are a significant component of the Group's overall risk exposure. The key financial risks faced by the Group are:
- credit risk;
- market risk - trading;
- market risk - non-trading / banking positions;
- market risk - Wealth Management; and
- liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Group, and how these risks are managed, are outlined as part of this note. Financial risks are managed and overseen as part of the Group's broader corporate governance structure and Risk Management Framework as follows:

Board Governance

The Group's corporate governance structure provides guidance for effective decision making in all areas of the Group through:
- strategic and operational planning;
- risk management and compliance;
- financial management and external reporting; and
- succession planning and culture.

The Board determines the most appropriate corporate governance practices for the Group and is supported by a number of committees. The Principal Board Risk Committee (PBRC) supports the framework for risk management across the Group by:
- overseeing of the risk profile and risk management of the Group within the context of the Board determined risk appetite;
- making recommendations to the Board concerning the Group's risk appetite and particular risks or risk management practices;
- reviewing management's plans for mitigation of material risks faced by the Group;
- overseeing of the implementation and review of risk management and internal compliance and control systems throughout the Group; and
- promoting of awareness of a risk-based culture and the achievement of a balance between risk and return for risks accepted.

Executive Governance

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance.

GRRMC and its supporting sub-committees provide oversight of strategy, risk/return and performance of specific risks as follows:
- Group Asset & Liability Committee (GALCO): balance sheet structure;
- Group Credit and Market Risk Committee (GCMRC): credit portfolio; and
- Group Capital Committee (GCC): regulatory and economic capital.

GCMRC is further supported by two sub-committees which provide specialist advice, support and decision making in areas requiring deep subject matter expertise as follows:
- Transactional Credit Committee (TCC): significant credit facility approvals; and
- Group Technical Model Risk Committee (GTMRC): credit model frameworks and methodology.

Additionally, each First Line division has a Risk Management Committee, chaired by the relevant Group Executive, to support them in executing their risk management accountabilities. Second Line risk specialists are embedded in the organisational structure (for example, as members of divisional Risk Management Committees and Executive management committees) to ensure that a risk and compliance lens is applied to executive decision making.

Risk management

Risk exists in all aspects of the Group's business and the environment in which it operates. Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to the businesses qualitatively (through risk, policies, standards and operating procedures) and quantitatively (through the Group's risk limits, settings and decision authorities).

Compliance with the Group's Risk Management Framework is non-negotiable. The Group's operating model differentiates accountabilities using the Three Lines of Defence Model as follows:

- first line: Management (who owns the risks);
- second line: Risk (who establish frameworks and provide insight, oversight and appetite); and
- third line: Internal Audit (who provide independent assurance).

Further details of risk accountabilities across the Group are disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/our-business/corporate-governance.

The key financial risks faced by the Group are set out in detail in this note.

Credit risk

Credit is any transaction that creates an actual or potential obligation for a counterparty or 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

41 Financial risk management (continued)

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 a revolving basis and are subject to an annual or more frequent review.

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 capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives

At any one time, the maximum exposure to credit risk is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk exposure 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 the 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.

(b) Master netting arrangements

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 a counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis.

Further quantitative details around the effect of such netting arrangements are outlined in the Offsetting of financial assets and liabilities disclosures on page 147.

(c) Credit-related commitments

Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend the facilities. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. 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 longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(d) Collateral and other credit enhancements obtained

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 its balance sheet, with the exception of ‘other real estate owned’ assets in the United States. It is the Group’s policy to dispose of the repossessed assets in an orderly fashion.

Real estate assets obtained by the Group, located in the United States, from assuming ownership or foreclosing on the settlement of debt (referred to as ‘other real estate owned’ assets) in the year ended 30 September 2014 and held at the reporting date, have a carrying amount of $39 million (2013: $31 million). As at 30 September 2014 the Group’s cumulative amount of ‘other real estate owned’ assets has a carrying amount of $57 million (2013: $61 million). Of this amount, $13 million (2013: $26 million) is covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC), where the FDIC will absorb 80% of any losses arising from recovery of these assets. Other real estate owned assets are included in other assets and are not included in impaired assets.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for recognised and unrecognised financial instruments. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements have on mitigating the maximum exposure to credit risk are described in the footnotes to the table.

For financial assets recognised on the balance sheet, the gross exposure to credit risk equals their carrying amount.

41 Financial risk management (continued)

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 loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

		Group		Company	
	Footnote	**2014 $m**	2013 [(1)] $m	**2014 $m**	2013 [(1)] $m
Financial assets					
Cash and liquid assets	(a)	**35,474**	30,656	**33,806**	28,996
Due from other banks	(b)	**39,088**	43,193	**28,318**	31,628
Trading derivatives	(c)	**57,389**	39,214	**58,001**	39,778
Trading securities	(d)	**44,212**	32,996	**40,470**	29,132
Investments - available for sale	(d)	**43,386**	34,886	**39,273**	31,309
Investments - held to maturity	(d)	**2,919**	4,758	**1,668**	3,163
Investments relating to life insurance business	(f)	**85,032**	77,587	**-**	-
Other financial assets at fair value	(e)	**84,488**	75,756	**55,830**	49,038
Hedging derivatives	(c)	**5,488**	3,926	**5,413**	3,839
Loans and advances	(e)	**438,956**	417,748	**344,343**	329,012
Due from customers on acceptances	(e)	**23,437**	29,319	**23,427**	29,311
Due from controlled entities	(g)	**-**	-	**87,053**	64,152
Other assets	(g)	**3,853**	3,799	**2,896**	2,800
Total		**863,722**	793,838	**720,498**	642,158
Contingent liabilities	(h)	**13,560**	13,209	**12,831**	12,182
Credit-related commitments	(i)	**126,424**	121,217	**96,683**	92,008
Total		**139,984**	134,426	**109,514**	104,190
Total credit risk exposure		**1,003,706**	928,264	**830,012**	746,348

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

a) The balance of **Cash and liquid assets** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements. These are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 'Cash and liquid assets'*.

b) The balance of **Due from other banks** which 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 bearing 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. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 'Cash and liquid assets'*.

   Balances held with central supervisory banks and other interest bearing assets that are due from other banks are managed based on the counterparties creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk. Details on the credit grading of Due from other banks balances held by the Group is disclosed in the credit quality table on page 149.

c) 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.

   Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or the nature of the transaction.

d) **Trading securities, Investments available for sale and Investments held to maturity** are generally comprised of similar financial instruments being Government and Corporate bonds and notes. 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 (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk. The credit grading of Investments available for sale and Investments held to maturity are disclosed in the Credit quality table.

e) **Other financial assets at fair value, Loans and advances and Due from customers on acceptances,** mainly comprise general lending and line of credit products. The distinction in classification reflects the type of lending product or is due to an accounting designation. These lending and line of credit 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 acceptance 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.

41 Financial risk management (continued)

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order 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) **Investments relating to life insurance business** consist of $66,900 million (2013: $59,459 million) of investment assets linked to policyholder liabilities, $4,009 million (2013: $4,051 million) of assets not linked to policyholder liabilities, and $14,123 million (2013: $14,077 million) of assets within managed investment schemes that are controlled by the Group's life insurance statutory funds that relate to external interests in the units of those managed investment schemes (External unitholders' liability).

Credit and market risk is borne by policyholders and external unitholders' in respect of investment assets linked to policyholder liabilities and external interests in the units of consolidated managed investment schemes respectively.

Investments not linked to policyholder liabilities consist of $2,201 million (2013: $2,076 million) of debt securities, which expose the Group to credit risk, and $1,808 million (2013: $1,975 million) of other investments, such as equity securities and units held in managed investment schemes. Minimal collateral or other credit enhancements are held in respect of these debt securities, however the Group has the ability (at its discretion) to adjust the non-guaranteed bonuses and interest credits of $551 million (2013: $556 million) to absorb any credit losses that may occur.

g) The balance of **Other assets** which is exposed to credit risk is primarily comprised of 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**.

h) **Contingent liabilities** are comprised mainly of guarantees to customers, and to controlled entities of the Group under the deed of cross guarantee, standby or documentary letters of credit and performance related contingencies. 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.

i) **Credit-related commitments** are comprised mainly of irrevocable credit commitments to lend to a customer provided there is no breach of any condition established in the contract. If such credit commitments are drawn down by the customer there will typically be specific collateral requirements that will need to be satisfied by the customer in order to access the credit facilities.

Offsetting of financial assets and liabilities

The table below illustrates 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 table excludes financial instruments not subject to offset and that are only subject to collateral arrangements (e.g. Loans and Advances).

The "Net Amounts" presented in the table 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 offsetting and collateral arrangements and other credit risk mitigation strategies are further explained above on page 145.

The amounts recognised on the balance sheet comprise of the sum of the 'Net amounts reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the table below.

	2014							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	**Gross amounts $m**	**Amount offset $m**	**Net amounts reported on balance sheet $m**	**Financial Instruments (1) $m**	**Non Cash Collateral (2) $m**	**Cash Collateral (2) $m**	**Net Amount $m**	**Amounts not subject to enforceable netting arrangements (7) $m**
Derivative financial assets (3)	49,806	-	49,806	41,871	390	4,567	2,978	13,071
Reverse repurchase agreements (5)	61,929	17,166	44,763	-	44,763	-	-	140
Total assets	111,735	17,166	94,569	41,871	45,153	4,567	2,978	13,211
Derivative financial liabilities (4)	48,966	-	48,966	41,871	305	4,776	2,014	10,337
Repurchase agreements (6)	51,915	17,166	34,749	-	34,749	-	-	35
Total liabilities	100,881	17,166	83,715	41,871	35,054	4,776	2,014	10,372

	2013							
	Amount subject to enforceable netting arrangements							
	Effect of offsetting on balance sheet			Related amounts not offset				
Group	Gross amounts $m	Amounts offset $m	Net amounts reported on balance sheet $m	Financial Instruments (1) $m	Non Cash Collateral (2) $m	Cash Collateral (2) $m	Net Amount $m	Amounts not subject to enforceable netting arrangements (7) $m
Derivative financial assets (3)	36,976	-	36,976	30,917	60	2,622	3,377	6,164
Reverse repurchase agreements (5)	46,882	6,839	40,043	-	40,043	-	-	-
Total assets	83,858	6,839	77,019	30,917	40,103	2,622	3,377	6,164
Derivative financial liabilities (4)	39,478	-	39,478	30,917	90	7,744	727	5,702
Repurchase agreements (6)	29,446	6,839	22,607	-	22,607	-	-	12
Total liabilities	68,924	6,839	62,085	30,917	22,697	7,744	727	5,714

41 Financial risk management (continued)

	2014 Amount subject to enforceable netting arrangements: Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments [(1)]	Non Cash Collateral [(2)]	Cash Collateral [(2)]	Net Amount	Amounts not subject to enforceable netting arrangements [(7)]
Company	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets [(3)]	47,802	-	47,802	38,369	408	4,805	4,220	15,612
Reverse repurchase agreements [(5)]	61,053	17,149	43,904	-	43,904	-	-	-
Total assets	108,855	17,149	91,706	38,369	44,312	4,805	4,220	15,612
Derivative financial liabilities [(4)]	45,284	-	45,284	38,369	285	4,009	2,621	14,893
Repurchase agreements [(6)]	50,432	17,149	33,283	-	33,283	-	-	-
Total liabilities	95,716	17,149	78,567	38,369	33,568	4,009	2,621	14,893

	2013 Amount subject to enforceable netting arrangements: Effect of offsetting on balance sheet			Related amounts not offset				
	Gross amounts	Amounts offset	Net amounts reported on balance sheet	Financial Instruments [(1)]	Non Cash Collateral [(2)]	Cash Collateral [(2)]	Net Amount	Amounts not subject to enforceable netting arrangements [(7)]
Company	$m	$m	$m	$m	$m	$m	$m	$m
Derivative financial assets [(3)]	34,264	-	34,264	27,931	56	2,938	3,339	9,353
Reverse repurchase agreements [(5)]	46,252	6,839	39,413	-	39,413	-	-	-
Total assets	80,516	6,839	73,677	27,931	39,469	2,938	3,339	9,353
Derivative financial liabilities [(4)]	35,286	-	35,286	27,931	83	6,711	561	9,131
Repurchase agreements [(6)]	29,371	6,839	22,532	-	22,532	-	-	-
Total liabilities	64,657	6,839	57,818	27,931	22,615	6,711	561	9,131

(1) *Financial instruments include recognised financial instruments amounts on the balance sheet.*

(2) *Collateral amounts (cash and non-cash financial collateral) included are reflected at their fair value; however this amount is limited to the net balance sheet exposure in order to not include any over-collateralisation.*

(3) *Derivative financial assets comprise of both trading and hedging derivatives assets reported on the Group balance sheet $57,389 million and $5,488 million respectively (2013: $39,214 million and $3,926 million), and on the Company balance sheet $58,001 million and $5,413 million respectively (2013: $39,778 million and $3,839 million).*

(4) *Derivative financial liabilities comprise of both trading and hedging derivatives liabilities reported on the Group balance sheet $55,858 million and $3,445 million respectively (2013: $41,749 million and $3,431 million) and on the Company balance sheet $55,803 million and $4,374 million respectively (2013: $40,475 million and $3,942 million).*

(5) *Reverse repurchase agreements of $44,903 million (2013: $40,043 million) are reported on the Group balance sheet within Cash and liquid assets $34,185 million (2013: $29,257 million) and Due from other banks $10,718 million (2013: $10,786 million) respectively, and Reverse repurchase agreements of $43,904 million (2013: 39,413 million) are reported on the Company balance sheet within Cash and liquid assets $33,603 million (2013: $28,659 million) and Due from other banks $10,301 million (2013: $10,754 million).*

(6) *Repurchase agreements of $34,784 million (2013: $22,619 million) are reported on the Group balance sheet within Due to other banks $25,341 million (2013: $15,068 million) and Deposits and other borrowings $9,443 million (2013:$7,551 million) respectively, and on the Company balance sheet within Due to other banks $23,840 million (2013: $14,981 million) and Deposits and other borrowings $9,443 million (2013: $7,551 million).*

(7) *Amounts included not subject to enforceable netting arrangements relate to items which do not have an enforceable netting arrangement in place or there is uncertainty as to the legal enforceability of a close out netting arrangement in a default or liquidation under the laws of a specific jurisdiction.*

Derivative financial assets and liabilities

Derivative financial instrument contracts are typically subject to International Swaps and Derivatives Association (ISDA) Master Agreements, as well as relevant Credit Support Annexes (CSA) around collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house.

