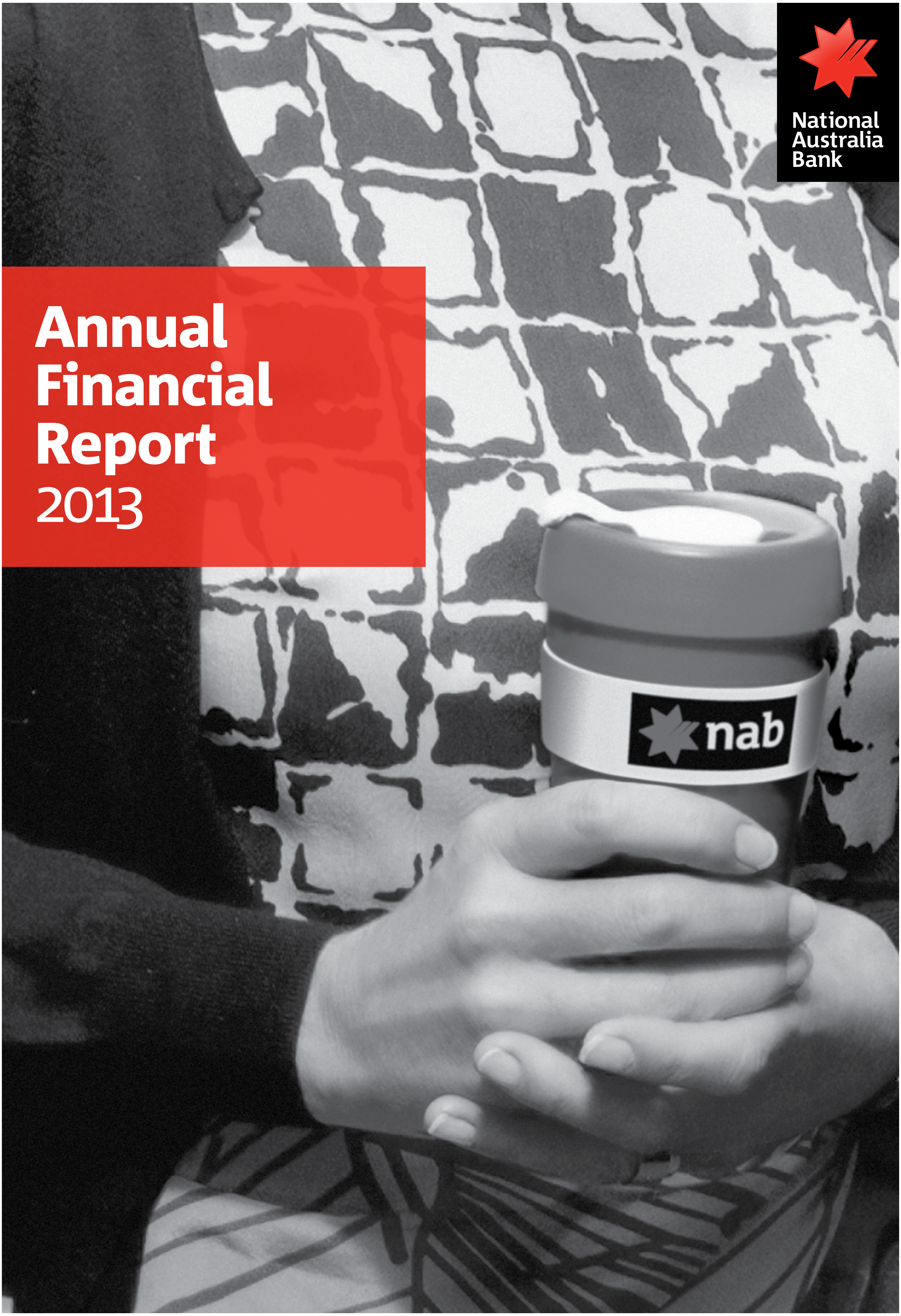
National Australia Bank

Annual Financial Report 2013



National Australia Bank Limited ABN 12 004 044 937

This Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited.

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

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

To view the Report online, visit **www.nabgroup.com**. Alternatively, to arrange for a copy to be sent to you free of charge, call Shareholder Services on 1300 367 647 from within Australia, or +61 3 9415 4299 from outside Australia.

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

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

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**The Remuneration Report has been audited*

Report of the Directors

Operating and Financial Review

The directors of National Australia Bank Limited (Company) present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the year ended 30 September 2013.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2013 is referred to as 2013 and other financial years are referred to in a corresponding manner. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

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

Forward-looking statements

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

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

Further information on important factors that could cause actual results to differ materially from those projected in such statements is contained on page 11 under "Risk Management Framework and Material Business Risks".

Rounding of amounts

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

Principal activities

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

Significant changes in the state of affairs

On 5 October 2012 the UK Commercial Real Estate (CRE) business, comprising assets with balances before provisions of $8,723 million, was transferred from Clydesdale Bank PLC (Clydesdale) to the Company as part of the UK Banking strategic review. The portfolio is being wound down in an orderly manner and since October 2012 has decreased to $6,960 million.

On 13 March 2013 the Company outlined changes to its organisational structure, operating model and its Group Executive team. As part of these changes the Company announced the departure of Mr Steve Tucker who left the Company on 31 March 2013.

At that time the Company also announced the retirement of Mr Mark Joiner, Executive Director Finance. Mr Joiner will retire from his role as Executive Director Finance and as a director of the Company in early 2014. All other Group Executive changes took effect in April to ensure an orderly transition to the new operating model.

On 8 May 2013 Mrs Louise Thomson was appointed as Group Company Secretary to replace Ms Michaela Healey following Ms Healey's appointment to the expanded role of Group Executive, People, Communications and Governance and subsequent retirement as Group Company Secretary.

On 24 July 2013 the Company announced the appointment of Mr Craig Drummond as Group Executive Finance and Strategy. Mr Drummond commenced with the Group on 23 October 2013.

On 1 October 2013 the Group's new organisational structure (announced in March 2013) came into effect. The Group will report on the new basis in 2014.

The Group's Business

The Group is a financial services organisation with over 42,000 employees, operating more than 1,800 stores and business banking centres, and has more than 500,000 shareholders.

