National Australia Bank

HALF YEAR RESULTS 2020

Incorporating the requirements of Appendix 4D

The half year results announcement incorporates the half year report given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A.

The half year consolidated report is to be read in conjunction with the Annual Financial Report 2019.

National Australia Bank Limited ABN 12 004 044 937

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Results for Announcement to the Market

Report for the half year ended 31 March 2020

					31 March 2020 $m
Revenue from ordinary activities[1]	down	2.7%	*	to	8,920
Net profit after tax from ordinary activities attributable to owners of NAB	down	51.3%	*	to	1,313
Net profit attributable to owners of NAB	down	51.3%	*	to	1,313

** On prior corresponding period (six months ended 31 March 2019).*

Dividends	**Amount per share cents**	**Franked amount per share %**
Interim dividend	30	100
Ex-dividend date for interim dividend		1 May 2020
Record date for determining entitlements to the interim dividend		4 May 2020

A Glossary of Terms is included in Section 5.

A reference in this Appendix 4D to the 'Group' is a reference to NAB and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the March 2020 half year are references to the six months ended 31 March 2020. Other six month periods are referred to in a corresponding manner. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth), are included in Section 3. See page 104 for a complete index of ASX Appendix 4D requirements.

(1) *Required to be disclosed by ASX Listing Rule Appendix 4D. Reported as the sum of the following from the Group's consolidated income statement: Net interest income $6,889 million and total other income $2,031 million. On a cash earnings basis revenue decreased by 3.4%. Refer to information on cash earnings on page 2 of Section 1 of the 2020 Half Year Results Announcement.*

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Half Year Results
2020

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2020 HALF YEAR RESULTS SUMMARY

National Australia Bank

1H20 KEY FINANCIAL INFORMATION

$1,313M
Statutory net profit

$1,436M
Cash earnings[1]
Down 51.4% v 1H19

$2,471m cash earnings ex large notable items of $1,035m
Down 24.6% v 1H19[2]

30CPS
Interim dividend
100% franked

10.39%
Group Common Equity Tier 1 (CET1) ratio

"We are taking decisive action to manage the rapid and unprecedented upheaval caused by COVID-19 while at the same time being clear about our long term strategy for NAB.

Our priority has been supporting our customers and colleagues with a range of measures to help deal with the impacts of the crisis. Together with significant relief provided by governments and regulators, these actions bolster the resilience of our customers, our bank and the economy to adapt during this difficult period and to recover as quickly as possible.

Our 1H20 result has been materially impacted by the COVID-19 pandemic, with cash earnings (ex large notable items) declining 24.6% relative to 1H19, driven by higher credit impairment charges and mark-to-market losses on our high quality liquids portfolio[3] within Markets and Treasury.

We entered this challenging period in a robust position, with capital, funding and liquidity significantly strengthened over recent years. However, given the uncertain outlook, we have taken proactive steps to further strengthen our balance sheet. Collective provisions now include $2,135 million of forward looking adjustments for anticipated stress in targeted sectors and across the broader economy, and capital is being bolstered via a capital raising and a reduced interim dividend.

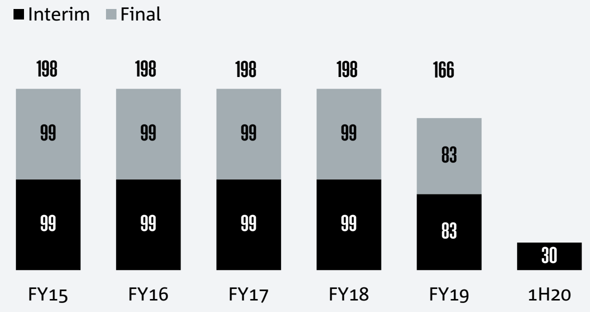
During this period, we have also refreshed our longer term strategic focus. The need for improved accountability and reduced complexity is clear. We are implementing a new structure with end-to-end responsibilities, and are focusing resources on delivering simpler, more streamlined products and processes. This will go a long way towards better enabling our colleagues and consistently getting basics right for customers."

ROSS MCEWAN – NAB CEO

SHAREHOLDER OUTCOMES

DIVIDENDS (CPS)

In respect of each financial year / period



SUPPORTING CUSTOMERS & THE COMMUNITY IN 1H20

- Approved more than 70k home loan and 34k business loan requests from customers to defer repayments
- 811 colleagues reassigned to our front line, call centres and operations teams to manage unprecedented demand
- NAB Business Support Loan provides up to $250,000 unsecured lending for 3 years to help businesses impacted by COVID-19, with no repayments for 6 months and a reduced variable rate of 4.5% pa
- Strategic Net Promoter Score (NPS) for March 2020 up 3 points over the year to -18, with NAB ranked first of the major banks[4]

[1] Refer cash earnings note and reconciliation on page 6.
[2] Cash earnings large notable items after tax: customer-related remediation $293m in 1H20, $325m in 1H19; capitalised software policy change $742m in 1H20.
[3] This portfolio contains Australian semi-government and Commonwealth government securities and securities issued by foreign sovereigns, and assets eligible for the committed liquidity facility (CLF) as defined in APS 210 Liquidity.
[4] Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Sourced from DBM Consultants BFSM and Consumer Atlas, measured on 6 month rolling average. Definition has been updated to give all customers in the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer and Business segment results using a 50% weighting for each. History has been restated.

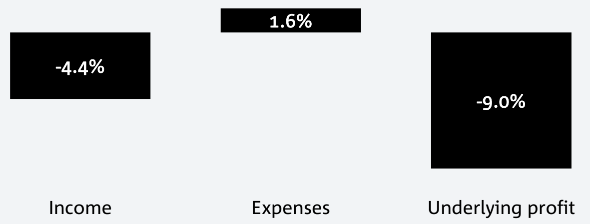
The March 2020 half year results are compared with the March 2019 half year results for continuing operations unless otherwise stated. Operating Performance and Asset Quality are expressed on a cash earnings basis.

OPERATING PERFORMANCE 1H20 V 1H19

- Revenue declined 3.4%. Excluding customer-related remediation, revenue fell 4.4% mainly reflecting mark-to-market losses on the high quality liquids portfolio[3] within Markets and Treasury.
- Net Interest Margin (NIM) declined 1 basis point (bp) to 1.78%, but was flat excluding Markets and Treasury. This reflects repricing in the home lending portfolio offset by a lower earnings rate on deposits and capital given the impact of a low interest rate environment, combined with competitive pressures.
- Expenses rose 28.1%. Excluding large notable items[5], expenses increased 1.6% with higher investment spend and restructuring-related costs partly offset by productivity benefits and lower performance-based compensation.

1H20 V 1H19 DRIVERS OF CASH EARNINGS CHANGE

(ex large notable items[5])

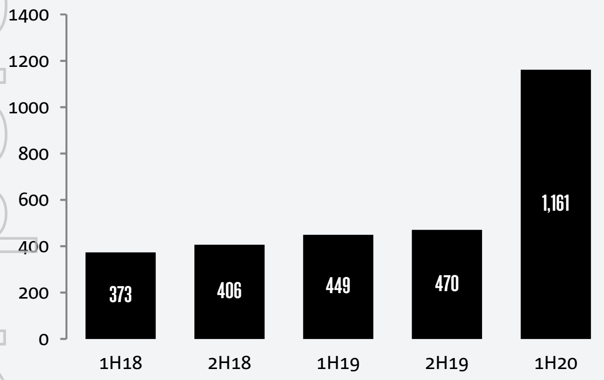


"While challenging, we continue to target broadly flat expenses over FY20, excluding large notable items[6]."

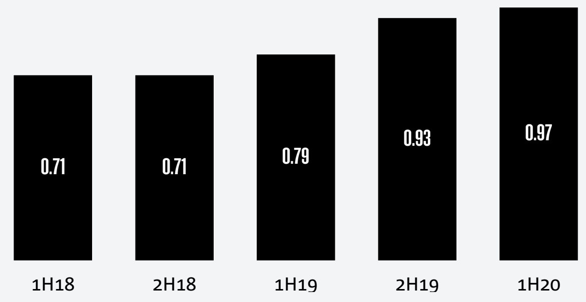
ASSET QUALITY 1H20 V 1H19

- Credit impairment charges increased 158.6% to $1,161 million, and as a percentage of gross loans and acceptances rose 23bps to 38bps.
- 1H20 charges include $828 million of additional collective provision forward looking adjustments, of which $807 million is a top-up to the economic adjustment (EA) to reflect potential COVID-19 impacts.
- The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased 18bps to 0.97%, largely due to increased delinquencies across the Australian mortgage portfolio.
- Customers receiving payment deferrals will be treated as performing in accordance with APRA guidance.

CREDIT IMPAIRMENT CHARGES ($ MILLIONS)



90+ DAYS PAST DUE & GROSS IMPAIRED ASSETS/GROSS LOANS AND ACCEPTANCES (%)

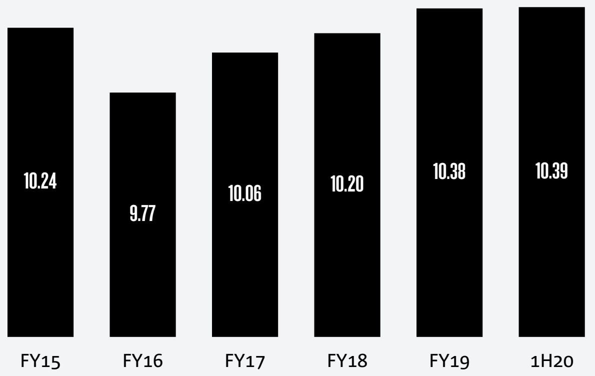


"Underlying asset quality remains sound but the outlook is uncertain given economic disruption arising from COVID-19. To allow for this, 1H20 collective provisions include an additional forward looking economic adjustment of $807 million for potential COVID-19 impacts."

[5] Revenue excludes customer-related remediation $242m in 1H20, $344m in 1H19. Expenses excludes customer-related remediation $176m in 1H20, $120m in 1H19; capitalised software policy change $1,056m in 1H20. Underlying profit represents cash earnings before credit impairment charges, income tax and distributions. Refer note on cash earnings and reconciliation on page 6.
[6] Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

CAPITAL, FUNDING & LIQUIDITY

CET1 RATIO (%)



KEY RATIOS AS AT 31 MARCH 2020

- Group Common Equity Tier 1 (CET1) ratio of 10.39%, up 1 bp on September 2019
- Includes 35bps from conversion of NAB Capital Notes into ordinary shares in March (18bps) and proceeds of 2H19 Dividend Reinvestment Plan underwrite (17bps)
- CET1 ratio reduced by FX translation and mark-to-market losses on high quality liquids portfolio (21bps) and by EA top-up (19bps)
- Proforma CET1 ratio of 11.20% reflecting institutional placement and share purchase plan to raise approximately $3.5 billion
- Leverage ratio (APRA basis) of 5.2%
- Liquidity coverage ratio (LCR) quarterly average of 136%
- Net Stable Funding Ratio (NSFR) of 116%

KEY DIVISIONAL PERFORMANCE – CASH EARNINGS

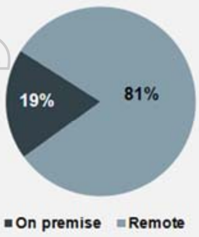
	1H20 ($M)	% CHANGE 1H20 V 1H19	KEY DRIVERS 1H20 V 1H19
Business & Private Banking[7]	1,378	(5.7)	Earnings reduced with lower fee income and a lower earnings rate on deposits and capital given the low interest rate environment. Costs were also higher due to investment spend partly offset by productivity benefits.
Consumer Banking[7]	699	26.4	Higher earnings with revenue benefitting from repricing and lower funding costs in the housing lending portfolio, partly offset by continued competitive pressures. Credit impairment charges declined due to the impact of house prices movements.
Corporate & Institutional Banking[7]	701	(10.2)	Reduced earnings reflect materially lower Markets income given mark-to-market impacts on the derivative valuation adjustment and high quality liquids portfolio, combined with a lower earnings rate on deposits and capital, and competitive pressures impacting business lending margins. This was partly offset by higher lending volumes and lower credit impairment charges.
New Zealand Banking[7] (NZ$M)	562	5.6	Higher earnings due to growth in lending and lower operating expenses benefitting from productivity, partly offset by a lower earnings rate on deposits and capital.

[7] Excludes large notable items and collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, which are included in Corporate Functions and Other.

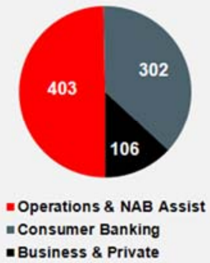
SUPPORTING OUR COLLEAGUES AND CUSTOMERS

OUR COLLEAGUES[1]

81% working remotely (> 32,000 Group headcount)



811 front line reassignments[2]



- >1,250 customer-facing business colleagues have attended webinars on supportive customer conversations, and personal health and well-being
- >350 retail colleagues trained in Learning Hubs (temporarily closed branches) to support customers using different channels – e.g. online chat and customer calls
- Up to 10 business days pandemic leave available to all NAB colleagues

OUR CUSTOMERS[1]

>1.5m Visits to our COVID-19 online support sites

>650k Inbound calls taken from business and consumer customers

REPAYMENT DEFERRALS[2] AT 17 APRIL 2020	APPROVED TO DATE	$ BALANCES
Home loans[3]	>70k	$26.5bn
Business loans[4]	>34k	$17.4bn

>1.5k NAB Business Support Loans approved (>$150m) with NAB participating in the Government's SME guarantee scheme

>1.7m Credit Card & Personal Loan accounts[2] Offered reduction in minimum monthly repayment amount, late payment fee waiver and reduced credit card interest rate

1. All figures at 17 April 2020, includes BNZ unless otherwise stated
2. Excludes BNZ
3. Excludes NAB branded Interest Only home loans (Advantedge included) – temporarily unavailable due to automation of capture process
4. B&PB and NAB Corporate business accounts, including products such as leases. Customers may have a number of accounts.

ECONOMIC OUTLOOK

"Measures to contain the spread of COVID-19 have had a sudden and materially negative impact on economic activity. Various support packages are expected to cushion the blow to output and employment, but are unlikely to fully offset the downturn in the near term. They also provide significant support in the recovery phase, but the timing and pace of the recovery remains highly uncertain. For Australia, we expect GDP to decline 8.4% by September 2020 compared to December 2019 and not return to pre COVID-19 levels until early 2022, while unemployment is expected to peak at 11.7% in mid-2020 before partially recovering to 7.3% by December 2021."

OVERVIEW[8]

Our immediate focus during the COVID-19 crisis has been on supporting our customers and colleagues, while remaining safe and secure. We moved rapidly to mobilise our people to work from home, launch customer support packages and enable our frontline to respond. Our ability to deliver this reflects strong foundations laid over recent years to lift our technology, digital and procurement capabilities, and the quality and adaptability of our people.

While measures put in place to support customers are significant and soften the impact of this crisis in the near term, there is much uncertainty as to how long this period of dislocation will last and the outlook for recovery. Necessary interventions to contain the spread of COVID-19 are having wide ranging impacts across the Australian and New Zealand economies, with sectors such as airlines, retail trade, hospitality and commercial real estate severely impacted. Our expectations are for a recession and much higher unemployment over 2020 and into 2021.

Given the uncertain outlook, we are taking proactive steps to further strengthen our balance sheet. These actions are intended to provide us with sufficient capacity to continue supporting our customers through the challenging times ahead, as well as assist to manage through a range of possible scenarios, including a prolonged and severe economic downturn. We have increased collective provisions for forward looking economic and targeted sector adjustments by $828 million to $2,135 million. We are also bolstering our capital base, today announcing a fully underwritten institutional placement of $3 billion and non-underwritten share purchase plan targeted to raise approximately $500 million, increasing our proforma CET1 ratio to 11.20%. The difficult decision to reduce our interim dividend by 64% to 30 cents per share is equivalent to a further $1.6 billion or 37bps of CET1.

The Board and senior management acknowledge the need to share the pain felt by our customers, shareholders and more broadly. The Chairman Philip Chronican and the other Directors will each forego 20% of their base fees for 2H20. Group CEO Ross McEwan will forego 20% of his fixed remuneration for 2H20, and Mr McEwan and members of NAB's executive leadership team (ELT) will forego short-term variable rewards for FY20.

During this period, we have not lost sight of the need to plan for the future. We have refreshed our long term strategy and are clear how we will deliver it. Our ambition is to serve our customers well and help our communities prosper. To achieve this, we need to invest in our customers and colleagues, and will focus on four key areas:

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

We start from a solid position but opportunities exist for improvement. NAB has a good portfolio of core businesses, with real strengths in relationship banking particularly in the appealing SME banking sector. Work over recent years has made inroads into removing complexity, uplifting digital capability and establishing strong foundations in technology. But we need to go further to provide simpler, easier, faster and more consistent outcomes for customers and colleagues, while remaining safe and resilient, and better leveraging relationship banking strengths.

Action is already underway on a number of fronts. A key near term focus will be further streamlining of our products and processes, particularly in home and business lending, which should also support a smoother transition to digitisation over the medium term. In technology we are continuing to migrate IT applications to lower cost cloud platforms and have a medium term focus on standardising and simplifying our architecture to reduce the number of core systems and provide more consistent outcomes for customers and colleagues. We are also accelerating the operational separation of MLC Wealth as a priority, with good momentum underway to ensure this business is well positioned on a standalone basis for divestment.

Execution will underpin our success. This starts by focusing attention on what matters most to our colleagues and customers, and directing energy and resources there. We have reduced the number of key investment projects across the Group by two thirds, with a small number identified as critically important and receiving CEO oversight. Ownership and accountability for outcomes and executing these changes will be clear. To enable this, we are implementing a new organisational structure with five end-to-end banking businesses designed around customers – Personal, Business & Private, Corporate & Institutional, Bank of New Zealand and UBank. These customer divisions will be responsible for all product, customer experience and operations relating to their customers. They are supported by enabling units delivering common activities at-scale across the Group including Technology and Risk.

As a result of this new organisational structure and recently announced departures, we are today announcing some changes to NAB's ELT. The former Customer Experience division headed by Rachel Slade will no longer exist and Rachel has been appointed Group Executive Personal Banking. In addition, Nathan Goonan has been appointed as Group Executive Strategy & Innovation. The search for a new head of Business & Private Banking is underway.

Over time, a simpler, more streamlined business with clear accountability is expected to be more productive and efficient, enabling better customer outcomes and more engaged colleagues[8].

NAB has a proud history of supporting customers in difficult times. Through this crisis, we are stepping up again to continue this tradition. As in the past, we know our behaviours and actions during this time will have meaningful impacts on our future and that of our customers and the economy, and we have taken deliberate and decisive action to ensure we are positioned well for this challenge and beyond.

[8] Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

GROUP PERFORMANCE RESULTS

Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. The 2020 Half Year Results Announcement provides details of how cash earnings is defined on page 2 and a discussion of non-cash earnings items and full reconciliation of statutory net profit attributable to owners of NAB on pages 99 to 102.

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Net interest income[9]	**6,908**	6,838	6,776	1.0	1.9
Other operating income[9]	**1,907**	2,372	2,442	(19.6)	(21.9)
Customer-related remediation[10]	**(242)**	(863)	(344)	(72.0)	(29.7)
Net operating income	**8,573**	8,347	8,874	2.7	(3.4)
Operating expenses[11]	**(4,118)**	(4,100)	(4,055)	0.4	1.6
Customer-related remediation[10]	**(176)**	(244)	(120)	(27.9)	46.7
Capitalised software policy change[10]	**(1,056)**	(494)	-	large	large
Underlying profit	**3,223**	3,509	4,699	(8.2)	(31.4)
Credit impairment charge	**(1,161)**	(470)	(449)	large	large
Cash earnings before tax and distributions	**2,062**	3,039	4,250	(32.1)	(51.5)
Income tax expense	**(604)**	(865)	(1,244)	(30.2)	(51.4)
Cash earnings before distributions	**1,458**	2,174	3,006	(32.9)	(51.5)
Distributions	**(22)**	(31)	(52)	(29.0)	(57.7)
Cash earnings	**1,436**	2,143	2,954	(33.0)	(51.4)
Cash earnings (excluding large notable items)[10]	***2,471***	*3,266*	*3,279*	*(24.3)*	*(24.6)*
Non-cash earnings items (after tax)	**(228)**	40	(50)	large	large
Net profit from continuing operations	**1,208**	2,183	2,904	(44.7)	(58.4)
Net profit/loss after tax from discontinued operations[12]	**105**	(79)	(210)	large	large
Net profit attributable to owners of NAB	**1,313**	2,104	2,694	(37.6)	(51.3)
Represented by:					
Business and Private Banking	**1,378**	1,378	1,462	-	(5.7)
Consumer Banking	**699**	657	553	6.4	26.4
Corporate and Institutional Banking	**701**	727	781	(3.6)	(10.2)
New Zealand Banking	**535**	494	503	8.3	6.4
Corporate Functions and Other[13]	**(884)**	(75)	(98)	large	large
MLC Wealth	**42**	85	78	(50.6)	(46.2)
Customer-related remediation	**(293)**	(775)	(325)	(62.2)	(9.8)
Capitalised software policy change	**(742)**	(348)	-	large	large
Cash earnings	**1,436**	2,143	2,954	(33.0)	(51.4)

SHAREHOLDER SUMMARY

	Half Year to				
	Mar 20	Sep 19	Mar 19	Mar 20 v Sep 19	Mar 20 v Mar 19
Group					
Dividend per share (cents)	**30**	83	83	(53)	(53)
Dividend payout ratio	**61.0%**	109.9%	77.4%	large	large
Statutory earnings per share (cents) – basic	**44.2**	73.0	95.9	(28.8)	(51.7)
Statutory earnings per share (cents) – diluted	**42.6**	71.8	92.1	(29.2)	(49.5)
Statutory earnings per share from continuing operations (cents) – basic	**40.6**	75.8	103.5	(35.2)	(62.9)
Statutory earnings per share from continuing operations (cents) – diluted	**39.5**	74.4	99.1	(34.9)	(59.6)
Cash earnings per share (cents) – basic	**49.2**	75.5	107.2	(26.3)	(58.0)
Cash earnings per share (cents) – diluted	**47.0**	74.1	102.5	(27.1)	(55.5)
Statutory return on equity	**4.7%**	7.8%	10.5%	(310 bps)	(580 bps)
Cash return on equity (ROE)	**5.3%**	8.1%	11.7%	(280 bps)	(640 bps)
Group (excluding large notable items)[9]					
Dividend payout ratio	**35.4%**	72.1%	69.7%	large	large
Statutory earnings per share (cents) – basic	**76.1**	114.6	114.9	(38.5)	(38.8)
Statutory earnings per share (cents) – diluted	**70.8**	110.3	109.6	(39.5)	(38.8)
Statutory earnings per share from continuing operations (cents) – basic	**76.1**	115.4	115.3	(39.3)	(39.2)
Statutory earnings per share from continuing operations (cents) – diluted	**70.8**	111.0	109.9	(40.2)	(39.1)
Cash earnings per share (cents) – basic	**84.7**	115.1	119.0	(30.4)	(34.3)
Cash earnings per share (cents) – diluted	**78.3**	110.7	113.3	(32.4)	(35.0)
Statutory return on equity	**8.1%**	12.3%	12.6%	(420 bps)	(450 bps)
Cash return on equity (ROE)	**9.0%**	12.3%	13.0%	(330 bps)	(400 bps)

[9] Excludes customer-related remediation.
[10] Refer to NAB's 2020 Half Year Results Announcement Section 2 Large notable items for further information.
[11] Excludes large notable items customer-related remediation and capitalised software policy change.
[12] Refer to NAB's 2020 Half Year Announcement Note 14 Discontinued Operations for further information.
[13] Includes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. Excludes large notable items customer-related remediation and capitalised software policy change.

FOR FURTHER INFORMATION

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DISCLAIMER – FORWARD LOOKING STATEMENTS

This Results Summary and the 2020 Half Year Results Announcement contain statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. You are cautioned not to place undue reliance on such forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

This Results Summary and the 2020 Half Year Results Announcement describe certain initiatives relating to the Group's strategic agenda ("Program"), including certain forward looking statements. These statements are subject to a number of risks, assumptions and qualifications, including: (1) the Group's ability to execute productivity initiatives and realise operational synergies, cost savings and revenue benefits in accordance with the Program plan (including, in relation to CTI and ROE targets, the extension of improvements beyond the current Program plan); (2) the Group's ability to meet its internal net FTE reduction targets; (3) the Group's ability to recruit and retain FTE and contractors with the requisite skills and experience to deliver Program initiatives; (4) there being no significant change in the Group's financial performance or operating environment, including the economic conditions in Australia and New Zealand, changes to financial markets and the Group's ability to raise funding and the cost of such funding, increased competition, changes in interest rates and changes in customer behaviour; (5) there being no material change to law or regulation or changes to regulatory policy or interpretation, including relating to the capital and liquidity requirements of the Group; (6) for the purpose of calculating FTE cost savings and redundancy costs, the Group has assumed an average FTE cost based on Group-wide averages, and such costs are not calculated by reference to specific productivity initiatives or individual employee entitlements; and (7) NAB's proposed divestment of its wealth management businesses (excluding JBWere and nabtrade) may have an impact on the timing, scope and cost of the Program, however the impact cannot be quantified at this time.

There are a number of other important factors that could cause actual results to differ materially from those projected in such Statements, including (without limitation) the risks and uncertainties associated with the ongoing impacts of the COVID-19 pandemic, the Australian and global economic environment and capital market conditions. Further information is contained in the Group's Luxembourg Transparency Law disclosures released to the ASX on 27 April 2020 and the Group's Annual Financial Report for the 2019 financial year, which is available at www.nab.com.au.

NO OFFER

This Results Summary and the 2020 Half Year Results Announcement do not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States or any other jurisdiction in which such an offer would be illegal. The securities referred to in this Results Summary and the 2020 Half Year Results Announcement have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the U.S. Securities Act), or the securities laws of any state or other jurisdiction of the United States. Accordingly, the securities referred to in this Results Summary and the 2020 Half Year Results Announcement may not be offered or sold, directly or indirectly, in the United States unless the securities have been registered under the U.S. Securities Act (which NAB is under no obligation to do) or are offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable securities laws of any state or other jurisdiction of the United States.

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Section 1

Group Review

Information about Cash Earnings and other Non-IFRS Measures

This section provides information about cash earnings, a key performance measure used by NAB, including information on how cash earnings is calculated and a reconciliation of cash earnings to statutory net profit. It also provides information about certain other key non-IFRS measures used by NAB disclosed in this document.

Non-IFRS Key Financial Performance Measures used by the Group

Certain financial measures detailed in this Results Announcement are not accounting measures within the scope of IFRS. Management review these financial metrics in order to measure the Group's overall financial performance and position and believe the presentation of these industry standard financial measures provide useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. The Group regularly reviews the non-IFRS measures included in its reporting documents to ensure that only relevant financial measures are incorporated. Further information in relation to these financial measures is set out below and in the Glossary.

Explanation and Definition of Cash Earnings

Cash earnings is a non-IFRS key financial performance measure used by NAB, the investment community and NAB's Australian peers with similar business portfolios. NAB also uses cash earnings for its internal management reporting as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is calculated by excluding discontinued operations and certain other non-cash items which are included within the statutory net profit attributable to owners of NAB. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a cash flow statement. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards and is not audited or reviewed in accordance with Australian Auditing Standards.

The Group Results are presented on a cash earnings basis unless otherwise stated.

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the March 2020 half year has been adjusted for the following:

- distributions
- fair value and hedge ineffectiveness
- amortisation and impairment of acquired intangible assets
- MLC Wealth divestment separation costs.

Reconciliation to Statutory Net Profit

Section 3 of the 2020 Half Year Results Announcement contains the Group's income statement, including statutory net profit. The statutory net profit for the period is the sum of both net profit / (loss) from continuing operations and discontinued operations. Further details are set out in *Note 14 Discontinued operations* on page 81. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in the financial report section of the 2020 Half Year Results Announcement.

A reconciliation of cash earnings to statutory net profit is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in Section 4 Supplementary information on pages 100-102.

Page 99 contains a description of non-cash earnings items for the March 2020 half year.

Average Balances

Average balances, including average equity (adjusted), total average assets and average interest earning assets are based on daily statutory average balances derived from internally generated trial balances from the Group's general ledger. This methodology produces numbers that more accurately reflect seasonality, timing of accruals (such as dividends) and restructures (including discontinued operations), which would otherwise not be reflected in a simple average.

Group Performance Results

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income[(1)]	**6,908**	6,838	6,776	1.0	1.9
Other operating income[(1)]	**1,907**	2,372	2,442	(19.6)	(21.9)
Customer-related remediation[(2)]	**(242)**	(863)	(344)	(72.0)	(29.7)
Net operating income	**8,573**	8,347	8,874	2.7	(3.4)
Operating expenses[(3)]	**(4,118)**	(4,100)	(4,055)	0.4	1.6
Customer-related remediation[(2)]	**(176)**	(244)	(120)	(27.9)	46.7
Capitalised software policy change[(2)]	**(1,056)**	(494)	-	large	large
Underlying profit	**3,223**	3,509	4,699	(8.2)	(31.4)
Credit impairment charge[(4)]	**(1,161)**	(470)	(449)	large	large
Cash earnings before tax and distributions	**2,062**	3,039	4,250	(32.1)	(51.5)
Income tax expense	**(604)**	(865)	(1,244)	(30.2)	(51.4)
Cash earnings before distributions	**1,458**	2,174	3,006	(32.9)	(51.5)
Distributions	**(22)**	(31)	(52)	(29.0)	(57.7)
Cash earnings	**1,436**	2,143	2,954	(33.0)	(51.4)
Cash earnings (*excluding large notable items*)[(2)]	**2,471**	3,266	3,279	(24.3)	(24.6)
Non-cash earnings items (after tax):					
Distributions	**22**	31	52	(29.0)	(57.7)
Fair value and hedge ineffectiveness	**8**	46	(69)	(82.6)	large
Amortisation and impairment of acquired intangible assets	**(221)**	(4)	(14)	large	large
MLC Wealth divestment separation costs	**(37)**	(33)	(19)	12.1	94.7
Net profit from continuing operations	**1,208**	2,183	2,904	(44.7)	(58.4)
Net profit / (loss) after tax from discontinued operations	**105**	(79)	(210)	large	large
Net profit attributable to owners of NAB	**1,313**	2,104	2,694	(37.6)	(51.3)
Represented by:					
Business and Private Banking	**1,378**	1,378	1,462	-	(5.7)
Consumer Banking	**699**	657	553	6.4	26.4
Corporate and Institutional Banking	**701**	727	781	(3.6)	(10.2)
New Zealand Banking	**535**	494	503	8.3	6.4
Corporate Functions and Other[(5)]	**(884)**	(75)	(98)	large	large
MLC Wealth	**42**	85	78	(50.6)	(46.2)
Customer-related remediation[(2)]	**(293)**	(775)	(325)	(62.2)	(9.8)
Capitalised software policy change[(2)]	**(742)**	(348)	-	large	large
Cash earnings	**1,436**	2,143	2,954	(33.0)	(51.4)

(1) *Excludes customer-related remediation.*
(2) *Refer to Section 1 Large notable items for further information.*
(3) *Excludes large notable items.*
(4) *Includes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. See Section 3, Note 8 Provision for credit impairment on loans at amortised cost for further information regarding the key estimates and assumptions underlying the credit impairment charge on loans.*
(5) *Includes an increase of $807 million in credit impairment charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, and excludes large notable items.*

Group Performance Results (continued)

Large Notable Items[1]

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income					
Customer-related remediation	**(22)**	(30)	(42)	(26.7)	(47.6)
Other operating income					
Customer-related remediation	**(220)**	(833)	(302)	(73.6)	(27.2)
Net operating income	**(242)**	(863)	(344)	(72.0)	(29.7)
Operating expenses					
Customer-related remediation	**(176)**	(244)	(120)	(27.9)	46.7
Capitalised software policy change	**(1,056)**	(494)	-	large	large
Cash deficit before tax	**(1,474)**	(1,601)	(464)	(7.9)	large
Income tax benefit	**439**	478	139	(8.2)	large
Cash deficit	**(1,035)**	(1,123)	(325)	(7.8)	large
Net profit / (loss) after tax from discontinued operations	**105**	(57)	(200)	large	large
Net loss attributable to owners of NAB	**(930)**	(1,180)	(525)	(21.2)	77.1

Customer-related remediation

In the March 2020 half year, the Group recognised additional charges of $188 million ($268 million before tax) as a reduction to net profit attributable to owners of NAB. This comprises cash earning charges of $293 million ($418 million before tax) and increased earnings for discontinued operations of $105 million ($150 million before tax).