Derivative amounts will only be offset on the balance sheet where the Group has a legal right of offset both for payments netting (i.e. in the ordinary course of business) and close out netting (i.e. upon default or insolvency), which is typically associated with certain exchange and central clearing counterparty settled contracts.

The amounts included in Financial Instruments column refers to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. The Cash Collateral and Non Cash Collateral columns include amounts of cash and non-cash collateral respectively, which are either obtained or pledged, to cover the net exposure between the counterparty in the event of default or insolvency.

Reverse Repurchase and Repurchase Agreements

Reverse Repurchase and Repurchase Agreements will typically be subject to Global Master Repurchase Agreements (GMRAs) or similar agreements whereby all outstanding transactions with the same counterparty can be offset and closed out upon a default or insolvency event (i.e. close out netting).

In some instances, under the relevant agreement, the Group has a legal right of offset both for payments and default netting and will offset amounts with that counterparty on the balance sheet.

Where the Group has a right of offset on default or insolvency only, the related non cash collateral amounts comprise of 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.

41 Financial risk management (continued)

Credit quality of financial assets

The Group has an internally developed credit rating system that uses data drawn from a number of sources to assess the potential risk in lending or through providing other financial services products to counterparties or customers. For loans and advances, the Group has a single common master-scale across all, retail and non-retail, counterparties for probability of default. The probability of default master-scale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post-default) grades. Impaired assets consist of: retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non-retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired when they become 180 days past due (if not written off).

Financial assets neither past due nor impaired

The credit quality of the portfolio of financial assets that are neither past due nor impaired can be assessed by reference to the Group's standard credit rating. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty/customer risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

The tables below represent an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following 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); and
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired (internal rating 12 to 23).

	Group Loans and advances		Company Loans and advances	
	2014 **$m**	2013 $m	**2014** **$m**	2013 $m
Senior investment grade	**106,616**	88,072	**97,711**	82,935
Investment grade	**135,092**	128,362	**125,525**	117,005
Sub-investment grade	**182,775**	184,111	**109,686**	115,245
Total	**424,483**	400,545	**332,922**	315,185

	Due from other banks		Investments - HTM		Investments - AFS [(1)]		Acceptances	
Group	**2014** **$m**	2013 $m	**2014** **$m**	2013 [(2)] $m	**2014** **$m**	2013 $m	**2014** **$m**	2013 [(2)] $m
Senior investment grade	**36,417**	40,393	**2,011**	3,505	**42,559**	34,129	**2,420**	736
Investment grade	**2,645**	2,627	**685**	839	**451**	460	**4,528**	6,137
Sub-investment grade	**26**	173	**154**	217	**12**	29	**16,489**	22,446
Total	**39,088**	43,193	**2,850**	4,561	**43,022**	34,618	**23,437**	29,319

	Due from other banks		Investments - HTM		Investments - AFS [(1)]		Acceptances	
Company	**2014** **$m**	2013 $m	**2014** **$m**	2013 [(2)] $m	**2014** **$m**	2013 $m	**2014** **$m**	2013 [(2)] $m
Senior investment grade	**25,604**	28,828	**1,577**	2,866	**38,598**	30,756	**2,419**	734
Investment grade	**2,688**	2,627	**23**	198	**362**	385	**4,524**	6,135
Sub-investment grade	**26**	173	**94**	99	**-**	14	**16,484**	22,442
Total	**28,318**	31,628	**1,694**	3,163	**38,960**	31,155	**23,427**	29,311

(1) *Investments - available for sale excluding equity investments.*

(2) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Risk concentrations

Concentration of risk is managed by client/counterparty, by industry sector and geographical region.

Counterparty concentration

Concentration of risk to a counterparty or groups of related counterparties is monitored in accordance with APS 221 "Large Exposures", including the establishment of policies governing large exposures, implementation of appropriate limits and regular monitoring and reporting against those limits.

41 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 are such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Industry concentration of financial assets

The following tables show the level of industry concentrations of financial assets as at 30 September:

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Group	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Government and public authorities	**1,901**	1,709	**622**	723	**2**	1	**2,364**	2,401
Agriculture, forestry, fishing and mining	**22,951**	21,051	**11,136**	11,715	**234**	258	**10,904**	10,142
Financial, investment and insurance	**2,558**	2,176	**13,789**	15,184	**105**	96	**14,438**	12,169
Real estate - construction	**1,959**	2,505	**3,619**	4,978	**97**	149	**1,883**	1,850
Manufacturing	**4,576**	4,223	**6,389**	6,090	**127**	171	**8,818**	8,861
Instalment loans to individuals and other personal lending (including credit cards)	**170**	259	**13,670**	13,707	**281**	363	**18,581**	18,856
Real estate - mortgage	**-**	-	**312,039**	289,363	**222**	285	**31,019**	29,956
Asset and lease financing	**-**	-	**11,729**	13,069	**111**	104	**645**	570
Commercial property services	**23,965**	19,550	**20,016**	20,303	**757**	1,215	**11,310**	9,954
Other commercial and industrial	**24,888**	23,539	**45,947**	42,616	**1,182**	1,376	**40,022**	39,667
Total	**82,968**	75,012	**438,956**	417,748	**3,118**	4,018	**139,984**	134,426

	Due from other banks		Investments - HTM		Investments - AFS		Acceptances	
Group	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Government and public authorities	**3,915**	1,947	**-**	-	**26,138**	22,899	**38**	45
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**2,158**	2,548
Financial, investment and insurance	**35,173**	41,246	**2,718**	4,538	**12,505**	8,506	**494**	668
Real estate - construction	**-**	-	**-**	-	**-**	-	**112**	155
Manufacturing	**-**	-	**-**	-	**-**	7	**1,038**	1,400
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**14**	23
Real estate - mortgage	**-**	-	**23**	42	**4,690**	3,402	**-**	-
Commercial property services	**-**	-	**93**	97	**24**	26	**14,209**	17,543
Other commercial and industrial	**-**	-	**85**	81	**29**	46	**5,374**	6,937
Total	**39,088**	43,193	**2,919**	4,758	**43,386**	34,886	**23,437**	29,319

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Company	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Government and public authorities	**1,680**	1,495	**458**	609	**1**	1	**750**	876
Agriculture, forestry, fishing and mining	**11,901**	10,830	**5,751**	6,233	**183**	172	**8,904**	8,125
Financial, investment and insurance	**1,698**	1,604	**12,857**	14,032	**79**	68	**13,976**	11,379
Real estate - construction	**1,336**	1,819	**2,357**	3,711	**80**	134	**1,717**	1,655
Manufacturing	**2,731**	2,482	**4,442**	4,298	**91**	135	**6,205**	6,209
Instalment loans to individuals and other personal lending (including credit cards)	**26**	28	**9,094**	9,006	**191**	252	**12,034**	12,461
Real estate - mortgage	**-**	-	**245,306**	228,978	**145**	202	**24,352**	23,830
Asset and lease financing	**-**	-	**10,467**	11,299	**91**	93	**192**	267
Commercial property services	**18,297**	14,003	**18,072**	18,045	**690**	1,119	**9,767**	8,232
Other commercial and industrial	**18,161**	16,777	**35,539**	32,801	**874**	1,027	**31,617**	31,156
Total	**55,830**	49,038	**344,343**	329,012	**2,425**	3,203	**109,514**	104,190

41 Financial risk management (continued)

Company	Due from other banks 2014 $m	Due from other banks 2013 $m	Investments - HTM 2014 $m	Investments - HTM 2013 $m	Investments - AFS 2014 $m	Investments - AFS 2013 $m	Acceptances 2014 $m	Acceptances 2013 $m
Government and public authorities	**3,915**	1,947	**-**	-	**23,985**	21,209	**38**	45
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**2,158**	2,549
Financial, investment and insurance	**24,403**	29,681	**1,466**	2,943	**10,761**	6,704	**494**	668
Real estate - construction	**-**	-	**-**	-	**-**	-	**112**	155
Manufacturing	**-**	-	**-**	-	**-**	-	**1,029**	1,392
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**14**	23
Real estate - mortgage	**-**	-	**23**	42	**4,500**	3,353	**-**	-
Commercial property services	**-**	-	**93**	97	**-**	-	**14,209**	17,543
Other commercial and industrial	**-**	-	**86**	81	**27**	43	**5,373**	6,936
Total	**28,318**	31,628	**1,668**	3,163	**39,273**	31,309	**23,427**	29,311

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia 2014 $m	Australia 2013 $m	Europe 2014 $m	Europe 2013 $m	New Zealand 2014 $m	New Zealand 2013 $m	United States 2014 $m	United States 2013 $m	Asia 2014 $m	Asia 2013 $m
Cash and liquid assets	**9,593**	9,625	**15,039**	14,258	**573**	595	**10,254**	6,138	**15**	40
Due from other banks	**9,756**	8,130	**18,812**	24,952	**1,884**	1,424	**6,299**	7,329	**2,337**	1,358
Trading derivatives	**41,646**	23,332	**12,561**	12,828	**2,985**	2,667	**11**	134	**186**	253
Trading securities	**39,300**	27,552	**1,200**	1,669	**3,712**	3,747	**-**	-	**-**	28
Investments - available for sale	**28,980**	23,252	**6,937**	4,416	**-**	60	**4,196**	3,337	**3,273**	3,821
Investments - held to maturity	**391**	442	**686**	1,444	**571**	569	**1,178**	2,206	**93**	97
Investments relating to life insurance business	**84,968**	77,522	**-**	-	**64**	65	**-**	-	**-**	-
Other financial assets at fair value	**54,848**	47,424	**3,833**	5,353	**24,682**	22,075	**1,125**	904	**-**	-
Hedging derivatives	**5,298**	3,669	**135**	176	**55**	81	**-**	-	**-**	-
Loans and advances	**327,321**	312,529	**55,438**	51,886	**34,320**	33,839	**8,075**	6,826	**9,571**	7,221
Due from customers on acceptances	**23,427**	29,311	**10**	8	**-**	-	**-**	-	**-**	-
Other assets	**2,213**	2,226	**538**	514	**142**	124	**64**	59	**15**	14
Total	**627,741**	565,014	**115,189**	117,504	**68,988**	65,246	**31,202**	26,933	**15,490**	12,832

Company	Australia 2014 $m	Australia 2013 $m	Europe 2014 $m	Europe 2013 $m	United States 2014 $m	United States 2013 $m	Asia 2014 $m	Asia 2013 $m
Cash and liquid assets	**8,622**	8,689	**14,938**	14,139	**10,246**	6,132	**-**	36
Due from other banks	**9,802**	8,130	**10,116**	15,072	**6,067**	7,078	**2,333**	1,348
Trading derivatives	**43,943**	25,102	**13,802**	14,205	**70**	209	**186**	262
Trading securities	**39,270**	27,436	**1,200**	1,669	**-**	-	**-**	27
Investments - available for sale	**28,860**	23,138	**4,772**	2,728	**2,368**	1,622	**3,273**	3,821
Investments - held to maturity	**23**	42	**686**	1,444	**866**	1,580	**93**	97
Other financial assets at fair value	**54,913**	47,424	**917**	1,614	**-**	-	**-**	-
Hedging derivatives	**5,298**	3,669	**115**	170	**-**	-	**-**	-
Loans and advances	**322,771**	306,889	**6,986**	9,419	**1,483**	931	**9,574**	7,221
Due from customers on acceptances	**23,427**	29,311	**-**	-	**-**	-	**-**	-
Other assets	**2,209**	2,099	**121**	106	**13**	12	**15**	14
Total	**539,138**	481,929	**53,653**	60,566	**21,113**	17,564	**15,474**	12,826

Market risk - trading

Traded market risk is the potential for losses to arise from trading activities undertaken by the Group as a result of adverse movements in market prices. Losses can arise from a change in the value of positions in traded financial instruments due to adverse movements in market prices (for example, interest rates, foreign exchange, commodities, equities and credit spreads).