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

In 2013 the Group operated the following divisions:

- *Business Banking* provides a diverse range of commercial banking services to business customers, ranging from small and medium enterprises through to Australia's largest institutions, including many of the ASX Top 200 listed companies. Business Banking also provides specialist industry expertise in the Agribusiness, Property, Healthcare, Natural Resources, Education and Government sectors;
- *Personal Banking* provides quality products and services to 5.3 million retail and small business customers. These products and services are delivered through a range of distribution channels and brands including NAB, Homeside, UBank and a variety of broker and 'mortgage manager' brands operated by the Advantedge business;
- *Wholesale Banking* has seven key lines of business; Corporate & Business Risk Management Sales, Fixed Income, Currencies and Commodities (FICC), Global Capital Markets, Treasury, Asset Servicing, Specialised Finance and the Financial Institutions Group;
- *NAB Wealth* provides superannuation, investments, insurance and private wealth solutions to retail, corporate and institutional clients. NAB Wealth operates one of the largest networks of retail financial advisers in Australia;
- *NZ Banking* comprises the retail, business, agribusiness, corporate, private banking, wealth and insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand;
- *UK Banking* offers a range of banking services for personal and business customers through retail branches, business banking centres, direct banking and broker based channels. It operates under the Clydesdale and Yorkshire Bank brands; and
- *Great Western Bank* provides a range of Retail, Commercial, Agribusiness and Wealth Management services in the mid-western United States.

Strategic Highlights & Business Developments

The Group maintained its overall objective to deliver sustainable, satisfactory returns to shareholders. In March 2013 the Group updated its strategy to better align the business to the changing economic landscape and customers' evolving needs. It continues to

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focus on enhancing the Australian franchise through its key strategic priorities:
- Simplify and digitise the business;
- Build world class customer relationships;
- Enhance banking services for superannuation and the ageing population;
- Broaden services for Asia active customers; and
- Provide DIY digital options for customers.

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

The strategy is supported by four key non-negotiables:
- Deliver total technology environment transformation;
- Invest in people, culture and reputation;
- Maintain focus on risk and compliance; and
- Build balance sheet strength.

To help deliver its updated strategy, in 2013 the Group implemented a more integrated and simplified operating model, which features:
- More streamlined customer management divisions focused on managing and growing customer relationships;
- A single product house to effectively coordinate and manage all product offerings and drive innovation;
- A centralised operations, shared services and transformation division to drive greater scale and efficiency and delivery of business-wide transformation; and
- Centralised support divisions to remove duplication and promote greater consistency.

The Group's strategic priorities during 2013 are outlined below.

Enhance the Australian Franchise

Simplify and digitise the business

The Group continues to focus on improving cost and efficiency – optimising the core business and providing customers with a better experience. Over the past three years this focus has seen the Group's banking cost to income ratio decrease from 45.9% in 2010 to 42.6% in 2013.

The Group continues to rationalise its product portfolio and improve its product management processes. Since 2009 the Group has rationalised approximately 50% of its core banking products and plans to further simplify this product set.

During 2013 the Group progressed the consolidation of its various technology platforms. The Group continued to standardise and consolidate processing and administration tasks currently performed by business bankers allowing them to spend more time with customers. Investments in technology have enabled straight-through processing for more products.

In 2013 the Group expanded its self-service options, such as intelligent deposit machines, and continued to upgrade its online offering. The Group began reshaping its stores and Business Banking Centres to reduce excess floor space to provide a more integrated customer experience.

In 2013 the Group launched NAB Flik, a mobile peer-to-peer payments app, making it easier for customers to send and receive money securely. The Group strengthened its capability in digital FX, with an integrated spot execution platform. The NAB Connect online channel for business customers underwent a number of enhancements, including the introduction of mobile capabilities.

Build world class customer relationships

During 2013 the Group continued to deepen its relationships with retail customers through its Fair Value Agenda. For over four years the Australian franchise has maintained the lowest or equal lowest Standard Variable Rate of the major banks. There was also continued growth in broker distribution, giving customers more choice on how they interact with the Company.

Enhance banking services for superannuation and the ageing population

In 2013 the Company continued to deliver integrated banking and wealth solutions to corporate and institutional superannuation customers. The Group launched a strategic clearing house solution for Not-for-Profit Superannuation Funds and invested in customer focused training programs for bankers.

NAB Wealth further enhanced its value proposition for Self-Managed Super Funds (SMSF) customers. In addition to expanding the nabtrade proposition, central phone based support was implemented, delivering enhanced services to SMSF clients, accountants and advisers.

Broaden services for Asia active customers

The Group focused on continuing to enhance its proposition for its Asia active customers. In 2013 Business Banking introduced Chinese Renminbi (RMB) trade capability in Australia and strengthened sales force capabilities in its Asian offices. It also aligned the private wealth business across Australia and Asia, providing a more holistic experience for customers in Asia.

Provide DIY digital options for customers

The Group continued to develop UBank, which continues to provide a strong deposit offering for customers and a source of funding for the Group. UBank has experienced significant deposit growth since its creation five years ago. In 2013 UBank continued to expand its distribution of refinanced home loans through UHomeLoan.

The launch of USaver Ultra in 2013 provides UBank customers with the ability to access funds through additional channels and a fully automated online application process.

nabtrade, the online trading and investment research platform, targets self-directed customers with a growing focus on SMSFs. Since its launch 12 months ago, the platform has attracted $800 million of cash funding.

Manage International Portfolio

In 2013 BNZ continued to successfully deliver against its strategy. As a result, BNZ performed well in a highly competitive environment, further strengthening its balance sheet.

UK Banking made substantial progress in the year, successfully implementing the outcomes of the 2012 Strategic Review, including the transfer of the CRE portfolio to the Company in October 2012. The restructuring of the UK business has been largely completed, with the focus now shifting to positioning the UK business for controlled growth against the background of an improving UK economy. 2013 also saw the successful re-launch of the Clydesdale and Yorkshire brands. Returns in UK Banking will continue to be affected by trends common across the sector including weak revenue growth and costs associated with the resolution of legacy conduct related matters.

The run-down of the Specialised Group Assets (SGA) portfolio continued in 2013, with total assets contracting from $17.4 billion at September 2009 to $6.1 billion as at September 2013. Similarly, the NAB UK CRE portfolio is being wound down in an orderly manner and has decreased by 20% (29% excluding foreign exchange) since formation in October 2012.

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During 2013 Great Western Bank continued to improve its return on equity and earnings growth through a focus on agribusiness, commercial and industrial lending. This was achieved through a shift towards lower cost deposits, building on profitable customer relationships and a continued focus on efficiency.