Charges of $418 million recognised in cash earnings are as follows:
- $22 million in net interest income
- $220 million in other operating income
- $176 million in operating expenses.

The customer-related remediation matters in the March 2020 half year relate to:
- additional provisions for adviser service fees charged by NAB Financial Planning
- increased Wealth-related remediation program costs
- progression of work on banking-related matters
- a reassessment of provisions associated with the MLC Life business (within discontinued operations)
- newly identified matters, the most significant of which were issues relating to workplace superannuation.

In the September 2019 half year, the Group recognised charges of $832 million ($1,189 million before tax) as a reduction to net profit attributable to owners of NAB. This comprises cash earning charges of $775 million ($1,107 million before tax) and charges of $57 million ($82 million before tax) in discontinued operations.

In the March 2019 half year, the Group recognised charges of $525 million ($749 million before tax) as a reduction to net profit attributable to owners of NAB. This comprises cash earning charges of $325 million ($464 million before tax) and charges of $200 million ($285 million before tax) in discontinued operations.

Capitalised software policy change

In the March 2020 half year, the Group made a further change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million, which reduced cash earnings and net profit attributable to owners of NAB by $742 million ($1,056 million before tax) as a result of accelerated amortisation. This reflects a change in approach to managing projects which is intended to uplift business accountability for projects less than $5 million. The change made in the September 2019 half year to increase the threshold from $0.5 million to $2 million reduced cash earnings and net profit attributable to owners of NAB by $348 million ($494 million before tax).

(1) *Included in Corporate Functions and Other.*

Group Performance Results (continued)

Group Performance Results (Reconciliation of Large Notable Items)

	Half Year to										
	Mar 20	Large Notable Items	Mar 20 ex Large Notable Items	Sep 19	Large Notable Items	Sep 19 ex Large Notable Items	Mar 19	Large Notable Items	Mar 19 ex Large Notable Items	Mar 20 v Sep 19 ex Large Notable Items	Mar 20 v Mar 19 ex Large Notable Items
	$m	$m	$m	$m	$m	$m	$m	$m	$m	%	%
Net interest income	6,886	(22)	6,908	6,808	(30)	6,838	6,734	(42)	6,776	1.0	1.9
Other operating income	1,687	(220)	1,907	1,539	(833)	2,372	2,140	(302)	2,442	(19.6)	(21.9)
Net operating income	8,573	(242)	8,815	8,347	(863)	9,210	8,874	(344)	9,218	(4.3)	(4.4)
Operating expenses	(5,350)	(1,232)	(4,118)	(4,838)	(738)	(4,100)	(4,175)	(120)	(4,055)	0.4	1.6
Underlying profit	3,223	(1,474)	4,697	3,509	(1,601)	5,110	4,699	(464)	5,163	(8.1)	(9.0)
Credit impairment charge	(1,161)	-	(1,161)	(470)	-	(470)	(449)	-	(449)	large	large
Cash earnings before tax and distributions	2,062	(1,474)	3,536	3,039	(1,601)	4,640	4,250	(464)	4,714	(23.8)	(25.0)
Income tax expense	(604)	439	(1,043)	(865)	478	(1,343)	(1,244)	139	(1,383)	(22.3)	(24.6)
Cash earnings before distributions	1,458	(1,035)	2,493	2,174	(1,123)	3,297	3,006	(325)	3,331	(24.4)	(25.2)
Distributions	(22)	-	(22)	(31)	-	(31)	(52)	-	(52)	(29.0)	(57.7)
Cash earnings	1,436	(1,035)	2,471	2,143	(1,123)	3,266	2,954	(325)	3,279	(24.3)	(24.6)

Group Performance Results (continued)

Shareholder Summary

	Half Year to				
	Mar 20	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
Group					
Dividend per share (cents)	**30**	83	83	(53)	(53)
Dividend payout ratio	**61.0%**	109.9%	77.4%	large	large
Statutory earnings per share (cents) - basic	**44.2**	73.0	95.9	(28.8)	(51.7)
Statutory earnings per share (cents) - diluted	**42.6**	71.8	92.1	(29.2)	(49.5)
Statutory earnings per share from continuing operations (cents) - basic	**40.6**	75.8	103.5	(35.2)	(62.9)
Statutory earnings per share from continuing operations (cents) - diluted	**39.5**	74.4	99.1	(34.9)	(59.6)
Cash earnings per share (cents) - basic	**49.2**	75.5	107.2	(26.3)	(58.0)
Cash earnings per share (cents) - diluted	**47.0**	74.1	102.5	(27.1)	(55.5)
Statutory return on equity	**4.7%**	7.8%	10.5%	(310 bps)	(580 bps)
Cash return on equity (ROE)	**5.3%**	8.1%	11.7%	(280 bps)	(640 bps)
Group (excluding large notable items)[(1)]					
Dividend payout ratio	**35.4%**	72.1%	69.7%	large	large
Statutory earnings per share (cents) - basic	**76.1**	114.6	114.9	(38.5)	(38.8)
Statutory earnings per share (cents) - diluted	**70.8**	110.3	109.6	(39.5)	(38.8)
Statutory earnings per share from continuing operations (cents) - basic	**76.1**	115.4	115.3	(39.3)	(39.2)
Statutory earnings per share from continuing operations (cents) - diluted	**70.8**	111.0	109.9	(40.2)	(39.1)
Cash earnings per share (cents) - basic	**84.7**	115.1	119.0	(30.4)	(34.3)
Cash earnings per share (cents) - diluted	**78.3**	110.7	113.3	(32.4)	(35.0)
Statutory return on equity	**8.1%**	12.3%	12.6%	(420 bps)	(450 bps)
Cash return on equity (ROE)	**9.0%**	12.3%	13.0%	(330 bps)	(400 bps)

(1) *Refer to Section 1 Large notable items for further information.*

Group Performance Results (continued)

Key Performance Indicators

	Half Year to			Mar 20 v	Mar 20 v
	Mar 20	**Sep 19**	**Mar 19**	**Sep 19**	**Mar 19**
Group					
Cash earnings on average assets	**0.33%**	0.51%	0.71%	(18 bps)	(38 bps)
Cash earnings on average risk-weighted assets	**0.68%**	1.05%	1.49%	(37 bps)	(81 bps)
Cash earnings per average FTE ($'000)	**82**	125	176	(34.4%)	(53.4%)
Jaws	**(7.9%)**	(21.8%)	1.6%	large	(950 bps)
Cost to income (CTI) ratio	**62.4%**	58.0%	47.0%	440 bps	large
Net interest margin	**1.78%**	1.78%	1.79%	-	(1 bp)
Group (excluding large notable items)[1]					
Cash earnings on average assets	**0.57%**	0.78%	0.79%	(21 bps)	(22 bps)
Cash earnings on average risk-weighted assets	**1.17%**	1.60%	1.65%	(43 bps)	(48 bps)
Cash earnings per average FTE ($'000)	**142**	190	196	(25.3%)	(27.6%)
Jaws	**(4.7%)**	(1.2%)	2.9%	(350 bps)	(760 bps)
Cost to income (CTI) ratio	**46.7%**	44.5%	44.0%	220 bps	270 bps
Net interest margin	**1.79%**	1.79%	1.80%	-	(1 bp)
Capital					
Common Equity Tier 1 ratio	**10.39%**	10.38%	10.40%	1 bp	(1 bp)
Tier 1 capital ratio	**11.96%**	12.36%	12.45%	(40 bps)	(49 bps)
Total capital ratio	**14.61%**	14.68%	14.00%	(7 bps)	61 bps
Risk-weighted assets ($bn)	**432.7**	415.8	403.2	4.1%	7.3%
Volumes ($bn)					
Gross loans and acceptances	**614.2**	601.4	601.3	2.1%	2.1%
Average interest earning assets	**773.5**	763.4	754.3	1.3%	2.5%
Total average assets	**861.9**	839.9	829.1	2.6%	4.0%
Total customer deposits	**447.2**	424.6	421.7	5.3%	6.0%
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**0.97%**	0.93%	0.79%	4 bps	18 bps
Collective provision to credit risk risk-weighted assets	**1.21%**	0.96%	0.94%	25 bps	27 bps
Specific provision to gross impaired assets	**40.6%**	39.7%	45.8%	90 bps	(520 bps)
Other					
Funds under administration (FUA) (spot) ($bn)[2]	**133.3**	150.2	143.2	(11.3%)	(6.9%)
Assets under management (AUM) (spot) ($bn)[2][3]	**153.7**	172.0	174.4	(10.6%)	(11.9%)
Full-time equivalent employees (FTE) (spot)	**35,245**	34,370	33,790	2.5%	4.3%
Full-time equivalent employees (FTE) (average)	**34,841**	34,258	33,620	1.7%	3.6%

(1) *Refer to Section 1 Large notable items for further information.*
(2) *FUA and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUA and AUM meaning the two should not be summed.*
(3) *For the March 2020 half year there has been a change in the way AUM is presented as a result of an internal reorganisation within MLC Wealth. Comparative period information has been restated.*

Review of Group Performance Results

The COVID-19 pandemic has led to an increasingly uncertain economic environment which has caused significant volatility in financial markets in the latter part of the March 2020 half year. The impact on statutory net profit was material for the March 2020 half year.

March 2020 v March 2019

Statutory net profit decreased by $1,381 million or 51.3%. Excluding the impact of discontinued operations, statutory net profit decreased by $1,696 million or 58.4%. Discontinued operations reflect a profit relating to a reassessment of customer-related remediation provisions associated with the MLC Life business.

Cash earnings decreased by $1,518 million or 51.4% including an increase in large notable items of $710 million. Excluding these items, cash earnings decreased by $808 million or 24.6%.

Cash earnings on average risk-weighted assets decreased by 81 basis points reflecting lower cash earnings and increased large notable items. Excluding large notable items, cash earnings on average risk-weighted assets decreased by 48 basis points.

Net interest income increased by $152 million or 2.3%, including a decrease of $13 million which was offset by movements in economic hedges in other operating income and a decrease of $20 million in customer-related remediation. Excluding these movements, the underlying increase of $145 million or 2.1% was driven by growth in business lending volumes, the impact of repricing in the housing lending portfolio and lower short-term wholesale funding costs. These movements were partially offset by competitive pressures impacting housing and business lending margins and lower earnings on deposits and capital due to the low interest rate environment.

Other operating income decreased by $453 million or 21.2%, including an increase of $13 million which was offset by movements in economic hedges in net interest income and a decrease of $82 million in customer-related remediation. Excluding these movements, the underlying decrease of $548 million or 22.4% was mainly due to lower NAB risk management income in Treasury and Markets, primarily due to the mark-to-market impact on the high quality liquids portfolio of $261 million and derivative valuation adjustment of $82 million. Furthermore, fees and commissions income was lower mainly due to the reduction and removal of certain fees, lower merchant acquiring income, lower interchange income and higher scheme charges.

Operating expenses increased by $1,175 million or 28.1%. Excluding an increase of $1,112 million in large notable items, operating expenses increased by $63 million or 1.6%. This was driven by investment in technology, increased spend to strengthen the compliance and control environment, additional restructuring-related costs and the impact of annual salary increases. This was largely offset by productivity benefits achieved through a reduction in third party spend, simplification of the Group's operations, lower performance-based compensation and a reduction in software amortisation costs following a change to the application of the software capitalisation policy.

Credit impairment charge increased by $712 million, driven primarily by an increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.

March 2020 v September 2019

Statutory net profit decreased by $791 million or 37.6%. Excluding the impact of discontinued operations, statutory net profit decreased by $975 million or 44.7%. Discontinued operations reflect a profit relating to a reassessment of customer-related remediation provisions associated with the MLC Life business.

Cash earnings decreased by $707 million or 33.0% including a decrease in large notable items of $88 million. Excluding these items, cash earnings decreased by $795 million or 24.3%.

Cash earnings on average risk-weighted assets decreased by 37 basis points reflecting lower cash earnings. Excluding large notable items, cash earnings on average risk-weighted assets decreased by 43 basis points.

Net interest income increased by $78 million or 1.1%, including an increase of $26 million which was offset by movements in economic hedges in other operating income and a decrease of $8 million in customer-related remediation in the March 2020 half year. Excluding these movements, the underlying increase of $44 million or 0.6% was driven by the impact of repricing in the housing lending portfolio and lower short-term wholesale funding costs. These movements were partially offset by competitive pressures impacting housing lending margins and lower earnings on deposits and capital due to the low interest rate environment.

Other operating income increased by $148 million or 9.6%, including a decrease of $26 million which was offset by movements in economic hedges in net interest income and a decrease of $613 million in customer-related remediation. Excluding these movements, the underlying decrease of $439 million or 18.5% was mainly due to lower NAB risk management income in Treasury and Markets, primarily due to the mark-to-market impact on the high quality liquids portfolio of $232 million and derivative valuation adjustment of $69 million. Furthermore, fees and commissions income was lower mainly due to the reduction and removal of certain fees, lower merchant acquiring income, lower interchange income and higher loyalty charges.

Operating expenses increased by $512 million or 10.6%. Excluding an increase of $494 million in large notable items, operating expenses increased by $18 million or 0.4%. This was driven by investment in technology, increased spend to strengthen the compliance and control environment, additional restructuring-related costs and the impact of annual salary increases. This was largely offset by productivity benefits achieved through a reduction in

Review of Group Performance Results (continued)

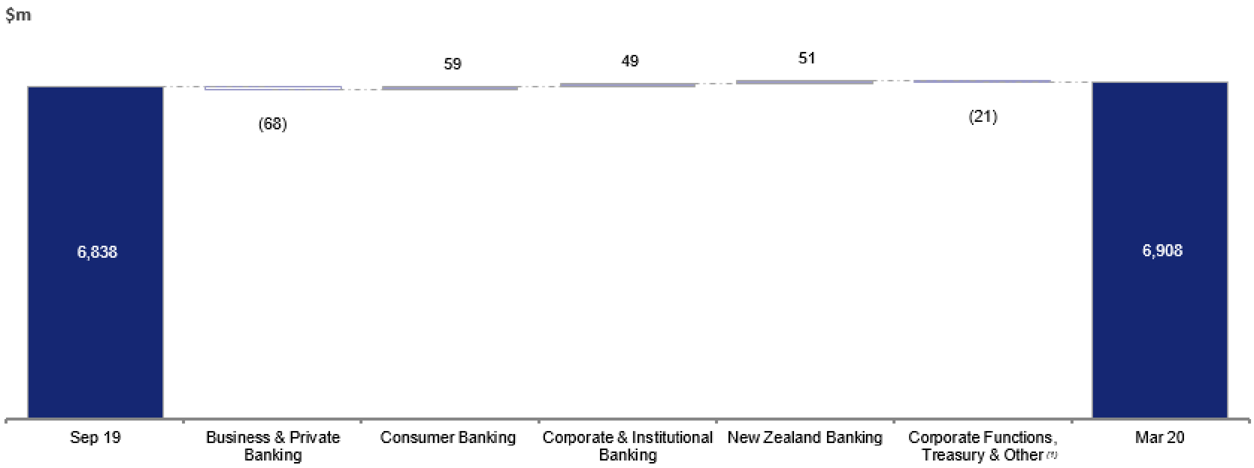
third party spend, simplification of the Group's operations, lower performance-based compensation and a reduction in software amortisation costs following a change to the application of the software capitalisation policy.

Credit impairment charge increased by $691 million, driven primarily by an increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.

Net Interest Income

	Half Year to				
	Mar 20	Sep 19	Mar 19	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Net interest income ($m)[(1)]	**6,908**	6,838	6,776	1.0	1.9
Customer-related remediation ($m)[(2)]	**(22)**	(30)	(42)	(26.7)	(47.6)
Average interest earning assets ($bn)	**773.5**	763.4	754.3	1.3	2.5
Net interest margin (%)[(3)]	**1.78**	1.78	1.79	-	(1 bp)

Net Interest Income - Contribution to Net Movement[(1)]



(1) Corporate Functions, Treasury & Other includes eliminations.

March 2020 v March 2019

Net interest income excluding customer-related remediation increased by $132 million or 1.9%. This includes a decrease of $13 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of $145 million or 2.1% was due to:

- Growth in business lending volumes, reflecting the Group's focus on growth segments.
- The impact of repricing in the housing lending portfolio.
- Lower funding and liquidity costs from lower short-term wholesale funding costs.

The underlying increase was partially offset by:

- Competitive pressures impacting housing and business lending margins.
- A higher cost of savings and transaction deposits.
- A lower earnings rate on non-interest bearing deposits due to the low interest rate environment.
- A lower earnings rate on capital due to the low interest rate environment, partially offset by an increase in capital held.

March 2020 v September 2019

Net interest income excluding customer-related remediation increased by $70 million or 1.0%. This includes an increase of $26 million which was offset by movements in economic hedges in other operating income. Excluding this movement, the underlying increase of $44 million or 0.6% was due to:

- The impact of repricing in the housing lending portfolio.
- Lower funding and liquidity costs from lower short-term wholesale funding costs.

The underlying increase was partially offset by:

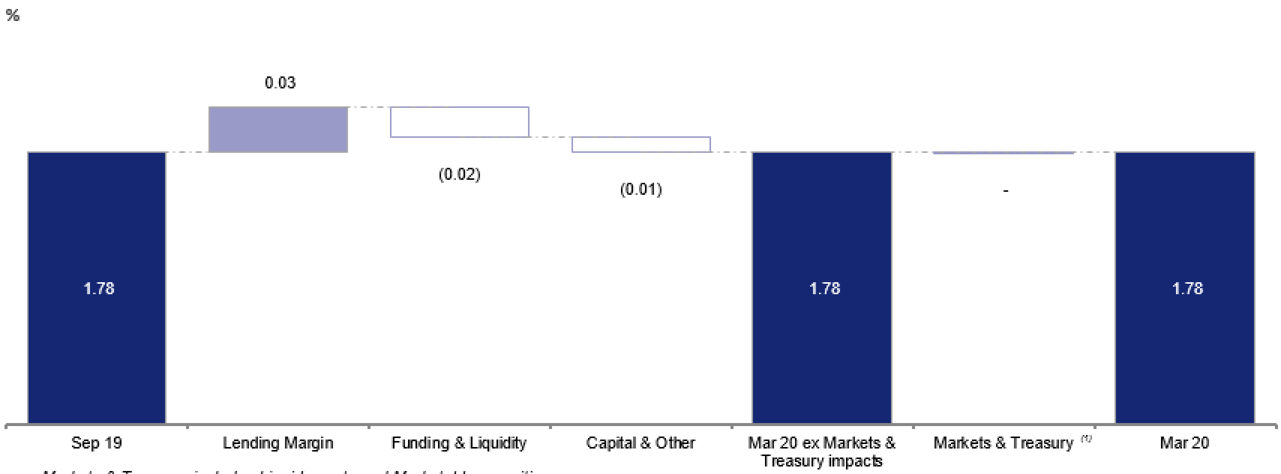
- Competitive pressures impacting housing lending margins.
- A higher cost of savings and transaction deposits.
- A lower earnings rate on non-interest bearing deposits due to the low interest rate environment.
- A lower earnings rate on capital due to the low interest rate environment, partially offset by an increase in capital held.

(1) *Excludes customer-related remediation.*
(2) *Refer to Section 1 Large notable items for further information.*
(3) *Includes customer-related remediation.*

Net Interest Margin[1]

	Half Year to				
	Mar 20 %	Sep 19 %	Mar 19 %	Mar 20 v Sep 19	Mar 20 v Mar 19
Group net interest margin	**1.78**	1.78	1.79	-	(1 bp)
Business and Private Banking	**2.90**	2.92	2.94	(2 bps)	(4 bps)
Consumer Banking	**2.02**	1.96	1.84	6 bps	18 bps
Corporate and Institutional Banking	**0.70**	0.69	0.73	1 bp	(3 bps)
New Zealand Banking	**2.24**	2.20	2.30	4 bps	(6 bps)

Group Net Interest Margin Movement



(1) Markets & Treasury includes Liquid assets and Marketable securities.

March 2020 v March 2019

The Group's **net interest margin** decreased by 1 basis point. This includes a decrease of 1 basis point in Markets and Treasury due to asset mix impacts in Markets. Excluding this movement, the underlying performance was flat due to:

- An increase of 6 basis points in lending margin driven by housing lending repricing, partially offset by competitive pressures in the housing and business lending portfolios.

This was offset by:

- A decrease of 3 basis points in funding and liquidity driven by a lower earnings rate on deposits due to the low interest rate environment, partially offset by lower short-term wholesale funding costs.
- A decrease of 3 basis points driven by lower earnings on capital due to the low interest rate environment, partially offset by an increase in capital held.

March 2020 v September 2019

The Group's **net interest margin** was flat**.** This was due to:

- An increase of 3 basis points in lending margin driven by housing lending repricing, partially offset by competitive pressures in the housing lending portfolios.

This was offset by:

- A decrease of 2 basis points in funding and liquidity driven by a lower earnings rate on deposits due to the low interest rate environment, partially offset by lower short-term wholesale funding costs.
- A decrease of 1 basis point driven by lower earnings on capital due to the low interest rate environment, partially offset by an increase in the level of capital held.

(1) Includes customer-related remediation.

Other Operating Income

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Fees and commissions[(1)]	**1,100**	1,146	1,134	(4.0)	(3.0)
Trading income	**332**	698	752	(52.4)	(55.9)
Other[(1)]	**91**	105	126	(13.3)	(27.8)
Banking subtotal[(2)]	**1,523**	1,949	2,012	(21.9)	(24.3)
MLC Wealth	**384**	423	430	(9.2)	(10.7)
Customer-related remediation[(3)]	**(220)**	(833)	(302)	(73.6)	(27.2)
Total other operating income	**1,687**	1,539	2,140	9.6	(21.2)

March 2020 v March 2019

Other operating income decreased by $453 million or 21.2%. Excluding customer-related remediation, other operating income decreased by $535 million or 21.9%.

Fees and commissions decreased by $34 million or 3.0%. The decrease was mainly due to the reduction and removal of certain fees and lower merchant acquiring income. Furthermore, cards income was lower primarily due to lower interchange income driven by lower card volumes and higher scheme charges reflecting the increased use of cards for low-value payments. This was partially offset by higher fee income in Corporate and Institutional Banking.

Trading income decreased by $420 million or 55.9%. This includes an increase of $13 million due to movements in economic hedges, offset in net interest income. The underlying decrease of $433 million was mainly due to lower NAB risk management income in Treasury and Markets, primarily due to the mark-to-market impact on the high quality liquids portfolio of $261 million and derivative valuation adjustment of $82 million.

Other income decreased by $35 million or 27.8%. The decrease was primarily due to gains from asset sales in the prior period not repeated and a lower share of associate's profit in MLC Life.

MLC Wealth income decreased by $46 million or 10.7%. Repositioning of the business through competitive repricing and a reduced adviser footprint has resulted in lower average margins and lower advice income. In addition, income was impacted by regulatory changes and unrealised losses on investments held within the regulatory capital portfolio.

March 2020 v September 2019

Other operating income increased by $148 million or 9.6%. Excluding customer-related remediation, other operating income decreased by $465 million or 19.6%.

Fees and commissions decreased by $46 million or 4.0%. The decrease was mainly due to the reduction and removal of certain fees and lower merchant acquiring income. Furthermore, cards income was lower primarily due to lower interchange income driven by lower card volumes and higher loyalty charges. This was partially offset by higher fee income in Corporate and Institutional Banking.

Trading income decreased by $366 million or 52.4%. This includes a decrease of $26 million due to movements in economic hedges, offset in net interest income. The underlying decrease of $340 million was mainly due to lower NAB risk management income in Treasury and Markets, primarily due to the mark-to-market impact on the high quality liquids portfolio of $232 million and derivative valuation adjustment of $69 million. This was partially offset by higher foreign exchange risk management income in Markets.

Other income decreased by $14 million or 13.3%. The decrease was primarily due to non-recurring items in the prior period.

MLC Wealth income decreased by $39 million or 9.2%. The decrease was largely due to unrealised losses on investments held within the regulatory capital portfolio and lower Asset Management income from lower average AUM. Repricing activities and regulatory changes resulted in slightly lower average margins across the business.

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(1) *Comparative information has been restated to align to the presentation in the current period to reflect revised product classification.*
(2) *Excludes MLC Wealth and customer-related remediation.*
(3) *Refer to Section 1 Large notable items for further information.*

Markets and Treasury Income

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Net interest income	**162**	106	161	52.8	0.6
Other operating income	**416**	732	779	(43.2)	(46.6)
Total Markets and Treasury income	**578**	838	940	(31.0)	(38.5)
Customer risk management[(1)]					
FX	**270**	266	233	1.5	15.9
Rates	**117**	136	139	(14.0)	(15.8)
Total Customer risk management income	**387**	402	372	(3.7)	4.0
NAB risk management[(2)]					
Markets	**197**	188	260	4.8	(24.2)
Treasury	**80**	265	312	(69.8)	(74.4)
Total NAB risk management income	**277**	453	572	(38.9)	(51.6)
Derivative valuation adjustment[(3)]	**(86)**	(17)	(4)	large	large
Total Markets and Treasury income	**578**	838	940	(31.0)	(38.5)
Average Markets traded market risk Value at Risk (VaR)[(4)]	**11.7**	9.3	6.5	25.8	80.0

March 2020 v March 2019

Markets and Treasury income decreased by $362 million or 38.5% primarily due to lower Treasury and Markets risk management income.

Customer risk management income increased by $15 million or 4.0%, driven by higher foreign exchange sales.

NAB risk management income decreased by $295 million or 51.6% due to lower Treasury and Markets income. The decrease was mainly due to the mark-to-market impact on the high quality liquids portfolio of $261 million.

Derivative valuation adjustment decreased income by $82 million primarily on the Credit Valuation Adjustment (net of hedges), as a result of credit spreads widening.

March 2020 v September 2019

Markets and Treasury income decreased by $260 million or 31.0% primarily due to lower Treasury risk management income.

Customer risk management income decreased by $15 million or 3.7%, driven primarily by lower interest rate sales.

NAB risk management income decreased by $176 million or 38.9%. The decrease is primarily due to lower Treasury and Markets income mainly due to the mark-to-market impact on the high quality liquids portfolio of $232 million. This was partially offset by higher Markets income with an increase in foreign exchange risk management income.

Derivative valuation adjustment decreased income by $69 million primarily on the Credit Valuation Adjustment (net of hedges), as a result of credit spreads widening.

(1) Customer risk management comprises other operating income and reflects customer risk management in respect of Australian Banking (Consumer Banking, Business and Private Banking, and Corporate and Institutional Banking) and New Zealand Banking.
(2) NAB risk management comprises net interest income and other operating income and is defined as management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises. Markets forms part of Corporate and Institutional Banking market revenue. Treasury forms part of Corporate Functions and Other revenue.
(3) Derivative valuation adjustments, which include credit valuation adjustments and funding valuations adjustments, are shown net of hedging costs or benefits.
(4) Excludes the impact of hedging activities related to derivative valuation adjustments.

Operating Expenses

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Personnel expenses	**2,042**	1,943	1,969	5.1	3.7
Occupancy and depreciation expenses	**405**	405	402	-	0.7
General expenses	**1,345**	1,444	1,363	(6.9)	(1.3)
Banking subtotal[(1)]	**3,792**	3,792	3,734	-	1.6
MLC Wealth	**326**	308	321	5.8	1.6
Customer-related remediation[(2)]	**176**	244	120	(27.9)	46.7
Capitalised software policy change[(2)]	**1,056**	494	-	large	large
Total operating expenses	**5,350**	4,838	4,175	10.6	28.1

March 2020 v March 2019

Operating expenses increased by $1,175 million or 28.1%. Excluding large notable items, other operating expenses increased by $63 million or 1.6%.

Personnel expenses increased by $73 million or 3.7%. The increase was driven by investment in technology capabilities including data and cloud migration, increased spend to strengthen the compliance and control environment, restructuring-related costs and annual salary increases. This was partially offset by productivity benefits achieved through simplification of the Group's operations and lower performance-based compensation.

Occupancy and depreciation expenses were broadly flat.

General expenses decreased by $18 million or 1.3%. The decrease was driven by productivity benefits achieved through reduction in third party spend, and reduced software amortisation following a change to the application of the software capitalisation policy on 30 September 2019. This was largely offset by investment in technology, increased spend to strengthen the compliance and control environment, and restructuring-related costs.

MLC Wealth expenses increased by $5 million or 1.6%. The increase was driven by higher personnel costs in preparation for MLC Wealth separation and expenses arising from strategic and regulatory projects. This was partially offset by lower performance-based compensation costs.

March 2020 v September 2019

Operating expenses increased by $512 million or 10.6%. Excluding large notable items, other operating expenses increased by $18 million or 0.4%.

Personnel expenses increased by $99 million or 5.1%. The increase was driven by investment in technology capabilities including data and cloud migration, increased spend to strengthen the compliance and control environment, restructuring-related costs and annual salary increases. This was partially offset by productivity benefits achieved through simplification of the Group's operations and lower performance-based compensation.

Occupancy and depreciation expenses were flat.