The trading activities of the Group are principally carried out by Products & Markets Fixed Income, Currencies & Commodities division. Trading activity represents dealings that encompass both active management of market risk and supporting the Group's 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.

Traded market risk is primarily managed and controlled using Value at Risk (VaR) which is a standard measure used in the industry, and is subject to the disciplines prescribed in the traded market risk policy.

41 Financial risk management (continued)

Objectives and limitations of the VaR methodology

VaR is a statistical estimate of the potential loss that could arise from shifts in interest rates, currency exchange rates, option volatility, equity prices, credit spreads, commodity prices and inflation. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions. 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 on any given day.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using 550 days (approximately two years) of historical pricing shifts. The pricing data is rolled daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

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 executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a 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; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via back-testing for reasonableness and continued relevance of the model assumptions.

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk.

Value at risk for physical and derivative positions

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	As at 30 September		Average value during reporting period		Minimum value during reporting period [(1)]		Maximum value during reporting period [(1)]	
Group	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**5.6**	1.0	**3.7**	3.4	**0.6**	0.9	**9.3**	8.0
Interest rate risk	**4.7**	6.0	**6.7**	6.0	**4.1**	2.3	**13.6**	13.3
Volatility risk	**1.4**	1.2	**1.3**	0.9	**0.9**	0.4	**1.6**	1.6
Commodities risk	**0.1**	0.3	**0.3**	0.6	**0.1**	0.1	**1.1**	2.4
Credit risk	**3.2**	6.4	**4.4**	7.5	**2.4**	4.9	**7.0**	9.8
Inflation risk	**0.8**	0.3	**0.4**	0.5	**0.2**	0.3	**1.0**	0.8
Diversification benefit	**(7.9)**	(7.0)	**(7.1)**	(8.3)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**7.9**	8.2	**9.7**	10.6	**6.1**	7.0	**16.8**	14.0
Other market risks [(2)]	**0.8**	0.4	**0.4**	1.0	**0.1**	0.2	**0.9**	2.2
Total VaR for physical and derivative positions	**8.7**	8.6	**10.1**	11.6	**6.2**	7.2	**17.7**	16.2

	As at 30 September		Average value during reporting period		Minimum value during reporting period [(1)]		Maximum value during reporting period [(1)]	
Company	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m	**2014 $m**	2013 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**5.8**	1.1	**3.7**	3.2	**0.5**	0.9	**9.3**	7.8
Interest rate risk	**4.5**	5.3	**6.1**	5.7	**3.6**	2.5	**12.0**	13.4
Volatility risk	**1.4**	1.2	**1.3**	0.9	**0.9**	0.4	**1.6**	1.6
Commodities risk	**0.1**	0.3	**0.3**	0.6	**0.1**	0.1	**1.1**	2.4
Credit risk	**2.9**	6.0	**4.0**	7.2	**2.2**	4.6	**6.6**	9.2
Inflation risk	**0.8**	0.3	**0.4**	0.5	**0.2**	0.3	**1.0**	0.8
Diversification benefit	**(7.5)**	(6.4)	**(6.7)**	(8.0)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**8.0**	7.8	**9.1**	10.1	**5.9**	6.2	**14.4**	13.3
Other market risks [(2)]	**0.8**	0.4	**0.4**	1.0	**0.1**	0.2	**0.9**	2.2
Total VaR for physical and derivative positions	**8.8**	8.2	**9.5**	11.1	**6.0**	6.4	**15.3**	15.5

(1) *The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.*

(2) *Other market risks includes exposures to various basis risks measured individually at a portfolio level.*

41 Financial risk management (continued)

Market risk - non-trading / banking positions

The Group has exposure to non-traded market risk, primarily, Interest Rate Risk in the Banking Book (IRRBB).

Interest Rate Risk in the Banking Book

IRRBB is the risk that the Group's earnings or economic value will be affected or reduced due to 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; and
- 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 risk types.

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 Group Non-Traded Market Risk (GNTMR) policy and IRRBB guidance notes. 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 IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

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;
- eight years of business day historical data (updated daily by GNTMR);
- rate changes are proportional rather than absolute (VaR only);
- investment term for capital is modelled with an established benchmark term of between one and five years; and
- 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.

Model parameters and assumptions are reviewed and updated on at least an annual basis by GNTMR, in consultation with Group Treasury. Material changes require the approval of the Group Asset and Liability Committee (GALCO) and are advised to the local regulatory authorities.

Value at risk and earnings at risk for the IRRBB

The following tables show the Group and Company aggregate VaR and EaR for the IRRBB:

	2014			
Group	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	82.5	75.3	57.1	96.8
UK Region	75.2	78.7	70.4	96.3
New Zealand Region	6.9	24.4	6.9	52.7
United States Region	6.7	16.7	6.7	28.1
Asia Region	2.1	2.5	1.4	4.0
Earnings at risk				
Australia Region	91.4	72.6	32.7	98.2
UK Region	2.8	6.2	2.8	15.8
New Zealand Region	5.8	11.8	3.4	29.0
United States Region	9.9	17.1	9.9	19.5

	2013			
Group	**As at 30 September** $m	**Average value** $m	**Minimum value** $m	**Maximum value** $m
Value at risk				
Australia Region	105.2	81.9	59.1	115.1
UK Region	68.4	65.7	55.5	76.1
New Zealand Region	21.6	22.8	14.2	31.8
United States Region	10.1	10.4	6.8	18.7
Asia Region	2.3	1.8	1.2	3.0
Earnings at risk				
Australia Region	83.9	50.2	26.0	83.9
UK Region	11.4	14.4	4.9	30.0
New Zealand Region	6.5	5.6	2.9	9.1
United States Region	16.1	14.2	12.4	16.1

41 Financial risk management (continued)

Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
	2014			
Value at risk				
Australia Region	82.5	75.3	57.1	96.8
UK Region	8.5	11.3	5.3	16.4
Earnings at risk				
Australia Region	91.4	72.6	32.7	98.2

Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
	2013			
Value at risk				
Australia Region	105.2	81.9	59.1	115.1
UK Region	16.8	14.8	10.6	18.0
Earnings at risk				
Australia Region	83.9	50.2	26.0	83.9

Market risk - Wealth Management

This is the potential for losses to arise from the Group's wealth management business activities as a result of its investments, balance sheet items and cash flows being exposed to market risk. Wealth Management refers to the National Wealth Management Holdings Limited consolidated group (NWMHL) which has investment linked and non-investment linked businesses, operations and investments (including shareholder and policyholder investments). For investment linked business the policyholder liabilities are directly linked to performance of the assets held to back those liabilities. Consequently, financial risks associated with those assets do not flow through to Wealth Management. However, a decline in the performance of investments would reduce the value of funds under management which, in turn, would reduce the fee income earned from this type of business. A significant proportion of the Wealth Management's business is investment linked business. For non-investment linked business, Wealth Management is exposed to market risk. The primary financial risk on non-investment linked business is that income from and values of assets and balance sheet items backing the liabilities and obligations are insufficient to fund or meet the amounts payable. The sources of market risk are: (a) interest rate risk, (b) equity and other price risk, and (c) foreign currency risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument or balance sheet item will fluctuate due to changes in interest rates. Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that acquisition or claims costs are impacted by interest rates, policyholder liabilities are exposed to interest rate risk.

Wealth Management manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and by managing the maturity dates of interest bearing instruments. Wealth Management also enters into interest rate derivative financial instruments to manage cash flows, maximise opportunities to increase returns, and reduce risk and transaction costs. The management of risks that relate to life insurance businesses are also governed by the requirements of the *Life Insurance Act* 1995 (Cth) and APRA both of which include provisions to hold capital against unmatched assets and liabilities.

Interest rate sensitivity analysis [(1)]

The following table shows the pre-tax impact of a change in interest rates as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2014 $m	2013 $m	**2014 $m**	2013 $m
+100 basis points	**(21.0)**	(33.2)	**(21.0)**	(33.2)
-100 basis points	**16.0**	33.9	**16.0**	33.9

(1) *Interest rate sensitivity excludes the impact of internal hedging derivatives taken out at the NWMHL consolidated level.*

(b) Equity and other price risk

Equity and other price risk is the risk that the fair value of equities and unit priced investments change as a result of changes in market prices, whether these changes are caused by factors specific to an individual investment or factors affecting all instruments, or classes of instruments, in the market.

Pricing sensitivity analysis

The following table shows the pre-tax impact of a change in equity and unit prices as at 30 September assuming that all other variables remain constant:

41 Financial risk management (continued)

	Impact on profit		Impact on equity	
	2014 $m	2013 $m	**2014 $m**	2013 $m
10% increase	**25.8**	22.3	**25.8**	22.3
10% decrease	**(25.8)**	(22.3)	**(25.8)**	(22.3)

(c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Wealth Management's financial assets that directly support the policy liabilities are predominantly denominated in the same currency as their policy liabilities. Currency derivative financial instruments are entered into to facilitate efficient portfolio management by obtaining desired currency exposures or to hedge against existing holdings of certain investments in foreign currencies or significant foreign currency transactions.

Currency sensitivity analysis

The following tables shows the pre-tax impact of a change in foreign exchange rates as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2014 $m	2013 $m	**2014 $m**	2013 $m
10% increase	**14.1**	8.2	**14.1**	8.2
10% decrease	**(14.1)**	(8.2)	**(14.1)**	(8.2)

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations mostly 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. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. This is managed by Group Treasury and measured and monitored by Group Balance Sheet and Liquidity Risk with oversight by the Group Asset and Liability Committee (GALCO). 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 can 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; and
- 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, State Government and highly rated investment grade paper. The liquid assets held at 30 September 2014 was $117,279 million (2013: $106,777 million). In addition to these liquid assets, the Group holds Internal Securitisations in the form of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity to further support its liquidity requirements. RMBS must meet central bank requirements to be eligible for repurchase agreements with a central bank. As at 30 September 2014 the amount of eligible Internal RMBS held was $34,418 million (2013: $27,414 million).

Funding mix

The Group's funding liabilities are comprised of a mix of deposits, term wholesale funding and short-term wholesale funding. The Group manages funding mix and liquidity profile within risk appetite settings to enable it to respond to changing market and regulatory conditions.

The Group maintains a strong focus on deposits both from a growth and quality perspective. Customer deposits remain a high proportion of total funding liabilities at 57.8% as at 30 September 2014 (2013: 58.3%).

The Group achieved its term funding program, raising $28,212 million of term wholesale funding in the 2014 financial year (2013: $25,842 million) at a weighted average maturity of approximately 5.1 years to first call (2013: 4.8 years). The Group's term wholesale funding (with a remaining term to maturity of greater than 1 year) as a percentage of total funding liabilities was 16.2% as at 30 September 2014 (2013: 16.7%).

The Group continued to access international and domestic short-term wholesale markets over the 2014 financial year. The focus has been on maintaining the longer average maturity of the short-term book to support the Group's liquidity position. Short-term funding has increased from 20.4% of funding liabilities as at 30 September 2013 to 21.0% as at 30 September 2014.