Non-Negotiables

Deliver total technology environment transformation

In 2009 the Group began a multi-year technology transformation program to overhaul, refresh and reposition its core technology infrastructure.

The Group has started the transition to the new data centre in Deer Park, Melbourne, which will replace its existing East Melbourne facility. The Group has consolidated its Melbourne commercial properties, with the completion of the 6 Star GBCA rated 700 Bourke Street building. In addition, the Group completed the transformation of its voice infrastructure.

Invest in people, culture and reputation

The Group has maintained its focus on attracting, retaining and developing talent. Key initiatives and highlights in 2013 included:

- Embedding the Enterprise Leadership Framework, which is developing the leaders who will shape strategy and drive future performance;
- Making significant progress in the convergence of 14,000 Melbourne-based employees into three locations, to improve productivity through co-location and continuing to drive an open and inclusive culture;
- Launching the Group's Accessibility Action Plan; and
- Introducing a Domestic Violence Support Policy, the first major Australian bank to do so.

In 2013 the Group:

- Continued to demonstrate its leadership in developing a fairer financial industry by announcing, in conjunction with Good Shepard Microfinance, its goal of providing fair and affordable finance to one million low-income Australians by 2018;
- Donating $700,000 under its Natural Disaster Relief Framework towards community relief efforts, facilitating additional donations of over $200,000 and providing access to free counselling and hardship assistance to customers and employees; and
- Launched "Wealth of Opportunity" – the Group's promise to create more of what matters to people, the community and the economy. Wealth of Opportunity sets the Group on a path to assist all Australians to "Have a Healthy Relationship with Money", cultivate "Prosperous Communities" and play a leading role in Australia becoming a "Future Focused Nation".

Maintain focus on risk and compliance

In 2013 the Group continued to embed risk thinking into its daily activities and decisions. Key highlights in 2013 included:

- Significant risk resources invested into newly created 'Management Assurance' teams which support business leaders in managing risk across their respective divisions;
- Reinforcement of risk accountabilities across the Group's three lines of defence through its Risk Management Accountability Model; and
- Continued risk training and accreditation programmes across the Group.

In 2014 and onwards the Group will implement its 'Risk@NAB' strategy, an initiative focussed on strengthening its risk management framework, leadership, culture, capabilities and effectiveness. Further information about the Group's Risk Management Framework can be found on page 11.

Build balance sheet strength

The Group made progress in strengthening its capital, funding and liquidity positions and successfully met APRA's Basel III capital requirements which have been in effect since 1 January 2013.

The Group's Common Equity Tier 1 capital ratio was 8.43% at 30 September 2013. The Group is well placed to meet Basel III funding and liquidity reforms to be implemented on 1 January 2015.

Initiatives implemented to meet the new funding and liquidity reforms include increasing Australian dollar denominated high quality liquid assets, improving the quality of the deposit book and managing the duration of wholesale funding.

Asset Quality trends for the Group have been encouraging during 2013 despite challenging trading conditions across our key regions, in particular the United Kingdom.

Financial performance summary

The following financial discussion and analysis discloses net profit on both a statutory and cash earnings basis. The statutory basis is presented in accordance with the *Corporations Act* 2001 (Cth) and Australian Accounting Standards and is audited by the auditors in accordance with Australian Auditing Standards.

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group, the investment community and the Company's Australian peers with similar business portfolios. The Group also uses cash earnings for its internal management reporting as it better reflects what it considers to be the underlying performance of the Group. Cash earnings is calculated by excluding some items which are included within the statutory net profit attributable to owners of the Company. Many of these adjustments are more effectively applied on a consolidated basis and therefore at a divisional level cash earnings reflects the performance of the business segment as it is managed.

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

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

Statutory Financial Performance Summary

	Group	
	2013 $m	2012 $m
Net interest income	**13,351**	13,242
Net life insurance income	**560**	740
Other income	**4,373**	3,733
Operating expenses	**(8,273)**	(8,822)
Charge to provide for doubtful debts	**(1,810)**	(2,734)
Profit before income tax expense	**8,201**	6,159
Income tax expense	**(2,741)**	(2,076)
Net profit	**5,460**	4,083
Non-controlling interest in controlled entities	**(8)**	(1)
Net profit attributable to owners of the Company	**5,452**	4,082

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On a statutory basis, net profit attributable to owners of the Company increased by $1,370 million or 33.6% compared to 2012, reflecting lower charges for bad and doubtful debts and strong performances in Personal Banking and Wholesale Banking. In addition, the September 2012 year included the effects of the increase in the Economic Cycle Adjustment, restructuring costs and impairment charges relating to our UK operations.

Net interest income increased by $109 million or 0.8% compared to 2012. Excluding foreign exchange rate movements, net interest income decreased largely due to Wholesale Banking. $279 million of the decrease was offset by gains on economic hedges relating to the Group's funding and banking book interest rate risk management activities in other operating income; UK Banking's lower levels of business lending; and reduced earnings on capital and non-interest bearing deposits in the lower interest rate environment. These decreases were largely offset by growth in housing lending in Personal Banking and steady lending growth in NZ Banking, combined with the benefit of re-pricing initiatives.

The Group's net interest margin has fallen eight basis points from 2.10% in 2012 to 2.02% in 2013 largely as a result of higher deposit costs and lower earnings on free funds partially offset by product repricing and lower funding costs.

Net life insurance income decreased by $180 million or 24.3% compared to 2012 as a result of actuarial assumption changes, strengthening insurance reserves and higher insurance claims. This was partially offset by increased earnings from growth in average Funds Under Management and inforce premiums.

Total other income increased by $640 million or 17.1% compared to 2012. Excluding the offset in net interest income, the underlying increase was mainly due to higher sales of risk management products to the Group's customers.

Total operating expenses decreased by $549 million or 6.2% compared to 2012. This mainly reflects lower personnel expenses as the Group continues its focus on productivity and efficiency initiatives, particularly in UK Banking following the restructure of the business, combined with disciplined management of discretionary expenditure, and the extension of the useful life of core system infrastructure assets. This decrease in operating expenses was partially offset by implementation costs relating to the Australian restructure, additional charges for UK customer redress matters, and higher technology and operational costs associated with the delivery of strategic technology investments, as well as higher regulatory and compliance costs.

The charge to provide for bad and doubtful debts decreased by $924 million or 33.8% compared to 2012. Excluding the $250 million Economic Cycle Adjustment in September 2012 year, the charge to provide for bad and doubtful debts decreased by $674 million reflecting lower charges in Business Banking and the combined UK Banking and NAB UK CRE businesses.