General expenses decreased by $99 million or 6.9%. The decrease was driven by productivity benefits achieved through reduction in third party spend, and reduced software amortisation following a change to the application of the software capitalisation policy on 30 September 2019. This was partially offset by restructuring-related costs, investment in technology and increased spend to strengthen the compliance and control environment.

MLC Wealth expenses increased by $18 million or 5.8%. The increase was largely driven by higher costs in preparation for MLC Wealth separation and project spend on strategic and regulatory projects.

(1) *Excludes MLC Wealth and large notable items.*
(2) *Refer to Section 1 Large notable items for further information.*

Investment Spend

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Infrastructure	**311**	424	273	(26.7)	13.9
Compliance and risk	**248**	237	186	4.6	33.3
Customer experience, efficiency and sustainable revenue	**137**	254	195	(46.1)	(29.7)
Banking subtotal[(1)]	**696**	915	654	(23.9)	6.4
MLC Wealth	**55**	55	61	-	(9.8)
Total investment spend	**751**	970	715	(22.6)	5.0

Investment spend is expenditure on initiatives designed to enhance the customer experience, comply with legal and regulatory requirements, and improve capabilities and efficiencies in the Group's business processes. The Group is in the final year of its three-year accelerated transformation strategy announced in November 2017. Investment spend for the Group was $751 million for the March 2020 half year, an increase of $36 million or 5.0% on the March 2019 half year, and a decrease of $219 million or 22.6% on the September 2019 half year.

March 2020 v March 2019

Investment in **infrastructure** initiatives increased by $38 million or 13.9%. The increase was largely driven by ongoing simplification and technology refresh activity, investment in cloud migration and branch refurbishment to enable bankers and the contact centre to better serve customer needs.

Investment in **compliance and risk** initiatives increased by $62 million or 33.3%. The increase was largely driven by improvements to the home lending control environment, risk management enhancements to meet new regulatory requirements and transformation of the governance and risk framework.

Investment in **customer experience, efficiency and sustainable revenue** initiatives decreased by $58 million or 29.7%. The decrease was largely driven by a shift towards improvements to the home lending control environment. There is a continued focus on investing in ways to enhance and simplify the customer experience.

Investment in **MLC Wealth** decreased by $6 million or 9.8%. The focus remains on strengthening the business through implementation of the new Advice model, modernising superannuation offers and uplifting digital capability to enhance customer experience. MLC Wealth continues to invest to ensure regulatory and compliance requirements are met.

March 2020 v September 2019

Investment in **infrastructure** initiatives decreased by $113 million or 26.7%. The decrease was largely driven by a reduction in the overall levels of investment in line with the three-year transformation and higher spend in simplification and technology refresh activity in the September 2019 half year.

Investment in **compliance and risk** initiatives increased by $11 million or 4.6%. While overall investment spend has decreased in the March 2020 half year, the proportion of spend on compliance and risk increased in line with the sustained levels of regulatory and compliance-related matters. The increase was largely driven by continued risk management enhancements as a response to increased regulatory requirements.

Investment in **customer experience, efficiency and sustainable revenue** initiatives decreased by $117 million or 46.1%. The decrease was largely driven by a reduction in the overall levels of investment in line with the three-year transformation strategy, however the focus remains on investing in ways to enhance and simplify the customer experience.

Investment in **MLC Wealth** initiatives was flat. The focus remains on strengthening the business through implementation of the new Advice model, modernising superannuation offers and uplifting digital capability to enhance customer experience. MLC Wealth continues to invest to ensure regulatory and compliance requirements are met.

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(1) *Excludes MLC Wealth.*

Taxation

	Half Year to				
	Mar 20	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
Income tax expense ($m)	**604**	865	1,244	(30.2%)	(51.4%)
Effective tax rate (%)	**29.3**	28.5	29.3	80 bps	-

March 2020 v March 2019

Cash earnings income tax expense decreased by $640 million or 51.4%. The decrease was mainly due to lower cash earnings before tax.

The **cash earnings effective tax rate** of 29.3% for the current period remained stable when compared to the prior period.

March 2020 v September 2019

Cash earnings income tax expense decreased by $261 million or 30.2%. The decrease was mainly due to lower cash earnings before tax.

The **cash earnings effective tax rate** for the current period of 29.3% increased by 80 basis points mainly due to lower income from offshore jurisdictions in the current period, an adjustment to the deferred tax asset for UK tax losses in the current period, and other non-recurring items in both periods.

Lending

	As at				
	31 Mar 20 $m	30 Sep 19 $m	31 Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Housing					
Business and Private Banking	**86,118**	88,320	89,999	(2.5)	(4.3)
Consumer Banking	**216,220**	215,584	216,621	0.3	(0.2)
Corporate and Institutional Banking	**87**	110	133	(20.9)	(34.6)
New Zealand Banking	**43,619**	39,901	39,539	9.3	10.3
Total housing	**346,044**	343,915	346,292	0.6	(0.1)
Non-housing					
Business and Private Banking	**112,088**	112,273	111,178	(0.2)	0.8
Consumer Banking	**5,509**	6,015	6,431	(8.4)	(14.3)
Corporate and Institutional Banking	**106,291**	97,694	95,311	8.8	11.5
New Zealand Banking	**43,684**	40,984	41,736	6.6	4.7
Corporate Functions and Other	**547**	471	365	16.1	49.9
Total non-housing	**268,119**	257,437	255,021	4.1	5.1
Gross loans and advances including acceptances	**614,163**	601,352	601,313	2.1	2.1

March 2020 v March 2019

Lending (gross loans and advances including acceptances) increased by $12.9 billion or 2.1%. This includes $5.5 billion driven by exchange rate movements.

Housing lending decreased by $0.2 billion or 0.1% mainly due to:

- A decrease of $3.9 billion or 4.3% in Business and Private Banking due to competitive pressure and negative investor housing system growth.
- A decrease of $0.4 billion or 0.2% in Consumer Banking largely due to competitive pressure and negative investor housing system growth. The decrease was partially offset by growth in the broker channel and Ubank.
- An increase of $4.1 billion or 10.3% in New Zealand Banking. Excluding $0.8 billion driven by the appreciation of the New Zealand dollar, the underlying growth of $3.3 billion reflects growth in both proprietary and broker channels.

Non-housing lending increased by $13.1 billion or 5.1% mainly due to:

- An increase of $11.0 billion or 11.5% in Corporate and Institutional Banking. Excluding $4.0 billion driven by exchange rate movements, the underlying growth of $7.0 billion largely reflects continued focus on growth segments, and additional drawdowns by existing customers managing the impacts of the COVID-19 pandemic.
- An increase of $1.9 billion or 4.7% in New Zealand Banking. Excluding $0.7 billion driven by the appreciation of the New Zealand dollar, the underlying growth was predominantly in institutional business lending.
- An increase of $0.9 billion or 0.8% in Business and Private Banking driven by $1.3 billion increase in business lending as NAB continues to leverage its deep industry specialisations and strong market position, partially offset by $0.4 billion decrease in other lending from the impacts of the COVID-19 pandemic.
- A decrease of $0.9 billion or 14.3% in Consumer Banking due to lower demand for credit cards with a shift in customer preference towards debit cards and increased repayments.

March 2020 v September 2019

Lending (gross loans and advances including acceptances) increased by $12.8 billion or 2.1%. This includes $7.1 billion driven by exchange rate movements.

Housing lending increased by $2.1 billion or 0.6% mainly due to:

- An increase of $3.7 billion or 9.3% in New Zealand Banking. Excluding $2 billion driven by the appreciation of the New Zealand dollar, the underlying growth of $1.7 billion reflects growth in both broker and proprietary channels.
- An increase of $0.6 billion or 0.3% in Consumer Banking largely due to growth in the broker channel and Ubank, despite competitive pressure and negative investor housing system growth impacting retail and direct channels.
- A decrease of $2.2 billion or 2.5% in Business and Private Banking due to competitive pressure and negative investor housing system growth.

Non-housing lending increased by $10.7 billion or 4.1% mainly due to:

- An increase of $8.6 billion or 8.8% in Corporate and Institutional Banking. Excluding $3.1 billion driven by exchange rate movements, the underlying growth of $5.5 billion largely reflects continued focus on growth segments, and additional drawdowns by existing customers managing the impacts of the COVID-19 pandemic.
- An increase of $2.7 billion or 6.6% in New Zealand Banking. Excluding $2 billion driven by the appreciation of the New Zealand dollar, the underlying growth was predominantly in institutional business lending.
- A decrease of $0.5 billion or 8.4% in Consumer Banking due to lower demand for credit cards with a shift in customer preference towards debit cards and increased repayments.
- A decrease of $0.2 billion or 0.2% in Business and Private Banking due to decrease in other lending from the impacts of the COVID-19 pandemic. The decrease was partially offset by growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position with a continued focus on risk adjusted returns.

Goodwill and Other Intangible Assets

Goodwill

Goodwill was flat compared to both 31 March 2019 and 30 September 2019.

The movement in goodwill is as follows:

	Half Year ended		
	Mar 20	**Sep 19**	**Mar 19**
	$m	**$m**	**$m**
Balance at beginning of period	**2,864**	2,864	2,863
Foreign currency translation adjustments	**1**	-	1
Goodwill	**2,865**	2,864	2,864

Other Intangible Assets

Intangible assets are comprised of capitalised software and other intangible assets. Capitalised software decreased by $1,172 million or 39.3% compared to the March 2019 half year and by $878 million or 32.7% compared to the September 2019 half year. The decrease was largely attributable to a change to the application of the software capitalisation policy to $2 million in the September 2019 half year and a further increase to $5 million in the March 2020 half year.

The Group continues to invest in software to support its customer focused strategic objectives. Major investments currently being undertaken are:

- In Australia, continued investment in technology infrastructure, transforming the customer experience, as well as compliance and risk initiatives.
- In New Zealand, continued investment in capabilities to support the implementation of the Bank of New Zealand strategic plan, particularly its digitisation to enhance customer experience and support its productivity agenda as well as regulatory compliance initiatives.

The movement in capitalised software is as follows:

	Half Year ended		
	Mar 20	**Sep 19**	**Mar 19**
	$m	**$m**	**$m**
Balance at beginning of period	**2,688**	2,982	2,895
Additions	**372**	534	371
Disposals and write-offs	**-**	(15)	-
Amortisation	**(204)**	(316)	(296)
Policy change(1)	**(1,056)**	(494)	-
Foreign currency translation adjustments	**10**	(3)	12
Capitalised software	**1,810**	2,688	2,982

(1) *Accelerated amortisation charge following a change to the application of the software capitalisation policy to $2 million in the September 2019 half year and a further increase to $5 million in the March 2020 half year.*

Customer Deposits

	As at 31 Mar 20 $m	30 Sep 19 $m	31 Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Business and Private Banking	**140,492**	135,326	135,950	3.8	3.3
Consumer Banking	**126,162**	125,133	123,870	0.8	1.9
Corporate and Institutional Banking	**113,743**	101,269	99,470	12.3	14.3
New Zealand Banking	**62,219**	57,046	57,225	9.1	8.7
Corporate Functions and Other	**4,581**	5,838	5,220	(21.5)	(12.2)
Total customer deposits	**447,197**	424,612	421,735	5.3	6.0

March 2020 v March 2019

Customer deposits increased by $25.5 billion or 6.0% due to:

- An increase of $14.3 billion or 14.3% in Corporate and Institutional Banking primarily driven by an increase in at-call deposits of $21.3 billion due to existing customers managing the impacts of the COVID-19 pandemic. This was partially offset by a reduction in term deposits of $7.5 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $5.0 billion or 8.7% in New Zealand Banking. Excluding $1.1 billion driven by the appreciation of the New Zealand dollar, the underlying growth of $3.9 billion was mainly due to an increase in at-call deposits of $3.6 billion and non-interest bearing accounts of $1.3 billion, partially offset by a reduction in term deposits of $1.0 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $4.5 billion or 3.3% in Business and Private Banking primarily driven by an increase in on-demand savings products of $7.6 billion and non-interest bearing accounts of $4.1 billion, partially offset by a decrease in term deposits of $7.2 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $2.3 billion or 1.9% in Consumer Banking driven by growth in at-call deposits of $6.1 billion and non-interest bearing accounts of $1.2 billion, partially offset by a decrease in term deposits of $5.0 billion largely due to changes in customer behaviour in the low rate environment.
- A decrease of $0.6 billion or 12.2% in Corporate Functions and Other. Excluding $0.5 billion driven by exchange rate movements, the underlying decrease of $1.2 billion was primarily driven by a reduction in term deposits of $0.6 billion and at-call deposits of $0.6 billion.

March 2020 v September 2019

Customer deposits increased by $22.6 billion or 5.3% due to:

- An increase of $12.5 billion or 12.3% in Corporate and Institutional Banking primarily driven by an increase in at-call deposits of $14.3 billion due to existing customers managing the impacts of the COVID-19 pandemic. This was partially offset by a reduction in term deposits of $2.2 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $5.2 billion or 9.1% in New Zealand Banking. Excluding $3.0 billion driven by the appreciation of the New Zealand dollar, the underlying growth of $2.2 billion was driven by at-call deposits of $2.7 billion and non-interest bearing accounts of $1.1 billion, partially offset by a reduction in term deposits of $1.6 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $5.2 billion or 3.8% in Business and Private Banking driven by an increase of $5.6 billion in non-interest bearing business transactional accounts and at-call deposits of $2.8 billion, partially offset by a reduction in term deposits of $3.2 billion largely due to changes in customer behaviour in the low rate environment.
- An increase of $1.0 billion or 0.8% in Consumer Banking driven by at-call deposits of $3.2 billion, combined with an increase in non-interest bearing accounts of $0.9 billion, partially offset by a reduction in term deposits of $3.1 billion largely due to changes in customer behaviour in the low rate environment.
- A decrease of $1.3 billion or 21.5% in Corporate Functions and Other. Excluding $0.4 billion driven by exchange rate movements, the underlying decrease of $1.6 billion was primarily driven by a reduction in at-call deposits of $1.5 billion.

Asset Quality

Credit Impairment Charge

	Half Year to Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Specific credit impairment charge - new and increased	**413**	472	409	(12.5)	1.0
Specific credit impairment charge - write-backs	**(75)**	(81)	(89)	(7.4)	(15.7)
Specific credit impairment charge - recoveries	**(35)**	(34)	(23)	2.9	52.2
Specific credit impairment charge	**303**	357	297	(15.1)	2.0
Collective credit impairment charge	**858**	113	152	large	large
Total credit impairment charge	**1,161**	470	449	large	large

	Half Year to Mar 20	Sep 19	Mar 19	Mar 20 v Sep 19	Mar 20 v Mar 19
Credit impairment charge to gross loans and acceptances (annualised)	**0.38%**	0.16%	0.15%	22 bps	23 bps
Net write-offs to gross loans and acceptances (annualised)(1)	**0.09%**	0.09%	0.09%	-	-

March 2020 v March 2019

Credit impairment charge increased by $712 million to $1,161 million, driven primarily by an increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. Excluding this, the credit impairment charge decreased by $95 million to $354 million or 12 basis points of gross loans and acceptances (annualised).

Specific credit impairment charge increased by $6 million or 2.0%, driven by:
- Higher charges in Business and Private Banking due to the non-repeat of write-backs for a small number of larger exposures in the March 2019 half year.
- Higher charges in New Zealand Banking for the impairment of a small number of larger exposures.

This increase was partially offset by:
- Lower charges in Corporate and Institutional Banking relating to the impairment of a small number of larger exposures in the current period.

Collective credit impairment charge increased by $706 million, driven by:
- Higher charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.
- Higher level of collective provision charges for planned model refinements.

This was partially offset by:
- Lower charges for the Australian mortgage portfolio due to a smaller increase in delinquencies and the impact of house price movements.

The Group ratio of **net write-offs to gross loans and acceptances** was flat at 0.09% reflecting continued low levels of write-off activity.

The 12 month rolling net write-off ratio for the total retail portfolio (0.08% of gross retail loans), which includes the housing portfolio (0.02% of gross housing loans), remains broadly stable.

March 2020 v September 2019

Credit impairment charge increased by $691 million to $1,161 million, driven primarily by an increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. Excluding this, the credit impairment charge decreased by $116 million to $354 million or 12 basis points of gross loans and acceptances (annualised).

Specific credit impairment charge decreased by $54 million or 15.1%, driven by:
- Lower charges in Corporate and Institutional Banking.
- Lower charges in Consumer Banking for the unsecured retail portfolio.
- Lower level of new and increased charges in Business and Private Banking for individual impaired exposures.

Collective credit impairment charge increased by $745 million, driven by:
- Higher charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.
- Higher level of collective provision charges for planned model refinements.
- Higher charges for the unsecured retail portfolio due to seasonality.

This was partially offset by:
- Lower charges for the Australian mortgage portfolio due to a smaller increase in delinquencies and the impact of house price movements.
- Lower level of collective provision charges for the Australian business lending portfolio.

The Group ratio of **net write-offs to gross loans and acceptances** was flat at 0.09% reflecting low levels of write-off activity.

The 12 month rolling net write-off ratio for the total retail portfolio (0.08% of gross retail loans), which includes the housing portfolio (0.02% of gross housing loans), remains broadly stable.

(1) *Net write-offs include net write-offs of fair value loans.*

Asset Quality (continued)

Provision for Credit Impairment

	As at				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Collective provision on loans at amortised cost	**4,008**	3,118	3,015	28.5	32.9
Collective provision on loans at fair value	**56**	65	73	(13.8)	(23.3)
Collective provision on derivatives at fair value	**337**	177	161	90.4	large
Total collective provision for credit impairment	**4,401**	3,360	3,249	31.0	35.5
Total specific provision for credit impairment	**827**	782	717	5.8	15.3
Total provision for credit impairment	**5,228**	4,142	3,966	26.2	31.8

	As at				
	Mar 20	Sep 19	Mar 19	Mar 20 v Sep 19	Mar 20 v Mar 19
Total provision to gross loans and acceptances	**0.85%**	0.69%	0.66%	16 bps	19 bps
Total provision to net write-offs (annualised)[(1)]	**979%**	763%	766%	large	large
Specific provision to gross impaired assets	**40.6%**	39.7%	45.8%	90 bps	(520 bps)
Collective provision to credit risk risk-weighted assets	**1.21%**	0.96%	0.94%	25 bps	27 bps
Collective provision to gross loans and acceptances	**0.72%**	0.56%	0.54%	16 bps	18 bps

March 2020 v March 2019

Provisions for credit impairment increased by $1,262 million or 31.8% to $5,228 million.

Specific provisions increased by $110 million or 15.3% mainly due to new and increased specific provisions raised for the business lending portfolio in Australia and New Zealand, combined with a low level of write-off activity.

Collective provisions increased by $1,152 million or 35.5%. This was mainly due to:

- Additional collective provision forward looking economic adjustments raised due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.
- Increase in collective provisions held for the derivatives portfolio due to market movements.
- Collective provision increases for the Australian mortgage and business lending portfolios.
- Collective provisions raised for planned model refinements.
- Net additional collective provision forward looking adjustments (FLAs) raised for targeted sectors.

The **collective provision to credit risk risk-weighted assets** ratio increased 27 basis points to 1.21% predominantly due to collective provision increases.

March 2020 v September 2019

Provisions for credit impairment increased by $1,086 million or 26.2% to $5,228 million.

Specific provisions increased by $45 million or 5.8% mainly due to new and increased specific provisions raised in Australia and New Zealand, combined with a low level of write-off activity.

Collective provisions increased by $1,041 million or 31.0%. This was mainly due to:

- Additional collective provision forward looking economic adjustments raised due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.
- Increase in collective provisions held for the derivatives portfolio due to market movements.
- Collective provision increases for planned model refinements.
- Net additional collective provision FLAs raised for targeted sectors.

The **collective provision to credit risk risk-weighted assets** ratio increased 25 basis points to 1.21% predominantly due to collective provision increases.

(1) *Net write-offs include net write-offs of fair value loans. March 2020 and March 2019 metrics refer to the half year ratio annualised; September 2019 metrics refers to the full year ratio.*

Asset Quality (continued)

90+ Days Past Due and Gross Impaired Assets

	As at				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
90+ days past due (DPD) loans	**3,891**	3,603	3,206	8.0	21.4
Gross impaired assets	**2,037**	1,972	1,564	3.3	30.2
90+ DPD and gross impaired assets	**5,928**	5,575	4,770	6.3	24.3

	As at				
	Mar 20	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
90+ DPD loans to gross loans and acceptances	**0.64%**	0.60%	0.53%	4 bps	11 bps
Gross impaired assets to gross loans and acceptances	**0.33%**	0.33%	0.26%	-	7 bps
90+ DPD and gross impaired assets to gross loans and acceptances	**0.97%**	0.93%	0.79%	4 bps	18 bps

March 2020 v March 2019

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 11 basis points to 0.64%. This was primarily driven by:

- Increased delinquencies across the Australian mortgage portfolio.
- A small number of larger exposures in the business lending portfolio across Australia and New Zealand.

The Group ratio of **gross impaired assets to gross loans and acceptances** increased by 7 basis points to 0.33%. This was predominantly driven by:

- The impairment of a small number of larger exposures in the New Zealand dairy portfolio.
- The impairment of a small number of larger exposures in the Australian business lending portfolio.

This was partially offset by business turnarounds for a small number of larger exposures in the business lending portfolio across Australia and New Zealand.

March 2020 v September 2019

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 4 basis points to 0.64%. This was primarily driven by:

- Increased delinquencies across the Australian mortgage portfolio.
- A small number of larger exposures in the business lending portfolio across Australia and New Zealand.

The Group ratio of **gross impaired assets to gross loans and acceptances** was flat at 0.33%. This was predominantly driven by business turnarounds for a small number of larger exposures within the business lending portfolio across Australia and New Zealand, partially offset by:

- The impairment of a small number of larger exposures in the business lending portfolio across Australia and New Zealand.
- New impaired loans in the Australian mortgage portfolio.

Capital Management and Funding

Balance Sheet Management Overview

The Group aims to maintain strong capital, funding and liquidity, in line with its ongoing commitment to balance sheet strength. This includes:

- Seeking to maintain a well-diversified wholesale funding portfolio which accesses funding across a variety of markets, currencies and product types.
- Continuing to monitor and assess these positions so that changes in market conditions and regulation can be accommodated.

The COVID-19 pandemic has had a significant impact on global and domestic capital and funding markets. The Group's balance sheet was well placed heading into this event, and as at 31 March 2020.

The impact of the COVID-19 pandemic and associated actions by governments and central banks on the Group's balance sheet continue to be closely monitored.

Regulatory Reform

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

'Unquestionably Strong' and Basel III Revisions

- The major Australian banks, including NAB have been subject to APRA's ‘unquestionably strong’ target benchmark capital ratios since January 2020. APRA has temporarily suspended these requirements in response to the COVID-19 pandemic.
- In suspending these requirements, APRA has indicated that banks may need to utilise some of the current large capital buffers to facilitate ongoing lending to the economy.
- APRA’s consultation on revisions to the capital framework includes consideration of 'benchmarks for capital strength', 'risk sensitivity of the capital framework' and 'transparency, comparability and flexibility of the capital framework'.
- APRA has recently deferred the scheduled implementation of these prudential standards in Australia by one year to January 2023, consistent with the Basel Committee on Banking Supervision (BCBS). The deferral supports authorised deposit-taking institutions (ADIs) in maintaining operations and supporting customers in response to the COVID-19 pandemic.
- APRA has reiterated its view that ADIs currently hold sufficient capital to meet the new requirements.
- In October 2019, APRA proposed changes to the treatment of equity investments in subsidiaries (including Bank of New Zealand) for the purpose of calculating Level 1 regulatory capital.
- APRA has also proposed a minimum leverage ratio requirement of 3.5% for internal ratings-based (IRB) ADIs and a revised leverage ratio exposure measurement methodology from 1 January 2022. The Group has a leverage ratio as at 31 March 2020 of 5.2% (under current methodology).

Increased Loss-absorbing Capacity for ADIs

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

RBNZ Capital Review

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

Dividend

- In response to the impacts of the COVID-19 pandemic, the RBNZ and APRA have introduced restrictions on the payment of distributions:
  - The RBNZ has prohibited the payment of dividends on ordinary shares and the redemption of non-CET1 capital instruments.
  - APRA announced its expectation that ADIs will seriously consider deferring decisions on the appropriate level of dividends until the outlook is clearer. However, where dividends are approved by a board, this should only be on the basis of robust stress testing results that have been discussed with APRA, and should be at a materially reduced level. Any dividend payments should be offset to the extent possible through the use of capital management initiatives.
- In each case, these regulatory restrictions will apply until further notice.

Further detail on the regulatory changes impacting the Group is outlined in the March 2020 Pillar 3 Report.

Capital Management and Funding (continued)

Capital Management

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

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. In response to the COVID-19 pandemic disruption, APRA has recently announced that the surplus capital buffers held by banks can be temporarily utilised to facilitate ongoing lending to the economy.

Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management is included in the March 2020 Pillar 3 Report as required by APRA Prudential Standard APS 330 *Public Disclosure.*

Capital Management and Funding (continued)

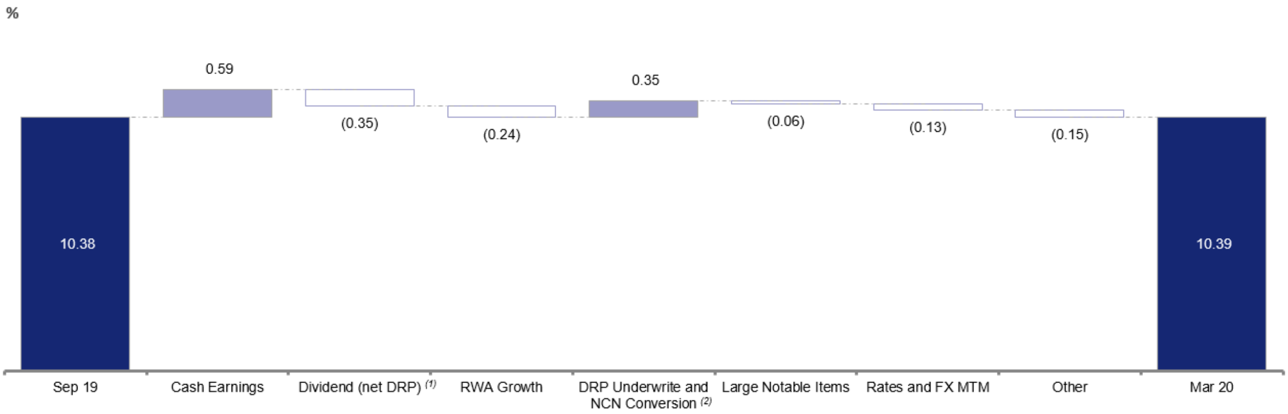
Capital Management (continued)

Capital Ratios

Capital ratios	As at 31 Mar 20 %	30 Sep 19 %	31 Mar 19 %	Mar 20 v Sep 19	Mar 20 v Mar 19
Common Equity Tier 1	**10.39**	10.38	10.40	1 bp	(1 bp)
Tier 1	**11.96**	12.36	12.45	(40 bps)	(49 bps)
Total capital	**14.61**	14.68	14.00	(7 bps)	61 bps

Risk-weighted assets	As at 31 Mar 20 $m	30 Sep 19 $m	31 Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Credit risk	**364,550**	351,646	345,397	3.7	5.5
Market risk	**10,035**	10,023	9,190	0.1	9.2
Operational risk	**50,604**	47,698	40,945	6.1	23.6
Interest rate risk in the banking book	**7,477**	6,404	7,673	16.8	(2.6)
Total risk-weighted assets	**432,666**	415,771	403,205	4.1	7.3

Movements in Common Equity Tier 1 Ratio



(1) Net of 1.5% discount.
(2) DRP underwrite (17bps) and NCN conversion (18bps).

Capital Movements During the Period

The Group's Common Equity Tier 1 ratio was 10.39% as at 31 March 2020. The key movements in capital over the March 2020 half year included:

- Cash earnings less the 2019 final dividend net of Dividend Reinvestment Plan (DRP) participation resulting in an increase of 24 basis points.
- An increase in risk-weighted assets which reduced the CET1 ratio by 24 basis points, driven mainly by:
  - Increases in credit risk; underlying volume growth contributed to a decrease of 8 basis points, derivatives contributed to a decrease of 4 basis points and the implementation of AASB 16 *Leases*[1] contributed to a decrease of 3 basis points.
  - Operational risk contributed to a decrease of 7 basis points.
- DRP underwrite of $700 million in respect of the 2019 final dividend resulting in an increase of 17 basis points.
- Conversion of $750 million of NAB Capital Notes (NCN) to ordinary shares resulting in an increase of 18 basis points.
- Large notable items resulted in a decrease of 6 basis points, including $418 million (pre-tax) of customer-related remediation (decrease of 10 basis points) and $150 million (pre-tax) profit from discontinued operations (increase of 4 basis points).
- Foreign exchange translation, an increase in the foreign currency translation reserve and mark-to-market movements on instruments at fair value through other comprehensive income reserve contributed to a decrease of 13 basis points.
- Other impacts reduced the CET1 ratio by 15 basis points; including an increase in the deferred tax asset deduction contributing to a decrease of 8 basis points and other miscellaneous items contributing to a decrease of 7 basis points.

Dividend and Dividend Reinvestment Plan

The Group is taking proactive steps to build capital via an equity raising and a reduction in the interim dividend, in light of the uncertain economic outlook due to the COVID-19 pandemic.

The interim dividend for the year ending 30 September 2020 has been reduced to 30 cents, 100% franked, payable on 3 July 2020. On 7 April 2020, APRA

(1) *Refer to Section 3, Note 1 Basis of preparation for further information.*

Capital Management and Funding (continued)

announced its expectation that where dividends are approved by the Board of an ADI, this should only be on the basis of robust stress testing results that have been discussed with APRA, and should be at a materially reduced level. APRA has also confirmed that any dividend payments should be offset to the extent possible through the use of capital management initiatives.

The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked is not guaranteed and will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia. For the half year ending 30 September 2019, the final dividend was 83 cents.

The Group periodically adjusts the DRP to reflect its capital position and outlook. The DRP discount has been adjusted to nil, with no participation limit. NAB will not neutralise the new shares issued under the DRP.

Capital Raising

On 27 April 2020, the Group announced that it intends to raise additional CET1 capital in the form of:

- A $3.0 billion fully underwritten institutional share placement.
- A non-underwritten Share Purchase Plan (SPP). The SPP is targeting to raise approximately $500 million, subject to market conditions.

The additional capital raised will incrementally support the Group's CET1 ratio by 81 basis points, based on 31 March 2020 risk-weighted assets and assuming $500 million is raised through the SPP.