41 Financial risk management (continued)

The following table shows the Group's funding position as at 30 September:

Core assets	2014 $m	2013 [1] $m
Gross loans and advances	**438,956**	417,748
Loans at fair value	**82,968**	75,012
Other financial assets at fair value	**-**	28
Due from customers on acceptances	**23,437**	29,319
Investments - held to maturity	**2,919**	4,758
Total core assets	**548,280**	526,865
Customer deposits		
On-demand and short-term deposits	**191,073**	167,193
Term deposits	**161,116**	166,748
Deposits not bearing interest	**34,060**	28,917
Customer deposits at fair value	**4,805**	3,130
Total customer deposits	**391,054**	365,988
Wholesale funding		
Bonds, notes and subordinated debt	**118,165**	110,717
Other debt issues	**4,686**	2,944
Preference shares and other contributed equity	**4,331**	4,534
Certificates of deposit	**66,127**	61,150
Securities sold under repurchase agreements	**9,443**	7,551
Due to other banks - Securities sold under repurchase agreements	**25,341**	15,068
Due to other banks - Other	**19,863**	19,555
Other borrowings	**14,389**	13,483
Liability on acceptances	**61**	3,228
Other financial liabilities at fair value	**24,168**	23,301
Total wholesale funding	**286,574**	261,531
Total funding liabilities	**677,628**	627,519
Total equity excluding preference shares and other contributed equity	**43,577**	41,842
Life insurance liabilities [2]	**85,824**	78,586
Other liabilities	**76,272**	61,923
Total liabilities and equity	**883,301**	809,870
Wholesale funding by maturity		
Short-term funding	**142,766**	128,199
Term funding		
less than 1 year residual maturity	**34,042**	29,147
greater than 1 year residual maturity	**109,766**	104,185
Total wholesale funding by maturity	**286,574**	261,531
Funding liabilities		
Customer deposits	**57.8%**	58.3%
Short-term funding less than 1 year residual maturity	**21.0%**	20.4%
Term funding		
less than 1 year residual maturity	**5.0%**	4.6%
greater than 1 year residual maturity	**16.2%**	16.7%
Total funding liabilities	**100.0%**	100.0%

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(2) *Comprises life policy liabilities and external unitholders' liability.*

41 Financial risk management (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The following tables show cash flows associated with non-derivative financial liabilities and hedging derivatives, within relevant maturity groupings based on the earliest date on which the Group and Company may be required to pay.

The balances in the tables will not necessarily agree to amounts presented on the balance sheet as amounts incorporate cash flows on an undiscounted basis and therefore include both principal and associated future interest payments.

				2014			
Group	**At call $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**No specific maturity $m**	**Total $m**
Due to other banks	11,487	31,716	1,588	493	-	-	45,284
Other financial liabilities at fair value (1)	528	6,387	7,263	12,788	2,928	963	30,857
Deposits	220,616	125,174	98,165	12,473	128	-	456,556
Other borrowings	457	15,953	7,422	4	-	-	23,836
Liability on acceptances	-	61	-	-	-	-	61
Life investment contract liabilities (2)	-	296	320	70	10	68,535	69,231
Bonds, notes and subordinated debt	-	10,163	19,961	71,279	27,226	-	128,629
Other debt issues	-	-	-	-	-	4,686	4,686
External unitholders' liability (3)	-	-	-	-	-	14,123	14,123
Other financial liabilities	3,812	1,241	-	-	25	-	5,078
Hedging derivatives (5)							
- contractual amounts payable	-	1,056	3,135	7,058	4,868	-	16,117
- contractual amounts receivable	-	(803)	(2,495)	(4,534)	(3,982)	-	(11,814)
Total cash flow payable	236,900	191,244	135,359	99,631	31,203	88,307	782,644
Contingent liabilities	13,560	-	-	-	-	-	13,560
Credit-related commitments and investment commitments	127,485	-	-	-	-	-	127,485
Total (4)	141,045	-	-	-	-	-	141,045

				2013			
Group	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Due to other banks	9,392	22,845	2,298	124	-	-	34,659
Other financial liabilities at fair value (1)	726	7,498	3,394	12,716	3,140	166	27,640
Deposits	192,599	127,263	94,842	13,762	104	-	428,570
Other borrowings	329	14,597	6,126	46	9	-	21,107
Liability on acceptances	-	2,996	232	-	-	-	3,228
Life investment contract liabilities (2)	-	357	390	97	16	61,248	62,108
Bonds, notes and subordinated debt	-	7,549	19,140	73,592	21,120	-	121,401
Other debt issues	-	-	-	-	-	2,944	2,944
External unitholders' liability (3)	-	-	-	-	-	14,077	14,077
Other financial liabilities	3,330	2,209	15	14	-	-	5,568
Hedging derivatives							
- contractual amounts payable	-	2,454	5,967	58,215	39,088	-	105,724
- contractual amounts receivable	-	(2,203)	(5,404)	(55,835)	(38,936)	-	(102,378)
Total cash flow payable	206,376	185,565	127,000	102,731	24,541	78,435	724,648
Contingent liabilities	13,209	-	-	-	-	-	13,209
Credit-related commitments and investment commitments	122,317	-	-	-	-	-	122,317
Total (4)	135,526	-	-	-	-	-	135,526

41 Financial risk management (continued)

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2014			
Due to other banks	10,380	30,176	1,110	63	-	-	41,729
Other financial liabilities at fair value (1)	268	171	1,237	2,449	2,650	963	7,738
Deposits	164,036	112,882	83,617	6,690	1	-	367,226
Other borrowings	325	9,999	546	-	-	-	10,870
Liability on acceptances	-	52	-	-	-	-	52
Bonds, notes and subordinated debt	-	10,104	18,176	66,239	23,789	-	118,308
Other debt issues	-	-	-	-	-	4,106	4,106
Other financial liabilities	408	716	-	-	25	-	1,149
Hedging derivatives (5)							
- contractual amounts payable	-	874	1,250	13,630	11,542	-	27,296
- contractual amounts receivable	-	(774)	(860)	(11,318)	(10,859)	-	(23,811)
Total cash flow payable	175,417	164,200	105,076	77,753	27,148	5,069	554,663
Contingent liabilities	12,831	-	-	-	-	-	12,831
Credit-related commitments and investment commitments	96,683	-	-	-	-	-	96,683
Total (4)	109,514	-	-	-	-	-	109,514

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
				2013			
Due to other banks	8,890	21,911	1,788	77	-	-	32,666
Other financial liabilities at fair value (1)	437	1,239	551	2,223	1,944	164	6,558
Deposits	143,328	114,177	79,425	6,660	-	-	343,590
Other borrowings	141	7,763	212	-	-	-	8,116
Liability on acceptances	-	2,988	232	-	-	-	3,220
Bonds, notes and subordinated debt	-	7,492	18,686	68,107	16,869	-	111,154
Other debt issues (3)	-	-	-	-	-	2,365	2,365
Other financial liabilities	382	1,994	15	14	-	-	2,405
Hedging derivatives							
- contractual amounts payable	-	2,111	4,921	49,819	33,477	-	90,328
- contractual amounts receivable	-	(1,888)	(4,457)	(47,428)	(33,009)	-	(86,782)
Total cash flow payable	153,178	157,787	101,373	79,472	19,281	2,529	513,620
Contingent liabilities	12,182	-	-	-	-	-	12,182
Credit-related commitments and investment commitments	92,008	-	-	-	-	-	92,008
Total (4)	104,190	-	-	-	-	-	104,190

(1) *Some other financial liabilities at fair value have not been allocated by contractual maturity because they are typically held for varying periods of time.*

(2) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $68,276 million (2013: $61,248 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, have contractual maturities.*

(3) *External unitholders' liability does not have a contractual maturity. Liquidity risk is borne by the unitholders based on the ability to liquidate assets held by managed investment schemes which are controlled by the Group.*

(4) *The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.*

(5) *Disclosure in the current year reflects a change in methodology to only present 'out of the money' hedging derivative cash flows. Comparative figures have not been restated.*

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities at reporting date of assets and liabilities. 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.

41 Financial risk management (continued)

Group	2014 Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	41,034	-	-	41,034
Due from other banks	37,220	1,868	-	39,088
Trading derivatives (1)	-	-	57,389	57,389
Trading securities	13,487	30,575	150	44,212
Investments - available for sale	4,465	38,543	378	43,386
Investments - held to maturity	616	2,303	-	2,919
Investments relating to life insurance business	9,858	15,617	59,557	85,032
Other financial assets at fair value	27,413	57,075	-	84,488
Loans and advances	74,100	352,626	7,999	434,725
Due from customers on acceptances	23,437	-	-	23,437
All other assets	7,158	4,774	15,659	27,591
Total assets	238,788	503,381	141,132	883,301
Liabilities				
Due to other banks	44,721	483	-	45,204
Trading derivatives (1)	-	-	55,858	55,858
Other financial liabilities at fair value	13,269	14,741	963	28,973
Deposits	440,777	11,599	-	452,376
Other borrowings	23,828	4	-	23,832
Liability on acceptances	61	-	-	61
Life insurance contract liabilities (2)	-	-	2,477	2,477
Life investment contract liabilities (3)	616	74	68,534	69,224
Bonds, notes and subordinated debt	27,146	91,019	-	118,165
Other debt issues	-	-	4,686	4,686
All other liabilities	12,309	3,329	18,899	34,537
Total liabilities	562,727	121,249	151,417	835,393
Net (liabilities)/assets	(323,939)	382,132	(10,285)	47,908

Group	2013 Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	35,666	-	-	35,666
Due from other banks	40,678	2,515	-	43,193
Trading derivatives (1)	-	-	39,214	39,214
Trading securities	11,390	21,300	306	32,996
Investments - available for sale	5,760	28,858	268	34,886
Investments - held to maturity	1,202	3,556	-	4,758
Investments relating to life insurance business	7,177	14,863	55,547	77,587
Other financial assets at fair value	24,094	51,662	-	75,756
Loans and advances	82,841	321,593	7,867	412,301
Due from customers on acceptances	29,319	-	-	29,319
All other assets	6,110	3,796	14,288	24,194
Total assets	244,237	448,143	117,490	809,870
Liabilities				
Due to other banks	34,500	123	-	34,623
Trading derivatives (1)	-	-	41,749	41,749
Other financial liabilities at fair value	11,266	14,999	166	26,431
Deposits	411,185	12,823	-	424,008
Other borrowings	21,030	4	-	21,034
Liability on acceptances	3,228	-	-	3,228
Life insurance contract liabilities (2)	-	-	2,410	2,410
Life investment contract liabilities (3)	747	104	61,248	62,099
Bonds, notes and subordinated debt	23,608	87,109	-	110,717
Other debt issues	-	-	2,944	2,944
All other liabilities	13,328	3,292	17,631	34,251
Total liabilities	518,892	118,454	126,148	763,494
Net (liabilities)/assets	(274,655)	329,689	(8,658)	46,376

41 Financial risk management (continued)

Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2014			
Assets				
Cash and liquid assets	34,665	-	-	34,665
Due from other banks	26,450	1,868	-	28,318
Trading derivatives [(1)]	-	-	58,001	58,001
Trading securities	10,617	29,703	150	40,470
Investments - available for sale	4,171	34,763	339	39,273
Investments - held to maturity	616	1,052	-	1,668
Other financial assets at fair value	15,816	40,014	-	55,830
Loans and advances	60,630	274,055	6,129	340,814
Due from customers on acceptances	23,427	-	-	23,427
All other assets	5,542	4,709	113,668	123,919
Total assets	181,934	386,164	178,287	746,385
Liabilities				
Due to other banks	41,614	63	-	41,677
Trading derivatives [(1)]	-	-	55,803	55,803
Other financial liabilities at fair value	1,276	4,355	963	6,594
Deposits	357,778	5,892	-	363,670
Other borrowings	10,868	-	-	10,868
Liability on acceptances	52	-	-	52
Bonds, notes and subordinated debt	25,490	83,520	-	109,010
Other debt issues	-	-	4,106	4,106
All other liabilities	6,585	4,356	95,467	106,408
Total liabilities	443,663	98,186	156,339	698,188
Net (liabilities)/assets	(261,729)	287,978	21,948	48,197

Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2013			
Assets				
Cash and liquid assets	29,834	-	-	29,834
Due from other banks	29,113	2,515	-	31,628
Trading derivatives [(1)]	-	-	39,778	39,778
Trading securities	9,271	19,555	306	29,132
Investments - available for sale	5,336	25,805	168	31,309
Investments - held to maturity	1,134	2,029	-	3,163
Other financial assets at fair value	12,620	36,418	-	49,038
Loans and advances	68,828	249,660	5,972	324,460
Due from customers on acceptances	29,311	-	-	29,311
All other assets	4,170	3,724	88,877	96,771
Total assets	189,617	339,706	135,101	664,424
Liabilities				
Due to other banks	32,571	77	-	32,648
Trading derivatives [(1)]	-	-	40,475	40,475
Other financial liabilities at fair value	2,049	3,628	164	5,841
Deposits	333,855	5,860	-	339,715
Other borrowings	8,114	-	-	8,114
Liability on acceptances	3,220	-	-	3,220
Bonds, notes and subordinated debt	23,287	78,318	-	101,605
Other debt issues	-	-	2,365	2,365
All other liabilities	8,355	3,844	71,613	83,812
Total liabilities	411,451	91,727	114,617	617,795
Net (liabilities)/assets	(221,834)	247,979	20,484	46,629

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

(2) *Life insurance contract liabilities do not have a fixed maturity date. Based on the Group's assumptions as to likely withdrawals and claim patterns, $1,026 million (2013: $1,094 million) is estimated to be settled within 12 months from the reporting date.*

(3) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $68,276 million (2013: $61,248 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, typically have contractual maturities.*

41 Financial risk management (continued)

Hedge accounting

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from potential movements in the fair value of fixed rate assets and liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The fair value of these swaps is disclosed in *Note 11 'Trading and hedging derivative assets and liabilities'*.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable rate assets and liabilities at any given time using derivatives such as interest rate swaps, forward rate agreements and futures contracts. The Group also utilises derivatives to hedge a portion of the variability in future cash flows attributable to foreign exchange risk created by assets, liabilities and forecast transactions denominated in a currency other than an entity's functional currency. The fair value of these hedges is disclosed in *Note 11 'Trading and hedging derivative assets and liabilities'*.