Income tax expense increased by $665 million or 32.0% compared to 2012 largely due to an increase in profit coupled with a higher income tax attributable to the statutory funds of the life insurance business and their controlled trusts.

Review of Group and Divisional Results

	Group	
	2013 $m	2012 $m
Business Banking	**2,488**	2,409
Personal Banking	**1,228**	1,045
Wholesale Banking	**1,194**	1,092
NAB Wealth (before IoRE and after non-controlling interest)	**485**	518
NZ Banking	**649**	575
UK Banking	**150**	(213)
Great Western Bank	**113**	98
NAB UK Commercial Real Estate	**(375)**	-
Corporate Functions and Other	**195**	78
IoRE	**(3)**	38
Distributions	**(188)**	(207)
Cash earnings	**5,936**	5,433
Non-cash earnings items	**(484)**	(1,351)
Net profit attributable to owners of the Company	**5,452**	4,082

Group

Cash earnings increased by $503 million or 9.3% compared to the 2012 year ($455 million or 8.4% excluding foreign exchange rate movements). Excluding the $250 million increase ($175 million post tax) in the Economic Cycle Adjustment taken in September 2012, cash earnings increased by $328 million or 6.0%. This result reflects another strong result for Wholesale Banking, continued solid momentum in lending volumes in Personal Banking and NZ Banking, improved margins in the case of Personal Banking and lower charges for bad and doubtful debts. This increase was partially offset by lower returns from the Group's Insurance operations, restructuring costs relating to the organisational realignment in Australia and additional provisions for UK conduct related matters.

Business Banking

Conditions in 2013 have remained challenging, with intense competition in a subdued lending environment. Against this backdrop, Business Banking has maintained its market position. Cash earnings increased by $79 million or 3.3% in 2013 when compared against 2012, driven by a reduction in the bad and doubtful debts charge.

Personal Banking

Cash earnings increased by $183 million or 17.5% in 2013 when compared to 2012 mainly due to continued strong momentum in housing lending volumes and improved lending margins.

Wholesale Banking

Cash earnings increased by $102 million or 9.3% to $1,194 million during 2013 when compared to 2012. The increase was driven by higher revenue combined with a lower bad and doubtful debt charge, partially offset by higher operating expenses.

NAB Wealth

Cash earnings before IoRE and after non-controlling interest of $485 million decreased by $33 million or 6.4% during 2013 when compared to 2012. The decrease was mainly driven by actuarial assumption changes strengthening insurance reserves and higher insurance claims, which were partially offset by higher earnings in investments and Private Wealth and an improvement in insurance lapses.

NZ Banking

Cash earnings during 2013 increased by $74 million or 12.9% to $649 million when compared to 2012. This was driven by improved revenue, supported by demand for new lending and strong deposit

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volume growth. NZ Banking continued to achieve positive ‘Jaws’, as revenue growth outpaced expense growth over the prior year.

UK Banking

Cash earnings rose to $150 million, compared to a loss of $213 million in 2012.

Great Western Bank

Cash earnings during 2013 increased by $15 million or 15.3% to $113 million. The increase was driven primarily by higher net interest income due to higher average interest earning asset balances and a reduction in the overall cost of deposit funding.

NAB UK Commercial Real Estate

The cash earnings deficit of $375 million was principally driven by the bad and doubtful debt charge for the year.

Corporate Functions

Cash earnings during 2013 increased by $117 million when compared against 2012 primarily due to lower charges to provide for bad and doubtful debts given the Economic Cycle Adjustment in the prior year and lower specific provisions in the SGA portfolio. These were partially offset by restructuring costs relating to the organisational realignment in Australia and additional provisions for UK conduct related matters.

Group Balance Sheet Review

	Group	
	2013 $m	2012 $m
Assets		
Cash and liquid assets	**35,666**	19,464
Due from other banks	**43,193**	47,410
Trading derivatives	**39,214**	40,899
Trading securities	**32,996**	28,614
Investments – available for sale	**34,886**	28,985
Investments – held to maturity	**5,629**	9,762
Investments relating to life insurance business	**75,599**	68,414
Other financial assets at fair value	**75,756**	64,027
Loans and advances	**411,979**	394,735
Due from customers on acceptances	**29,319**	36,957
All other assets	**24,190**	23,823
Total assets	**808,427**	763,090
Liabilities		
Due to other banks	**34,623**	28,691
Trading derivatives	**41,749**	45,127
Other financial liabilities at fair value	**26,431**	21,732
Deposits and other borrowings	**445,572**	419,921
Liability on acceptances	**3,228**	7,801
Life policy liabilities	**64,509**	56,584
Bonds, notes and subordinated debt	**110,722**	103,372
Other debt issues	**2,944**	1,783
All other liabilities	**32,029**	34,276
Total liabilities	**761,807**	719,287
Total equity	**46,620**	43,803
Total liabilities and equity	**808,427**	763,090

Total assets (‘statutory basis’) increased by $21,341 million or 2.8% excluding foreign exchange in 2013 when compared to 2012. Including foreign exchange, total assets increased $45,337 million or 5.9% compared to 2012.

Excluding foreign exchange, the increase in total assets was mainly due to an increase in cash and liquid assets, due from other banks and loans and advances, totalling $12,718 million or 2.8%. Growth was primarily due to continuing momentum in housing lending.

Growth in housing-lending market share was achieved in Australia and in the UK. There was also growth in non-housing lending despite a challenging operating environment in the Group’s key markets, partially offset by a decline in UK Banking due to subdued demand for credit together with a focus on managing down commercial property and unsecured personal lending, and also a decline in Specialised Group Assets as the business is managed down.

Excluding foreign exchange, marketable debt securities (comprising trading securities, investments – available for sale, and investments – held to maturity) increased by $3,958 million or 5.9% in aggregate, reflecting the Group’s continuing desire to maintain balance sheet flexibility and strength. These increases were partially offset by a decline in due from customer acceptances of $7,638 million or 20.7%.

Total liabilities increased by $19,736 million or 2.7% excluding foreign exchange in 2013 when compared to 2012. Including foreign exchange impacts, total liabilities increased $42,520 million or 5.9% compared to 2012. Excluding foreign exchange, the increase in total liabilities was mainly due to an increase in deposits and other borrowings of $9,531 million or 2.3% reflecting the Group’s continued focus on attracting and retaining sustainable customer deposits as a source of funding to meet business needs and strengthen the balance sheet. In addition, bonds, notes and subordinated debt increased by $5,811 million or 5.6% excluding foreign exchange. Excluding foreign exchange, this was partially offset by the decrease in trading derivatives of $5,197 million or 11.5% and liability on acceptances of $4,574 million or 58.6% as the Group continues to explore opportunities to enhance and diversify its funding sources.