Additional Tier 1 Capital Initiatives

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

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

Tier 2 Capital Initiatives

The Group's Tier 2 capital initiatives during the March 2020 half year include the following:

- On 12 November 2019, NAB redeemed (by exercising its issuer call option) €750 million of Subordinated Notes.
- On 18 November 2019, NAB issued $1.4 billion of Subordinated Notes.
- On 12 December 2019, NAB issued CAD1.0 billion of Subordinated Notes.
- On 10 February 2020, NAB redeemed €1.0 billion of Subordinated Notes, of which $254 million was Basel III compliant Tier 2 regulatory capital at the time of redemption.
- On 26 March 2020, NAB redeemed $1.1 billion of Subordinated Notes.
- The Group repurchased and cancelled US$10 million of the perpetual floating rate notes issued on 9 October 1986.

Funding and Liquidity

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

Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. The NSFR is a metric that measures the extent to which assets are funded with stable sources of funding in order to mitigate the risk of future funding stress. At 31 March 2020, the Group's NSFR was 116%, above the regulatory minimum of 100%.

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

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

Over the March 2020 half year, the SFI increased from 93% to 96%. The increase was driven by strong customer deposit growth, particularly during March, as well as foreign exchange impacts on the term wholesale funding portfolio as the AUD depreciated.

Group Funding Metrics

	As at		
	31 Mar 20	30 Sep 19	31 Mar 19
	%	%	%
CFI	72	70	70
TFI	24	23	23
SFI	96	93	93
NSFR	116	113	112

Capital Management and Funding (continued)

Term Funding Facility

On 19 March 2020, the RBA announced it was establishing a Term Funding Facility (TFF) for ADIs to reinforce the benefits to the economy of a lower RBA cash rate and encourage ADIs to support businesses.

The facility provides three-year funding via repurchase transactions with the RBA at a cost of 0.25% and is available to be drawn through to the end of March 2021.

On 30 March 2020, APRA announced that the benefit from the Initial Allowance of the TFF could be included in the reporting of LCR and NSFR from 31 March 2020 subject to having the necessary unencumbered collateral to access the facility. On 16 April 2020, APRA extended this treatment to include the Additional Allowance of the TFF.

NAB's Initial Allowance is $14.3 billion and Additional Allowance is $1.2 billion for April 2020, and both are undrawn.

Term Wholesale Funding

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

Global funding conditions were strong for the first four months of the March 2020 half year but deteriorated rapidly in late February following the spread of the COVID-19 pandemic and the subsequent adverse impact on global economic activity. Market volatility saw issuance spreads rise to post-Global Financial Crisis highs in March, however the Group was largely insulated from the increased term funding costs as NAB's issuance for the half occurred prior to March. The Group raised $12.2 billion during the March 2020 half year. NAB raised $10.0 billion, including $5.6 billion of senior unsecured debt, $2.5 billion of Tier 2 subordinated debt and $1.9 billion of secured debt (covered bonds). BNZ raised $2.2 billion of senior unsecured debt.

The weighted average maturity of term wholesale funding raised by the Group over the March 2020 half year was approximately 5.4 years to the first call date. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3 years.

Term funding markets will continue to be influenced by global events which shape investor sentiment, monetary and fiscal policy settings, as well as hedging costs in various derivative markets. The TFF also provides an alternative source of term wholesale funding over the next year to mitigate refinancing and execution risk.

Term Wholesale Funding Issuance by Deal Type

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
	%	**%**	**%**
Senior Public Offshore	**38**	35	32
Senior Public Domestic	**22**	27	28
Secured Public Offshore	**16**	14	22
Secured Public Domestic	**-**	6	10
Subordinated Public debt	**21**	12	-
Private Placements	**3**	6	8
Total	**100**	100	100

Term Wholesale Funding Issuance by Currency

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
	%	**%**	**%**
USD	**32**	30	35
AUD	**32**	36	34
EUR	**-**	23	17
GBP	**16**	-	-
JPY	**-**	6	9
Other	**20**	5	5
Total	**100**	100	100

Short-term Wholesale Funding

During the March 2020 half year, the Group accessed international and domestic short-term funding through wholesale markets when required, noting reduced offshore market liquidity as a result of the COVID-19 pandemic. The increase in short-term wholesale funding of $13 billion over the half was primarily driven by central bank activity in response to the COVID-19 pandemic and foreign exchange-related movements.

In addition, repurchase agreements have been primarily utilised to support markets and trading activities. Repurchase agreements entered into are materially offset by reverse repurchase agreements with similar tenors and are not used to fund NAB's core activities.

Liquidity Coverage Ratio

The LCR metric measures the adequacy of high quality liquid assets (HQLA) available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario. HQLAs consist of cash, central bank reserves along with highly rated government and central bank issuance. In addition to HQLA, other regulatory liquid assets included in the Committed Liquidity Facility (CLF) also contribute to the LCR calculation. The approved CLF size for 2020 is $55.1 billion ($55.9 billion for calendar year 2019). The collateralised portion of NAB's undrawn TFF Initial Allowance is included in the LCR numerator from 31 March 2020.

The Group maintains a well-diversified liquid asset portfolio to support regulatory and internal requirements in the various regions in which it operates. The average value of regulatory liquid assets held through the March 2020 quarter was $152 billion and included $98 billion of HQLA. The increase in HQLA was primarily driven by increased wholesale funding, deposit inflows and foreign

Capital Management and Funding (continued)

exchange-related movements in response to the spread of the COVID-19 pandemic. The Group also holds alternative liquid assets (ALA) which are pools of internally securitised mortgages, and other non-HQLA securities. ALAs are a source of contingent liquidity used to collateralise the CLF with the RBA or are securities that are repo-eligible with the RBNZ. The average value of ALAs held over the March 2020 quarter was $54 billion.

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

	Quarterly average		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
High Quality Liquid Asset ($bn)	**98**	88	85
Alternative Liquid Assets ($bn)	**54**	55	55
Total LCR liquid assets ($bn)	**152**	143	140
Net cash outflows ($bn)	**112**	114	108
Quarterly average LCR (%)	**136**	126	130

Credit Ratings

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

On 7 April 2020, Fitch Ratings revised its long-term rating of NAB from AA- to A+, and short term rating from F1+ to F1. Further, on 8 April 2020, S&P Global Ratings (S&P) revised its rating outlook of NAB from stable to negative.

National Australia Bank Credit Ratings

	Long Term	Short Term	Outlook
S&P Global Ratings	AA-	A-1+	Negative
Moody's Investors Service	Aa3	P-1	Stable
Fitch Ratings	A+	F1	Negative

Section 2

Divisional Review

Business and Private Banking

Business and Private Banking focuses on serving the needs of three of NAB's priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centres and through the small business customer hubs. This includes specialists in Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves high net worth customers through Private Bank and JBWere.

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income	**2,758**	2,826	2,808	(2.4)	(1.8)
Other operating income	**484**	516	521	(6.2)	(7.1)
Net operating income	**3,242**	3,342	3,329	(3.0)	(2.6)
Operating expenses	**(1,154)**	(1,150)	(1,115)	0.3	3.5
Underlying profit	**2,088**	2,192	2,214	(4.7)	(5.7)
Credit impairment charge[(1)]	**(126)**	(217)	(119)	(41.9)	5.9
Cash earnings before tax	**1,962**	1,975	2,095	(0.7)	(6.3)
Income tax expense	**(584)**	(597)	(633)	(2.2)	(7.7)
Cash earnings	**1,378**	1,378	1,462	-	(5.7)

Volumes ($bn)					
Housing lending	**86.1**	88.3	90.0	(2.5)	(4.3)
Business lending	**109.1**	109.0	107.8	0.1	1.2
Other lending	**3.0**	3.3	3.4	(9.1)	(11.8)
Gross loans and acceptances	**198.2**	200.6	201.2	(1.2)	(1.5)
Average interest earning assets	**190.1**	192.8	191.3	(1.4)	(0.6)
Total assets	**198.2**	200.8	201.5	(1.3)	(1.6)
Customer deposits	**140.5**	135.3	135.9	3.8	3.4
Total risk-weighted assets	**119.5**	119.2	119.3	0.3	0.2

Performance Measures					
Cash earnings on average assets	**1.38%**	1.37%	1.47%	1 bp	(9 bps)
Cash earnings on average risk-weighted assets	**2.31%**	2.30%	2.48%	1 bp	(17 bps)
Net interest margin	**2.90%**	2.92%	2.94%	(2 bps)	(4 bps)
Cost to income ratio	**35.6%**	34.4%	33.5%	120 bps	210 bps
Funds under administration (FUA) (spot) ($m)	**28,141**	30,163	26,594	(6.7)	5.8

	Half Year to				
Asset Quality	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
90+ DPD and gross impaired assets to gross loans and acceptances	**1.07%**	0.95%	0.83%	12 bps	24 bps
Credit impairment charge to gross loans and acceptances (annualised)	**0.13%**	0.22%	0.12%	(9 bps)	1 bp

(1) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*

Business and Private Banking (continued)

March 2020 v March 2019

Cash earnings decreased by $84 million or 5.7%, driven by lower revenue due to the low interest rate environment, and higher operating expenses due to the continued investment in technology, regulatory and compliance initiatives.

Key movements	Key drivers
Net interest income down $50m, 1.8%	• Average interest earning assets decreased by $1.2 billion or 0.6% primarily due to decline in home lending as a result of competitive pressure and negative investor housing system growth, partially offset by growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position with a continued focus on risk adjusted returns. • Customer deposits increased by $4.6 billion or 3.4%, reflecting a continued focus on growing stable and reliable deposits. • Net interest margin decreased by 4 basis points primarily driven by a lower earnings rate on deposits and capital due to the low interest rate environment, partially offset by repricing and lower funding costs in the housing lending portfolio.
Other operating income down $37m, 7.1%	• Lower merchant acquiring income. • Higher scheme charges reflecting the increased use of cards for low-value payments. • Lower fee income due to reduced origination activity. • Reduction and removal of certain fees providing better customer outcomes.
Operating expenses up $39m, 3.5%	• Investment in technology including cloud migration and enhanced data and technology capabilities, increased spend to strengthen the compliance and control environment and the impact of annual salary increases. • Partially offset by productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy.
Credit impairment charge up $7m, 5.9%	• Specific provision charges increased due to the non-repeat of write-backs for a small number of larger exposures in the March 2019 half year. • Lower collective provision charges for the mortgage portfolio due to the impact of house price movements, and a lower level of rating downgrades within the business lending portfolio. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 24 basis points driven by an increase in both 90+ DPD assets and gross impaired assets.
Risk-weighted assets up $0.2bn, 0.2%	• Increase due to business lending growth, and implementation of AASB 16 *Leases*[(1)], partially offset by a reduction in exposures to residential mortgages and commercial real estate.

(1) *Refer to Section 3, Note 1 Basis of preparation for further information.*

Business and Private Banking (continued)

March 2020 v September 2019

Cash earnings was flat, driven by lower revenue due to the low interest rate environment, offset by lower credit impairment charges.

Key movements	Key drivers
Net interest income down $68m, 2.4%	• Average interest earning assets decreased by $2.7 billion or 1.4% primarily due to decline in home lending as a result of competitive pressure and negative investor housing system growth, partially offset by growth in business lending as NAB continues to leverage its deep industry specialisations and strong market position with a continued focus on risk adjusted returns. • Customer deposits increased by $5.2 billion or 3.8%, reflecting a continued focus on growing stable and reliable deposits. • Net interest margin decreased by 2 basis points primarily driven by a lower earnings rate on deposits and capital due to the low interest rate environment.
Other operating income down $32m, 6.2%	• Lower merchant acquiring income. • Lower fee income due to reduced origination activity. • Reduction and removal of certain fees providing better customer outcomes.
Operating expenses up $4m, 0.3%	• Investment in technology including cloud migration and enhanced data and technology capabilities, increased spend to strengthen the compliance and control environment and the impact of annual salary increases. • Partially offset by productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy.
Credit impairment charge down $91m, 41.9%	• Lower collective provision charges for the mortgage portfolio due to the impact of house price movements, and a lower level of rating downgrades within the business lending portfolio. • Specific charges decreased due to a lower level of new and increased charges for individual impaired exposures and higher write-backs for a small number of large exposures in the March 2020 half year. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 12 basis points driven mainly by an increase in 90+ DPD assets.
Risk-weighted assets up $0.3bn, 0.3%	• Increase due to implementation of AASB 16 *Leases*[(1)], partially offset by a reduction in exposures to residential mortgages.

(1) *Refer to Section 3, Note 1 Basis of preparation for further information.*

Consumer Banking

Consumer Banking provides customers with products and services through proprietary networks in NAB and UBank, as well as third party and mortgage brokers. Customers are served through the Consumer Banking network to secure home loans or manage personal finances through deposit, credit or personal loan facilities. The network also provides servicing support to individuals and business customers.

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income	**2,077**	2,018	1,900	2.9	9.3
Other operating income[(1)]	**246**	272	271	(9.6)	(9.2)
Net operating income	**2,323**	2,290	2,171	1.4	7.0
Operating expenses[(1)]	**(1,214)**	(1,213)	(1,209)	0.1	0.4
Underlying profit	**1,109**	1,077	962	3.0	15.3
Credit impairment charge[(2)]	**(109)**	(141)	(173)	(22.7)	(37.0)
Cash earnings before tax	**1,000**	936	789	6.8	26.7
Income tax expense	**(301)**	(279)	(236)	7.9	27.5
Cash earnings	**699**	657	553	6.4	26.4

Volumes ($bn)					
Housing lending	**216.2**	215.6	216.6	0.3	(0.2)
Other lending	**5.5**	6.0	6.5	(8.3)	(15.4)
Gross loans and acceptances	**221.7**	221.6	223.1	-	(0.6)
Average interest earning assets	**205.2**	205.7	206.6	(0.2)	(0.7)
Total assets	**224.3**	226.4	227.4	(0.9)	(1.4)
Customer deposits	**126.2**	125.1	123.9	0.9	1.9
Total risk-weighted assets	**80.3**	78.2	78.5	2.7	2.3

Performance Measures					
Cash earnings on average assets	**0.62%**	0.58%	0.50%	4 bps	12 bps
Cash earnings on average risk-weighted assets	**1.76%**	1.67%	1.43%	9 bps	33 bps
Net interest margin	**2.02%**	1.96%	1.84%	6 bps	18 bps
Cost to income ratio	**52.3%**	53.0%	55.7%	(70 bps)	(340 bps)

	Half Year to				
Asset Quality	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
90+ DPD and gross impaired assets to gross loans and acceptances	**1.15%**	1.10%	0.98%	5 bps	17 bps
Credit impairment charge to gross loans and acceptances (annualised)	**0.10%**	0.13%	0.16%	(3 bps)	(6 bps)

(1) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*
(2) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*

Consumer Banking (continued)

March 2020 v March 2019

Cash earnings increased by $146 million or 26.4%, largely driven by higher revenue as a result of repricing and lower funding costs in the housing lending portfolio, combined with lower credit impairment charges.

Key movements	Key drivers
Net interest income up $177m, 9.3%	• Average interest earning assets decreased by $1.4 billion or 0.7%, driven by a decline in housing lending and unsecured lending volumes. • Net interest margin increased by 18 basis points driven by repricing and lower funding costs in the housing lending portfolio, partially offset by continued competitive pressures and a change in customer preferences (switching from interest only to principal and interest) and in product mix (investor to owner occupied home loans).
Other operating income down $25m, 9.2%	• Lower interchange income driven by lower card volumes and higher scheme charges reflecting the increased use of cards for low-value payments. • Lower foreign exchange revenue and lower annual card fees collected.
Operating expenses up $5m, 0.4%	• Investment in technology including cloud migration and enhanced data and technology capabilities, increased spend to strengthen the compliance and control environment, and the impact of annual salary increases. • Largely offset by productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy.
Credit impairment charge down $64m, 37.0%	• Lower collective provision charge in housing lending due to the impact of house price movements, combined with lower charges for unsecured lending. • 90+ DPD and gross impaired assets to gross loans and acceptances increased 17 basis points to 1.15% primarily driven by increased delinquencies across the mortgage portfolio.
Risk-weighted assets up $1.8bn, 2.3%	• Increase due to a deterioration in housing asset quality, operational risk risk-weighted assets and AASB 16 *Leases*[1] implementation, partially offset by a decline in unsecured lending volumes.

March 2020 v September 2019

Cash earnings increased by $42 million or 6.4%, due to increased revenue as a result of home loan repricing and lower funding costs in the housing lending portfolio, combined with lower credit impairment charges.

Key movements	Key drivers
Net interest income up $59m, 2.9%	• Average interest earning assets decreased by $0.5 billion or 0.2%, due to a decline in housing and unsecured lending volumes. • Customer deposits increased by $1.1 billion or 0.9% driven by growth in consumer savings and transaction accounts. • Net interest margin increased by 6 basis points driven by repricing and lower funding costs in the housing lending portfolio, partially offset by continued competitive pressures and a change in customer preferences (switching from interest only to principal and interest) and in product mix (investor to owner occupied home loans).
Other operating income down $26m, 9.6%	• Lower interchange income driven by lower card volumes and higher loyalty charges reflecting the increased use of premium loyalty cards for low-value payments. • Seasonally lower foreign exchange revenue and housing lending fees.
Operating expenses up $1m, 0.1%	• Investment in technology including cloud migration and enhanced data and technology capabilities, increased spend to strengthen the compliance and control environment and the impact of annual salary increases. • Largely offset by productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy.
Credit impairment charge down $32m, 22.7%	• Lower collective provision charge in housing lending due to the impact of house price movements. Partially offset by higher credit impairment charge due to a release of unsecured lending collective provision made in the prior period. • 90+ DPD and gross impaired assets to gross loans and acceptances increased 5 basis points to 1.15% primarily driven by increased delinquencies across the mortgage portfolio.
Risk-weighted assets up $2.1bn, 2.7%	• Increase due to a deterioration in housing asset quality, operational risk risk-weighted assets and AASB 16 *Leases*[1] implementation.

(1) *Refer to Section 3, Note 1 Basis of preparation for further information.*

Corporate and Institutional Banking

Corporate and Institutional Banking provides a range of lending and transactional products and services related to financial and debt capital markets, specialised capital, custody and alternative investments. The division services its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income	**942**	893	934	5.5	0.9
Other operating income	**607**	735	804	(17.4)	(24.5)
Net operating income	**1,549**	1,628	1,738	(4.9)	(10.9)
Operating expenses	**(634)**	(632)	(649)	0.3	(2.3)
Underlying profit	**915**	996	1,089	(8.1)	(16.0)
Credit impairment (charge) / write-back[(1)]	**6**	(27)	(43)	large	large
Cash earnings before tax	**921**	969	1,046	(5.0)	(12.0)
Income tax expense	**(220)**	(242)	(265)	(9.1)	(17.0)
Cash earnings	**701**	727	781	(3.6)	(10.2)

Net operating income					
Lending and deposits income	**1,098**	1,088	1,113	0.9	(1.3)
Markets income (ex derivative valuation adjustments)	**356**	347	416	2.6	(14.4)
Derivative valuation adjustments[(2)]	**(86)**	(17)	(4)	large	large
Other income	**181**	210	213	(13.8)	(15.0)
Total net operating income	**1,549**	1,628	1,738	(4.9)	(10.9)

Volumes ($bn)					
Corporate Finance	**41.1**	36.9	34.0	11.4	20.9
Business lending	**64.7**	60.5	61.0	6.9	6.1
Other lending	**0.6**	0.4	0.4	50.0	50.0
Gross loans and acceptances	**106.4**	97.8	95.4	8.8	11.5
Average interest earning assets	**269.8**	258.8	256.2	4.3	5.3
Total assets	**358.9**	295.0	273.0	21.7	31.5
Customer deposits	**113.7**	101.3	99.5	12.2	14.3
Total risk-weighted assets	**137.8**	127.6	119.1	8.0	15.7

Performance Measures					
Cash earnings on average assets	**0.46%**	0.51%	0.56%	(5 bps)	(10 bps)
Cash earnings on average risk-weighted assets	**1.07%**	1.19%	1.34%	(12 bps)	(27 bps)
Net interest margin	**0.70%**	0.69%	0.73%	1 bp	(3 bps)
Net interest margin (ex Markets)	**1.59%**	1.63%	1.70%	(4 bps)	(11 bps)
Cost to income ratio	**40.9%**	38.8%	37.3%	210 bps	360 bps

	Half Year to				
Asset Quality	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
90+ DPD and gross impaired assets to gross loans and acceptances	**0.34%**	0.47%	0.48%	(13 bps)	(14 bps)
Credit impairment charge to gross loans and acceptances (annualised)	**(0.01%)**	0.06%	0.09%	(7 bps)	(10 bps)

(1) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*
(2) *Derivative valuation adjustments, which include credit valuation adjustments and funding valuation adjustments, are shown net of hedging costs or benefits.*

Corporate and Institutional Banking (continued)

March 2020 v March 2019

Cash earnings decreased by $80 million or 10.2%, driven by lower revenue reflecting lower Markets income and reduced margins (ex Markets), partially offset by lower credit impairment charges and lower operating expenses.

Key movements	Key drivers
Net interest income up $8m, 0.9%	• Includes an increase of $23 million due to movements of economic hedges offset in other operating income. The underlying decrease was $15 million. • Net interest margin (ex Markets) decreased by 11 basis points to 1.59% primarily driven by lower earnings on capital and higher deposit costs due to the low interest rate environment, combined with competitive pressures impacting business lending margins. • Gross loans and acceptances increased by $11.0 billion or 11.5%. Excluding $4.0 billion driven by exchange rate movements, the underlying growth of $7.0 billion largely reflects continued focus on growth segments and additional drawdowns by existing customers managing the impacts of the COVID-19 pandemic. • Customer deposits increased by $14.2 billion or 14.3% reflecting increased domestic business savings deposits, offset by a reduction in term deposits.
Other operating income down $197m, 24.5%	• Includes a decrease of $23 million due to movements of economic hedges offset in net interest income. • Underlying decrease of $174 million mainly due to the mark-to-market impact on the derivative valuation adjustment of $82 million and the high quality liquids portfolio of $54 million.
Operating expenses down $15m, 2.3%	• Productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy. • Largely offset by investment in technology including cloud migration and enhanced data and technology capabilities and increased spend to strengthen the compliance and control environment.
Credit impairment charge down $49m	• Impairment of a small number of larger exposures in the current period.
Risk-weighted assets up $18.7bn, 15.7%	• Increase due to model and regulatory prescribed methodology changes of $5.9 billion, operational risk risk-weighted assets of $3.1 billion, combined with market movements and growth in gross loans and acceptances, partially offset by continued returns focused portfolio management.

Corporate and Institutional Banking (continued)

March 2020 v September 2019

Cash earnings decreased by $26 million or 3.6%, driven by lower revenue reflecting lower Markets income and reduced margins (ex Markets), partially offset by lower credit impairment charges.

Key movements	Key drivers
Net interest income up $49m, 5.5%	• Includes an increase of $46 million due to movements of economic hedges offset in other operating income. The underlying increase was $3 million. • Net interest margin (ex Markets) decreased by 4 basis points to 1.59% primarily driven by lower earnings on capital and higher deposit costs due to the low interest rate environment. • Gross loans and acceptances increased by $8.6 billion or 8.8%. Excluding $3.1 billion driven by exchange rate movements, the underlying growth of $5.5 billion largely reflects continued focus on growth segments and additional drawdowns by existing customers managing the impacts of the COVID-19 pandemic. • Customer deposits increased by $12.4 billion or 12.2% reflecting increased domestic business savings deposits, offset by a reduction in term deposits.
Other operating income down $128m, 17.4%	• Includes a decrease of $46 million due to movements of economic hedges offset in net interest income. • Underlying decrease of $82 million mainly due to the mark-to-market impact on the derivative valuation adjustment of $69 million and the high quality liquids portfolio of $54 million, partially offset by higher foreign exchange risk management income.
Operating expenses up $2m, 0.3%	• Investment in technology including cloud migration and enhanced data and technology capabilities and increased spend to strengthen the compliance and control environment. • Largely offset by productivity benefits achieved through simplification of the business, optimising supplier relationships, lower performance-based compensation and reduction in software amortisation costs following a change to the application of the software capitalisation policy.
Credit impairment charge down $33m	• Impairment of a small number of larger exposures.
Risk-weighted assets up $10.2bn, 8.0%	• Increase due to operational risk risk-weighted assets of $2.4 billion, combined with market movements and growth in gross loans and acceptances, partially offset by continued returns focused portfolio management.

New Zealand Banking

New Zealand Banking comprises the Consumer Banking, Wealth, Business, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

Results presented in New Zealand dollars. See page 40 for results in Australian dollars and page 104 for foreign exchange rates.

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net interest income	**1,006**	960	973	4.8	3.4
Other operating income	**285**	319	285	(10.7)	-
Net operating income	**1,291**	1,279	1,258	0.9	2.6
Operating expenses	**(467)**	(488)	(475)	(4.3)	(1.7)
Underlying profit	**824**	791	783	4.2	5.2
Credit impairment charge[1]	**(42)**	(66)	(44)	(36.4)	(4.5)
Cash earnings before tax	**782**	725	739	7.9	5.8
Income tax expense	**(220)**	(202)	(207)	8.9	6.3
Cash earnings	**562**	523	532	7.5	5.6

Volumes ($bn)					
Housing lending	**44.8**	43.0	41.3	4.2	8.5
Business lending	**43.6**	42.9	42.2	1.6	3.3
Other lending	**1.2**	1.3	1.4	(7.7)	(14.3)
Gross loans and acceptances	**89.6**	87.2	84.9	2.8	5.5
Average interest earning assets	**89.8**	87.1	85.0	3.1	5.6
Total assets	**94.1**	90.9	88.7	3.5	6.1
Customer deposits	**63.8**	61.5	59.7	3.7	6.9
Total risk-weighted assets	**64.3**	64.0	62.4	0.5	3.0

Performance Measures					
Cash earnings on average assets	**1.21%**	1.16%	1.22%	5 bps	(1 bp)
Cash earnings on average risk-weighted assets	**1.77%**	1.65%	1.72%	12 bps	5 bps
Net interest margin	**2.24%**	2.20%	2.30%	4 bps	(6 bps)
Cost to income ratio	**36.2%**	38.2%	37.8%	(200 bps)	(160 bps)

	Half Year to				
Asset Quality	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
90+ DPD and gross impaired assets to gross loans and acceptances	**1.00%**	0.92%	0.52%	8 bps	48 bps
Credit impairment charge to gross loans and acceptances (annualised)	**0.09%**	0.15%	0.10%	(6 bps)	(1 bp)

	As at		
Market share[2]	**29 Feb 20**	**30 Sep 19**	**31 Mar 19**
Housing lending	**16.0%**	16.0%	15.9%
Agribusiness	**21.8%**	22.2%	22.0%
Business lending	**23.0%**	23.6%	23.6%
Retail deposits	**18.0%**	18.0%	18.1%

Distribution			
Number of retail branches	**152**	153	153

(1) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*
(2) *Source: RBNZ.*

New Zealand Banking (continued)

March 2020 v March 2019

Cash earnings increased by $30 million or 5.6%, driven by higher revenue and lower operating expenses.

Key movements	Key drivers
Net interest income up $33m, 3.4%	• Average interest earning assets increased by $4.8 billion or 5.6% due to growth in both housing and business lending. Housing lending continues to grow above system. • Customer deposits increased by $4.1 billion or 6.9% with growth mainly in at-call deposits. • Net interest margin decreased by 6 basis points primarily due to a lower earnings rate on deposits and capital given the lower interest rate environment.
Other operating income is flat	• Increased line fees and sales of customer risk management products, offset by the reduction and removal of certain customer fees.
Operating expenses down $8m, 1.7%	• Decreased due to productivity benefits achieved through continued simplification of the business and reduced amortisation charges. • Partially offset by continued investment in technology and increased spend to uplift customer experience and strengthen the compliance and control environment.
Credit impairment charge down $2m	• Credit impairment charge to gross loans and acceptances decreased by 1 basis point, driven by lower collective provision charges. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 48 basis points mainly due to a small number of larger exposures in the dairy portfolio.
Total risk-weighted assets up $1.9bn, 3.0%	• Increase due to regulatory prescribed methodology changes and AASB 16 *Leases*[(1)] implementation, together with growth in gross loans and acceptances.

March 2020 v September 2019

Cash earnings increased by $39 million or 7.5%, driven by higher revenue, and lower operating expenses and credit impairment charges.

Key movements	Key drivers
Net interest income up $46m, 4.8%	• Average interest earning assets increased by $2.7 billion or 3.1% due to growth in housing and business lending. Housing lending continues to grow above system. • Customer deposits increased by $2.3 billion or 3.7% with growth mainly in at-call deposits. • Net interest margin increased by 4 basis points primarily due to higher lending margins and a focus on risk adjusted returns.
Other operating income down $34m, 10.7%	• Lower sales of customer risk management products, combined with the reduction and removal of certain customer fees.
Operating expenses down $21m, 4.3%	• Decreased due to productivity benefits achieved through continued simplification of the business and reduced amortisation charges. • Partially offset by increased spend to uplift customer experience and strengthen the compliance and control environment.
Credit impairment charge down $24m, 36.4%	• Credit impairment charge to gross loans and acceptances decreased by 6 basis points, driven by a lower level of new and increased specific charges for individual impaired exposures. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 8 basis points mainly due to an increase in retail 90+ DPD and gross impaired loans on a small number of larger corporate exposures.
Total risk-weighted assets up $0.3bn, 0.5%	• Increase due to growth in gross loans and acceptances and AASB 16 *Leases*[(1)] implementation, partially offset by portfolio mix.

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(1) *Refer to Section 3, Note 1 Basis of preparation for further information.*

New Zealand Banking (continued)

Results presented in Australian dollars. See page 38 for results in New Zealand dollars.

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Net interest income	**959**	908	920	5.6	4.2
Other operating income	**272**	302	269	(9.9)	1.1
Net operating income	**1,231**	1,210	1,189	1.7	3.5
Operating expenses	**(445)**	(461)	(450)	(3.5)	(1.1)
Underlying profit	**786**	749	739	4.9	6.4
Credit impairment charge(1)	**(41)**	(62)	(41)	(33.9)	-
Cash earnings before tax	**745**	687	698	8.4	6.7
Income tax expense	**(210)**	(193)	(195)	8.8	7.7
Cash earnings	**535**	494	503	8.3	6.4

Impact of foreign exchange rate movements

Favourable / (unfavourable) 31 March 2020	Half Year since Sep 19 $m	Mar 20 v Sep 19 Ex FX %	Year since Mar 19 $m	Mar 20 v Mar 19 Ex FX %
Net interest income	**7**	4.8	**9**	3.3
Other operating income	**2**	(10.6)	**2**	0.4
Operating expenses	**(3)**	(4.1)	**(4)**	(2.0)
Credit impairment charge	**(1)**	(35.5)	**-**	-
Income tax expense	**(1)**	8.3	**(3)**	6.2
Cash earnings	**4**	7.5	**4**	5.6

(1) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*

Corporate Functions and Other

The Group's 'Corporate Functions and Other' business includes functions that support all businesses including Treasury, Technology and Operations, Support Units and Eliminations.