There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction no longer being expected to occur in the current or the prior period.

(c) Hedges of net investments in foreign operations

Borrowings of GBP 1,019 million (2013: GBP 1,033 million) and foreign exchange forward contracts of GBP 600 million (2013: nil) have been designated as a hedge of net investments in foreign operations with a GBP functional currency.

Foreign exchange forward contracts of NZD 450 million (2013: NZD 450 million) have been designated as a hedge of the spot foreign exchange risk arising on a net investment in foreign operations with a NZD functional currency.

These hedges have been designated to protect against the Group's exposure to foreign exchange risk on investments. Gains or losses on the translation of these borrowings and any effective portion of gains or losses on the forward contract hedging instruments are transferred to equity to the extent that they offset any gains or losses on translation of the net investment in the foreign operations. For the year ended 30 September 2014 there was no gain or loss due to hedge ineffectiveness (2013: $1 million loss) recognised in profit or loss related to net investment hedges.

42 Fair value of financial instruments

(a) Fair value of financial instruments, carried at amortised cost

The table below shows a comparison of the carrying amounts, as reported on the balance sheet, and fair values of those financial assets and liabilities measured at amortised cost where the directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, liability on acceptances, other assets, other liabilities, and the fair values of 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 was not calculated, as very few of the commitments extending beyond six months would commit the Company or 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.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. 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 - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

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. The estimated fair values are based on relevant information available at the reporting date and involve judgement.

The fair value estimates are based on the following methodologies and assumptions:

- the fair values of **investments - held to maturity** 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. The fair value of the synthetic collateralised debt obligation (SCDO) asset held by a securitisation conduit as held to maturity reflects the Group’s exposure subsequent to the risk mitigation strategy;
- the fair value of **loans and advances** that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of all other loans and advances are 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. The difference between estimated fair values of loans and advances and carrying value reflects changes in interest rates since loan or advance origination and credit worthiness of the borrower;
- 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; and
- 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.

42 Fair value of financial instruments (continued)

	30 September 2014					30 September 2013 [1]	
	Carrying value	Fair Value				Carrying value	Fair value
Group	$m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	$m	$m
Financial assets							
Investments - held to maturity	**2,919**	**-**	**2,826**	**-**	**2,826**	4,758	4,581
Loans and advances	**434,725**	**-**	**9,372**	**425,502**	**434,874**	412,301	413,701
Financial liabilities							
Deposits and other borrowings	**476,208**	**-**	**476,326**	**-**	**476,326**	445,042	445,525
Bonds, notes and subordinated debt	**118,165**	**-**	**120,839**	**-**	**120,839**	110,717	112,875
Other debt issues	**4,686**	**3,179**	**1,565**	**-**	**4,744**	2,944	2,944

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

	30 September 2014					30 September 2013 [1]	
	Carrying value	Fair Value				Carrying value	Fair value
Company	$m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	$m	$m
Financial assets							
Investments - held to maturity	**1,668**	**-**	**1,681**	**-**	**1,681**	3,163	3,243
Loans and advances	**340,814**	**-**	**4,950**	**336,437**	**341,387**	324,460	325,287
Financial liabilities							
Deposits and other borrowings	**374,538**	**-**	**374,588**	**-**	**374,588**	347,829	348,352
Bonds, notes and subordinated debt	**109,010**	**-**	**111,536**	**-**	**111,536**	101,605	103,682
Other debt issues	**4,106**	**3,179**	**975**	**-**	**4,154**	2,365	2,365

[1] *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

(b) Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using a fair value hierarchy described in (a) above.

The fair value estimates are based on the following methodologies and assumptions:

- the fair values of **trading and hedging derivative assets and liabilities**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate;
- the fair values of **trading securities** and **investments** - **available for sale** 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;
- the fair values of **investments relating to life insurance business** and **external unitholders' liability** are based on quoted closing market prices at reporting date. Where no quoted market value exists, various valuation methods have been adopted;
- the fair values of **other financial assets and liabilities at fair value** are based on quoted closing market prices and data or valuation techniques appropriate to the nature and type of the underlying instrument; and
- **life policy liabilities** consist of policy liabilities from insurance contracts and policy liabilities from investment contracts. Policy liabilities from insurance contracts are measured predominantly using the projection method using assumptions outlined in *Note 48 'Life insurance business disclosures'* and the carrying amount approximates fair value. Policy liabilities from investment contracts are measured at fair value which is based on the value of the assets that back those liabilities.

42 Fair value of financial instruments (continued)

Group	Fair value measurement as at 30 September 2014 Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Fair value measurement as at 30 September 2013 [(1)] Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading derivatives	**494**	**56,877**	**18**	**57,389**	174	38,970	70	39,214
Trading securities	**18,019**	**26,193**	**-**	**44,212**	11,076	21,920	-	32,996
Investments - available for sale	**5,412**	**37,637**	**337**	**43,386**	5,824	28,905	157	34,886
Investments relating to life insurance business	**4,394**	**78,000**	**2,638**	**85,032**	3,755	70,959	2,873	77,587
Other financial assets at fair value	**1**	**80,653**	**3,834**	**84,488**	5	70,376	5,375	75,756
Hedging derivatives	**-**	**5,488**	**-**	**5,488**	-	3,926	-	3,926
Total financial assets measured at fair value	**28,320**	**284,848**	**6,827**	**319,995**	20,834	235,056	8,475	264,365
Financial liabilities								
Trading derivatives	**677**	**55,174**	**7**	**55,858**	348	41,395	6	41,749
Other financial liabilities at fair value	**1,485**	**27,324**	**164**	**28,973**	1,656	24,567	208	26,431
Hedging derivatives	**-**	**3,445**	**-**	**3,445**	-	3,431	-	3,431
Life investment contract liabilities	**-**	**69,224**	**-**	**69,224**	-	62,098	-	62,098
External unitholders' liability	**-**	**14,123**	**-**	**14,123**	-	14,077	-	14,077
Total financial liabilities measured at fair value	**2,162**	**169,290**	**171**	**171,623**	2,004	145,568	214	147,786

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Company	Fair value measurement as at 30 September 2014 Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Fair value measurement as at 30 September 2013 Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets								
Trading derivatives	**494**	**57,489**	**18**	**58,001**	173	39,535	70	39,778
Trading securities	**15,687**	**24,783**	**-**	**40,470**	9,335	19,797	-	29,132
Investments - available for sale	**1,677**	**37,295**	**301**	**39,273**	2,451	28,732	126	31,309
Other financial assets at fair value	**-**	**54,913**	**917**	**55,830**	-	47,424	1,614	49,038
Hedging derivatives	**-**	**5,413**	**-**	**5,413**	-	3,839	-	3,839
Total financial assets measured at fair value	**17,858**	**179,893**	**1,236**	**198,987**	11,959	139,327	1,810	153,096
Financial liabilities								
Trading derivatives	**676**	**55,127**	**-**	**55,803**	377	40,098	-	40,475
Other financial liabilities at fair value	**1,485**	**5,109**	**-**	**6,594**	1,656	4,185	-	5,841
Hedging derivatives	**-**	**4,374**	**-**	**4,374**	-	3,942	-	3,942
Total financial liabilities measured at fair value	**2,161**	**64,610**	**-**	**66,771**	2,033	48,225	-	50,258

There were no transfers between Level 1 and 2 during the year for the Group and the Company.

42 Fair value of financial instruments (continued)

Reconciliation of assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	2014					
	Assets				Liabilities	
Group	Trading derivatives $m	Investments - available for sale $m	Investments relating to life insurance business [5] $m	Other financial assets at fair value $m	Trading derivatives $m	Other financial liabilities at fair value $m
Balance at the beginning of year	70	157	2,873	5,375	6	208
Total gains/(losses)						
In profit or loss [1]	(15)	-	404	(36)	1	(7)
In other comprehensive income [2]	-	8	-	-	-	-
Purchases and issues	-	159	169	-	-	-
Sales and settlements	(2)	-	(742)	(1,883)	-	(53)
Transfers into Level 3 [3]	32	-	-	-	-	-
Transfers out of Level 3 [4]	(70)	-	(65)	-	-	-
Foreign currency translation adjustments	3	13	(1)	378	-	16
Balance at the end of year	18	337	2,638	3,834	7	164
Total gain/(losses) for the reporting period related to assets held at the end of the reporting period:						
- In profit or loss	(10)	-	143	(89)	1	(7)
- In other comprehensive income	-	8	-	-	-	-

[1] Net gains or losses were recorded in other operating income, interest income or interest expense and impairment losses as appropriate.

[2] Net gains or losses were recorded in available for sale investments reserve.

[3] Transfers into Level 3 were due to the lack of observable inputs for validation of certain financial instruments.

[4] Transfers out of Level 3 were due to the valuation inputs becoming observable during the period.

[5] The gains and losses associated with the changes in the fair value of the investments relating to life insurance business are offset by the movements in the fair value of the life investment contract liabilities which are classified as Level 2.

	2013					
	Assets				Liabilities	
Group	Trading derivatives $m	Investments - available for sale $m	Investments relating to life insurance business [5] $m	Other financial assets at fair value $m	Trading derivatives $m	Other financial liabilities at fair value $m
Balance at the beginning of year	240	175	2,638	6,654	4	228
Total gains/(losses)						
In profit or loss [1]	(9)	(1)	454	(611)	2	(11)
In other comprehensive income [2]	-	14	-	-	-	-
Purchases and issues	-	1	49	-	-	-
Sales and settlements	(20)	(31)	-	(1,436)	-	(36)
Transfers into Level 3 [3]	43	9	-	-	-	2
Transfers out of Level 3 [4]	(196)	(11)	(269)	-	-	(2)
Foreign currency translation adjustments	12	1	1	768	-	27
Balance at the end of year	70	157	2,873	5,375	6	208
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:						
- In profit or loss	(9)	(1)	454	(544)	2	(11)
- In other comprehensive income	-	14	-	-	-	-

[1] Net gains or losses were recorded in other operating income, interest income or interest expense and impairment losses as appropriate.

[2] Net gains or losses were recorded in available for sale investments reserve.

[3] Transfers into Level 3 were due to the lack of observable inputs for validation of certain financial instruments.

[4] Transfers out of Level 3 were due to the valuation inputs becoming observable during the period.

[5] The gains and losses associated with the changes in the fair value of the investments relating to life insurance business are offset by the movements in the fair value of the life investment contract liabilities which are classified as Level 2.

42 Fair value of financial instruments (continued)

	2014 Assets		
Company	**Trading derivatives $m**	**Investments - available for sale $m**	**Other financial assets at fair value $m**
Balance at the beginning of year	70	126	1,614
Total gains/(losses)			
In profit or loss [1]	(15)	-	90
In other comprehensive income [2]	-	4	-
Purchases and issues	-	158	-
Sales and settlements	(2)	-	(902)
Transfers into Level 3 [3]	32	-	-
Transfers out of Level 3 [4]	(70)	-	-
Foreign currency translation adjustments	3	13	115
Balance at the end of year	18	301	917
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	(10)	-	(10)
- In other comprehensive income	-	4	-

(1) *Net gains or losses were recorded in other operating income, interest income or interest expense and impairment losses as appropriate.*

(2) *Net gains or losses were recorded in available for sale investments reserve.*

(3) *Transfers into Level 3 were due to the lack of observable inputs for validation of certain financial instruments.*

(4) *Transfers out of Level 3 were due to the valuation inputs becoming observable during the period.*

	2013 Assets		
Company	Trading derivatives $m	Investments - available for sale $m	Other financial assets at fair value $m
Balance at the beginning of year	240	140	-
Total gains/(losses)			
In profit or loss [1]	(9)	(1)	(163)
In other comprehensive income [2]	-	15	-
Purchases and issues	-	-	2,519
Sales and settlements	(20)	(32)	(742)
Transfers into Level 3 [3]	43	9	-
Transfers out of Level 3 [4]	(196)	(8)	-
Foreign currency translation adjustments	12	3	-
Balance at the end of year	70	126	1,614
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	(9)	-	(97)
- In other comprehensive income	-	15	-

(1) *Net gains or losses were recorded in other operating income, interest income or interest expense and impairment losses as appropriate.*

(2) *Net gains or losses were recorded in available for sale investments reserve.*

(3) *Transfers into Level 3 were due to the lack of observable inputs for validation of certain financial instruments.*

(4) *Transfers out of Level 3 were due to the valuation inputs becoming observable during the period.*

Transfers between levels are deemed to have occurred at the beginning of the reporting period in which the instruments were transferred.