Total equity increased by $1,605 million or 3.7% excluding foreign exchange in 2013 when compared to 2012. Including foreign exchange, total equity increased by $2,817 million or 6.4% compared to 2012. This increase was due to current year earnings, shares issued through the dividend reinvestment plan, and the conversion of Convertible Notes and Stapled Securities, partially offset by the payment of dividends and the neutralisation of the dividend reinvestment plan.

Capital Management and Funding Review

Balance Sheet Management Overview

The Group continued to strengthen its capital, funding and liquidity positions. The strong funding profile was evidenced by the Group funding all its core asset growth with customer deposits in 2013. Improved market conditions over 2013 allowed the Group to maintain access to term wholesale funding markets and diversify its wholesale funding sources.

The Group remained vigilant in its evaluation of the economic and regulatory environment to enable the balance sheet to remain strong in order to respond to changing conditions.

Regulatory Reform

In May 2013 the Australian Prudential Regulation Authority (APRA) released an updated draft of its APS 210 liquidity standard on the implementation of the Basel III liquidity reforms. The standard is expected to be finalised before the end of the 2013 calendar year.

The qualitative aspects of APS 210 are due to come into force on 1 January 2014, while compliance with the Liquidity Coverage Ratio (LCR) is set to commence from 1 January 2015.

The availability of the Reserve Bank of Australia’s Committed Liquidity Facility remains central to APRA’s proposed standard and engagement with APRA on the practical requirements of this facility continued in 2013 and will continue.

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Other Reform Proposals

The Group remained focused on other areas of potential regulatory change. Key reform proposals that may affect the Group's capital and funding include:

- APRA is expected to implement a Domestic Systemically Important Banks (D-SIB) framework by 1 January 2016, with further detail expected during the first half of 2014. Depending on the size of the D-SIB capital charge, the Group's capital targets and capital management strategy may be impacted;
- APRA's announcement of Level 3 Conglomerate Supervision proposals, including a Level 3 prudential capital requirement. In August 2013, APRA announced a 12 month industry wide transition period for the implementation of the Level 3 conglomerate proposals, with the revised implementation date of 1 January 2015;
- The potential impact of the US Dodd-Frank Act, with prudential requirements affecting the Company under Title I released for consultation during 2013 and expected to take effect in 2015;
- The UK Government's Financial Services (Bank Reform) Bill, currently under consideration in Parliament and due to come into force in 2019. The Bill seeks to protect deposit holders and the reforms may affect both the UK structure of banks and the amount of capital held by them; and
- The European Union's final rules to implement Basel III known as the Capital Requirements Directive IV Package (CRD IV). From 1 January 2014, these rules will form the prudential rules that all banks in the UK must follow. The Prudential Regulation Authority (PRA) has issued a Consultation Paper, known as CP5/13 outlining its approach to applying CRD IV. It is anticipated the final rules and supervisory statements will be published by the PRA in December 2013.

Capital Management

The Group's capital management strategy is focused on adequacy, efficiency and flexibility. In 2013 the Group held capital in excess of its internal risk-based assessment of required capital, met regulatory requirements and maintained capital consistent with the Group's balance sheet risk appetite. This approach is consistent across the Group's subsidiaries.

In 2013 the Group's Basel III CET1 ratio target was above 7.50% and the Group operates at a buffer to this target. The Group CET1 was 8.43% as at 30 September 2013. The Group regularly reviews its capital level.

Funding

In 2013 the Group continued to explore opportunities to enhance and diversify its funding sources.

Funding Indices

The Group employs a range of internal Board approved metrics to set its risk appetite and measure balance sheet strength. A key structural measure used is the Stable Funding Index (SFI), which is made up of the Customer Funding Index (CFI) and Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that are funded by customer deposits. The TFI represents the proportion of the Group's core assets that are funded by term wholesale funding with a remaining term to maturity of greater than one year.

The Group's funding indices increased over 2013 with the Group CFI improving from 66.3% in 2012 to 69.4% in 2013 and Group SFI from 85.6% in 2012 to 89.2% in 2013. These increases were largely due to strong deposit growth in the Australia region, coupled with subdued credit growth. In addition, the weaker Australian dollar raised the value of term wholesale funding in Australian dollar terms.

Customer Funding

The Group continued to grow deposits over the 2013 year with an emphasis on stable retail and small and medium enterprise deposits to support the transition to Basel III, whilst taking into account current market conditions and funding requirements in a weak credit environment. The Group funded all core asset growth with customer deposits over 2013.

Term Wholesale Funding

Global funding conditions were broadly supportive of term issuance during 2013. Whilst conditions were reasonably stable, markets remained sensitive to on-going macroeconomic and financial risks.

The Group maintained a well diversified funding profile and raised $25.8 billion of term wholesale funding, fulfilling its required term funding requirements. The Group also issued $1.5 billion of Convertible Preference Shares during 2013.

In November 2012 the Group undertook a global liability management exercise, resulting in over $4.5 billion of Government guaranteed wholesale funding being repurchased and retired. The Group has a total of $5.4 billion of Government guaranteed wholesale funding outstanding, with all of this debt maturing in 2014.

Short-term Wholesale Funding

The Group consistently accessed international and domestic short-term wholesale funding markets over 2013. The focus for the Group was on maintaining the weighted average issuance maturity of short-term wholesale funding at approximately 180 days to support the Group's liquidity position.

As part of normal trading activities, repurchase agreements were entered into to materially offset reverse repurchase agreements with similar maturity profiles. Further detail on the composition of balance sheet funding is shown in *Note 41 – Financial risk management*.

Liquid Asset Portfolio

The Group maintained well diversified and high quality liquid asset portfolios to support regulatory and internal requirements. In 2013 total liquid assets increased by $16 billion to $107 billion (excluding contingent liquidity), when compared with 2012. The increase was due to the continued accumulation of high quality liquid assets to meet forthcoming regulatory changes. In particular, Australian dollar denominated high quality liquid assets increased by $10 billion in 2013. The depreciation of the Australian dollar raised the value of offshore liquid assets in Australian dollar terms and increased the level of collateral inflows due to the mark to market valuation on derivative positions.