	Half Year to				
	Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Net operating income[1][2]	86	317	361	(72.9)	(76.2)
Customer-related remediation[3]	(242)	(863)	(344)	(72.0)	(29.7)
Net operating income	(156)	(546)	17	(71.4)	large
Operating expenses[4]	(345)	(336)	(311)	2.7	10.9
Customer-related remediation[3]	(176)	(244)	(120)	(27.9)	46.7
Capitalised software policy change[3]	(1,056)	(494)	-	large	large
Underlying loss	(1,733)	(1,620)	(414)	7.0	large
Credit impairment charge	(891)	(23)	(73)	large	large
Cash deficit before tax and distributions	(2,624)	(1,643)	(487)	59.7	large
Income tax benefit	727	476	116	52.7	large
Cash deficit before distributions	(1,897)	(1,167)	(371)	62.6	large
Distributions	(22)	(31)	(52)	(29.0)	(57.7)
Cash deficit	(1,919)	(1,198)	(423)	60.2	large
Cash deficit (excluding large notable items)[3]	(884)	(75)	(98)	large	large

March 2020 v March 2019

Cash deficit increased by $1,496 million including an increase of $710 million in large notable items. Cash deficit (excluding large notable items) increased by $786 million mainly due to higher credit impairment charges, lower NAB risk management income in Treasury, and higher operating expenses.

Key movements	Key drivers
Net operating income down $275m, 76.2%	• Excludes a decrease of customer-related remediation of $102 million. • Lower NAB risk management income in Treasury due to the mark-to-market impact on the high quality liquids portfolio of $207 million. • Gains from asset sales in the prior period not repeated and lower share of associate's profit in MLC Life.
Operating expenses up $34m, 10.9%	• Excludes an increase in large notable items of $1,112 million. • Increase in restructuring-related costs, partially offset by lower regulatory and legal costs.
Credit impairment charge up $818m	• An increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. • Higher level of collective provision charges for planned model refinements.
Distributions are down $30m, 57.7%	• Distributions reduced due to hybrid securities redeemed in December 2018, combined with a decrease in distribution rate.

March 2020 v September 2019

Cash deficit increased by $721 million including a decrease of $88 million in large notable items. Cash deficit (excluding large notable items) increased by $809 million mainly due to higher credit impairment charges, and lower NAB risk management income in Treasury.

Key movements	Key drivers
Net operating income down $231m, 72.9%	• Excludes a decrease of customer-related remediation of $621 million. • Lower NAB risk management income in Treasury due to the mark-to-market impact on the high quality liquids portfolio of $178 million.
Operating expenses up $9m, 2.7%	• Excludes an increase in large notable items of $494 million. • Increase in restructuring-related costs, partially offset by lower regulatory and legal costs and non-recurring items in the prior period.
Credit impairment charge up $868m	• An increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic. • Higher level of collective provision charges for planned model refinements.
Distributions are down $9m, 29.0%	• Distributions reduced in line with a decrease in distribution rate.

(1) *Excludes customer-related remediation.*
(2) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*
(3) *Refer to Section 1 Large notable items for further information.*
(4) *Excludes large notable items.*

MLC Wealth

MLC Wealth provides superannuation, investments, asset management and financial advice to retail, corporate and institutional clients, supported by several brands including MLC, Plum and investment brands under MLC Asset Management.

	Half Year to				
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Net operating income[1]	**384**	423	430	(9.2)	(10.7)
Operating expenses[1]	**(326)**	(308)	(321)	5.8	1.6
Cash earnings before tax	**58**	115	109	(49.6)	(46.8)
Income tax expense	**(16)**	(30)	(31)	(46.7)	(48.4)
Cash earnings	**42**	85	78	(50.6)	(46.2)

Performance Measures					
Cost to income ratio	**84.9%**	72.8%	74.7%	large	large
Funds under administration (FUA) (spot) ($m)	**105,169**	120,060	116,636	(12.4)	(9.8)
Funds under administration (FUA) (average) ($m)	**119,900**	119,142	114,356	0.6	4.8
Assets under management (AUM) (spot) ($m)[2]	**153,669**	172,024	174,402	(10.7)	(11.9)
Assets under management (AUM) (average) ($m) [2]	**167,124**	174,421	170,275	(4.2)	(1.9)
Net operating income to average FUA (bps)[1]	**46**	46	52	-	(6 bps)
Net operating income to average AUM (bps)[2]	**11**	12	12	(1 bp)	(1 bp)

Funds under administration (FUA) and Assets under management (AUM)[1][3]

Movement in FUA ($m)[4]	**As at Mar 19**	**Inflows**	**Outflows**	**Netflows**	**Other**[5]	**As at Mar 20**	**Mar 20 v Mar 19%**
Masterkey on-sale	25,942	1,898	(5,169)	(3,271)	(1,136)	**21,535**	(17.0)
Masterkey off-sale	7,945	218	(1,522)	(1,304)	(394)	**6,247**	(21.4)
MLC Wrap	32,982	4,187	(4,224)	(37)	(2,416)	**30,529**	(7.4)
Corporate	49,767	5,824	(6,759)	(935)	(1,974)	**46,858**	(5.8)
Total	116,636	12,127	(17,674)	(5,547)	(5,920)	**105,169**	(9.8)
Movement in AUM ($m)[2][6]							
Portfolio Management	115,363	13,418	(21,990)	(8,572)	(4,863)	**101,928**	(11.6)
Investment Management	59,039	26,027	(30,512)	(4,485)	(2,813)	**51,741**	(12.4)
Total	174,402	39,445	(52,502)	(13,057)	(7,676)	**153,669**	(11.9)

Movement in FUA ($m)[4]	**As at Sep 19**	**Inflows**	**Outflows**	**Netflows**	**Other**[5]	**As at Mar 20**	**Mar 20 v Sep 19%**
Masterkey on-sale	25,723	817	(2,498)	(1,681)	(2,507)	**21,535**	(16.3)
Masterkey off-sale	7,745	92	(741)	(649)	(849)	**6,247**	(19.3)
MLC Wrap	35,039	1,986	(1,934)	52	(4,562)	**30,529**	(12.9)
Corporate	51,553	2,851	(3,336)	(485)	(4,210)	**46,858**	(9.1)
Total	120,060	5,746	(8,509)	(2,763)	(12,128)	**105,169**	(12.4)
Movement in AUM ($m)[2][6]							
Portfolio Management	116,956	5,462	(9,854)	(4,392)	(10,636)	**101,928**	(12.8)
Investment Management	55,068	13,662	(14,601)	(939)	(2,388)	**51,741**	(6.0)
Total	172,024	19,124	(24,455)	(5,331)	(13,024)	**153,669**	(10.7)

(1) *Comparative information has been restated for immaterial changes in the NAB organisational structure.*
(2) *For March 2020 there has been a change in the way AUM is presented as a result of an internal reorganisation within MLC Wealth. Comparative period information has also been restated.*
(3) *FUA and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUA and AUM meaning the two should not be summed.*
(4) *FUA represents the market value of funds administered by the Group.*
(5) *Includes investment earnings and other client transactions including distributions and changes in ownership of minority interest affiliates.*
(6) *AUM represents the market value of funds for which the Group acts as funds adviser or investment manager.*

MLC Wealth (continued)

March 2020 v March 2019

Cash earnings decreased by $36 million or 46.2% primarily driven by lower net operating income.

Key movements	Key drivers
Net operating income down $46m, 10.7%	• Higher average FUA (increased by $5.5 billion or 4.8%) due to higher average investment markets, offset by net outflows and partially offset by lower average AUM (decreased by $3.2 billion or 1.9%). • Lower average margins reflecting competitive repricing activity and the impact of regulatory changes. • Lower Advice income reflecting a reduced adviser footprint. • Unrealised losses recognised on investments held within the regulatory capital portfolio.
Operating expenses up $5m, 1.6%	• Increased costs associated with the MLC Wealth separation and higher project spend on strategic and regulatory projects. • Partially offset by lower performance-based compensation costs.

March 2020 v September 2019

Cash earnings decreased by $43 million or 50.6% driven by lower net operating income and higher operating expenses.

Key movements	Key drivers
Net operating income down $39m, 9.2%	• Unrealised losses recognised on investments held within the regulatory capital portfolio. • Asset Management income declined reflecting lower average AUM given net outflows and lower margins, combined with lower revenue following the sale of an Asset Management business in the September 2019 half year. • Broadly stable FUA and slightly lower average margins given repricing and regulatory changes.
Operating expenses up $18m, 5.8%	• Increased costs associated with the MLC Wealth separation and higher project spend on strategic and regulatory projects.

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Section 3

Financial Report

Report of the Directors

The Directors of National Australia Bank Limited (NAB) (ABN 12 004 044 937) present their report, together with the financial statements of NAB and its controlled entities (the Group) for the half year ended 31 March 2020.

Directors

Directors who held office during or since the end of the March 2020 half year are:

Philip Chronican
Director since May 2016 and Chairman of the Board since November 2019

Ross McEwan
Managing Director and Group Chief Executive Officer since December 2019

David Armstrong
Director since August 2014

Kathryn Fagg
Director since December 2019

Peeyush Gupta
Director since November 2014

Anne Loveridge
Director since December 2015

Geraldine McBride
Director since March 2014

Douglas McKay
Director since February 2016

Simon McKeon
Director since February 2020

Ann Sherry
Director since November 2017

Dr Ken Henry
Chairman from December 2015 and Director since November 2011. Dr Henry resigned from the Board effective 14 November 2019

Anthony Yuen
Director since March 2010. Mr Yuen retired from the Board in December 2019

Rounding of Amounts

Pursuant to the ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, amounts in this report and the accompanying financial statements have been rounded to the nearest million dollars, except where indicated.

Significant Changes in the State of Affairs

In addition to changes disclosed in the 2019 Annual Financial Report, a number of changes to the composition of the NAB Board and Executive Leadership Team were announced during the March 2020 half year, namely:

- Mr Simon McKeon commenced as Non-Executive Director on 3 February 2020.
- Mr Mike Baird resigned as Chief Customer Officer - Consumer Banking effective 15 April 2020. Mr Baird's last date with the Group is 31 May 2020.
- Mr Anthony Waldron, Executive General Manager - Consumer Banking will be acting as Chief Customer Officer - Consumer Banking, effective 16 April 2020.
- Mr Anthony Healy resigned as Chief Customer Officer - Business and Private Banking effective 30 April 2020.
- Mr Michael Saadie, Chief Risk Officer - Business and Private Banking will be acting as Chief Customer Officer - Business and Private Banking, effective 1 May 2020.

COVID-19 Pandemic

NAB continues to closely monitor the unprecedented COVID-19 pandemic and its impact on the global and domestic economy. The expected duration and magnitude of this pandemic and its potential impacts on the economy and financial markets are unclear. It is not known whether the measures being undertaken in Australia and globally will be sufficient to control the spread of the virus or to limit the impact on the economy. Should the impact of the virus be severe or prolonged, it is expected to have a material adverse impact on the global and Australian economies, which in turn may have a material adverse impact on NAB's financial performance and position.

On 20 March 2020, the Group announced a wide range of measures to provide significant relief to business and personal customers experiencing financial difficulty at a time they need it most. NAB's priorities through this crisis are to continue to protect colleagues and support customers, and maintain the safety and security of the Bank. The announcement is available at www.nab.com.au/about-us/shareholder-centre/asx-announcement.

NAB support for business customers impacted by the COVID-19 pandemic includes the ability to:

- Defer principal and interest for up to six months on a range of business loans, including floating and variable rates, and equipment finance loans.
- Receive a 200 basis points rate cut on new loans and all overdrafts on QuickBiz, effective 30 March 2020.
- Receive an additional 100 basis points reduction on variable rates for small business loans, effective 30 March 2020. This is on top of a 25 basis points reduction announced in March 2020.
- Access up to $65 billion of additional secured limits to pre-assessed customers, with $7 billion currently available for fast assessment process.
- Access up to $9 billion in additional limits for unsecured lending for existing customers via QuickBiz.
- Defer business credit card repayments.

NAB support for personal customers impacted by the COVID-19 pandemic includes the ability to:

- Pause home loan repayments for up to six months, including a three-month checkpoint. For a customer with a typical home loan of $400,000, this will mean access to an additional $11,006 over six months, or $1,834 per month.

Report of the Directors (continued)

- Access a ten-month term deposit rate of 1.75% per annum for ten months, effective 24 March 2020. This is for personal customers only, with deposits of $5,000 to $2 million.
- Access fixed home loan rates of 2.39% per annum for one year, 2.29% per annum for two and three years, and 2.79% per annum for five years (owner-occupier P&I), effective 25 March 2020. First home buyers will have access to a rate of 2.19% per annum fixed for two years. This delivers rate reductions of between 10 and 60 basis points.
- Access over $20 billion in redraw and more than $30 billion in offset. Note: Around 1 in 2 accounts are at least 6 months ahead based on redraw and offset balance; and 4 in 10 are 12 months ahead.
- Reduce repayments on variable rate loans. Over the past 12 months, reductions of 84 basis points to our owner-occupier variable rates have provided a potential benefit of $3,360 per year to customers with a $400,000 loan.

NAB has waived the late payment fees on all business and personal credit cards for at least three months, starting 3 April 2020.

NAB business and personal customers are encouraged to contact a banker to understand what support measures may be available in their specific circumstances and the basis on which this support is available.

The Board and senior management acknowledge the need to share the pain felt by NAB's customers, shareholders and more broadly. Chairman Philip Chronican will forego 20% of his Chairman fee and other Directors will forego 20% of their base fees for the second half of the financial year, from 1 April to 30 September. Group CEO Ross McEwan will forego 20% of his fixed remuneration from 1 April to 30 September. In addition, Mr McEwan and members of NAB's Executive Leadership Team will forego short-term variable rewards for the 2020 financial year.

Safety and Security of the Bank

The COVID-19 pandemic has had a significant impact on global and domestic capital and funding markets. The Group's balance sheet was well placed heading into this event, and as at 31 March 2020.

The Group's Common Equity Tier 1 (CET1) ratio was 10.39% at 31 March 2020. The Group is taking proactive steps to build capital via an equity raising and a reduction in the interim dividend, in light of the uncertain economic outlook due to the COVID-19 pandemic, increasing the Group's pro forma CET1 ratio to 11.2%. These actions are intended to provide the Group with sufficient capacity to continue supporting our customers through the challenging times ahead, as well as increasing the Group's capital level to assist to manage through a range of possible scenarios, including a prolonged and severe economic downturn.

The Group maintained strong liquidity throughout the March 2020 half year. The Net Stable Funding Ratio (NSFR) was 116% and the quarterly average Liquidity Coverage Ratio (LCR) was 136%, both above APRA regulatory requirement.

NAB welcomes the series of measures announced to date by the Federal Government, the Reserve Bank of Australia (RBA) and Australian Prudential Regulation Authority (APRA), that will help to stabilise the financial system through this difficult period, provide support for individuals, households and businesses and assist NAB in supporting its customers. On 19 March 2020, the RBA announced it was establishing a Term Funding Facility (TFF) for authorised deposit-taking institutions (ADIs) in response to the COVID-19 pandemic. Further details on the TFF are outlined in the Funding and Liquidity section on page 27.

Response to Bushfires

The bushfires that swept across vast parts of the country in early 2020 devastated communities and left many Australians with an uncertain future.

NAB continues to provide support to the families, communities and businesses that were directly affected by the fires, including some NAB colleagues. This includes contributions to bushfire recovery efforts of $5 million, which provided immediate relief to businesses and agriculture customers as well as supporting longer-term recovery and rebuilding efforts in communities across Australia.

NAB deployed specialist bankers who are trained to support customers in hardship to bushfire affected areas to help retail and small business customers access support, including financial relief and referrals to counselling.

NAB has also provided 30,000 colleagues with an extra day's annual leave in 2020, so they can visit communities impacted by the bushfires and support local businesses.

Review of Group Operations and Results[1]

Over the past two and a half years, NAB has made significant investments to improve the Group, predominately in its technology. This focus, including upskilling and insourcing the right capabilities has enabled the Group to respond well in the current COVID-19 pandemic crisis.

The Group has the foundations in place to allow it to concentrate on delivering much better experiences for customers and colleagues. Over recent months, the Group has refreshed its long-term strategy and is clear on how it will be delivered.

Update on Long-term Strategy

NAB's ambition is to serve our customers well and help our communities prosper. To achieve this, the Group will need to invest in our customers and colleagues.

The four key areas the Group will focus on are:

- Safe; protecting customers and colleagues through financial and operational resilience.

(1) *Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7 of NAB's 2020 Half Year Results Summary.*

Report of the Directors (continued)

- Easy; a simpler, more seamless and digitally enabled bank that gets things done faster.
- Relationship-led; building on market-leading expertise, data and insights.
- Long term; deliver sustainable outcomes for our stakeholders.

Action is already underway on a number of fronts. A key near term focus will be streamlining NAB's products and processes, particularly in home and business lending which should also support a smoother transition to digitisation over the medium term. In technology, the Group continues to migrate IT applications to lower cost cloud platforms and has a medium-term focus on standardising and simplifying its architecture to reduce the number of core systems and provide more consistent outcomes for customers and colleagues. The Group is also accelerating the operational separation of MLC Wealth as a priority, with good momentum underway to ensure this business is well positioned on a standalone basis for divestment.

Execution will underpin the Group's success. This starts by focusing attention on what matters most to our customers and colleagues, and directing energy and resources there. The number of key investment projects across the Group has reduced by two thirds, with a small number identified as critically important and receiving CEO oversight.

Ownership and accountability for outcomes and executing these changes will be clear. To enable this, the Group is implementing a new organisational structure with five end-to-end businesses designed around customers - Personal Banking, Business and Private Banking, Corporate and Institutional Banking, Bank of New Zealand and UBank. These customer divisions will be responsible for all product, customer experience and operations relating to their customers. They are supported by enabling units delivering common activities at-scale across the Group including Technology and Risk. This will go a long way towards better enabling our colleagues and consistently getting basics right for customers.

Over time, a simpler, more streamlined business with clear accountability is expected to be more productive and efficient, enabling better customer outcomes and more engaged colleagues.

Financial Performance Summary

The COVID-19 pandemic has led to an increasingly uncertain economic environment which has caused significant volatility in financial markets in the latter part of the March 2020 half year. The impact on statutory net profit was material.

Net profit attributable to owners of NAB decreased by $791 million or 37.6% compared to the September 2019 half year. Net profit from continuing operations decreased by $975 million or 44.6% compared to the September 2019 half year due to higher operating expenses largely as a result of the change in the application of the software capitalisation policy, and higher credit impairment charges, partially offset by higher revenue.

Net interest income increased by $72 million or 1.1%. Excluding a decrease of customer-related remediation of $8 million, net interest income increased by $64 million driven by the impact of repricing in the housing lending portfolio and lower short-term wholesale funding costs. These movements were partially offset by competitive pressures impacting housing lending margins and lower earnings on deposits and capital due to the low interest rate environment.

Other income increased by $86 million or 4.4%. Excluding a decrease of customer-related remediation of $613 million, other income decreased by $527 million mainly due to lower NAB risk management income in Treasury and Markets, primarily due to the mark-to-market impact on the high quality liquids portfolio of $232 million and derivative valuation adjustment of $69 million, and unfavourable movements in fair value and hedge ineffectiveness. Furthermore, fee income is lower mainly due to the reduction and removal of certain fees, lower merchant acquiring income, lower interchange income and higher loyalty charges.

Operating expenses increased by $728 million or 13.9%. Excluding an increase of $494 million in large notable items, operating expenses increased by $234 million driven by investment in technology, increased spend to strengthen the compliance and control environment, impairment of investment in MLC Life, additional restructuring-related costs and the impact of annual salary increases. This was largely offset by productivity benefits achieved through reduction in third party spend, simplification of the Group's operations, lower performance-based compensation and a reduction in software amortisation costs following a change to the application of the software capitalisation policy.

Credit impairment charge increased by $694 million, driven primarily by an increase of $807 million in the forward looking economic adjustment due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic.

Discontinued operations in the March 2020 half year reflect a profit of $105 million, relating to a reassessment of customer-related remediation provisions associated with the MLC Life business.

Total assets increased by $80,504 million or 9.5% compared to 30 September 2019. Excluding exchange rate movements, total assets increased by $64,660 million or 7.6%. The increase was mainly due to an increase in amounts due from other banks of $26,135 million or 81.3% reflecting the Group’s management of liquidity during the period, and trading derivatives of $22,680 million or 63.8% driven by exchange rate and interest rate movements. Furthermore, an increase in loans and advances (net of other financial assets at fair value and due from customers on acceptances) of $8,188 million or 1.4% reflects growth in non-housing lending largely driven by additional drawdowns by existing customers managing the impacts of the COVID-19 pandemic.

Report of the Directors (continued)

Total liabilities increased by $77,730 million or 9.8% compared to 30 September 2019. Excluding exchange rate movements, total liabilities increased by $62,502 million or 7.9%. The increase was mainly due to trading derivatives of $21,294 million or 62.0% driven by exchange rate and interest rate movements, amounts due to other banks of $16,877 million or 49.2% from repurchase agreement activity and deposits and other borrowings of $14,763 million or 2.8% reflecting existing customers managing the impacts of the COVID-19 pandemic. Furthermore, an increase in other liabilities of $3,913 million or 39.9% reflects an increase in cash collateral received.

Total equity increased by $2,774 million or 5.0% compared to 30 September 2019 mainly due to an increase in contributed equity attributable to shares issued through the Dividend Reinvestment Plan (DRP), DRP underwritten allotments and conversion of preference shares during the period. In addition, reserves were higher mainly due to an increase in the foreign currency translation reserve.

Review of Divisional Results

Business and Private Banking results were flat on the September 2019 half year with lower revenue due to the low interest rate environment offset by lower credit impairment charges for the mortgage portfolio due to the impact of house price movements and a lower level of rating downgrades within the business lending portfolio.

Consumer Banking results reflect higher revenue as a result of home loan repricing and lower funding costs in the housing lending portfolio, combined with lower credit impairment charges.

Corporate and Institutional Banking results reflect lower revenue due to lower Markets income and reduced margins (ex Markets), partially offset by lower credit impairment charges.

New Zealand Banking results reflect higher revenue which benefited from growth in housing and business lending, and lower operating expenses due to productivity benefits achieved through continued simplification of the business and reduced amortisation charges.

MLC Wealth results reflect lower revenue from unrealised losses on investments held within the regulatory capital portfolio and lower average AUM. Average margins were slightly lower due to repricing activities and regulatory change. Operating expenses have increased due to the MLC Wealth separation and higher project spend on strategic and regulatory projects.

Corporate Functions and Other results reflect large notable items, higher credit impairment charges mainly driven by collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, and lower Treasury income.

Corporate Governance

The Board has received the relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations jointly from the Group Chief Executive Officer and the Group Chief Financial Officer in respect to the half year financial report for the period ended 31 March 2020.

The Directors of NAB have a significant 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 that are in place to maintain the integrity of the Group's financial statements. Further details on the role of the Board and its Committees can be found online in the Corporate Governance section of the NAB website at www.nab.com.au/about-us/corporate-governance.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required by section 307C of the *Corporations Act 2001* (Cth) is set out on the following page and forms part of this report.

Directors' Signatures

Signed in accordance with the resolution of the Directors:

Philip Chronican
Chairman

Ross McEwan
Group Chief Executive Officer

27 April 2020

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

As lead auditor for the review of the half-year financial report of National Australia Bank Limited for the half-year ended 31 March 2020, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

27 April 2020

Consolidated Financial Statements

Income Statement

		Half Year to		
		Mar 20[1]	Sep 19	Mar 19
	Note	$m	$m	$m
Interest income		**12,738**	14,222	14,981
Interest expense		**(5,849)**	(7,405)	(8,240)
Net interest income		**6,889**	6,817	6,741
Other income	3	**2,031**	1,945	2,428
Operating expenses	4	**(5,964)**	(5,236)	(4,591)
Credit impairment charge	8	**(1,167)**	(473)	(454)
Profit before income tax		**1,789**	3,053	4,124
Income tax expense	5	**(579)**	(868)	(1,219)
Net profit for the period from continuing operations		**1,210**	2,185	2,905
Net profit / (loss) after tax for the period from discontinued operations	14	**105**	(79)	(210)
Net profit for the period		**1,315**	2,106	2,695
Profit attributable to non-controlling interests		**2**	2	1
Net profit attributable to owners of NAB		**1,313**	2,104	2,694

	cents	cents	cents
Basic earnings per share	**44.2**	73.0	95.9
Diluted earnings per share	**42.6**	71.8	92.1
Basic earnings per share from continuing operations	**40.6**	75.8	103.5
Diluted earnings per share from continuing operations	**39.5**	74.4	99.1

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

Consolidated Financial Statements (continued)

Statement of Comprehensive Income

		Half Year to		
		Mar 20[1]	Sep 19	Mar 19
	Note	$m	$m	$m
Net profit for the period from continuing operations		**1,210**	2,185	2,905
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**1,219**	47	120
Revaluation of land and buildings		**-**	(2)	-
Equity instruments at fair value through other comprehensive income reserve:				
Revaluation gains		**2**	8	7
Tax on items transferred directly to equity		**(361)**	(21)	(29)
Total items that will not be reclassified to profit or loss		**860**	32	98
Items that will be reclassified subsequently to profit or loss				
Cash flow hedge reserve:				
Gains on cash flow hedging instruments		**534**	193	91
Cost of hedging reserve		**130**	(71)	(189)
Foreign currency translation reserve:				
Currency adjustments on translation of foreign operations, net of hedging		**455**	(225)	335
Transfer to the income statement on disposal of foreign operations		**(22)**	(38)	-
Debt instruments at fair value through other comprehensive income reserve:				
Revaluation gains / (losses)		**(282)**	(2)	39
Gains from sale transferred to the income statement		**(4)**	(1)	(1)
Change in loss allowance on debt instruments		**-**	1	(1)
Tax on items transferred directly to equity		**(109)**	(38)	1
Total items that will be reclassified subsequently to profit or loss		**702**	(181)	275
Other comprehensive income for the period, net of income tax		**1,562**	(149)	373
Total comprehensive income for the period from continuing operations		**2,772**	2,036	3,278
Net profit / (loss) for the period from discontinued operations	14	**105**	(79)	(210)
Total comprehensive income for the period		**2,877**	1,957	3,068
Attributable to non-controlling interests		**2**	2	1
Total comprehensive income attributable to owners of NAB		**2,875**	1,955	3,067

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

Consolidated Financial Statements (continued)

Balance Sheet

		As at		
		31 Mar 20[1]	30 Sep 19	31 Mar 19
	Note	$m	$m	$m
Assets				
Cash and liquid assets		**58,338**	55,457	54,044
Due from other banks		**60,884**	32,130	27,418
Trading instruments		**124,647**	96,828	84,043
Debt instruments		**40,275**	40,205	42,873
Other financial assets		**5,974**	7,110	8,827
Hedging derivatives		**13,287**	4,689	3,055
Loans and advances		**601,798**	587,749	585,730
Due from customers on acceptances		**2,010**	2,490	3,096
Property, plant and equipment		**2,291**	1,117	1,133
Goodwill and other intangible assets		**4,696**	5,576	5,872
Deferred tax assets		**2,970**	2,670	2,232
Other assets[2]		**10,458**	11,103	8,620
Total assets		**927,628**	847,124	826,943
Liabilities				
Due to other banks		**53,076**	34,273	36,960
Trading instruments		**56,669**	34,318	23,287
Other financial liabilities		**35,119**	33,283	32,973
Hedging derivatives		**6,664**	4,037	2,985
Deposits and other borrowings	10	**544,498**	522,085	518,692
Current tax liabilities		**300**	468	229
Provisions		**3,446**	3,507	2,568
Bonds, notes and subordinated debt		**148,873**	143,258	140,699
Other debt issues		**5,636**	6,482	6,509
Other liabilities		**14,969**	9,809	7,950
Total liabilities		**869,250**	791,520	772,852
Net assets		**58,378**	55,604	54,091
Equity				
Contributed equity	11	**41,193**	38,707	36,850
Reserves	11	**870**	306	458
Retained profits		**16,314**	16,583	16,776
Total equity (parent entity interest)		**58,377**	55,596	54,084
Non-controlling interest in controlled entities		**1**	8	7
Total equity		**58,378**	55,604	54,091

(1) *Current period amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*
(2) *Includes cash collateral placed with third parties, accrued interest receivable, other debt instruments at amortised cost, equity instruments at fair value through other comprehensive income and investments in associates.*

Consolidated Financial Statements (continued)

Condensed Cash Flow Statement

	Half Year to		
	Mar 20[1] **$m**	**Sep 19 $m**	**Mar 19 $m**
Cash flows from operating activities			
Interest received	**12,685**	14,533	14,938
Interest paid	**(6,270)**	(7,878)	(8,114)
Dividends received	**39**	18	10
Income tax paid	**(1,513)**	(1,066)	(1,185)
Other cash flows from operating activities before changes in operating assets and liabilities	**(657)**	(1,071)	(4,292)
Changes in operating assets and liabilities	**4,866**	(127)	4,644
Net cash provided by / (used in) operating activities[2]	**9,150**	4,409	6,001
Cash flows from investing activities			
Movement in debt instruments			
Purchases	**(13,304)**	(9,428)	(13,139)
Proceeds from disposal and maturity	**13,279**	12,957	12,990
Proceeds from divestment / (purchases) of other debt and equity instruments	**(56)**	63	284
Purchase of property, plant, equipment and software	**(478)**	(680)	(455)
Proceeds from sale of property, plant, equipment and software, net of costs	**73**	18	3
Net cash provided by / (used in) investing activities	**(486)**	2,930	(317)
Cash flows from financing activities			
Repayments of bonds, notes and subordinated debt	**(18,832)**	(11,939)	(19,062)
Proceeds from issue of bonds, notes and subordinated debt, net of costs	**12,346**	9,844	17,315
Proceeds from issue of ordinary shares, net of costs	**700**	1,000	-
Repayments of other contributed equity	**-**	-	(722)
Proceeds from other debt issues, net of costs	**500**	-	1,858
Repayments of other debt issues	**(607)**	(35)	(764)
Dividends and distributions paid (excluding dividend reinvestment plan)	**(1,491)**	(1,495)	(1,771)
Repayments of other financing liabilities	**(156)**	-	-
Net cash provided by / (used in) financing activities	**(7,540)**	(2,625)	(3,146)
Net increase in cash and cash equivalents	**1,124**	4,714	2,538
Cash and cash equivalents at beginning of period	**47,026**	41,354	37,946
Effects of exchange rate changes on balance of cash held in foreign currencies	**4,348**	958	870
Cash and cash equivalents at end of period	**52,498**	47,026	41,354

(1) *Current period amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*
(2) *The half year to 31 March 2020 includes cash outflows related to the Group's discontinued operations of $nil (September 2019 half year: $95 million, March 2019 half year: $nil).*

Consolidated Financial Statements (continued)

Statement of Changes in Equity

	Contributed equity[1] $m	Reserves[1] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Balance at 1 October 2018	35,982	46	16,673	52,701	11	**52,712**
Net profit for the period from continuing operations	-	-	2,904	2,904	1	**2,905**
Net loss for the period from discontinued operations	-	-	(210)	(210)	-	**(210)**
Other comprehensive income for the period from continuing operations	-	290	83	373	-	**373**
Total comprehensive income for the period	-	290	2,777	3,067	1	**3,068**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	957	-	-	957	-	**957**
Conversion of preference shares	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(83)	83	-	-	**-**
Transfer from equity-based compensation reserve	136	(136)	-	-	-	**-**
Equity-based compensation	-	54	-	54	-	**54**
Dividends paid	-	-	(2,674)	(2,674)	(2)	**(2,676)**
Distributions on other equity instruments	-	-	(52)	(52)	-	**(52)**
Redemption of Trust Preferred Securities	(975)	287	(31)	(719)	-	**(719)**
Changes in ownership interests[2]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(3)	**(3)**
Balance at 31 March 2019	**36,850**	**458**	**16,776**	**54,084**	**7**	**54,091**
Net profit for the period from continuing operations	-	-	2,183	2,183	2	**2,185**
Net loss for the period from discontinued operations	-	-	(79)	(79)	-	**(79)**
Other comprehensive income for the period from continuing operations	-	(176)	27	(149)	-	**(149)**
Total comprehensive income for the period	-	(176)	2,131	1,955	2	**1,957**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,846	-	-	1,846	-	**1,846**
Transfer from / (to) retained profits	-	(16)	16	-	-	**-**
Transfer from equity-based compensation reserve	11	(11)	-	-	-	**-**
Equity-based compensation	-	51	-	51	-	**51**
Dividends paid	-	-	(2,309)	(2,309)	(2)	**(2,311)**
Distributions on other equity instruments	-	-	(31)	(31)	-	**(31)**
Changes in ownership interests[2]						
Movement of non-controlling interest in controlled entities	-	-	-	-	1	**1**
Balance at 30 September 2019	**38,707**	**306**	**16,583**	**55,596**	**8**	**55,604**
Restatement for adoption of AASB 16 *Leases*	-	-	(83)	(83)	-	**(83)**
Restated Balance at 30 September 2019[3]	**38,707**	**306**	**16,500**	**55,513**	**8**	**55,521**
Net profit for the period from continuing operations	-	-	1,208	1,208	2	**1,210**
Net profit for the period from discontinued operations	-	-	105	105	-	**105**
Other comprehensive income for the period from continuing operations	-	700	862	1,562	-	**1,562**
Total comprehensive income for the period	-	700	2,175	2,875	2	**2,877**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,603	-	-	1,603	-	**1,603**
Conversion of convertible notes	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(30)	30	-	-	**-**
Transfer from equity-based compensation reserve	133	(133)	-	-	-	**-**
Equity-based compensation	-	27	-	27	-	**27**
Dividends paid	-	-	(2,369)	(2,369)	(3)	**(2,372)**
Distributions on other equity instruments	-	-	(22)	(22)	-	**(22)**
Changes in ownership interests[2]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(6)	**(6)**
Balance at 31 March 2020	**41,193**	**870**	**16,314**	**58,377**	**1**	**58,378**

(1) *Refer to Note 11 Contributed equity and reserves.*
(2) *Changes in ownership interests in controlled entities that does not result in a loss of control.*
(3) *The group adopted AASB 16 Leases on 1 October 2019. As permitted by AASB 16, the Group recognised the cumulative effect of initially applying the standard as an adjustment to opening retained profits at 1 October 2019. Comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This interim financial report (the report) for the half year reporting period ended 31 March 2020 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules, the *Corporations Act 2001* (Cth) and AASB 134 *Interim Financial Reporting*.