42 Fair value of financial instruments (continued)

Quantitative information about significant unobservable inputs in Level 3 valuations

Investments relating to life insurance business include private equity investments not traded in active markets. The fair value of these investments 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 and other factors. Given the bespoke nature of the fair value estimate, where the fair value of the underlying investment or net asset value represents fair value of the Group's investment, it is not practical to disclose the range of key unobservable inputs.

The fair value of other financial assets at fair value is calculated using discounted expected cash flows based on the maturity of the assets. The discount rates applied are based on the market interest rates at reporting date and the fair value incorporates future expectations of credit losses and the prepayment rate, which are unobservable inputs. The expected range of average portfolio lifetime default rates on non-defaulted assets are estimated between 5.7% and 11.2%. The impact of prepayment risk on the fair value at the reporting date is not material.

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Group is in respect of the UK Tailored Business Loans (TBL) fair value loans and private equity investments included in investments relating to life insurance business.

The most significant inputs impacting the carrying value of the UK TBL fair value loans, other than interest rates, are future expectations of credit losses and the expected payment profile of the loans. If the loans were to be repaid six months earlier than currently predicted, the loan carrying value would decline by $13 million (2013: $20 million). If lifetime expected losses were 20% greater than predicted, the carrying value of the loans would decrease by $49 million (2013: $66 million). If lifetime expected losses were 20% lower, the carrying value of the loans would increase by $49 million (2013: $66 million). There are interdependencies between a number of the key assumptions which add to the complexity of the judgements the Group has exercised which mean that no single factor is likely to move independent of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

Investments relating to the life insurance business largely comprise of private equity investments. Changing one or more of the inputs for measurement of these private equity investments using reasonable alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than these significant Level 3 measurements, the Group has a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonably alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity of the Group or Company in relation to these remaining Level 3 measurements.

43 Financial asset transfers and securitisations

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.

	2014			2013		
Group	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**16,089**	**27,474**	**7,695**	7,231	22,541	7,799
Carrying amount of associated liabilities	**16,089**	**25,447**	**6,161**	7,231	18,741	6,002
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**7,699**			7,826
Fair value of associated liabilities			**6,300**			6,118
Net position			**1,399**			1,708

	2014			2013		
Company	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**14,638**	**18,907**	**45,318**	7,139	14,265	30,478
Carrying amount of associated liabilities	**14,638**	**19,263**	**46,965**	7,139	12,831	31,194
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**45,401**			30,556
Fair value of associated liabilities			**48,053**			31,831
Net position			**(2,652)**			(1,275)

Repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories when substantially all the risks and rewards of ownership remain with the Company or the Group. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction.

Covered bonds

The Group engages in covered bonds programs for funding and liquidity purposes. Housing loans have been assigned to bankruptcy remote SPEs associated with covered bond programs to provide security for the obligations payable on the covered bonds issued by the Group. The Group is entitled to any residual income after all payments due to covered bonds investors have been met. The Group retains all of the risks and rewards associated with the housing loans and where derivatives have not been externalised, interest rate and foreign currency risk are held in the Group. The covered bonds SPEs are consolidated by the Group, the housing loans are included in loans and advances and the covered bonds issued are included within Bonds, notes and subordinated debt on the Group and Company's balance sheet. The covered bond holders have dual recourse to the issuer or the cover pool assets.

Securitisation

Through its loan securitisation programs, the Group packages and sells loans and advances (principally housing loans) as securities to investors through a series of securitisation vehicles. This includes loans that are held for potential repurchase with central banks. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. The Company and the Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated by the Group and the loans are retained on the Group and the Company's balance sheet. The note holders have recourse only to the loan pool of assets.

44 Operating leases

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Due within one year	**417**	397	**315**	298
Due after one year but no later than five years	**1,223**	1,200	**896**	892
Due after five years	**1,053**	1,185	**747**	883
Total non-cancellable operating lease commitments	**2,693**	2,782	**1,958**	2,073

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

The total of future minimum sub-lease payments to be received under non-cancellable sub leases at 30 September 2014 for the Group is $47 million (2013: $57 million) and for the Company is $47 million (2013: $57 million).

During 2014, sub-lease payments received for the Group amounted to $19 million (2013: $21 million) and for the Company $15 million (2013: $15 million) and were netted against operating lease rental expense.

Where the Group is the lessor, the future minimum lease receipts under non-cancellable operating leases are:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Due within one year	**29**	35	**20**	28
Due after one year but no later than five years	**49**	54	**18**	31
Due after five years	**5**	28	**-**	20
Total non-cancellable operating lease receivables	**83**	117	**38**	79

45 Investment commitments

Investment commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2014 $m	2013 $m	**2014 $m**	2013 $m
Investment commitments				
Statutory funds	**1,061**	1,100	**-**	-
Total investment commitments	**1,061**	1,100	**-**	-

46 Related party disclosures

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company 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.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to this compensation is recharged from the Company to the employing subsidiaries in the Group. For further details, refer to *Note 37 - Shares, performance options and performance rights*.

The aggregate of material amounts receivable from or payable to controlled entities and the Company, at reporting date, is disclosed in the balance sheet of the Company. Refer to *Note 21* for details of the Company's investment in controlled entities. Refer to *Note 39* for details of material controlled entities. The Company has certain guarantees and undertakings with entities in the Group. For further details, refer to *Note 40 - Contingent liabilities and credit commitments*.

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 aggregate amounts receivable from subsidiaries for the last two years to 30 September were:

	Company	
	2014 $m	2013 (1) $m
Balance at beginning of year	**(5,783)**	10,894
Net cash flows in amounts due from/(to) controlled entities	**(322)**	(6,334)
Increase in amounts due to controlled entities	**-**	(10,484)
Provisions for impairment of intercompany loans to securitisation conduits	**8**	(11)
Net foreign currency translation movements and other amounts receivables	**(710)**	152
Balance at end of year	**(6,807)**	(5,783)

(1) *Restated to include amounts due to controlled entities arising from transfer of assets and for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Material transactions with subsidiaries for the last two years to 30 September included:

	Company	
	2014 $m	2013 (1) $m
Net interest (expense)/income	**(214)**	(81)
Net operating lease (expense)/revenue	**(69)**	15
Net management fees	**103**	70
Dividend revenue	**1,835**	981

(1) *Restated for the impact of adopting new accounting standards as detailed in Note 1 'Principal accounting policies' on page 81.*

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
Payment to:	**2014 $m**	2013 $m	**2014 $m**	2013 $m
National Australia Bank Group Superannuation Fund A	**238**	210	**238**	210
Yorkshire and Clydesdale Bank Pension Scheme	**451**	209	**-**	-
National Australia Group Defined Contribution Pension Scheme (UK)	**26**	20	**-**	-
National Wealth Management Superannuation Plan	**2**	4	**-**	-
Bank of New Zealand Officers Provident Association (Division 2)	**10**	9	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**10**	9	**10**	9

Transactions between the Group and superannuation plans sponsored by the Group during the last two years were made on commercial terms and conditions.

46 Related party disclosures (continued)

Details of key management personnel (KMP) of the Group

The following persons were KMP of the Company and Group during the year ended 30 September:

Name	Position
Executive director	
AG Thorburn [(1)]	Group Chief Executive Officer and Managing Director
Other senior executives	
AJ Cahill	Group Executive, Product & Markets (from 1 August 2014)
CM Drummond	Group Executive, Finance & Strategy (from 23 October 2013)
AD Gall	Group Chief Risk Officer (from 1 August 2014)
AP Hagger	Group Executive, NAB Wealth
MJ Healey	Group Executive, People, Communications and Governance
AJ Healy	Managing Director and CEO, Bank of New Zealand (from 12 May 2014)
A Mentis	Group Executive, Business Banking (from 1 August 2014)
RM Roberts	Group Executive, Enterprise Services and Transformation (from 1 August 2014)
GR Slater	Group Executive, Personal Banking
Former executive directors	
CA Clyne	Executive Director, Group Chief Executive Officer (to 15 August 2014)
MA Joiner	Group Executive, Finance (to 1 January 2014)
Former senior executives	
LJ Gray	Group Executive, Enterprise Services and Transformation (to 31 July 2014)
JC Healy	Group Executive, Business Banking (to 31 July 2014)
BF Munro	Group Chief Risk Officer (to 31 July 2014)
RJ Sawers	Group Executive, Product & Markets (to 31 July 2014)
Non-executive directors	
MA Chaney	Non-executive director, Chairman
DH Armstrong	Non-executive director (from 5 August 2014)
DT Gilbert	Non-executive director
KR Henry	Non-executive director
GC McBride	Non-executive director (from 4 March 2014)
PJ Rizzo	Non-executive director
JS Segal	Non-executive director
JG Thorn	Non-executive director
GA Tomlinson	Non-executive director
JA Waller	Non-executive director
AKT Yuen	Non-executive director

(1) *Mr Thorburn held the position of Group Executive, NZ and the US until 11 May 2014, Group CEO Designate from 12 May to 15 August 2014, and then Group CEO and Managing Director from 16 August 2014.*

Details of directors of the Company who held office during the year are set out in the *Report of the Directors*.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended 30 September 2014:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
Company and Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2014	**16,260,281**	**5,198,724**	**378,251**	**451,006**	**169,508**	**(185,159)**	**6,562,138**	**1,706,897**	**30,541,646**
2013	15,436,220	4,633,785	174,810	413,690	197,453	5,112,285	9,848,221	1,410,128	37,226,592

Performance options, performance rights and shareholdings of KMP are set out in the *Remuneration report.*

Loans to KMP and their related parties

During the financial year loans made to directors of the Company and Group were $8 million (2013: $2 million). Such loans are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2014, the total loan balances outstanding were $30 million (2013: $30 million).

46 Related party disclosures (continued)

During the financial year loans made to other KMP of the Company and Group were $5 million (2013: $5 million). Such loans are made either in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions, or 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 2014, the total loan balances outstanding were $23 million (2013: $14 million).

No amounts were written off in respect of any loans made to directors or other KMP of the Company and Group during the current or prior financial years.

Further details regarding loans advanced to KMPs of the Company and Group are included in Remuneration Report.

47 Remuneration of external auditor

	Group		Company	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Amounts paid or due and payable to Ernst & Young Australia: [(1)]				
Audit fees				
Audit and review of financial statements	**10,882**	10,968	**6,961**	6,993
Comfort letters	**459**	399	**459**	399
Total audit fees	**11,341**	11,367	**7,420**	7,392
Audit-related fees				
Regulatory	**4,216**	3,922	**2,582**	2,306
Non-regulatory	**478**	673	**294**	288
Total audit-related fees	**4,694**	4,595	**2,876**	2,594
All other fees	**585**	416	**523**	376
Total remuneration of Ernst & Young Australia	**16,620**	16,378	**10,819**	10,362
Amounts paid or due and payable to overseas practices of Ernst & Young: [(1)]				
Audit fees				
Audit and review of financial statements	**8,484**	6,646	**1,639**	1,469
Comfort letters	**163**	45	**-**	-
Total audit fees	**8,647**	6,691	**1,639**	1,469
Audit-related fees				
Regulatory	**590**	533	**148**	73
Non-regulatory	**165**	88	**143**	-
Total audit-related fees	**755**	621	**291**	73
All other fees	**10**	71	-	11
Total remuneration of overseas practices of Ernst & Young	**9,412**	7,383	**1,930**	1,553

(1) *Amounts exclude goods and services tax, value-added tax or equivalent taxes.*

Audit fees consist of fees for the audit of the annual consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings.

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Further details of the non-audit services provided by Ernst & Young to the Group during 2014 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

48 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) in Australia and BNZ Life Insurance Limited in New Zealand.

This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities.

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act 1995* (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Life investment contracts include investment-linked contracts where policyholders' investments are held within the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets; however, the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business. Fee income is derived from the administration of investment-linked policies and funds.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario that has commercial substance. Any products sold by a life insurer that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets.

Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all of the financial risks).

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this Financial report, including compliance with the regulations of the *Life Insurance Act 1995* (Cth) where appropriate.

(a) Risk management in life insurance business

The management of risks inherent in the life insurance business in Australia are governed by the requirements of the *Life Insurance Act 1995* (Cth) and other Prudential Regulations, which include provisions to hold reserves against unmatched assets and liabilities. Insurance risk is generally managed through the use of claims management practices to ensure that only genuinely insured claims are admitted and paid, and ensuring premium rates and policy charges are priced at appropriate levels.

Insurance risk exposure arises in the life insurance business primarily through mortality (death) or morbidity (illness or injury) risks. Insurance concentration risk is managed through a geographically diverse portfolio of insured lives and the use of reinsurance.