The Group holds internal securitisation pools of RMBS as a source of contingent liquidity to further support its liquid asset holdings. In 2013 internal RMBS increased to $27 billion, a $7 billion or 35% increase from 2012.

Credit Ratings

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

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

In September 2013, Moody's downgraded National Australia Bank Limited's subordinated debt rating from Aa3 to A2 with a stable outlook.

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In July 2013 Fitch affirmed the ratings of Clydesdale Bank PLC and changed the outlook from negative to stable. Also in July 2013, S&P affirmed the ratings of Clydesdale Bank PLC and changed the outlook from stable to negative. In August 2013 Moody's downgraded the ratings of Clydesdale Bank PLC from A2 to Baa2 with stable outlook.

Dividends

The directors have declared a final dividend of 97 cents per fully paid ordinary share, 100% franked, payable on 18 December 2013. The proposed payment amounts to approximately $2,278 million.

Dividends paid since the end of the previous financial year:

- The final dividend for the year ended 30 September 2012 of 90 cents per fully paid ordinary share, 100% franked, paid on 18 December 2012. The payment amount was $2,070 million; and
- The interim dividend for the year ended 30 September 2013 of 93 cents per fully paid ordinary share, 100% franked, paid on 16 July 2013. The payment amount was $2,179 million.

Information on the dividends paid and declared to date is contained in *Note 7* to the *Financial report*. The franked portion of these dividends carries Australian franking credits at a tax rate of 30%, reflecting the current Australian company tax rate of 30%.

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

Recent market conditions and prospects for future financial years

Recent market conditions

The pace of global economic expansion slowed to around 3% in 2013, running well below trend for a second consecutive year. Global growth is expected to pick up to around 3.5% in 2014, marking a return to around its long-term average rate. The sources of this global economic expansion have been shifting, with the contribution of the advanced economies gradually picking up and the emerging economies remaining constant.

After a long period marked by subdued economic conditions, activity in the big advanced economies is gradually accelerating. Western Europe has moved out of recession, expansionary economic policy has provided a short-term boost to Japanese output and the US continues on a moderately paced economic recovery. There is scope for demand to continue increasing in these big advanced economies as their level of output is now only slightly higher than it was in early 2008.

Emerging economy growth has been on a declining trend. It slowed from its 2010 peak of almost 9% to around 5% in 2013 and is expected to remain around that level in 2014. The slowdown across the emerging market economies has been a broad-based phenomenon with the pace of economic growth easing until recently across China, India, Brazil and the smaller export-oriented emerging economies of East Asia. This represents an important shift for Australia and New Zealand as activity in emerging market economies is particularly commodity intensive and these countries buy more than half of Australasian exports.

Australian Economy

Australia has been one of the principal beneficiaries of commodity intensive growth in big emerging market economies such as China and India. Solid growth in global commodity demand triggered a multi-phase stimulus to Australian economic activity with sequential increases in commodity prices, mining investment and export volumes.

The initial phase of this stimulus is now well past its peak with US dollar commodity prices down by around 30% from their mid-2011 peak. The second phase, centred on a decade long surge in mining industry investment from around 2% of GDP to 8% of GDP, is now near or past its peak. The volume of mining investment has levelled out since mid-2012 and it's share of GDP is expected to fall to under 4% by late 2015. The third phase of the stimulus is still under way with increases in mineral exports and it should continue throughout the next few years as large liquefied natural gas projects come into production.

Unemployment rates have been increasing, reflecting the headwinds that have been affecting large parts of the economy for several years. As has been the case in several other advanced economies, Australian households and businesses became much more cautious in the wake of the Global Financial Crisis and this has been reflected in their spending, saving and borrowing behaviour.

De-leveraging in business saw a 9% fall in credit between the end of 2008 and early 2011, followed by partial recovery of around 6%. Business lending growth was running at around 1% year-on-year in September 2013.

The household savings ratio rose from very little in the middle of the last decade to double-digit levels and it shows no sign of retreating. Household savings have shifted toward lower risk products such as bank deposits and it is only recently that there has been any indication of a shift back toward riskier assets such as real estate or shares. Credit demand also softened with growth in housing lending slowing to below 5% year-on-year, its lowest rate since the data commenced 36 years ago.

Higher saving and reduced borrowing have been contributing factors in the difficult environment that continues to affect the retail sector. Retail sales growth is down to around 3% year-on-year, a pace of growth that is low by the standards of the last 30 years. In addition, the previous upward trend in job numbers in the retail sector, one of the biggest employers in the country, ceased a number of years ago. Consumer spending has been stronger in other parts of the economy but, taken overall, the volume of spending is growing at only around half its long-term average rate. As household spending represents more than half of GDP, its sluggish growth represents an important drag on the overall rate of economic growth.

The competitive pressure facing traded goods outside the commodity sectors of mining and farming is the other important headwind facing the economy. Indicators of international competitiveness through the last few years show it is at its worst since the mid-1970s, largely because of the strength of the Australian dollar. The impact of this erosion of competitiveness can be seen in the trade figures, as well as a series of factory closures.

Ultimately the impact of these diverse influences is an economy that is growing below trend and business conditions that vary greatly between sectors. With the waning of the mining boom the regional pattern of economic strength within the country is also changing.

New Zealand Economy

There is a significant improvement in business conditions across New Zealand industries and regions. Recent business surveys show high levels of confidence across all sectors. The New Zealand economy is expected to expand by 2.8% year-on-year in 2013, with growth accelerating to 3.2% next year.

The current upturn reflects a synchronised period of high commodity prices and rising domestic demand. Tighter world dairy markets underpinned a rise of around 25% in New Zealand commodity export

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prices, returning New Zealand's terms of trade to around a four decade high, boosted export earnings and lifted national income.

Important parts of New Zealand's domestic market oriented businesses also reported much improved conditions and outlooks, especially in construction, the housing market and retailing. Each of these is recovering from a long period of stagnation in the years after the onset of the Global Financial Crisis, when retail trade and house prices were relatively flat.

Increases in housing prices of between 5% and 10% year-on-year, rising sales volumes and shorter periods on the market for stock indicate an improved housing market in New Zealand. Retail sales volumes have risen by around 4% year-on year and consumer confidence is relatively buoyant. The construction sector is one of the main drivers of this upturn and, while some of its strength reflects reconstruction after the Christchurch earthquake, an increase in immigration is also supporting housing demand. This growth in domestic spending is fuelling credit demand with housing lending growing by over 5% year-on-year.