This report has been prepared under the historical cost basis, as modified by the fair value accounting of certain assets and liabilities where required or permitted by standards and interpretations issued by the Australian Accounting Standards Board (AASB).

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the Group's 2019 Annual Financial Report and any public announcements made up until the date of this interim financial report.

Accounting policies

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

The Group adopted the following new accounting standards and interpretations effective 1 October 2019:
- AASB 16 *Leases*.
- AASB 2019-3 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform*.
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*.

AASB 16 Leases

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

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

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

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

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

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

rewards incidental to ownership of the underlying asset. Where this is the case, the lease is a finance lease. All other leases are classified as operating leases.

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

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

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

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

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

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

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

As at 31 March 2020, right-of-use assets included within ‘property, plant and equipment’ were $1,275 million, lease liabilities included within ‘other liabilities’ were $1,346 million. During the half year ended 31 March 2020, ‘depreciation of property, plant and equipment’ included the depreciation charge relating to right-of-use assets of $173 million and ‘other interest expense’ included interest relating to the lease liability of $15 million.

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

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

On transition the Group, as lessee, applied the following practical expedients as permitted by AASB 16:
- Relied on previous assessments of contracts that were identified as leases under AASB 117.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on previous assessments in relation to whether leases are onerous.
- Accounted for leases for which the lease term ends within 12 months of 1 October 2019 as short-term leases.
- Excluded initial direct costs from the measurement of right-of-use assets.
- Used hindsight to determine the lease term.

Interest Rate Benchmark Reform

Public authorities in major jurisdictions have taken steps to implement the recommendations from the review by the Financial Stability Board of interest rate benchmarks such as interbank offered rates (IBORs). In some jurisdictions there is already clear progress towards reform of interest rate benchmarks whilst some jurisdictions have opted to replace certain interest rate benchmarks with alternative, nearly risk-free interest rates, based on transaction data (Alternative Reference Rates). This has led to increasing uncertainty about the long-term viability of some interest rate benchmarks.

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

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

The standard has been applied in accordance with its transitional provisions and did not have a significant impact on the Group on adoption as it enables the Group to continue applying its existing hedge accounting. The Group is monitoring developments by the International Accounting Standards Board, including the Phase 2 IBOR reform project, as the Group considers the impact to financial reporting.

The Group's hedge accounting relationships are exposed to the following significant interest rate benchmarks subject to cessation: USD LIBOR, GBP LIBOR, JPY LIBOR and CHF LIBOR. These hedging relationships are primarily within the Group's Corporate and Institutional Banking division and Treasury function. In addition to interest rate risk, the Group is also exposed to foreign exchange risk and potentially in the future, additional basis risk as market conventions develop and evolve.

Further information on the hedging strategy for hedge accounting relationships are explained in the Group's 2019 Annual Financial Report.

The Group has established a project team to comprehensively manage the impacts of IBOR reform, including overseeing the transition from impacted interest rate benchmarks to Alternative Reference Rates across divisions and functions within the Group. A steering committee comprising senior executives from relevant divisions and functions has been established with responsibility for governance. The project team updates the Group's Executive Leadership Team and Board on a periodic basis on progress within the Group, market developments and important transition events.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

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

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

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

Discontinued operations are excluded from the results of the continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Critical accounting assumptions and estimates

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

Measurement of expected credit losses

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

Goodwill

In the 2019 Annual Financial Report, the Group allocated goodwill across the following Cash Generating Units (CGUs): Business and Private Banking, Consumer Banking and Wealth, and New Zealand Banking. Since 1 October 2019 the Group has made significant progress in the operational separation of the MLC Wealth business. Based on the status of the operational separation, MLC Wealth is now considered to be a separate CGU.

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

As a consequence of the operational separation of MLC Wealth, the goodwill previously allocated to the Consumer Banking and Wealth CGU has been reallocated to the separate MLC Wealth and Consumer Banking CGUs based on the relative values of the notional goodwill in each business.

The determination of the value of the notional goodwill value of each business requires the exercise of management judgement and assumptions about future cash flows and discount rates. Different relative values could result in a different allocation of goodwill between each CGU.

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

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

		Goodwill		Discount rate per annum	Terminal growth rate
	Mar 20	Sep 19	Mar 19	Mar 20	Mar 20
	$m	$m	$m	%	%
Cash generating unit					
Business and Private Banking	**68**	68	68	**9.7**	**3.8**
New Zealand Banking	**258**	258	258	**10.0**	**4.0**
Consumer Banking and Wealth	**-**	2,538	2,538	**n/a**	**n/a**
Consumer Banking	**1,512**	-	-	**9.7**	**3.8**
MLC Wealth	**1,027**	-	-	**10.1**	**3.8**
Total goodwill	**2,865**	2,864	2,864	**n/a**	**n/a**

Whilst there is no impairment in any of the CGUs, changes to the key assumptions would affect the recoverable amount of the CGUs.

For the Consumer Banking CGU either an increase in the discount rate of 84 basis points or a decrease in the growth rate of 389 basis points would result in impairment first becoming evident. The MLC Wealth CGU would become impaired if the discount rate increased by 197 basis points or the growth rate decreased by 273 basis points. These sensitivities assume the specific assumptions move in isolation and all other assumptions are held constant.

Emphasis of matter

In their Independent Auditor's Review Report on page 84, EY have noted an Emphasis of Matter relating to the uncertainty of the impacts of the ongoing COVID-19 pandemic on the Group's financial position and performance.

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

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

Notes to the Consolidated Financial Statements (continued)

2. Segment Information

In the 2019 Annual Financial Report, the Group's segment information was presented based on the following segments: Business and Private Banking; Consumer Banking and Wealth; Corporate and Institutional Banking; and New Zealand Banking. Corporate Functions and Other was presented with eliminations. Since 1 October 2019, the Group has made significant progress in the operational separation of the MLC Wealth business. Specifically progress has been made in appointing a stand-alone management team, changes in reporting lines of MLC Wealth employees and the operating results of the MLC Wealth business are reported internally to the Group's Chief Operating Decision Maker.

Based on the status of the operational separation, MLC Wealth is now considered to be an operating segment separate from Consumer Banking. For the March 2020 half year, the segment information is based on the following segments: Business and Private Banking; Consumer Banking; Corporate and Institutional Banking; New Zealand Banking and MLC Wealth. Eliminations continue to be presented within Corporate Functions and Other. The prior period segment information has been restated to reflect these changes.

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

Major customers

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

Reportable segments

	Half Year ended 31 March 2020							
	Business and Private Banking	**Consumer Banking**	**Corporate and Institutional Banking**	**New Zealand Banking**	**Corporate Functions and Other[(1)]**	**Banking subtotal[(2)]**	**MLC Wealth**	**Total Group**
Segment information	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Net interest income[(3)]	2,758	2,077	942	959	150	6,886	-	6,886
Other operating income[(3)]	484	246	607	272	(306)	1,303	384	1,687
Net operating income	3,242	2,323	1,549	1,231	(156)	8,189	384	8,573
Operating expenses[(3)]	(1,154)	(1,214)	(634)	(445)	(1,577)	(5,024)	(326)	(5,350)
Underlying profit / (loss)	2,088	1,109	915	786	(1,733)	3,165	58	3,223
Credit impairment (charge) / write-back	(126)	(109)	6	(41)	(891)	(1,161)	-	(1,161)
Cash earnings / (deficit) before tax and distributions	1,962	1,000	921	745	(2,624)	2,004	58	2,062
Income tax (expense) / benefit	(584)	(301)	(220)	(210)	727	(588)	(16)	(604)
Cash earnings / (deficit) before distributions	1,378	699	701	535	(1,897)	1,416	42	1,458
Distributions	-	-	-	-	(22)	(22)	-	(22)
Cash earnings / (deficit)	1,378	699	701	535	(1,919)	1,394	42	1,436
Fair value and hedge ineffectiveness	3	7	55	(5)	(35)	25	(17)	8
Other non-cash earnings items	-	-	-	-	(237)	(237)	1	(236)
Net profit / (loss) for the year from continuing operations	1,381	706	756	530	(2,191)	1,182	26	1,208
Net profit attributable to discontinued operations	-	-	-	-	105	105	-	105
Net profit / (loss) attributable to the owners of NAB	1,381	706	756	530	(2,086)	1,287	26	1,313

(1) *Corporate Functions and Other includes Group Eliminations.*
(2) *Excludes MLC Wealth.*
(3) *Includes large notable items. Refer to Section 1 Large notable items for further information.*

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)

Reportable segments (continued)

	Half Year ended 30 September 2019							
Segment information	**Business and Private Banking $m**	**Consumer Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[1] $m**	**Banking subtotal[2] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income[3]	2,826	2,018	893	908	163	6,808	-	6,808
Other operating income[3][4]	516	272	735	302	(709)	1,116	423	1,539
Net operating income	3,342	2,290	1,628	1,210	(546)	7,924	423	8,347
Operating expenses[3][4]	(1,150)	(1,213)	(632)	(461)	(1,074)	(4,530)	(308)	(4,838)
Underlying profit / (loss)	2,192	1,077	996	749	(1,620)	3,394	115	3,509
Credit impairment charge	(217)	(141)	(27)	(62)	(23)	(470)	-	(470)
Cash earnings / (deficit) before tax and distributions	1,975	936	969	687	(1,643)	2,924	115	3,039
Income tax (expense) / benefit	(597)	(279)	(242)	(193)	476	(835)	(30)	(865)
Cash earnings / (deficit) before distributions	1,378	657	727	494	(1,167)	2,089	85	2,174
Distributions	-	-	-	-	(31)	(31)	-	(31)
Cash earnings / (deficit)	1,378	657	727	494	(1,198)	2,058	85	2,143
Fair value and hedge ineffectiveness	(2)	(1)	24	5	22	48	(2)	46
Other non-cash earning items[4]	-	-	-	-	(4)	(4)	(2)	(6)
Net profit / (loss) for the year from continuing operations	1,376	656	751	499	(1,180)	2,102	81	2,183
Net loss attributable to discontinued operations	-	-	-	-	(79)	(79)	-	(79)
Net profit / (loss) attributable to the owners of NAB	1,376	656	751	499	(1,259)	2,023	81	2,104

	Half Year ended 31 March 2019							
Segment information	**Business and Private Banking $m**	**Consumer Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[1] $m**	**Banking subtotal[2] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income[3]	2,808	1,900	934	920	172	6,734	-	6,734
Other operating income[3][4]	521	271	804	269	(155)	1,710	430	2,140
Net operating income	3,329	2,171	1,738	1,189	17	8,444	430	8,874
Operating expenses[3][4]	(1,115)	(1,209)	(649)	(450)	(431)	(3,854)	(321)	(4,175)
Underlying profit / (loss)	2,214	962	1,089	739	(414)	4,590	109	4,699
Credit impairment charge	(119)	(173)	(43)	(41)	(73)	(449)	-	(449)
Cash earnings / (deficit) before tax and distributions	2,095	789	1,046	698	(487)	4,141	109	4,250
Income tax (expense) / benefit	(633)	(236)	(265)	(195)	116	(1,213)	(31)	(1,244)
Cash earnings / (deficit) before distributions	1,462	553	781	503	(371)	2,928	78	3,006
Distributions	-	-	-	-	(52)	(52)	-	(52)
Cash earnings / (deficit)	1,462	553	781	503	(423)	2,876	78	2,954
Fair value and hedge ineffectiveness	(1)	-	(47)	7	(31)	(72)	3	(69)
Other non-cash earning items[4]	-	-	-	-	28	28	(9)	19
Net profit / (loss) for the year from continuing operations	1,461	553	734	510	(426)	2,832	72	2,904
Net loss attributable to discontinued operations	-	-	-	-	(210)	(210)	-	(210)
Net profit / (loss) attributable to the owners of NAB	1,461	553	734	510	(636)	2,622	72	2,694

(1) *Corporate Functions and Other includes Group Eliminations.*
(2) *Excludes MLC Wealth.*
(3) *Includes large notable items. Refer to Section 1 Large notable items for further information.*
(4) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*

Notes to the Consolidated Financial Statements (continued)

3. Other Income

	Half Year to		
	Mar 20	**Sep 19**	**Mar 19**
	$m	**$m**	**$m**
Gains less losses on financial instruments at fair value			
Trading instruments	**518**	1,113	1,207
Hedge ineffectiveness[1]	**33**	108	(5)
Financial instruments designated at fair value	**(221)**	(456)	(527)
Total gains less losses on financial instruments at fair value	**330**	765	675
Other operating income			
Dividend revenue	**35**	16	10
Banking fees	**522**	528	536
Money transfer fees	**236**	269	282
Fees and commissions[2][3]	**653**	84	630
Investment management fees[3]	**215**	214	208
Other income[3]	**40**	69	87
Total other operating income	**1,701**	1,180	1,753
Total other income	**2,031**	1,945	2,428

Customer-related remediation[4]

In the March 2020 half year, the Group recognised charges for customer-related remediation matters of $220 million ($833 million in the September 2019 half year and $302 million in the March 2019 half year) as a reduction in fees and commissions. This related to:

- additional provisions for adviser service fees charged by NAB Financial Planning
- progression of work on banking-related matters
- newly identified matters, the most significant of which were issues relating to workplace superannuation.

(1) *Represents hedge ineffectiveness of designated hedging relationships.*
(2) *Includes customer-related remediation.*
(3) *Comparative information has been restated to align to the presentation in the current period to reflect revised product classification.*
(4) *Included in Corporate Functions and Other.*

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses

	Half Year to		
	Mar 20 $m	Sep 19 $m	Mar 19 $m
Personnel expenses			
Salaries and related on-costs	**1,874**	1,795	1,722
Superannuation costs-defined contribution plans	**149**	140	136
Performance-based compensation	**100**	151	256
Other expenses	**213**	143	139
Total personnel expenses	**2,336**	2,229	2,253
Occupancy and depreciation expenses(1)			
Operating lease rental expense	**66**	222	225
Depreciation of property, plant and equipment	**315**	148	149
Other expenses	**42**	52	46
Total occupancy and depreciation expenses	**423**	422	420
General expenses			
Fees and commission expense	**252**	270	270
Amortisation of intangible assets(2)	**1,263**	810	305
Advertising and marketing	**80**	104	96
Charge to provide for operational risk event losses(3)	**271**	351	240
Communications, postage and stationery	**90**	88	91
Computer equipment and software	**382**	367	361
Data communication and processing charges	**41**	40	40
Professional fees	**368**	336	296
Impairment losses recognised	**215**	19	-
Other expenses	**243**	200	219
Total general expenses	**3,205**	2,585	1,918
Total operating expenses	**5,964**	5,236	4,591

Customer-related remediation(4)

In the March 2020 half year, the Group recognised costs for customer-related remediation matters of $176 million ($244 million in the September 2019 half year and $120 million in the March 2019 half year) as a charge to provide for operational risk event losses. This includes increased costs for implementing remediation processes.

Capitalised software policy change(4)

In the March 2020 half year, the Group made a further change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million. This reflects a change in approach to managing projects which is intended to uplift business accountability for projects less than $5 million. The impact of this change was an accelerated amortisation charge of $1,056 million recognised in the amortisation of intangible assets.

In the September 2019 half year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $0.5 million to $2 million. The impact of this change was an accelerated amortisation charge of $494 million recognised in the amortisation of intangible assets.

Impairment of investment in MLC Life

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

(1) *Current period amounts reflect the adoption of AASB 16 Leases on 1 October 2019. As permitted by AASB 16 comparative information has not been restated. For details on the adoption of AASB 16 refer to Note 1 Basis of preparation.*
(2) *Includes a change to the application of the software capitalisation policy.*
(3) *Includes customer-related remediation.*
(4) *Included in Corporate Functions and Other.*

Notes to the Consolidated Financial Statements (continued)

5. Income Tax Expense

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

	Half Year to		
	Mar 20	**Sep 19**	**Mar 19**
	$m	**$m**	**$m**
Profit before income tax	**1,789**	3,053	4,124
Prima facie income tax expense at 30%	**537**	916	1,237
Tax effect of permanent differences			
Assessable foreign income	**3**	5	2
Foreign tax rate differences	**(20)**	(39)	(28)
Foreign branch income not assessable	**(25)**	(23)	(27)
Over provision in prior years	**(1)**	(1)	-
Offshore banking unit income	**(37)**	(24)	(29)
Restatement of deferred tax balances for tax rate changes	**3**	1	1
Non-deductible hybrid distributions	**34**	37	36
Losses not tax effected	**33**	2	-
Impairment of investment in MLC Life	**64**	-	-
Other	**(12)**	(6)	27
Total income tax expense	**579**	868	1,219
Effective tax rate (%)	**32.4%**	28.4%	29.6%

Notes to the Consolidated Financial Statements (continued)

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Half Year to					
	Mar 20		Sep 19		Mar 19	
	Amount per share	Total amount	Amount per share	Total amount	Amount per share	Total amount
Dividends on ordinary shares	**cents**	**$m**	**cents**	**$m**	**cents**	**$m**
Dividend (in respect of prior periods)	**83**	**2,393**	83	2,333	99	2,707
Deduct: Bonus shares in lieu of dividend	**n/a**	**(24)**	n/a	(24)	n/a	(33)
Dividends paid by NAB	**n/a**	**2,369**	n/a	2,309	n/a	2,674
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**3**	n/a	2	n/a	2
Total dividend paid	**n/a**	**2,372**	n/a	2,311	n/a	2,676

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

Interim dividend

On 27 April 2020, the Directors determined the following dividend:

	Amount per share	Franked amount per share	Total amount
	cents	**%**	**$m**
Interim dividend determined in respect of the year ended 30 September 2020	30	100	**895**

The 2020 interim dividend is payable on 3 July 2020. No discount will be applied to the Dividend Reinvestment Plan (DRP), with no participation limit. The financial effect of the interim dividend has not been brought to account in the financial statements for the half year ended 31 March 2020 and will be recognised in subsequent financial reports.

	Half Year to					
	Mar 20		Sep 19		Mar 19	
	Amount per security[(1)]	Total amount	Amount per security[(1)]	Total amount	Amount per security[(1)]	Total amount
Distributions on other equity instruments	**$**	**$m**	**$**	**$m**	**$**	**$m**
National Income Securities	**1.09**	**22**	1.51	31	1.61	32
Trust Preferred Securities[(2)]	**-**	**-**	-	-	50.42	20
Total distributions on other equity instruments		**22**		31		52

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

Dividend and distribution plans

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

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

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

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances

	As at		
	31 Mar 20	30 Sep 19	31 Mar 19
	$m	$m	$m
Housing loans	**346,044**	343,915	346,292
Other term lending[(1)]	**234,320**	222,556	219,307
Asset and lease financing	**12,692**	12,763	12,633
Overdrafts[(1)]	**5,516**	5,820	5,522
Credit card outstandings	**6,439**	6,774	7,235
Other	**6,839**	6,703	6,920
Fair value adjustment	**303**	331	308
Gross loans and advances	**612,153**	598,862	598,217
Acceptances	**2,010**	2,490	3,096
Gross loans and advances including acceptances	**614,163**	601,352	601,313
Represented by:			
Loans and advances at fair value[(2)]	**5,214**	6,761	8,388
Loans and advances at amortised cost	**606,939**	592,101	589,829
Acceptances	**2,010**	2,490	3,096
Gross loans and advances including acceptances	**614,163**	601,352	601,313
Unearned income and deferred net fee income	**(306)**	(452)	(368)
Provision for credit impairment	**(4,835)**	(3,900)	(3,731)
Net loans and advances including acceptances	**609,022**	597,000	597,214
Securitised loans and loans supporting covered bonds[(3)]	**33,014**	34,711	38,139

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

(1) *Comparative information has been restated to align to the presentation in the current period to reflect revised product classifications.*
(2) *On the balance sheet, this amount is included within other financial assets at fair value. This amount is included in the product and geographical analysis below.*
(3) *Loans supporting securitisation and covered bonds are included within the balance of net loans and advances including acceptances.*

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances (continued)

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

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 31 March 2019				
Housing loans	306,661	39,539	92	**346,292**
Other term lending[(1)]	165,527	38,849	14,931	**219,307**
Asset and lease financing	12,144	1	488	**12,633**
Overdrafts[(1)]	3,134	2,356	32	**5,522**
Credit card outstandings	6,121	1,114	-	**7,235**
Other	5,150	472	1,298	**6,920**
Fair value adjustment	283	26	(1)	**308**
Gross loans and advances	499,020	82,357	16,840	**598,217**
Acceptances	3,096	-	-	**3,096**
Gross loans and advances including acceptances	502,116	82,357	16,840	**601,313**
Represented by:				
Loans and advances at fair value	6,127	2,261	-	**8,388**
Loans and advances at amortised cost	492,893	80,096	16,840	**589,829**
Acceptances	3,096	-	-	**3,096**
Gross loans and advances including acceptances	502,116	82,357	16,840	**601,313**

(1) *Comparative information has been restated to align to the presentation in the current period to reflect revised product classifications.*

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost

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

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

Key estimates and assumptions

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

Credit impairment charge on loans at amortised cost

	Half Year to		
	Mar 20 $m	Sep 19 $m	Mar 19 $m
New and increased provisions (net of collective provision releases)	**1,277**	588	566
Write-backs of specific provisions	**(75)**	(81)	(89)
Recoveries of specific provisions	**(35)**	(34)	(23)
Total charge to the income statement	**1,167**	473	454

Notes to the Consolidated Financial Statements (continued)

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

Movement in provision for credit impairment on loans at amortised cost

	Stage 1	Stage 2	Stage 3		
	12-mth expected credit losses (ECL)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	Specific provision	Total
	$m	$m	$m	$m	$m
Balance at 1 October 2018	324	2,125	391	673	**3,513**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	243	(235)	(8)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	87	(50)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(55)	(86)	142	**-**
New and increased provisions (net of collective provision releases)	(175)	312	159	270	**566**
Write-backs of specific provisions	-	-	-	(89)	**(89)**
Write-offs from specific provisions	-	-	-	(281)	**(281)**
Foreign currency translation and other adjustments	3	16	2	1	**22**
Balance at 31 March 2019	**356**	**2,192**	**467**	**716**	**3,731**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	257	(250)	(7)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(37)	83	(46)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(58)	59	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(33)	(100)	134	**-**
New and increased provisions (net of collective provision releases)	(205)	305	151	337	**588**
Write-backs of specific provisions	-	-	-	(81)	**(81)**
Write-offs from specific provisions	-	-	-	(319)	**(319)**
Foreign currency translation and other adjustments	(1)	(12)	(1)	(5)	**(19)**
Balance at 30 September 2019	**368**	**2,227**	**523**	**782**	**3,900**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	252	(242)	(10)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(34)	83	(49)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(77)	78	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(27)	(86)	114	**-**
New and increased provisions (net of collective provision releases)	(206)	959	223	301	**1,277**
Write-backs of specific provisions	-	-	-	(75)	**(75)**
Write-offs from specific provisions	-	-	-	(302)	**(302)**
Foreign currency translation and other adjustments	6	19	3	7	**35**
Balance at 31 March 2020	**384**	**2,942**	**682**	**827**	**4,835**

Sensitivity analysis

The following table shows the reported ECL based on the probability weighting of scenarios, with the sensitivity range reflecting the ECL impacts assuming a 100% weighting is applied to the base case scenario or the severe downside scenario (with all other assumptions held constant).

As at 31 March 2020, the probability weighted ECL is a blended outcome taking into consideration the respective scenarios applied across each of the Group's major loan portfolios. Given the point in the credit cycle and forecast near-term outlook, including anticipated COVID-19 pandemic impacts, a negligible weighting has been applied to the upside scenario. The base case scenario incorporates a reasonable level of portfolio stress driven by forecast macro-economic factors, including potential impacts of the COVID-19 pandemic, that deteriorate sharply in 2020 before recovering in 2021. For instance, 2020 conditions include negative 3% change in GDP (+3.4% in 2021), unemployment rising to 11.6% (7.3% in 2021) and house prices falling by 10% before rebounding +2.6% in 2021. The severe downside scenario assumes a more severe and prolonged downturn, including sustained negative GDP change (-3% in 2020, -2.5% in 2021 and +2% in 2022), elevated (double-digit) levels of unemployment (7.4% in 2020, 10% in 2021 and 10.4% in 2022) and acute falls in asset values (including house prices (-20.9% in 2020, -11.8% in 2021 and +2.5% in 2022)).