(b) Details of the regulatory capital position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act 1995* (Cth), life insurers are required to hold reserves in excess of policy liabilities. These additional reserves are necessary to provide a cushion against adverse experience in managing risks. In Australia, the Australian Prudential Regulation Authority (APRA) has issued a set of Prudential Standards which prescribe a minimum capital requirement for each Statutory Fund and the Company as a whole.

The summarised information provided below has been extracted from the financial statements prepared by MLC Limited for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules. For detailed regulatory capital information on a statutory fund and shareholder fund basis, users of this Financial report should refer to the financial statements prepared for MLC Limited.

The regulatory capital position for MLC Limited is shown below in accordance with Prudential Standard LPS 110.

	MLC	
	2014	2013
Common Equity Tier 1 Capital ($m)	**1,028**	1,025
Total Capital Base ($m)	**1,028**	1,025
Prescribed Capital Amount ($m)	**766**	414
Capital Adequacy Multiple	**1.3**	2.5

48 Life insurance business disclosures (continued)

Non-Australian life insurers

The non-Australian life insurer in the Group is not governed by the *Life Insurance Act 1995* (Cth) as it is a foreign-domiciled life insurance company. This company is required to meet and has met similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

(c) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 "Valuation of Policy Liabilities" issued by APRA (refer to *Note 1(aa) 'Life policy liabilities')*. This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 " Life insurance contracts", and AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 118 "Revenue" for life investment contracts.

(ii) Types of business and profit carriers

The methods used, and in the case of life insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	Actuarial method	Profit carrier
Investment-linked	Fair value	n/a
Non-investment-linked		
Traditional business - participating	Accumulation	n/a
Traditional business - non-participating insurance riders	Projection	Claims
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Group insurance	Accumulation	n/a
Annuity business	Projection	Annuity payments
Term deposits	Accumulation	n/a
Fixed rate options	Accumulation	n/a
Investment account	Accumulation	n/a
National credit card cover	Accumulation	n/a

(iii) Discount rates

These are the rates used to discount future cash flows to determine their present value. To the extent that policy benefits are contractually linked to the performance of assets held, the rate used is based on the market returns of those assets. For other policy liabilities, the rates used are based on risk-free rates.

Discount rates	**2014 %**	2013 %
Traditional business - participating		
Ordinary [(1)]	**4.0**	4.3
Superannuation [(1)]	**4.8**	5.2
Term life and disability income (excluding claims in payment) insurance [(2)]	**3.9**	2.8 - 4.9
Disability claims in payment [(2)]	**3.8**	4.7
Annuity business [(2)]	**3.0 - 3.8**	3.4 - 4.5

(1) *After tax.*

(2) *Before tax.*

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by inflation of 2.6% (2013: 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The policy liabilities assume a future take-up of these indexation options based on recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability income and salary continuance claims is 2.4% (2013: 2.4%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *Note 1(k) 'Income tax'*.

48 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by the Institute of Actuaries of Australia, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 75% of IA 95-97 (1) Female: 85% of IA 95-97 (1)
Term life insurance	Male: 70 - 90% of FSC 04-08 (2) with adjustments for anti-selection Female: 70 - 90% of FSC 04-08 (2) with adjustments for anti-selection
Loan cover term life insurance	Male/Female: 90% of FSC 04-08 (2) with adjustment for anti-selection
Disability income insurance	Male: Rates similar to 115 - 135% of incidence and 20 - 80% of termination rates of IAD 89-93 (3) Female: Rates similar to 75% of incidence and 20 - 80% of termination rates of IAD 89-93 (3)
Loan cover disability income insurance	Male/Female: Rates similar to 110 - 180% for non-smokers and 135 - 225% for smokers of incidence and 20 - 80% of termination rates of IAD 89-93 (3)
Annuity business	Male: 75-125% of IML00Ult (4) Female: 75-125% of IFL00Ult (4) The mortality improvement factors are based on CMI 2013 improvement factors (5)

(1) IA 95-97 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.

(2) FSC 04-08 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 2004 to 2008.

(3) IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.

(4) IML00 and IFL00 are mortality tables developed by the Institute and Faculty of Actuaries based on UK annuitant lives experience from 1999 to 2002. The tables refer to male and female lives respectively. (There are no standard Australian annuitant mortality tables.)

(5) The CMI 2013 improvement factors are a series of mortality improvement rates developed by the UK's Institute and Faculty of Actuaries.

(vii) Lapses

Assumed future annual lapse rates for the major classes of business are as follows. Lapse rates may vary according to a range of policyholder variables. Rates shown generally reflect the weighted average within each range.

Product type	**2014 %**	2013 %
Traditional business - participating		
Ordinary	**6**	6
Superannuation	**7**	7
Term life insurance	**10 - 15**	11 - 13
Disability income insurance	**10 - 15**	11 - 13
Loan cover/ Easy cover term life and disability insurance	**17 - 35**	17 - 35
National Credit Card (numbers also above line)	**17 - 35**	17 - 35

(viii) Surrender values

Surrender values are based on the terms specified in policy contracts and typically allows for recovery of policy acquisition and maintenance costs.

(ix) Future participating benefits

For participating business, bonus rates are set such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of participating business are:

	Ordinary business		Superannuation business	
	2014 %	2013 %	**2014 %**	2013 %
Bonus rate on sum assured	**0.4**	0.4	**1.3**	0.3
Bonus rate on existing bonuses	**0.4**	0.4	**1.3**	0.3

48 Life insurance business disclosures (continued)

(d) Actuarial assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(e) Effects of changes in actuarial assumptions

	2014		2013	
Assumption category	**Increase/ (decrease) in future profit margins** $m	**Increase/ (decrease) in net policy liabilities** $m	Increase/ (decrease) in future profit margins $m	Increase/ (decrease) in net policy liabilities $m
Market-related changes to discount rates	**(14)**	**125**	2	(79)
Non-market-related changes to discount rates	**13**	**20**	-	-
Inflation rate	**-**	**(1)**	-	(4)
Mortality and morbidity	**211**	**62**	(472)	83
Discontinuance rates	**(102)**	**(20)**	(196)	-
Maintenance expenses	**(202)**	**38**	(24)	-
Other assumptions	**345**	**(34)**	48	-
Total	**251**	**190**	(642)	-

(f) Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as discount rate, mortality, morbidity, discontinuances and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The following table illustrates how changes in key assumptions (other than interest rates) would impact the reported profit and policy liabilities of the Group in respect of life insurance business.

		2014			
		Gross (before reinsurance)		**Net (of reinsurance)**	
Variable	**Change in variable**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**
Discount rate	1% increase in discount rate	**6**	**(91)**	**(3)**	**(78)**
Inflation rate	0.5% increase in inflation rate	**(18)**	**56**	**(13)**	**49**
Annuitant mortality	50% increase in rate of mortality improvements	**(7)**	**11**	**(7)**	**11**
Mortality	10% increase in mortality rates	**(10)**	**15**	**(8)**	**12**
Morbidity	10% increase in disability incidence rates	**(60)**	**86**	**(59)**	**84**
Morbidity	10% decrease in disability termination rates	**(175)**	**250**	**(164)**	**234**
Discontinuance rates	10% increase in discontinuance rates	**(2)**	**3**	**(2)**	**3**
Maintenance expenses	10% increase in maintenance expenses	**(8)**	**12**	**(12)**	**18**

		2013			
		Gross (before reinsurance)		Net (of reinsurance)	
Variable	Change in variable	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m
Discount rate	1% increase in discount rate	3	(76)	(12)	(54)
Inflation rate	0.5% increase in inflation rate	-	22	8	10
Annuitant mortality	50% increase in rate of mortality improvements	(11)	15	(11)	15
Mortality	10% increase in mortality rates	-	-	-	-
Morbidity	10% increase in disability incidence rates	(44)	62	(49)	70
Morbidity	10% decrease in disability termination rates	(134)	191	(126)	180
Discontinuance rates	10% increase in discontinuance rates	-	-	(1)	1
Maintenance expenses	10% increase in maintenance expenses	(3)	4	(8)	11

48 Life insurance business disclosures (continued)

(g) Terms and conditions of insurance contracts

The key terms and conditions of the life insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows are outlined below:

Type of contract	Nature of product	Key variables affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings. Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapse rates, investment earnings

(h) Other life insurance disclosures

	Group	
Sources of operating profit	**2014 $m**	2013 $m
Life insurance contracts		
Emergence of shareholder planned margins	**144**	191
Experience profit/(loss)	**(89)**	(143)
Reversal of capitalised losses/(losses recognised)	**1**	(9)
Life investment contracts		
Fees earned	**182**	146
Investment earnings on shareholder retained profits and capital	**45**	78

	Group	
Schedule of expenses	**2014 $m**	2013 $m
Outward reinsurance expense	**170**	149
Claims expense	**961**	909
Policy acquisition expense [(1)]		
Commission	**248**	240
Other	**93**	117
Policy maintenance expense [(2)]		
Commission	**249**	246
Other	**356**	325
Investment management expense	**13**	4

(1) *The Group policy acquisition expense includes $148 million (2013: $156 million) relating to life insurance contracts, of which $66 million (2013: $72 million) relates to commissions.*

(2) *The Group policy maintenance expense includes $369 million (2013: $328 million) relating to life insurance contracts.*

49 Capital adequacy

As an authorised deposit-taking institution (ADI), the Company is subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the Banking Act 1959 (Cth). APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel capital adequacy framework.

The Group's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk-weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk-weighted assets is called the Tier 1 capital ratio.

Tier 2 capital mainly comprises of subordinated debt instruments, and contributes to the overall capital framework.

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital ratio. The minimum CET1 ratio, Tier 1 capital ratio and Total Capital ratio under APRA's Basel capital adequacy Prudential Standards are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

From 1 January 2016, APRA will implement a capital conservation buffer of 2.5% of an ADI's total risk-weighted assets. In addition, for ADI's considered systemically important such as the Company, a further Domestic Systemically Important Bank (D-SIB) requirement of 1% will be added to the required capital conservation buffer.

Under APRA's Prudential Standards, life insurance and funds management entities activities are deconsolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The investment in these controlled entities is deducted 100% from CET1 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of CET1 capital to the extent they have not been remitted to the Company.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Board. The Group's CET1 ratio of 8.63% at September 2014 is consistent with the Group objective of maintaining a strong capital position. The Group's published CET1 target has been revised to operate between 8.75% and 9.25% from 1 January 2016 based on current regulatory requirements, to reflect the new D-SIB requirement of 1% announced by APRA in December 2013.

50 Events subsequent to reporting date

On 15 October 2014, an initial public offering was undertaken in respect of Great Western Bancorp, Inc., a US based subsidiary of the Group. The total offer comprised of 18.4 million shares or 31.8% of the outstanding common stock at a price of US$18 a share. Gross proceeds realised by the Group were US$331 million. A change in ownership without loss of control is treated as an equity transaction and as a result does not impact the income statement. The impact to the Group's Common Equity Tier 1 capital ratio remains subject to APRA's determination.

Other than the matter referred to above, no other matter, item, transaction or event of a material or unusual nature has arisen in the interval between end of the reporting period (30 September 2014) and the date of this report that, in the opinion of the directors, has 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.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1 (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 73 to 179 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(b) 'Statement of compliance'* 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 the Company and the Group as at 30 September 2014, and of the performance of the Company and the Group for the year ended 30 September 2014;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company 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); and

2 there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 (refer to *Note 39 'Interests in subsidiaries and other entities'* and *Note 40 'Contingent liabilities and credit commitments'* to the financial statements for further details).

Dated this 17th day of November 2014 and signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

Andrew G Thorburn
Group Chief Executive Officer

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Independent auditor's report to the members of National Australia Bank Limited

Report on the financial report

We have audited the accompanying financial report of National Australia Bank Limited (the "Company"), which comprises the balance sheets as at 30 September 2014, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the Company and the entities it controlled (the "Group") at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the Directors.

Opinion

In our opinion:

a. the financial report of National Australia Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of the Company and the Group as at 30 September 2014 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the Remuneration Report included in pages 31 to 59 of the Report of the Directors for the year ended 30 September 2014. 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.