As in Australia, high commodity prices have driven up the local currency which has damaged the competitiveness of traded goods producers outside the commodity sector. The trade-weighted index of the New Zealand dollar is well above its average over the last 25 years which has contributed to an erosion of competitiveness. This loss in cost competitiveness has, in turn, contributed to stagnation in exports of manufactured goods and services. The competitive pressure is reflected in business caution and a lack of growth in business credit outside the well performing farm sector.

United Kingdom Economy

Economic growth in the UK resumed in 2013 with GDP rising by 0.4% in the March quarter, 0.7% in the June quarter and 0.8% in the September quarter, with business surveys pointing to continued growth through the latter part of the calender year. Economic conditions in the UK have, however, been so subdued that the economy is unlikely to exceed its early 2008 size until the end of 2014, marking the most prolonged period of stagnation in the last century.

Growth in the UK economy appears more a consequence of increased consumption and a stronger housing market than a rise in business investment. Business investment stagnated through late 2012 and the first half of 2013, reflecting the absence of an upward momentum in aggregate company profits and a persistence of idle capacity. This lack of growth in business investment is linked with continued de-leveraging, seen through the downward trend in the volume of credit provided to large companies and small businesses.

While the UK business upturn has been slow, the housing market has fared better than initially expected, helped by a variety of Government initiatives to boost housing demand. House prices have started rising and a rise in the number of new loans approved points to more market activity. Residential market surveys suggest that the upturn is expected to continue with stronger readings on housing demand, the tightness of the market and price expectations. The housing upturn has not, however, been reflected in stronger growth in housing credit with the stock of mortgage credit continuing to grow by only 1% year-on-year.

Commercial property prices have also levelled out since early 2013 but remain around 40% below their mid-2007 peak. The economic upturn in the housing and commercial property markets began in South East England and has been strongest there, with house prices in Scotland and the North of England lagging in the recovery. Recent surveys show increased housing market activity in the North of England. The commercial property upturn remains concentrated around Greater London, with a few signs of improving conditions in other regions.

United States of America Economy

Despite the volatility in the quarterly national accounts, the US economy is continuing to experience a moderately paced recovery. The housing market is growing, albeit from a very low base. Corporate profits remain high and employment growth is solid. Fiscal policy remains a drag on economic growth and monetary policy continues to support demand through very low interest rates. Markets are waiting for the Federal Reserve to wind back its asset purchases. Political tensions over the US budget and debt remain an important risk hanging over the US economic upturn.

The Great Western Bank region continues to experience moderate growth, in line with the wider US economy. The unemployment rate in the Great Western Bank region remains well below that in the rest of the country. The housing market and construction activity have strengthened in the region since mid-2011, but this was from very depressed initial levels. The drought has become less severe but continues to depress activity in parts of Great Western Bank's region.

Outlook

The outlook for the Group's financial performance and outcomes is closely linked to the levels of economic activity in each of the Group's key markets. Differences in the strength of business conditions in the Group's key markets look set to persist, with the gap favouring Australian markets over those in the UK and the US expected to narrow.

The winding down in mining investment will depress Australian economic growth and the extent to which that can be offset by lower interest rates and a weaker Australian dollar remains unclear. While rising exports from the mining industry will continue to boost GDP, building the new capacity employs far more people than are required to run it when completed. As a result, while GDP growth is expected to increase from 2.3% in 2013 to 2.4% in 2014 and 2.9% in 2015, the unemployment rate is expected to rise. Unemployment has already increased from around 5% in early 2012 to 5.7% in October 2013 and is expected to increase to 6.6% by the end of 2014. Credit growth is forecast to pick-up from around 3% in mid-2013 to just over 5% by late 2014, well below the double digit rates that prevailed prior to the Global Financial Crisis.

New Zealand's economic environment is looking stronger with a combination of historically high commodity prices maintaining high incomes in the farm sector, at the same time as domestic demand and property markets grow. The reconstruction in Christchurch affects the growth profile, with GDP growth of 3.2% projected in 2014 followed by 2.2% in the following year, as investment growth is predicted to more than halve. Credit growth is likely to remain well below its pre-2008 level.

The long depressed UK business environment is looking brighter with a moderately paced economic recovery expected to continue through the next couple of years. After growing by only 0.1% in 2012, the UK economy is expected to expand by 1.5% by the end of 2013 and 2.4% in 2014. Although demand, employment, asset prices and property transactions are expected to recover in step with the rise in GDP, system credit growth is not expected to return to the rates seen before the downturn as caution and de-leveraging pressures continue. System credit is likely to keep falling this year before growing by under 1% in 2014 and around 2% the following year.

The drawn-out recovery in the US economy is expected to continue, with growth strengthening into 2014. Interest rates remain low by historical standards, credit conditions are improving and the headwinds from fiscal policy are moderating. The strengthening of activity should flow into the Great Western Bank region as it tends to follow national trends.

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Risk Management Framework and Material Business Risks

Risk exists in all aspects of the Group's business and the environment in which it operates. The Group maintains a strong risk governance and oversight framework that originates at Board level and cascades down through the Group.

The Board and its Risk Committees are responsible for the Group's risk management framework and for the review and oversight of the Group's risk profile within the context of the Board's risk appetite.

Risk is identified and managed as part of a Group-wide Risk management framework that starts with the Board approved strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to businesses qualitatively (through risk policies, standards and operating procedures) and quantitatively (through our risk limits, settings and decision authorities).

Compliance with the Group's Risk Management Framework is non-negotiable. The Group's operating model differentiates accountabilities using a 'three lines of defence' approach as follows:

- First Line: Management (who owns the risks).
- Second Line: Risk (who provide insight, oversight and appetite).
- Third Line: Internal Audit (who provide independent assurance).

Set out below are the principal risks and uncertainties associated with the Group. These risks and uncertainties are not listed in order of significance, and in the event that one or more of these risks occur then adverse impacts can result in other interconnected risks or the impact of the risks being significantly different to that expected.

Risks specific to the banking and financial services industry

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

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

The Group provides banking and financial services and products to individuals and entities across a range of jurisdictions including but not limited to Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of the Group are dependent on the level of banking, finance, financial services and wealth management activities required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy, market interest rates and global economic trends (given the degree of global interconnectivity, interdependency and potential for contagion in the financial system).