	Mar 20 $m
Reported probability weighted ECL	**4,835**
100% base case ECL	**4,391**
100% severe downside ECL	**7,855**

Notes to the Consolidated Financial Statements (continued)

9. Asset Quality

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

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
Summary of total impaired assets	**$m**	**$m**	**$m**
Impaired assets	**2,000**	1,965	1,540
Restructured loans	**37**	7	24
Gross impaired assets[(1)]	**2,037**	1,972	1,564
Specific provisions for credit impairment	**(827)**	(782)	(717)
Net impaired assets	**1,210**	1,190	847

Movement in gross impaired assets	**Australia $m**	**New Zealand $m**	**Other International $m**	**Total Group $m**
Balance at 1 October 2018	1,230	247	44	**1,521**
New	439	97	-	**536**
Written-off	(86)	(20)	(1)	**(107)**
Returned to performing, repaid or no longer impaired	(356)	(36)	(6)	**(398)**
Foreign currency translation adjustments	-	12	-	**12**
Balance at 31 March 2019	1,227	300	37	**1,564**
New	388	419	-	**807**
Written-off	(130)	(18)	(2)	**(150)**
Returned to performing, repaid or no longer impaired	(155)	(78)	-	**(233)**
Foreign currency translation adjustments	-	(15)	(1)	**(16)**
Balance at 30 September 2019	1,330	608	34	**1,972**
New	362	190	1	**553**
Written-off	(134)	(23)	-	**(157)**
Returned to performing, repaid or no longer impaired	(259)	(108)	(1)	**(368)**
Foreign currency translation adjustments	-	32	5	**37**
Balance at 31 March 2020	1,299	699	39	**2,037**

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

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
90+ days past due loans - by geographic location	**$m**	**$m**	**$m**
Australia	**3,705**	3,457	3,062
New Zealand	**177**	136	125
Other International	**9**	10	19
90+ days past due loans	**3,891**	3,603	3,206

(1) *Gross impaired assets include $nil million (September 2019: $5 million, March 2019: $7 million) of gross impaired other financial assets at fair value.*

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings

	As at 31 Mar 20 $m	30 Sep 19 $m	31 Mar 19 $m
Term deposits	**151,596**	160,383	172,347
On-demand and short-term deposits	**236,402**	210,557	197,501
Certificates of deposit	**43,285**	40,875	43,877
Deposits not bearing interest[1]	**59,199**	53,672	51,886
Borrowings	**31,403**	30,092	25,920
Securities sold under agreements to repurchase	**30,459**	31,362	32,465
Fair value adjustment	**6**	9	7
Total deposits and other borrowings	**552,350**	526,950	524,003
Represented by:			
Total deposits and other borrowings at fair value	**7,852**	4,865	5,311
Total deposits and other borrowings at amortised cost	**544,498**	522,085	518,692
Total deposits and other borrowings	**552,350**	526,950	524,003

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

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

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

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings (continued)

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 31 March 2019				
Term deposits	131,647	32,883	7,817	**172,347**
On-demand and short-term deposits	170,934	20,250	6,317	**197,501**
Certificates of deposit	33,316	1,561	9,000	**43,877**
Deposits not bearing interest[1]	46,121	5,758	7	**51,886**
Borrowings	22,236	3,128	556	**25,920**
Securities sold under agreements to repurchase	2,689	-	29,776	**32,465**
Fair value adjustment	-	7	-	**7**
Total deposits and other borrowings	406,943	63,587	53,473	**524,003**
Represented by:				
Total deposits and other borrowings at fair value	-	5,311	-	**5,311**
Total deposits and other borrowings at amortised cost	406,943	58,276	53,473	**518,692**
Total deposits and other borrowings	406,943	63,587	53,473	**524,003**

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

Notes to the Consolidated Financial Statements (continued)

11. Contributed Equity and Reserves

	As at		
Contributed equity	**31 Mar 20 $m**	**30 Sep 19 $m**	**31 Mar 19 $m**
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	**39,248**	36,762	34,905
Other contributed equity			
National Income Securities	**1,945**	1,945	1,945
Total contributed equity	**41,193**	38,707	36,850

	Half Year to		
Movement in issued and paid-up ordinary share capital	**Mar 20 $m**	**Sep 19 $m**	**Mar 19 $m**
Balance at beginning of period	**36,762**	34,905	33,062
Shares issued:			
Dividend reinvestment plan	**903**	846	957
Dividend reinvestment plan underwritten allotments	**700**	1,000	-
Conversion of convertible preference shares and convertible notes	**750**	-	750
Transfer from equity-based compensation reserve	**133**	11	136
Balance at end of period	**39,248**	36,762	34,905

	As at		
Reserves	**31 Mar 20 $m**	**30 Sep 19 $m**	**31 Mar 19 $m**
Foreign currency translation reserve	**453**	20	283
Asset revaluation reserve	**30**	80	82
Cash flow hedge reserve	**601**	201	74
Cost of hedging reserve	**(141)**	(235)	(191)
Equity-based compensation reserve	**73**	190	160
Debt instruments at fair value through other comprehensive income reserve	**(157)**	46	47
Equity instruments at fair value through other comprehensive income reserve	**11**	4	3
Total reserves	**870**	306	458

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments

(a) Fair value hierarchy

The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 - Financial instruments that have been valued by reference to unadjusted quoted prices for identical financial assets or financial liabilities in active markets. Financial instruments included in this category are Commonwealth of Australia and New Zealand government bonds, and spot and exchange traded derivatives.
- Level 2 - Financial instruments that have been valued through valuation techniques incorporating inputs other than quoted prices within Level 1 that are observable for the financial asset or financial liability, either directly (as prices) or indirectly (derived from prices). Financial instruments included in this category are over-the-counter trading and hedging derivatives, semi-government bonds, financial institution and corporate bonds, mortgage-backed securities, loans measured at fair value, and issued bonds, notes and subordinated debt measured at fair value.
- Level 3 - Financial instruments that have been valued through valuation techniques incorporating inputs that are not based on observable market data. Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. Financial instruments included in this category are bespoke trading derivatives, trading derivatives where the credit valuation adjustment is considered unobservable and significant to the valuation, and certain asset-backed securities valued using unobservable inputs.

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, rates of estimated credit losses 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.

Transfers into and out of Level 3 occur due to changes in whether the inputs to the valuation techniques are observable. Where inputs are no longer observable the fair value measurement is transferred into Level 3. Conversely, a measurement is transferred out of Level 3 when inputs become observable.

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 31 March 2020 attributable to reasonably possible alternatives would not have a material effect.

(b) Fair value of financial instruments, carried at amortised cost

The financial assets and financial liabilities listed in the table below are carried at amortised cost. While this is the value at which the Group expects the assets to be realised and the liabilities to be settled, the table below includes their fair values as at the dates shown below:

	As at 31 March 2020		As at 30 September 2019		As at 31 March 2019	
	Carrying Value $m	Fair Value $m	Carrying Value $m	Fair Value $m	Carrying Value $m	Fair Value $m
Financial assets						
Loans and advances	**601,798**	**603,857**	587,749	589,514	585,730	586,672
Financial liabilities						
Deposits and other borrowings	**544,498**	**544,799**	522,085	522,404	518,692	519,377
Bonds, notes and subordinated debt	**148,873**	**147,395**	143,258	145,805	140,699	143,081
Other debt issues	**5,636**	**5,518**	6,482	6,782	6,509	6,691

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments (continued)

(c) Fair value measurements recognised on the balance sheet

	Fair value measurement as at 31 March 2020			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading instruments	38,915	85,623	109	124,647
Debt instruments	3,499	36,327	449	40,275
Other financial assets	-	5,974	-	5,974
Hedging derivatives	-	13,287	-	13,287
Investments relating to life insurance business	-	87	-	87
Equity instruments[(1)]	-	-	103	103
Total financial assets measured at fair value	**42,414**	**141,298**	**661**	**184,373**
Financial liabilities				
Trading instruments	-	56,589	80	56,669
Other financial liabilities	529	34,590	-	35,119
Hedging derivatives	-	6,664	-	6,664
Total financial liabilities measured at fair value	**529**	**97,843**	**80**	**98,452**

	Fair value measurement as at 30 September 2019			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading instruments	36,776	59,975	77	96,828
Debt instruments	3,206	36,520	479	40,205
Other financial assets	-	7,110	-	7,110
Hedging derivatives	-	4,689	-	4,689
Investments relating to life insurance business	-	101	-	101
Equity instruments[(1)]	-	-	91	91
Total financial assets measured at fair value	**39,982**	**108,395**	**647**	**149,024**
Financial liabilities				
Trading instruments	-	34,262	56	34,318
Other financial liabilities	1,249	32,034	-	33,283
Hedging derivatives	-	4,037	-	4,037
Total financial liabilities measured at fair value	**1,249**	**70,333**	**56**	**71,638**

	Fair value measurement as at 31 March 2019			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading instruments	35,442	48,512	89	84,043
Debt instruments	4,607	37,751	515	42,873
Other financial assets	-	8,827	-	8,827
Hedging derivatives	-	3,055	-	3,055
Investments relating to life insurance business	-	98	-	98
Equity instruments[(1)]	-	-	85	85
Total financial assets measured at fair value	**40,049**	**98,243**	**689**	**138,981**
Financial liabilities				
Trading instruments	-	23,226	61	23,287
Other financial liabilities	1,295	31,678	-	32,973
Hedging derivatives	-	2,985	-	2,985
Total financial liabilities measured at fair value	**1,295**	**57,889**	**61**	**59,245**

(1) *Includes fair value through profit or loss instruments.*

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments (continued)

(c) Fair value measurements recognised on the balance sheet (continued)

There were no material transfers between Level 1 and Level 2 during the period for the Group.

The table below summarises changes in fair value classified as Level 3.

	Half Year to 31 March 2020			
	Assets			Liabilities
	Trading instruments	Debt instruments	Equity instruments[1]	Trading instruments
	$m	$m	$m	$m
Balance at the beginning of period	77	479	91	56
Gains / (losses) on assets and (gains) / losses on liabilities recognised:				
In profit or loss	12	-	5	21
In other comprehensive income	-	8	(1)	-
Purchases and issues	14	24	7	-
Sales and settlements	-	(96)	-	-
Transfers into Level 3	1	34	-	-
Foreign currency translation adjustments	5	-	1	3
Balance at the end of period	109	449	103	80
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:				
- In profit or loss	12	-	5	21
- In other comprehensive income	-	8	(1)	-

(1) *Includes fair value through profit or loss instruments.*

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities

General

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

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

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), which concluded with the issue of the Final Report (the Final Report) on 1 February 2019, has also brought greater focus to a range of culture and compliance matters, including responsible lending, compliance with the Banking Code of Practice and its predecessor codes and appropriate management of issues relating to deceased estates. The Final Report also contained a number of referrals of potential misconduct to the relevant regulatory authorities to consider whether further action should be taken.

There are contingent liabilities in respect of all the above matters. Such matters are often highly complex and uncertain. Where appropriate, provisions have been made. The aggregate potential liability of the Group in relation to these matters cannot be accurately assessed.

Further information on some specific contingent liabilities that may impact the Group is set out below.

Legal proceedings

Bank Bill Swap Reference Rate US class action

In August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct relating to the Bank Bill Swap Reference Rate. The complaint named a number of defendants, including NAB and various other Australian and international banks, and refers to earlier proceedings brought by ASIC against three banks in relation to the Bank Bill Swap Reference Rate. The relevant ASIC proceeding against NAB was concluded in November 2017 with NAB admitting certain contraventions. The US class action was dismissed against NAB in November 2018 on jurisdictional grounds. However the plaintiffs were given leave to file a new complaint in April 2019. In May 2019 the defendants, including NAB, filed a motion to dismiss the class action complaint. In February 2020 the Court dismissed all claims against NAB on personal jurisdiction grounds. The decision can be appealed. However, any appeal is not likely to occur until after final judgment against the rest of the defendants in the class action is delivered.

NULIS and MLCN – class actions and potential regulatory investigation

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

In January 2020, Maurice Blackburn commenced a class action against NULIS and MLCN alleging breaches of NULIS and MLCN's trustee obligations in connection with the speed with which NULIS and MLCN effected transfers of members' accrued default amounts to the MySuper product.

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

The Royal Commission Final Report stated that the Commissioner would make two referrals to APRA of conduct by NULIS and MLCN which may have amounted to misconduct, being in relation to grandfathered commissions and the transfers to MySuper.

UK conduct issues – potential action and contingent asset

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

In November 2019 a further claim (the Second Claim) was served on behalf of 146 claimants. The Second Claim is in similar terms to the First Claim and is currently stayed. RGL has also been quoted in the press as saying that there are up to 2,000 further potential claimants on behalf of whom it has authority to bring similar claims. NAB does not have any details of these potential further claimants.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

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

In prior periods the Group suffered losses in relation to certain UK customer-related remediation matters. NAB is in the process of making insurance claims in relation to these losses. Components of the insurance claims are treated by NAB as a contingent asset. The outcome of such claims remains uncertain.

Regulatory activity, compliance investigations and associated proceedings

Adviser service fees and fee disclosure statements (FDS)

In 2015 ASIC commenced an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including entities within the Group. Under the service arrangements, customers pay an adviser service fee to receive ongoing financial review services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided.

NAB has confirmed with ASIC a review methodology for customers with financial advisers operating in the NAB Financial Planning and NAB Advice Partnerships businesses. NAB has made significant progress in confirming a review methodology for customers with financial advisers operating in the JBWere business. NAB is committed to progressing these reviews and, where appropriate, remediating those customers as soon as possible.

NAB Financial Planning has conducted reviews of impacted customers and is targeting finalisation of remediation payments during the second half of the 2020 financial year. NAB Advice Partnerships and JBWere are identifying the cohorts of potentially impacted customers for review. Provisions for customer compensation have been taken based on current best estimates. However given the early stage of the process, these estimates are subject to considerable uncertainty.

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

On 12 October 2018, ASIC announced that it was conducting an industry-wide review of compliance with requirements for FDSs and Renewal Notices in the financial advice sector, including entities within the Group.

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

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

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

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

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

When significant AML or CTF compliance issues are identified, they are notified to the Australian Transaction Reports and Analysis Centre (AUSTRAC) or equivalent foreign regulators. The Group has reported a number of compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the Group’s implementation of ‘Know Your Customer’ requirements, other financial crime risks, as well as systems and process issues that impacted transaction monitoring and reporting in some specific areas. The Group continues to keep AUSTRAC (and where applicable, relevant foreign regulators) informed of its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, such regulators.

As this work progresses, further compliance breaches may be identified and reported to AUSTRAC or equivalent foreign regulators, and additional uplifting and strengthening may be required. The potential outcome and total costs associated with these investigations and remediation processes for specific issues identified to date, and for any issues identified in the future, remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Banking matters

A number of investigations into banking-related matters are being carried on across the Group, including matters where customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code, matters where incorrect interest rates were applied on conversion from interest only to principal and interest and various responsible lending matters such as where business loans were used for residential purposes. The potential outcome and total costs associated with these matters remain uncertain.

Consumer Credit Insurance (CCI)

In 2017, as part of an industry-wide review, ASIC requested that NAB and other lenders undertake a review of their compliance with ASIC Report 256 Consumer Credit Insurance: A review of sales practices by authorised deposit-taking institutions.

On 27 September 2018, plaintiff law firm Slater & Gordon filed a class action in the Federal Court, alleging that NAB and MLC Life engaged in unconscionable conduct and/or misleading and deceptive conduct and breaches of Section 912A in contravention of the *ASIC Act* in connection with the issuance and sale of NAB Credit Card Cover (NCCC); and unconscionable conduct in connection with the issuance and sale of NAB Personal Loan Cover (PLC).

A settlement agreement, whereby NAB will pay a lump sum settlement of $49.5 million to Slater & Gordon, was announced on 20 November 2019. The settlement must be approved by the Court and the approval hearing is to be held on 8 May 2020.

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

There is also an ongoing ASIC investigation into the sale of CCI products. The outcome and total costs associated with this matter remain uncertain.

Contingent tax risk

The tax affairs of the Group are subject to regular reviews by the Australian Taxation Office as well as the Revenue Offices of the various Australian States and Territories. Innovation and Science Australia is currently reviewing various prior year claims made by the Group for research and development tax incentives. Risk reviews and audits are also being undertaken by tax authorities in other jurisdictions in which the Group conducts business, as part of normal tax authority review activity in those countries. NAB continues to respond to any notices and requests for information it receives from relevant tax authorities.

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

NAB's introducer payments program

On 23 August 2019, ASIC commenced Federal Court proceedings against NAB in connection with the introducer payments program. ASIC alleges that NAB engaged in credit activities with unlicensed persons in contravention of the *National Consumer Credit Protection Act 2009* (NCCP). On 11 November 2019, NAB filed a response to ASIC's claim in which NAB accepted liability for the majority of the NCCP breaches alleged by ASIC. The next procedural step is the filing of a Statement of Agreed Facts whereby NAB and ASIC agree facts relating to liability and penalty followed by a penalty hearing. No date for the penalty hearing has been scheduled. The potential outcome and total costs associated with these proceedings remain uncertain.

NZ Ministry of Business, Innovation and Employment compliance audit

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

Plan service fees (PSF)

The Group has finalised the payment of refunds to customers who were charged PSF, including refunds to customers who did not have a plan adviser attached to their superannuation account and customers who left an employer and were transferred to the personal division of the relevant corporate superannuation product.

On 6 September 2018, ASIC commenced Federal Court proceedings against two Group entities – NULIS and MLCN - in relation to PSF. ASIC is seeking declarations that a number of provisions of the *ASIC Act*, *Corporations Act* and the *Superannuation Industry (Supervision) Act 1993* (Cth) have been contravened. NULIS and MLCN have agreed liability for misleading or deceptive conduct and false or misleading representations, as well as breaches of financial services laws. The Court is yet to determine the penalty to be applied. The potential outcome and total costs associated with this matter remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Royal Commission

The Royal Commission Final Report identified other potential issues, including breach reporting under section 912D of the *Corporations Act*. The potential outcome and total costs associated with any proceedings which may arise out of these matters remain uncertain.

Wealth advice review

In October 2015, NAB began contacting certain groups of customers where there was a concern that they may have received non-compliant financial advice since 2009 to: (a) assess the appropriateness of that advice; and (b) identify whether customers had suffered loss as a result of non-compliant advice that would warrant compensation. These cases are progressing through the Customer Response Initiative review program, with compensation offered and paid in a number of cases. Where customer compensation is able to be reliably estimated, provisions have been taken. The final outcome and total costs associated with this work remain uncertain.

Workplace super

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

Contractual commitments

Financial Planning Subsidiaries

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

MLC Life insurance transaction

In connection with the sale of 80% of MLC Life to Nippon Life Insurance Company (Nippon Life) in October 2016, NAB gave certain covenants, warranties and indemnities in favour of Nippon Life. The parties also entered into long-term agreements for the distribution of life insurance products and continued use of the MLC brand. In addition, NAB agreed to take certain actions to establish MLC Life as a standalone entity, including by providing transitional services as well as support for data migration activities and the development of technology systems. The final financial impact associated with this transaction remains uncertain.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations

The results set out below relate to the discontinued operations of the Group's life insurance business sale to Nippon Life which occurred in the 2016 financial year. During the March 2020 half year, a net profit of $105 million was recognised in discontinued operations, reflecting a reassessment of customer-related remediation provisions associated with the MLC Life business. Refer to *Note 13 Contingent liabilities* for further information.

Financial summary for the half year from discontinued operations

	Half Year to		
	Mar 20	**Sep 19**	**Mar 19**
Total discontinued operations	**$m**	**$m**	**$m**
Net profit / (loss) from life insurance business discontinued operation	**105**	(79)	(210)
Net profit / (loss) from discontinued operations	**105**	(79)	(210)

Notes to the Consolidated Financial Statements (continued)

15. Events Subsequent to Reporting Date

On 2 April 2020, the RBNZ announced a restriction on dividend payments by New Zealand banks. This has the effect of restricting NAB's ability to access cash by way of dividends from its wholly owned subsidiary, BNZ. The restrictions imposed by RBNZ will remain in place until further notice and are expected to be relaxed when the economic outlook has improved.

On 27 April 2020, NAB announced that it will be undertaking a fully underwritten institutional placement of fully paid NAB ordinary shares to raise $3 billion. Following the placement, NAB will offer a share purchase plan to eligible shareholders, targeting to raise approximately $500 million, subject to scaleback, with the ability to raise more or less.

There are no other items, transactions or events of a material or unusual nature that have arisen in the interval between 31 March 2020 and the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Directors' Declaration

The Directors of National Australia Bank Limited declare that, in the Directors' opinion:

a) as at the date of this declaration, there are reasonable grounds to believe that NAB will be able to pay its debts as and when they become due and payable; and

b) the consolidated financial statements and the notes to the consolidated financial statements are in accordance with the *Corporations Act 2001* (Cth), including:

i. section 304, which requires that the half year financial report comply with Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* (Cth) and any further requirements in the *Corporations Regulations 2001* (Cth); and
ii. section 305, which requires that the financial statements and notes give a true and fair view of the financial position of the Group as at 31 March 2020, and of the performance of the Group for the six months ended 31 March 2020.

Dated this 27th day of April, 2020 and signed in accordance with a resolution of the Directors.

Mr Philip Chronican

Chairman

Mr Ross McEwan

Group Chief Executive Officer

Independent Review Report

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Independent Auditor's Review Report to the Members of National Australia Bank Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 March 2020, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated condensed cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated financial position of the Group as at 31 March 2020 and of its consolidated financial performance for the half-year ended on that date; and

b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – Uncertainties of COVID-19 Impacts

We draw your attention to Note 1 Basis of Preparation under the heading 'Critical accounting assumptions and estimates' in the Consolidated Interim Financial Report. This note describes the impact of the ongoing COVID-19 pandemic on the Group's financial position and performance.

In our view, this matter is fundamental to the users understanding of the Consolidated Interim Financial Report and the financial position and performance of the Group. Our conclusion is not modified with respect to this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 March 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Independent Review Report (continued)

Building a better working world

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
Melbourne

27 April 2020

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Section 4

Supplementary Information

1. Australian Banking

Net interest income	Half Year to Mar 20 $m	Sep 19 $m	Mar 19 $m	Mar 20 v Sep 19 %	Mar 20 v Mar 19 %
Housing lending	**1,874**	1,803	1,597	3.9	17.3
Business lending	**1,880**	1,897	1,906	(0.9)	(1.4)
Other banking products	**398**	408	430	(2.5)	(7.4)
Deposits	**1,596**	1,672	1,733	(4.5)	(7.9)
NAB risk management	**27**	(44)	(23)	large	large
Total net interest income	**5,775**	5,736	5,643	0.7	2.3
Other operating income					
Housing lending	**114**	122	112	(6.6)	1.8
Business lending	**343**	351	369	(2.3)	(7.0)
Other banking products[1]	**463**	495	506	(6.5)	(8.5)
Deposits	**27**	28	28	(3.6)	(3.6)
Customer risk management	**305**	310	301	(1.6)	1.3
NAB risk management	**84**	215	278	(60.9)	(69.8)
Total other operating income[2]	**1,336**	1,521	1,594	(12.2)	(16.2)
Credit impairment charge					
Housing lending	**34**	142	88	(76.1)	(61.4)
Business lending	**77**	151	103	(49.0)	(25.2)
Other banking products	**118**	92	144	28.3	(18.1)
Total credit impairment charge[3]	**229**	385	335	(40.5)	(31.6)
Net interest margin					
Housing lending net interest margin	**1.37%**	1.30%	1.16%	7 bps	21 bps
Business lending net interest margin	**1.82%**	1.86%	1.92%	(4 bps)	(10 bps)
Volumes ($bn)					
Housing lending	**302.4**	304.0	306.8	(0.5)	(1.4)
Business lending	**215.0**	206.5	202.9	4.1	6.0
Other lending	**8.9**	9.5	10.0	(6.3)	(11.0)
Gross loans and acceptances	**526.3**	520.0	519.7	1.2	1.3
Customer deposits	**380.4**	361.7	359.3	5.2	5.9

Market share	As at 29 Feb 20	30 Sep 19	31 Mar 19
Business lending[4]	**21.8%**	22.1%	22.4%
Business lending[5]	**20.6%**	20.9%	21.2%
Business deposits[4]	**18.6%**	18.9%	19.4%
Housing lending[4]	**14.9%**	15.1%	15.4%
Household deposits[4]	**13.5%**	13.6%	13.8%
Distribution			
Number of branches and business banking centres	**686**	701	713

(1) *Comparative information has been restated for immaterial changes in NAB's organisational structure.*
(2) *Comparative information has been restated to exclude MLC Wealth income.*
(3) *Excludes collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, included in Corporate Functions and Other.*
(4) *Source: APRA Monthly Authorised Deposit-taking Institution Statistics.*
(5) *Source: RBA Financial System.*

2. Average Balance Sheet and Related Interest

Average Assets and Interest Income

	Half Year ended Mar 20			Half Year ended Sep 19			Half Year ended Mar 19		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest earning assets									
Due from other banks									
Australia[1]	**20,114**	**61**	**0.6**	17,526	98	1.1	15,517	112	1.4
New Zealand	**4,443**	**27**	**1.2**	3,592	33	1.8	3,750	39	2.1
Other International	**18,750**	**122**	**1.3**	13,268	85	1.3	16,320	139	1.7
Total due from other banks	**43,307**	**210**	**1.0**	34,386	216	1.3	35,587	290	1.6
Marketable debt securities									
Australia	**82,816**	**819**	**2.0**	84,352	984	2.3	79,760	1,091	2.7
New Zealand	**7,258**	**55**	**1.5**	7,002	65	1.9	7,352	79	2.2
Other International	**9,908**	**37**	**0.7**	10,746	52	1.0	11,406	64	1.1
Total marketable debt securities	**99,982**	**911**	**1.8**	102,100	1,101	2.2	98,518	1,234	2.5
Loans and advances - housing									
Australia	**272,701**	**4,991**	**3.7**	276,242	5,644	4.1	276,292	5,846	4.2
New Zealand	**39,995**	**841**	**4.2**	38,092	850	4.5	36,569	850	4.7
Other International	**64**	**1**	**3.1**	80	2	4.0	107	2	3.7
Total loans and advances - housing	**312,760**	**5,833**	**3.7**	314,414	6,496	4.1	312,968	6,698	4.3
Loans and advances - non-housing									
Australia	**197,104**	**4,037**	**4.1**	195,869	4,521	4.6	193,192	4,843	5.0
New Zealand	**42,885**	**911**	**4.2**	42,650	992	4.6	41,774	1,002	4.8
Other International	**17,693**	**274**	**3.1**	16,689	284	3.4	14,987	261	3.5
Total loans and advances - non-housing	**257,682**	**5,222**	**4.1**	255,208	5,797	4.5	249,953	6,106	4.9
Other interest earning assets									
Australia[1]	**7,410**	**72**	**n/a**	7,788	91	n/a	7,652	83	n/a
New Zealand	**1,396**	**23**	**n/a**	980	24	n/a	492	20	n/a
Other International	**50,929**	**467**	**n/a**	48,507	497	n/a	49,091	550	n/a
Total other interest earning assets	**59,735**	**562**	**n/a**	57,275	612	n/a	57,235	653	n/a
Total average interest earning assets and interest income by:									
Australia	**580,145**	**9,980**	**3.4**	581,777	11,338	3.9	572,413	11,975	4.2
New Zealand	**95,977**	**1,857**	**3.9**	92,316	1,964	4.2	89,937	1,990	4.4
Other International	**97,344**	**901**	**1.9**	89,290	920	2.1	91,911	1,016	2.2
Total average interest earning assets and interest income	**773,466**	**12,738**	**3.3**	763,383	14,222	3.7	754,261	14,981	4.0

(1) *March 2019 average balance and interest has been restated to align to the presentation in the current period to reflect revised counterparty classifications.*

2. Average Balance Sheet and Related Interest (continued)

Average Assets

	Half Year ended		
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**
Average non-interest earning assets			
Investments relating to life insurance business			
New Zealand	**89**	99	90
Total investments relating to life insurance business	**89**	99	90
Other assets	**92,248**	80,248	78,374
Total average non-interest earning assets	**92,337**	80,347	78,464
Provision for credit impairment			
Australia	**(3,242)**	(3,150)	(2,958)
New Zealand	**(634)**	(596)	(568)
Other International	**(47)**	(50)	(50)
Total provision for credit impairment	**(3,923)**	(3,796)	(3,576)
Total average assets	**861,880**	839,934	829,149

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense

	Half Year ended Mar 20			Half Year ended Sep 19			Half Year ended Mar 19		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest bearing liabilities									
Due to other banks									
Australia[(1)]	**21,928**	**84**	**0.8**	23,101	141	1.2	21,029	168	1.6
New Zealand	**2,547**	**5**	**0.4**	2,183	8	0.7	2,655	10	0.8
Other International	**17,166**	**120**	**1.4**	14,041	143	2.0	14,987	168	2.2
Total due to other banks	**41,641**	**209**	**1.0**	39,325	292	1.5	38,671	346	1.8
On-demand and short-term deposits									
Australia	**186,750**	**670**	**0.7**	177,823	970	1.1	170,921	1,087	1.3
New Zealand	**22,413**	**66**	**0.6**	20,874	87	0.8	20,177	88	0.9
Other International	**5,869**	**30**	**1.0**	5,298	43	1.6	4,702	43	1.8
Total on-demand and short-term deposits	**215,032**	**766**	**0.7**	203,995	1,100	1.1	195,800	1,218	1.2
Certificates of deposit									
Australia	**30,605**	**167**	**1.1**	31,550	282	1.8	33,029	353	2.1
New Zealand	**1,607**	**11**	**1.4**	1,691	14	1.7	1,585	15	1.9
Other International	**11,942**	**113**	**1.9**	9,471	97	2.0	10,758	87	1.6
Total certificates of deposit	**44,154**	**291**	**1.3**	42,712	393	1.8	45,372	455	2.0
Term deposits									
Australia	**116,173**	**1,025**	**1.8**	126,836	1,499	2.4	130,428	1,699	2.6
New Zealand	**32,842**	**481**	**2.9**	32,763	540	3.3	32,424	547	3.4
Other International	**5,965**	**55**	**1.8**	7,020	74	2.1	7,792	91	2.3
Total term deposits	**154,980**	**1,561**	**2.0**	166,619	2,113	2.5	170,644	2,337	2.7
Other borrowings									
Australia	**29,506**	**329**	**2.2**	23,561	341	2.9	22,230	332	3.0
New Zealand	**4,115**	**41**	**2.0**	2,958	38	2.6	2,429	32	2.6
Other International[(1)]	**28,792**	**384**	**2.7**	30,925	431	2.8	33,467	501	3.0
Total other borrowings	**62,413**	**754**	**2.4**	57,444	810	2.8	58,126	865	3.0
Bonds, notes and subordinated debt									
Australia	**126,378**	**1,185**	**1.9**	127,391	1,558	2.4	126,356	1,914	3.0
New Zealand	**21,002**	**211**	**2.0**	21,132	266	2.5	20,622	284	2.8
Other International	**19,881**	**275**	**2.8**	19,412	275	2.8	20,049	275	2.8
Total bonds, notes and subordinated debt	**167,261**	**1,671**	**2.0**	167,935	2,099	2.5	167,027	2,473	3.0
Other interest bearing liabilities									
Australia[(1)]	**9,330**	**589**	**n/a**	8,143	598	n/a	7,806	546	n/a
New Zealand	**196**	**3**	**n/a**	-	-	n/a	-	-	n/a
Other International	**383**	**5**	**n/a**	-	-	n/a	-	-	n/a
Total other interest bearing liabilities	**9,909**	**597**	**n/a**	8,143	598	n/a	7,806	546	n/a
Total average interest bearing liabilities and interest expense by:									
Australia	**520,670**	**4,049**	**1.6**	518,405	5,389	2.1	511,799	6,099	2.4
New Zealand	**84,722**	**818**	**1.9**	81,601	953	2.3	79,892	976	2.5
Other International	**89,998**	**982**	**2.2**	86,167	1,063	2.5	91,755	1,165	2.5
Total average interest bearing liabilities and interest expense	**695,390**	**5,849**	**1.7**	686,173	7,405	2.2	683,446	8,240	2.4

(1) *March 2019 average balance and interest has been restated to align to the presentation in the current period to reflect revised counterparty classifications.*

2. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Equity

	Half Year ended		
	Mar 20 $m	**Sep 19 $m**	**Mar 19 $m**
Average non-interest bearing liabilities			
Deposits not bearing interest			
Australia[(1)]	**49,648**	46,536	46,002
New Zealand	**6,309**	5,751	5,561
Other International	**6**	4	6
Total deposits not bearing interest	**55,963**	52,291	51,569
Other liabilities	**53,948**	46,743	41,224
Total average non-interest bearing liabilities	**109,911**	99,034	92,793
Total average liabilities	**805,301**	785,207	776,239
Average equity			
Total equity (parent entity interest)	**56,577**	54,719	52,900
Non-controlling interest in controlled entities	**2**	8	10
Total average equity	**56,579**	54,727	52,910
Total average liabilities and equity	**861,880**	839,934	829,149

(1) *Includes $29,654 million (September 2019: $28,771 million, March 2019: $28,980 million) of mortgage offset accounts.*

3. Net Interest Margins and Spreads[1]

	Half Year to				
Group	**Mar 20 %**	**Sep 19 %**	**Mar 19 %**	**Mar 20 v Sep 19**	**Mar 20 v Mar 19**
Net interest spread	**1.61**	1.56	1.57	5 bps	4 bps
Benefit of net free liabilities, provisions and equity	**0.17**	0.22	0.22	(5 bps)	(5 bps)
Net interest margin - statutory basis	**1.78**	1.78	1.79	-	(1 bp)

(1) *Information is presented on a statutory basis, compared to Section 1 Net interest margin which is prepared on a cash earnings basis.*

4. Capital Adequacy

Regulatory capital is calculated in accordance with APS 111 *Capital Adequacy: Measurement of Capital*. The first table below is a reconciliation from total equity per the Group's balance sheet to capital for regulatory purposes, including CET1 capital, Tier 1 capital and Total capital. Capital for regulatory purposes is based on the Level 2 regulatory group which comprises NAB and its controlled entities, excluding superannuation and funds management entities, insurance subsidiaries and securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief.