Opinion

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

17 November 2014

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2014

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	411,246,983	17.38
JP Morgan Nominees Australia Limited	298,651,763	12.62
National Nominees Limited	230,879,401	9.76
Citicorp Nominees Pty Limited	91,459,628	3.87
BNP Paribas Nominees Pty Limited	53,039,685	2.24
Citicorp Nominees Pty Limited, Colonial First State Inv A/C	36,871,291	1.56
RBC Investor Services Australia Nominees Pty Limited, PI POOLED A/C	19,665,051	0.83
AMP Group	18,754,451	0.79
National Australia Trustees Limited	18,729,952	0.79
HSBC Custody Nominees (Australia) Limited, NT COMNWLTH Super Corp A/C	9,934,951	0.42
Australian Foundation Investment Company Limited	9,342,065	0.39
UBS Wealth Management Australia Nominees Pty Ltd	9,259,307	0.39
BNP Paribas Nominees Pty Ltd, Agency Lending DRP A/C	6,172,527	0.26
Navigator Australia Limited, MLC Investment Sett A/C	5,922,521	0.25
Argo Investments Limited	5,606,609	0.24
RBC Investor Services Australia Nominees Pty Limited, BKCUST A/C	5,180,804	0.22
Milton Corporation Limited	4,405,423	0.19
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	4,210,644	0.18
Pershing Australia Nominees Pty Limited, D2MX PTY LTD A/C	3,275,110	0.14
Questor Financial Services Limited, TPS RF A/C	3,230,803	0.14
Total	1,245,838,969	52.66

Substantial shareholders

As at 31 October 2014 there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	316,144	59.31	126,745,096	5.36
1,001 – 5,000	176,096	33.04	390,022,715	16.49
5,001 – 10,000	25,902	4.86	180,547,992	7.63
10,001 – 100,000	14,458	2.71	296,148,379	12.52
100,001 and over	410	0.08	1,372,331,111	58.00
Total	533,010	100.0	2,365,795,293	100.0
Less than marketable parcel of $500	12,143		72,975	

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 31 October 2014

	Number of securities	%
National Nominees Limited	987,041	4.94
JP Morgan Nominees Australia Limited	773,759	3.87
HSBC Custody Nominees (Australia) Limited	529,187	2.65
Navigator Australia Limited, MLC Investment Sett A/C	255,687	1.28
Citicorp Nominees Pty Limited	252,385	1.26
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	247,207	1.24
UBS Nominees Pty Limited	221,050	1.10
Lava Corporation Pty Limited, Lava Unit A/C	219,178	1.10
HSBC Custody Nominees (Australia) Limited A/C 2	209,598	1.05
UBS Wealth Management Australia Nominees Pty Limited	194,193	0.97
RBC Investor Services Australia Nominees Pty Limited, PICREDIT	186,100	0.93
Questor Financial Services Limited, TPS RF A/C	165,870	0.83
BNP Paribas Nominees Pty Limited, DRP	124,141	0.62
Sandhurst Trustees Limited, LMA A/C	116,541	0.58
Mutual Trust Pty Limited	114,128	0.57
UBS Nominees Pty Limited, TP00014 10 A/C	111,930	0.56
Australian Executor Trustees Limited, No 1 A/C	81,920	0.41
RBC Investor Services Australia Nominees Pty Limited, GSENIP A/C	74,453	0.37
Peninsula Harbour Pty Ltd, Peninsula Harbour Unit A/C	73,000	0.36
Custodial Services Limited, Beneficiaries Holding A/C	52,477	0.26
Total	4,989,845	24.95

Shareholder information

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	31,495	92.32	7,577,721	37.89
1,001 – 5,000	2,359	6.91	4,651,648	23.26
5,001 – 10,000	151	0.44	1,055,543	5.28
10,001 – 100,000	94	0.28	2,007,093	10.03
100,001 and over	16	0.05	4,707,995	23.54
Total	34,115	100.0	20,000,000	100.0
Less than marketable parcel of $500	51		204	

Voting rights

Holders of the 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 (NAB CPS) holders as at 31 October 2014

	Number of securities	%
UBS Wealth Management Australia Nominees Pty Limited	503,548	3.33
National Nominees Limited	344,767	2.28
Navigator Australia Limited, MLC Investment Sett A/C	302,727	2.00
HSBC Custody Nominees (Australia) Limited	226,308	1.49
JP Morgan Nominees Australia Limited	214,875	1.42
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	197,721	1.31
UCA Cash Management Fund Limited	195,055	1.29
Netwealth Investments Limited, Wrap Services A/C	128,532	0.84
Australian Executor Trustees Limited, No 1 A/C	114,499	0.76
Dimbulu Pty Limited	100,000	0.66
Questor Financial Services Limited, TPS RF A/C	87,190	0.58
Bond Street Custodians Limited, MPPMIM - V16636 A/C	65,813	0.43
Citicorp Nominees Pty Limited, DPSL	64,815	0.42
Citicorp Nominees Pty Limited	62,760	0.41
Netwealth Investments Limited, Super Services A/C	62,130	0.41
Sneath & King Pty Limited, Bridget King Exec B/P A/C	52,330	0.35
Randazzo C & G Developments Pty Limited	50,000	0.33
Servcorp Holdings Pty Limited	50,000	0.33
Zashvin Pty Limited	50,000	0.33
The Walter and Eliza Hall Institute of Medical Research	45,000	0.30
Total	2,918,070	19.27

Distribution of NAB CPS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,775	91.37	6,762,788	44.66
1,001 – 5,000	1,700	7.86	3,692,678	24.38
5,001 – 10,000	104	0.48	838,191	5.54
10,001 – 100,000	54	0.25	1,621,585	10.71
100,001 and over	9	0.04	2,228,032	14.71
Total	21,642	100.0	15,143,274	100.0
Less than marketable parcel of $500	7		15	

Voting rights

Holders of the NAB CPS 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 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.

Shareholder information

Twenty largest registered NAB Convertible Preference Shares II (NAB CPS II) holders as at 31 October 2014

	Number of securities	%
UBS Wealth Management Australia Nominees Pty Limited	1,447,105	8.43
Navigator Australia Limited, MLC Investment Sett A/C	341,623	1.99
National Nominees Limited	316,079	1.84
Longhurst Management Services Pty Limited	210,000	1.22
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	209,531	1.22
Netwealth Investments Limited, Wrap Services A/C	168,875	0.98
UCA Cash Management Fund Limited	160,000	0.93
JP Morgan Nominees Australia Limited	144,211	0.84
HSBC Custody Nominees (Australia) Limited	133,439	0.78
Tandom Pty Limited	100,000	0.58
Questor Financial Services Limited, TPS RF A/C	87,026	0.51
Citicorp Nominees Pty Limited	86,060	0.50
S&C Holdings (Australia) Pty Limited, SC & WW Family A/C	76,748	0.45
Netwealth Investments Limited, Super Services A/C	67,699	0.39
HSBC Custody Nominees (Australia) Limited, A/C 2	61,822	0.36
Pershing Australia Nominees Pty Limited, Implemented Porfolios A/C	58,610	0.34
RBC Investor Services Australia Nominees Pty Limited, Multiport A/C	50,041	0.29
Dimbulu Pty Limited	50,000	0.29
Eastcote Pty Limited, Van Lieshout Family A/C	50,000	0.29
John E Gill Trading Pty Limited	47,033	0.28
Total	3,865,902	22.51

Distribution of NAB CPS II holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,851	90.34	6,777,600	39.47
1,001 – 5,000	1,897	8.63	4,126,083	24.03
5,001 – 10,000	129	0.59	964,596	5.62
10,001 – 100,000	88	0.40	2,172,788	12.65
100,001 and over	9	0.04	3,130,863	18.23
Total	21,974	100.0	17,171,930	100.0
Less than marketable parcel of $500	4		14	

Voting rights

Holders of the 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.

Shareholder information

Chairman
Mr Michael A Chaney
AO, BSc, MBA, Hon. LLD *W. Aust*, FAICD

Group Chief Executive Officer and Managing Director
Mr Andrew G Thorburn
BCom, MBA

Group Executive, Finance and Strategy
Mr Craig M Drummond
BCom, CA, SF Fin

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Company Secretary
Mrs Louise Thomson
BBus (Distinction), CA

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Corporate Responsibility
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Shareholders' centre website
The Group's website at www.nabgroup.com/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.

Shareholders' centre 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).

Contact details
These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

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Email: nabgroup@computershare.co.uk
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United States ADR depositary, Transfer agent and registrar

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Direct Dial: +1 718 921 8137
Email: DB@amstock.com

Contact details for NAB ADR brokers & institutional investors:
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Shareholder information

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 (CPS) and NAB CPS II, NAB Subordinated Notes, covered bonds and residential mortgage backed securities which are quoted on the ASX;
- Trust Preferred Securities, National Capital Instruments, Perpetual Capital Notes, medium-term notes, subordinated bonds and covered bonds which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities II, medium-term notes, subordinated debentures and subordinated notes which are quoted on the Channel Islands Securities Exchange;
- Undated subordinated floating rate notes, mortgage backed securities and covered bonds which are quoted on the London Stock Exchange; and
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.

Glossary

Term Used	Description
AASB	Australian Accounting Standards Board.
ADR	American depositary receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
Australian Banking	Australian Banking offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia's largest institutions. Australian Banking comprises Retail and Business Banking franchises, Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposit, lending and other banking services in Australian Banking, UK Banking, NAB UK Commercial Real Estate, NZ Banking, NAB Wealth; - Global Capital Markets and Treasury, Specialised Finance, Financial Institutions business within Products & Markets division of Australian Banking; and - Specialised Group Assets (SGA) operations, Group Funding and Great Western Bank within Corporate Functions and Other.
Banking Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BBSW	Bank bill swap rate.
BNZ	Bank of New Zealand.
Cash earnings	Cash earnings is defined as net profit attributable to owners of the Company, adjusted for the items the Company considers appropriate to better reflect the underlying performance of the Group. In September 2014 cash earnings has been adjusted for the following: - Distributions - Treasury shares - Fair value and hedge ineffectiveness - DAC discount rate variation - Amortisation of acquired intangible assets.
Cash return on equity (Cash ROE)	Calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
CGU	Cash generating unit.
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as 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 common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.
Conduit	Special Purpose Entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
Convertible Preference Share (CPS)	A preferred share that a shareholder may exchange, at any time after a waiting period, for a common share in the company.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and investments held to maturity.
Corporate Functions and Other	Corporate Functions and Other includes functions that support all businesses including Group Funding, Other Corporate Functions activities and the results of Specialised Group Assets and Great Western Bank. Group Funding acts as the central vehicle for movements of capital and structural funding to support the Group's operations, together with capital and balance sheet management. Other Corporate Functions activities include Enterprise Services and Transformation, Australian Investment Committee and Support Units (which include Office of the CEO, Risk, Finance and Strategy and People, Communications and Governance).
Customer deposits	Deposits (Interest Bearing, Non-Interest Bearing and Term Deposits).
Deferred Acquisition Cost (DAC) discount	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities, resulting from a movement in the inflation adjusted risk-free discount rate.
Distributions	Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.
EaR	Earnings at risk.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FATCA	The Foreign Account Tax Compliance Act (FATCA) is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the United States, and requires foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients.

Glossary

FCA	United Kingdom Financial Conduct Authority.
FUM	Funds Under Management.
FSA	United Kingdom Financial Services Authority. Effective from 1 April 2013, the FSA has been abolished and replaced with two successor organisations. The Prudential Regulation Authority (PRA) will ensure the stability of financial services firms and the Financial Conduct Authority (FCA) will provide oversight and regulate conduct in the financial services industry.
GDP	Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.
Group	The Company and its controlled entities.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Investment earnings on Retained Earnings (IoRE)	Investment earnings (gross of tax) on shareholders' retained earnings, comprising investment earnings on surplus assets which are held in the Statutory funds to meet capital adequacy requirements under the *Life Insurance Act 1995* (Cth).
Investments - AFS	Investments - available for sale.
Investments - HTM	Investments - held to maturity.
LPS	Prudential Standards issued by APRA applicable to life companies.
NAB	The Company.
NAB UK Commercial Real Estate (NAB UK CRE)	NAB UK CRE was created on 5 October 2012 following the transfer of certain commercial real estate loan assets from Clydesdale Bank plc to the Company. These loan assets are managed by the NAB London Branch.
NAB Wealth	NAB Wealth provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of financial advisers in Australia.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group.
Net profit attributable to owners of the Company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Non-impaired assets 90+ days past due	Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
NZ Banking	NZ Banking comprises the Retail, Business, Agribusiness, Corporate & Institutional and Insurance franchises in New Zealand, operating under the 'BNZ' brand. It excludes BNZ's markets operations which form part of Australian Banking.
NZDX	New Zealand Debt Market.
PRA	United Kingdom Prudential Regulation Authority.
Risk-weighted assets (RWA)	A quantitative measure of the Group's 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.
SCDO	Synthetic Collateralised Debt Obligation.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
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.
Statutory funds	A Statutory Fund is a fund that: - is established in the records of a life company; and - relates solely to the life insurance business of the Company or a particular part of that business.
Tier 1 Capital	Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the characteristics outlined under APRA's prudential framework. It provides a permanent and unrestricted commitment of funds, are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' securities over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares in the Company held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's life insurance business are eliminated for statutory reporting purposes.
UK Banking	UK Banking operates under the 'Clydesdale Bank' and 'Yorkshire Bank' brands offering a range of banking services for both personal and business customers. These services are delivered through a network of retail branches, business and private banking centres, direct banking and broker channels.
VaR	Value at risk.
Weighted average number of ordinary shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share'.

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The full Paper Impact Statement can be viewed at: **www.nabgroup.com**

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