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
	$m	**$m**	**$m**
Contributed equity	**41,193**	38,707	36,850
Reserves	**870**	306	458
Retained profits	**16,314**	16,583	16,776
Non-controlling interest in controlled entities	**1**	8	7
Total equity per consolidated balance sheet	**58,378**	55,604	54,091
Additional Tier 1 capital classified as equity before application of transitional arrangements	**(1,945)**	(1,945)	(1,945)
Non-controlling interest in controlled entities	**(1)**	(8)	(7)
Deconsolidation of entities outside the Level 2 regulatory group	**(192)**	(245)	(243)
Common Equity Tier 1 capital before regulatory adjustments	**56,240**	53,406	51,896
Goodwill and other intangible assets, net of tax	**(2,877)**	(2,876)	(2,874)
Investment in non-consolidated controlled entities	**(417)**	(416)	(431)
Deferred tax assets in excess of deferred tax liabilities	**(2,690)**	(2,296)	(1,952)
Capitalised expenses and deferred fee income	**(745)**	(698)	(787)
Software, net of tax	**(2,324)**	(2,878)	(2,992)
Defined benefit superannuation plan asset, net of tax	**(33)**	(34)	(32)
Change in own creditworthiness, net of tax	**(881)**	(19)	14
Cash flow hedge reserve	**(601)**	(201)	(74)
Equity exposures	**(503)**	(670)	(765)
Expected loss in excess of eligible provisions	**(69)**	(74)	-
Other	**(140)**	(106)	(68)
Common Equity Tier 1 capital	**44,960**	43,138	41,935
Basel III eligible Additional Tier 1 capital instruments	**5,590**	6,433	6,433
Transitional Additional Tier 1 capital instruments	**1,211**	1,817	1,817
Additional Tier 1 capital	**6,801**	8,250	8,250
Tier 1 capital	**51,761**	51,388	50,185
Basel III eligible Tier 2 capital instruments	**9,031**	8,527	5,232
Transitional Tier 2 capital instruments	**814**	472	496
Basel III eligible Tier 2 capital instruments issued by subsidiaries and held by third parties	**437**	422	447
IRB approach surplus provisions on non-defaulted exposures	**1,199**	281	134
Standardised approach general reserve for credit losses	**61**	46	45
Regulatory adjustments to Tier 2 capital	**(100)**	(90)	(94)
Tier 2 capital	**11,442**	9,658	6,260
Total capital	**63,203**	61,046	56,445
Risk-weighted assets			
Credit risk	**364,550**	351,646	345,397
Market risk	**10,035**	10,023	9,190
Operational risk	**50,604**	47,698	40,945
Interest rate risk in the banking book	**7,477**	6,404	7,673
Total risk-weighted assets	**432,666**	415,771	403,205
Risk-based regulatory capital ratios			
Common Equity Tier 1	**10.39%**	10.38%	10.40%
Tier 1	**11.96%**	12.36%	12.45%
Total capital	**14.61%**	14.68%	14.00%

4. Capital Adequacy (continued)

	Risk-weighted assets as at		
	31 Mar 20	30 Sep 19	31 Mar 19
	$m	$m	$m
Credit risk[(1)]			
Subject to the internal ratings-based approach			
Corporate (including Small and Medium Enterprises (SME))	**135,362**	127,049	124,352
Sovereign	**1,489**	1,407	1,351
Bank	**10,120**	10,430	10,444
Residential mortgage	**108,108**	106,209	105,979
Qualifying revolving retail	**3,258**	3,494	3,822
Retail SME	**6,326**	6,467	6,575
Other retail	**3,002**	3,104	3,334
Total internal ratings-based approach	**267,665**	258,160	255,857
Specialised lending	**59,632**	58,320	59,506
Subject to standardised approach			
Residential mortgage	**1,359**	1,560	1,645
Corporate	**4,720**	4,798	4,733
Other	**440**	472	483
Total standardised approach	**6,519**	6,830	6,861
Other			
Securitisation exposures	**5,197**	4,865	4,739
Credit value adjustment	**15,596**	15,006	9,061
Central counterparty default fund contribution guarantee	**137**	306	823
Other[(2)]	**9,804**	8,159	8,550
Total other	**30,734**	28,336	23,173
Total credit risk	**364,550**	351,646	345,397
Market risk	**10,035**	10,023	9,190
Operational risk[(3)]	**50,604**	47,698	40,945
Interest rate risk in the banking book	**7,477**	6,404	7,673
Total risk-weighted assets	**432,666**	415,771	403,205

(1) *Approximately $6.9 billion of the increase in total credit risk risk-weighted assets from March 2019 to September 2019 is attributable to the introduction of the SA-CCR. The change mainly impacted risk-weighted assets for corporate and bank exposures, credit value adjustment and the central counterparty default fund contribution guarantee.*
(2) *Other includes non-lending assets and risk-weighted assets overlay adjustments for regulatory prescribed methodology requirements.*
(3) *$6.25 billion of the increase in operational risk risk-weighted assets from March 2019 to September 2019 is attributable to the operational risk regulatory capital add-on announced by APRA effective 30 September 2019.*

5. Earnings Per Share

	Half Year to					
		Basic			Diluted	
Earnings per share	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20**	**Sep 19**	**Mar 19**
Earnings ($m)						
Net profit attributable to owners of NAB	**1,313**	2,104	2,694	**1,313**	2,104	2,694
Distributions on other equity instruments	**(22)**	(31)	(52)	**(22)**	(31)	(52)
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	**-**	-	-	**92**	98	67
Interest expense on convertible preference shares	**-**	-	-	**27**	30	60
Adjusted earnings	**1,291**	2,073	2,642	**1,410**	2,201	2,769
Add: Net loss / (profit) after tax for the period from discontinued operations	**(105)**	79	210	**(105)**	79	210
Adjusted earnings from continuing operations	**1,186**	2,152	2,852	**1,305**	2,280	2,979
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares (net of treasury shares)	**2,919**	2,838	2,756	**2,919**	2,838	2,756
Potential dilutive weighted average number of ordinary shares						
Convertible notes	**-**	-	-	**279**	163	119
Convertible preference shares	**-**	-	-	**100**	59	126
Share based payments	**-**	-	-	**8**	6	6
Total weighted average number of ordinary shares	**2,919**	2,838	2,756	**3,306**	3,066	3,007
Earnings per share (cents) attributable to owners of NAB	**44.2**	73.0	95.9	**42.6**	71.8	92.1
Earnings per share (cents) from continuing operations	**40.6**	75.8	103.5	**39.5**	74.4	99.1

	Half Year to					
		Basic			Diluted	
Cash earnings per share	**Mar 20**	**Sep 19**	**Mar 19**	**Mar 20**	**Sep 19**	**Mar 19**
Earnings ($m)						
Cash earnings(1)	**1,436**	2,143	2,954	**1,436**	2,143	2,954
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	**-**	-	-	**92**	98	67
Interest expense on convertible preference shares	**-**	-	-	**27**	30	60
Adjusted cash earnings	**1,436**	2,143	2,954	**1,555**	2,271	3,081
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares (net of treasury shares)	**2,919**	2,838	2,756	**2,919**	2,838	2,756
Potential dilutive weighted average number of ordinary shares						
Convertible notes	**-**	-	-	**279**	163	119
Convertible preference shares	**-**	-	-	**100**	59	126
Share based payments	**-**	-	-	**8**	6	6
Total weighted average number of ordinary shares	**2,919**	2,838	2,756	**3,306**	3,066	3,007
Earnings per share (cents) attributable to owners of NAB	**49.2**	75.5	107.2	**47.0**	74.1	102.5

6. Net Tangible Assets

	As at		
	31 Mar 20	**30 Sep 19**	**31 Mar 19**
Net tangible assets per ordinary share ($)(2)	**17.34**	16.68	16.46

(1) *Refer to Section 4 Supplementary information for reconciliation of cash earnings to net profit attributable to owners of NAB.*

(2) *Represents net assets excluding intangible assets, non-controlling interests, preference shares and other equity instruments divided by ordinary shares on issue at the end of the period.*

7. Asset Funding

	As at				
Core assets	**31 Mar 20 $m**	**30 Sep 19 $m**	**31 Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Loans and advances at amortised cost	**606,939**	592,101	589,829	2.5	2.9
Loans and advances at fair value	**5,214**	6,761	8,388	(22.9)	(37.8)
Acceptances	**2,010**	2,490	3,096	(19.3)	(35.1)
Other debt instruments at amortised cost	**367**	366	383	0.3	(4.2)
Total core assets	**614,530**	601,718	601,696	2.1	2.1
Funding and equity					
Customer deposits	**447,197**	424,612	421,735	5.3	6.0
Term wholesale funding	**181,341**	176,334	171,405	2.8	5.8
Certificates of deposit	**43,285**	40,875	43,877	5.9	(1.3)
Securities sold under agreements to repurchase	**30,459**	31,362	32,465	(2.9)	(6.2)
Due to other banks[(1)]	**53,076**	34,273	36,960	54.9	43.6
Other short-term liabilities	**33,884**	33,864	31,332	0.1	8.1
Total equity excluding preference shares and other contributed equity	**56,433**	53,659	52,146	5.2	8.2
Total funding liabilities and equity	**845,675**	794,979	789,920	6.4	7.1
Other liabilities					
Trading instruments	**56,669**	34,318	23,287	65.1	large
Hedging derivatives	**6,664**	4,037	2,985	65.1	large
Other liabilities	**18,620**	13,790	10,751	35.0	73.2
Total liabilities and equity	**927,628**	847,124	826,943	9.5	12.2

Funded Balance Sheet

	As at				
Funding sources[(2)]	**31 Mar 20 $m**	**30 Sep 19 $m**	**31 Mar 19 $m**	**Mar 20 v Sep 19 %**	**Mar 20 v Mar 19 %**
Stable customer deposits[(3)]	**410,498**	385,638	383,463	6.4	7.1
Term wholesale funding with greater than 12 months to maturity	**143,905**	139,067	141,581	3.5	1.6
Total equity excluding preference shares and other contributed equity	**56,433**	53,659	52,146	5.2	8.2
Total stable funding	**610,836**	578,364	577,190	5.6	5.8
Short-term wholesale funding	**106,494**	93,632	98,842	13.7	7.7
Term wholesale funding with less than 12 months to maturity	**37,436**	37,267	29,824	0.5	25.5
Other deposits[(4)]	**36,699**	38,974	38,272	(5.8)	(4.1)
Total funding	**791,465**	748,237	744,128	5.8	6.4
Funded assets					
Liquid assets[(5)]	**154,118**	129,578	122,247	18.9	26.1
Other short-term assets[(6)]	**21,086**	17,403	20,386	21.2	3.4
Total short-term assets	**175,204**	146,981	142,633	19.2	22.8
Business and other lending[(7)]	**263,188**	252,785	250,123	4.1	5.2
Housing lending	**346,044**	343,915	346,292	0.6	(0.1)
Other assets[(8)]	**7,029**	4,556	5,080	54.3	38.4
Total long-term assets	**616,261**	601,256	601,495	2.5	2.5
Total funded assets	**791,465**	748,237	744,128	5.8	6.4

(1) *Includes repurchase agreements due to other banks.*
(2) *Excludes repurchase agreements, trading and hedging derivatives, and any accruals, receivables and payables that do not provide net funding.*
(3) *Includes operational deposits, non-financial corporate deposits and retail / SME deposits. Excludes certain offshore deposits.*
(4) *Includes non-operational financial institution deposits and certain offshore deposits.*
(5) *Market value of liquid assets including HQLA and non-HQLA securities that are central bank repo-eligible.*
(6) *Includes trade finance loans.*
(7) *Excludes trade finance loans.*
(8) *Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.*

8. Bonds, Notes and Subordinated Debt

	As at		
	31 Mar 20	30 Sep 19	31 Mar 19
Bonds, notes and subordinated debt	**$m**	**$m**	**$m**
Medium-term notes	**107,114**	104,126	103,495
Securitisation notes	**3,775**	4,283	4,818
Covered bonds	**27,959**	23,999	24,935
Subordinated medium-term notes	**9,492**	10,342	6,927
Other subordinated notes	**533**	508	524
Total bonds, notes and subordinated debt	**148,873**	143,258	140,699

9. Number of Ordinary Shares

	Half Year to		
	Mar 20	Sep 19	Mar 19
	No. '000	**No. '000**	**No. '000**
Ordinary shares, fully paid			
Balance at beginning of period	**2,883,019**	2,811,315	2,734,119
Shares issued:			
Conversion of convertible preference shares and convertible notes	**35,141**	-	30,185
Dividend reinvestment plan	**35,007**	32,626	40,639
Dividend reinvestment plan underwritten allotments	**26,898**	38,053	-
Bonus share plan	**929**	924	1,383
Share based payments	**3,155**	99	4,985
Paying up of partly paid shares	**-**	2	4
Total ordinary shares, fully paid	**2,984,149**	2,883,019	2,811,315
Ordinary shares, partly paid to 25 cents			
Balance at beginning of period	**19**	21	25
Paying up of partly paid shares	**-**	(2)	(4)
Total ordinary shares, partly paid to 25 cents	**19**	19	21
Total ordinary shares (including treasury shares)	**2,984,168**	2,883,038	2,811,336
Less: Treasury shares	**(5,584)**	(7,524)	(7,840)
Total ordinary shares (excluding treasury shares)	**2,978,584**	2,875,514	2,803,496

10. 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 Section 3*, Note 6 Dividends and distributions*. The effect of this in the March 2020 half year is to reduce cash earnings by $22 million.

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 the transactions. This arises from fair value movements relating to trading derivatives held 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.

Amortisation and Impairment of Acquired Intangible Assets

The amortisation and impairment of acquired intangibles represents the amortisation and impairment of intangible assets arising from the acquisition of controlled entities and associates such as management agreements and contracts in force. In the March 2020 half year, there was a decrease in statutory profit of $223 million ($221 million after tax) due to the amortisation and impairment of acquired intangible assets.

MLC Wealth Divestment Separation Costs

MLC Wealth divestment separation costs represent costs incurred in preparation for the divestment of the Group's superannuation, investments, asset management and financial advice businesses. In the March 2020 half year, there was a decrease in statutory profit of $53 million ($37 million after tax) due to MLC Wealth divestment separation costs.

11. Reconciliation between Statutory Net Profit (after Tax) from Continuing Operations and Cash Earnings

Half Year ended 31 March 2020	Statutory net profit from continuing operations $m	Wealth-related adj.[1] $m	Distri-butions $m	Fair value and hedge ineffec. $m	Amortisation and impairment of acquired intangible assets $m	MLC Wealth divestment separation costs $m	Cash earnings $m
Net interest income[2]	6,889	(1)	-	(2)	-	-	**6,886**
Other operating income[2]	2,031	(346)	-	(4)	6	-	**1,687**
Net operating income	8,920	(347)	-	(6)	6	-	**8,573**
Operating expenses[2]	(5,964)	344	-	-	217	53	**(5,350)**
Profit / (loss) before credit impairment charge	2,956	(3)	-	(6)	223	53	**3,223**
Credit impairment (charge) / write-back	(1,167)	-	-	6	-	-	**(1,161)**
Profit / (loss) before tax	1,789	(3)	-	-	223	53	**2,062**
Income tax (expense) / benefit	(579)	1	-	(8)	(2)	(16)	**(604)**
Net profit / (loss) on continuing operations before distributions and non-controlling interest	1,210	(2)	-	(8)	221	37	**1,458**
Net profit / (loss) attributable to non-controlling interest in controlled entities	(2)	2	-	-	-	-	**-**
Distributions	-	-	(22)	-	-	-	**(22)**
Net profit / (loss) attributable to owners of NAB from continuing operations	**1,208**	**-**	**(22)**	**(8)**	**221**	**37**	**1,436**

(1) *In the cash earnings view, volume-related expenses for MLC Wealth, JBWere and BNZ Investment Services Limited, and BNZ Life Insurance are reclassified between operating expenses and net interest income with other operating income.*
(2) *Includes large notable items. Refer to Section 1 Large notable items for further information.*

11. Reconciliation between Statutory Net Profit (after Tax) from Continuing Operations and Cash Earnings (continued)

Half Year ended 30 September 2019	Statutory net profit from continuing operations $m	Wealth-related adj.[1] $m	Distri-butions $m	Fair value and hedge ineffec. $m	Amortisation and impairment of acquired intangible assets $m	MLC Wealth divestment separation costs $m	Cash earnings $m
Net interest income[2]	6,817	(6)	-	(3)	-	-	**6,808**
Other operating income[2]	1,945	(347)	-	(65)	6	-	**1,539**
Net operating income	8,762	(353)	-	(68)	6	-	**8,347**
Operating expenses[2]	(5,236)	349	-	-	3	46	**(4,838)**
Profit / (loss) before credit impairment charge	3,526	(4)	-	(68)	9	46	**3,509**
Credit impairment (charge) / write-back	(473)	-	-	3	-	-	**(470)**
Profit / (loss) before tax	3,053	(4)	-	(65)	9	46	**3,039**
Income tax (expense) / benefit	(868)	2	-	19	(5)	(13)	**(865)**
Net profit / (loss) on continuing operations before distributions and non-controlling interest	2,185	(2)	-	(46)	4	33	**2,174**
Net profit / (loss) attributable to non-controlling interest in controlled entities	(2)	2	-	-	-	-	**-**
Distributions	-	-	(31)	-	-	-	**(31)**
Net profit / (loss) attributable to owners of NAB from continuing operations	**2,183**	**-**	**(31)**	**(46)**	**4**	**33**	**2,143**

(1) *In the cash earnings view, volume-related expenses for MLC Wealth, JBWere and BNZ Investment Services Limited, and BNZ Life Insurance are reclassified between operating expenses and net interest income with other operating income.*
(2) *Includes large notable items. Refer to Section 1 Large notable items for further information.*

11. Reconciliation between Statutory Net Profit (after Tax) from Continuing Operations and Cash Earnings (continued)

Half Year ended 31 March 2019	Statutory net profit from continuing operations $m	Wealth-related adj.[1] $m	Distri-butions $m	Fair value and hedge ineffec. $m	Amortisation and impairment of acquired intangible assets $m	MLC Wealth divestment separation costs $m	Cash earnings $m
Net interest income[2]	6,741	(5)	-	(2)	-	-	6,734
Other operating income[2]	2,428	(374)	-	79	7	-	2,140
Net operating income	9,169	(379)	-	77	7	-	8,874
Operating expenses[2]	(4,591)	379	-	-	9	28	(4,175)
Profit before credit impairment charge	4,578	-	-	77	16	28	4,699
Credit impairment (charge) / write-back	(454)	-	-	5	-	-	(449)
Profit before tax	4,124	-	-	82	16	28	4,250
Income tax expense	(1,219)	(1)	-	(13)	(2)	(9)	(1,244)
Net profit / (loss) on continuing operations before distributions and non-controlling interest	2,905	(1)	-	69	14	19	3,006
Net profit / (loss) attributable to non-controlling interest in controlled entities	(1)	1	-	-	-	-	-
Distributions	-	-	(52)	-	-	-	(52)
Net profit / (loss) attributable to owners of NAB from continuing operations	**2,904**	**-**	**(52)**	**69**	**14**	**19**	**2,954**

(1) *In the cash earnings view, volume-related expenses for MLC Wealth, JBWere and BNZ Investment Services Limited, and BNZ Life Insurance are reclassified between operating expenses and net interest income with other operating income.*
(2) *Includes large notable items. Refer to Section 1 Large notable items for further information.*

12. Group Performance Results (Reconciliation of Large Notable Items and MLC Wealth)

	Half Year to													
	Mar 20	**Large Notable Items**	**MLC Wealth**	**Mar 20 ex Large Notable Items and MLC Wealth**	**Sep 19**	**Large Notable Items**	**MLC Wealth**	**Sep 19 ex Large Notable Items and MLC Wealth**	**Mar 19**	**Large Notable Items**	**MLC Wealth**	**Mar 19 ex Large Notable Items and MLC Wealth**	**Mar 20 v Sep 19 ex Large Notable Items and MLC Wealth**	**Mar 20 v Mar 19 ex Large Notable Items and MLC Wealth**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**%**	**%**
Net interest income	**6,886**	**(22)**	**-**	**6,908**	6,808	(30)	-	6,838	6,734	(42)	-	6,776	1.0	1.9
Other operating income	**1,687**	**(220)**	**384**	**1,523**	1,539	(833)	423	1,949	2,140	(302)	430	2,012	(21.9)	(24.3)
Net operating income	**8,573**	**(242)**	**384**	**8,431**	8,347	(863)	423	8,787	8,874	(344)	430	8,788	(4.1)	(4.1)
Operating expenses	**(5,350)**	**(1,232)**	**(326)**	**(3,792)**	(4,838)	(738)	(308)	(3,792)	(4,175)	(120)	(321)	(3,734)	-	1.6
Underlying profit	**3,223**	**(1,474)**	**58**	**4,639**	3,509	(1,601)	115	4,995	4,699	(464)	109	5,054	(7.1)	(8.2)
Credit impairment charge	**(1,161)**	**-**	**-**	**(1,161)**	(470)	-	-	(470)	(449)	-	-	(449)	large	large
Cash earnings before tax and distributions	**2,062**	**(1,474)**	**58**	**3,478**	3,039	(1,601)	115	4,525	4,250	(464)	109	4,605	(23.1)	(24.5)
Income tax expense	**(604)**	**439**	**(16)**	**(1,027)**	(865)	478	(30)	(1,313)	(1,244)	139	(31)	(1,352)	(21.8)	(24.0)
Cash earnings before distributions	**1,458**	**(1,035)**	**42**	**2,451**	2,174	(1,123)	85	3,212	3,006	(325)	78	3,253	(23.7)	(24.7)
Distributions	**(22)**	**-**	**-**	**(22)**	(31)	-	-	(31)	(52)	-	-	(52)	(29.0)	(57.7)
Cash earnings	**1,436**	**(1,035)**	**42**	**2,429**	2,143	(1,123)	85	3,181	2,954	(325)	78	3,201	(23.6)	(24.1)

13. Impact of Exchange Rate Movements on Group Results

The table below represents the foreign exchange rate differences arising on translation of the Group's foreign operations. The foreign exchange rate differences are calculated by translating into Australian dollars the cash earnings of Group entities that have a functional currency other than Australian dollars. The half year ended 31 March 2020 is translated at average foreign exchange rates for the half year ended 30 September 2019 and 31 March 2019.

	Half Year to					
Cash Earnings	**Mar 20 v Sep 19 %**	**FX $m**	**Mar 20 v Sep 19 Ex FX %**	**Mar 20 v Mar 19 %**	**FX $m**	**Mar 20 v Mar 19 Ex FX %**
Net interest income	1.1	7	**1.0**	2.3	12	**2.1**
Other operating income	9.6	20	**8.3**	(21.2)	25	**(22.3)**
Net operating income	2.7	27	**2.4**	(3.4)	37	**(3.8)**
Operating expenses	10.6	(14)	**10.3**	28.1	(18)	**27.7**
Underlying profit	(8.2)	13	**(8.5)**	(31.4)	19	**(31.8)**
Credit impairment charge	147.0	(1)	**146.8**	158.6	(1)	**158.4**
Cash earnings before tax and distributions	(32.1)	12	**(32.5)**	(51.5)	18	**(51.9)**
Income tax expense	(30.2)	(3)	**(30.5)**	(51.4)	(4)	**(51.8)**
Cash earnings before distributions	(32.9)	9	**(33.3)**	(51.5)	14	**(52.0)**
Distributions	(29.0)	(1)	**(32.3)**	(57.7)	(1)	**(59.6)**
Cash earnings	(33.0)	8	**(33.4)**	(51.4)	13	**(51.8)**

14. Exchange Rates

	Income statement - average			Balance sheet - spot		
	Half Year to			As at		
One Australian dollar equals	**Mar 20**	**Sep 19**	**Mar 19**	**31 Mar 20**	**30 Sep 19**	**31 Mar 19**
British pounds	**0.5228**	0.5504	0.5524	**0.5011**	0.5491	0.5424
Euros	**0.6071**	0.6197	0.6279	**0.5613**	0.6172	0.6313
United States dollars	**0.6711**	0.6929	0.7150	**0.6183**	0.6749	0.7092
New Zealand dollars	**1.0493**	1.0568	1.0585	**1.0260**	1.0785	1.0440

15. ASX Appendix 4D

Cross reference index	**Page**
Results for Announcement to the Market (4D Item 2)	Inside front cover
Dividends (4D Item 5)	65
Dividend dates (4D Item 5)	Inside front cover
Dividend Reinvestment Plan (4D Item 6)	65
Net tangible assets per ordinary share (4D Item 3)	96
Details of entities over which control has been gained or lost (4D Item 4)	n/a
The Group has not gained or lost control over any material entities during the half year ended 31 March 2020.	
Details of associates and joint venture entities (4D item 7)	n/a
The Group held no material investments in associates or joint venture entities as at 31 March 2020.	

Section 5

Glossary of Terms

Glossary of Terms

Terms	Description
12-months expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due (DPD) and gross impaired assets to GLAs	Loans and advances 90+ DPD but not impaired and impaired assets expressed as a percentage of gross loans and acceptances. Calculated as the sum of ‘Loans and advances past due but not impaired (past due over 90 days)’ and ‘Gross impaired assets’ divided by gross loans and acceptances.
90+ DPD assets	90+ DPD assets 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.
AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
Assets under management (AUM)	Represents the market value of funds for which the Group acts as funds adviser or investment manager.
ASX	Australian Securities Exchange Limited (or the market operated by it).
Available Stable Funding (ASF)	The portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one-year time horizon.
Average equity (adjusted)	Average equity (adjusted) is adjusted to exclude non-controlling interests and other equity instruments.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and was effective for ADIs from 1 January 2013.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the March 2020 half year has been adjusted for the following: - Distributions. - Fair value and hedge ineffectiveness. - Amortisation and impairment of acquired intangible assets. - MLC Wealth divestment separation costs.
Cash earnings on average risk-weighted assets	Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.
Cash return on equity (ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.
Committed Liquidity Facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 ratio	CET1 capital divided by risk-weighted assets.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Cost to income ratio (CTI)	Represents operating expenses as a percentage of operating revenue.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
Customer risk management	Activities to assist customers to manage their financial risks (predominantly foreign exchange and interest rate risks).
CYBG	CYBG PLC.
Dilutive potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares and which would have the effect of decreasing earnings per share. For the Group these include convertible preference shares, convertible notes and shares issued under employee incentive schemes.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single coordinated plan for disposal.
Distributions	Payments to holders of equity instruments other than ordinary shares, such as National Income Securities and Trust Preferred Securities.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Earnings per share (EPS) - basic	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares.
Earnings per share (EPS) - diluted	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares, after adjusting both earnings and the weighted average number of ordinary shares for the impact of dilutive potential ordinary shares.
Effective tax rate	Income tax expense divided by profit before income tax expense.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group’s assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Forward looking adjustment (FLA)	The portion of ECL that is derived from the forward looking outlook for targeted sectors.
Full-time equivalent employees (FTEs)	Includes all full-time employees, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This excludes consultants, IT professional services, outsourced service providers and Non-Executive Directors.
Funds under administration (FUA)	Represents the market value of funds administered by the Group. Previously referred to as Funds under management and administration (FUM/A).

Glossary of Terms (continued)

Terms	Description
General reserve for credit losses (GRCL)	An estimate of the reasonable and prudent ECL over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 *Credit Quality*. The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provision on default no loss assets. Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
Gross loans and acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans at fair value' and 'Total gross loans and advances'.
Group	NAB and its controlled entities.
High quality liquid assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Housing lending	Loans secured by mortgages on residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest. - Non-retail loans which are contractually past due and / or there is sufficient doubt exists about the ability to collect principal and interest in a timely manner. - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. - Unsecured portfolio managed facilities that are 180 days past due (if not written off).
Internal ratings-based (IRB)	The processes employed by the Group to estimate credit risk through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Jaws	The difference between the percentage growth in revenue on the preceding period and the percentage growth in the expenses on the preceding period, calculated on a cash earnings basis.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Lifetime expected credit losses (ECL)	The ECL that result from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Marketable debt securities	Comprises trading securities and debt instruments.
MLC Life	MLC Limited.
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB risk management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net operating income to average AUM	Net operating income on a cash earnings basis from MLC Wealth's Asset Management business expressed as a percentage of average AUM.
Net operating income to average FUA	Net operating income on a cash earnings basis from MLC Wealth's Retirement & Investment Solutions business expressed as a percentage of average FUA.
Net Stable Funding Ratio (NSFR)	A ratio of the amount of available stable funding to the amount of required stable funding.
Other banking products	Personal lending, credit cards (consumer and commercial), investment securities, margin lending, insurance, and fees and commissions associated with managing JBWere client's investments.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Regulatory specific provisions	In line with APRA's July 2017 guidance "*Provisions for regulatory purposes and AASB 9 Financial Instruments*", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as GRCL.
Required Stable Funding (RSF)	A function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities.
Restructuring-related costs	Consist of personnel, occupancy, software impairment and other general charges recognised as part of acceleration of the Group's strategy announced in November 2017.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.
SA-CCR	Standardised approach for measuring counterparty credit risk exposures.
Securitisation	Structured finance technique which involves pooling, packaging cash flows and converting financial assets into securities that can be sold to investors.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Statutory net profit	Net profit attributable to owners of NAB.
Statutory return on equity	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
Term Funding Index (TFI)	Term wholesale funding (with a remaining maturity to first call date greater than 12 months) divided by core assets.
Tier 1 capital	Tier 1 capital comprises Common Equity Tier 1 (CET1) capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total average assets	The average balance of assets held by the Group over the period, adjusted for discontinued operations.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.

Glossary of Terms (continued)

Terms	Description
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit / loss	Underlying profit / loss is a performance measure used by NAB. It represents cash earnings / deficit before various items, including income tax expense and the credit impairment charge as presented in the table on page 3. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
Weighted average number of ordinary shares	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.