Forecast global economic growth is projected to remain subdued, especially in Europe, and there is variability in business and economic conditions across a number of the Group's key markets. Changes in the economic climate in which the Group operates may adversely impact the Group's financial performance and position. Examples of such changes include, but are not limited to, economic growth rates, interest rates, inflation and deflation rates, employment levels, labour costs, consumer sentiment, demand for credit, market volatility, relative changes in exchange rates, changes in commodity and asset prices (i.e. bonds, equity securities, property and derivative instruments), levels of industrial production, taxation levels, domestic and international competition, monetary policy, fiscal policy, domestic and international political changes and environmental conditions. Factors causing these changes are many and varied, and include, but are not limited to, the occurrence of major shock events such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructures and defaults.

The Australian and New Zealand economies are heavily reliant on the economic climate in Asia, in particular China, and therefore any weakness, significant slowdown in growth or downturn in China's economy may adversely impact the Group's Australian and New Zealand businesses (both directly and indirectly).

The Group also operates in the United Kingdom and the United States where conditions are subdued. If these countries' economies continue to under-perform, this may further impact the Group's activities and financial outcomes in the short to medium term. The United States Federal Government, as well as many of their state and municipal governments, continue to run large fiscal deficits, which will require a reduction either through expenditure reduction, revenue increases (including higher taxes), or a combination of both. This may adversely impact the United States and global economic conditions which may, in turn, adversely impact the Group's financial performance and position. A recent political impasse in the United States Congress over budgetary issues and the Federal Government's borrowing limit was temporarily resolved through increasing the limit. If a further extension is necessary and not given within the required time frames, the United States Federal Government would be unable to meet its financial obligations as and when they fall due, which may have a severe negative impact on the United States and global economies, including through market anticipation of a possible default, and may adversely impact the Group's financial performance and position.

Eurozone conditions

Concerns about the Eurozone debt crisis and large sovereign debts and/ or fiscal deficits of a number of European countries, as well as countries outside Europe such as the United States, Japan and the United Kingdom persist. The resulting direct and indirect risks, including contagion implications, are significant and ongoing. The default, or a further significant decline in the credit rating, of one or more sovereigns, financial institutions, insurers or other corporates as a result of the Eurozone conditions, or a full or partial break up of the European Union or its euro currency, may cause severe stress on the financial system generally. This stress may adversely affect the markets and market participants in ways which may be difficult to predict or effectively manage, but which may adversely impact the Group's financial performance and position (particularly through its UK Banking business and its direct and indirect exposure to the Eurozone's many market participants).

In September 2014, a referendum is to be held to determine whether Scotland will seek independence from the United Kingdom. If the referendum is passed, it is likely that Scotland would leave the European Union and many operational aspects of the separation remain uncertain. This may have an adverse impact on the Group's financial performance and position.

Potential impacts of macroeconomic and financial market conditions

Volatility in credit, currency and equity markets globally may result in uncertainty in financial markets that may affect all banks, including the Group. Market volatility has led to and in the future may lead to events including, but not limited to:

- Increased cost of funding and/ or lack of available funding;
- Deterioration in the value and liquidity of assets (including collateral);
- Inability to price certain assets;
- Increased likelihood of counterparty default and credit losses (including on the purchase and sale of protection as part of hedging strategies);
- Higher provisions for bad and doubtful debts;
- Mark to market losses in equity and trading positions;

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- Increased cost of insurance and/ or lack of available or suitable insurance; and/ or lack of available or suitable derivative instruments for hedging purposes; and
- Lower growth, business revenues and earnings (for example, the Group's NAB Wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group).

The financial performance and position of the Group have been, and its future financial performance and position may continue to be, affected by these factors.

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

The Group is regulated in Australia and in the other jurisdictions in which it operates or has some other connection. Regulations vary from country to country, and to differing degrees are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Future changes in laws, regulations or other policies imposed on the Group by various regulatory authorities of Australian and foreign governments, and international agencies are unpredictable and beyond the Group's control and may adversely affect its business and operations. A number of these changes are currently influenced by public opinion (including banking sentiment) and changing stakeholder expectations regarding transparency, competition, environmental, social and governance responsibility, financial system stability, national interest and international harmonisation.

Some significant Regulatory reforms and changes currently underway include:

- Global implementation of the Basel Committee on Banking Supervision Basel III reforms, which are expected to be fully implemented by 2019. These reforms require an increase in the quality and amount of capital and liquid assets that the Group is required to hold. Implementation of Basel III reforms in different ways across the jurisdictions in which the Group operates may increase the regulatory compliance costs to the Group as well as requiring the Group to hold more capital than otherwise would have been the case. In Australia, revised capital requirements became effective from 1 January 2013, with additional requirements to take effect in future years as capital buffers and the leverage ratio are implemented. Revised liquidity requirements will take effect progressively commencing with qualitative requirements from 1 January 2014.
- APRA's framework for the supervision of conglomerate groups covering governance, risk exposures, risk management and capital adequacy, which will be fully effective from 1 January 2015 following a twelve month industry transition period. This framework may result in higher regulatory compliance costs for the Group.
- Australian Prudential Standard APS 222 Associations with Related Entities that may reduce the Group's ability to provide capital and funding support to its subsidiaries.
- Implementation of APRA's Prudential Standard APS 910 Financial Claims Scheme to facilitate payment of the government guarantee on protected bank deposits (up to $250,000).
- The Stronger Super reforms, which commenced on 1 July 2013 and impact the Group's Wealth business. The reforms are in response to the Australian Government's changes to superannuation and involve a significant compliance cost to the Group.
- The United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") which imposes additional supervisory requirements and prudential standards on foreign banking organisations with a United States banking presence and total global consolidated assets of at least US$50 billion (which includes the Company). The legislation includes, among other things, heightened risk-based capital requirements, leverage, liquidity and risk management requirements, including periodic stress tests, as well as limitations on credit and other exposures. The Dodd Frank Act also contains the Volcker Rule which prohibits proprietary trading and the sponsorship of, and investment in, hedge and private equity funds by banking entities like the Company. The specific impact of the Dodd-Frank Act on the Group's businesses and the markets in which it operates will depend on the manner in which the relevant United States agencies implement the required regulations. The Dodd-Frank Act and its implementing regulations may result in changes that adversely impact the financial performance and position of the Group.
- Over The Counter ("OTC") derivative market reforms, which are a broader commitment of the Group of 20 ("G20") Finance Ministers and Central Bank Governors, are being implemented in the United States through the Dodd-Frank Act and in other countries including Australia (where legislation to implement these G20 commitments became fully effective on 3 January 2013). The Australian Securities and Investments Commission ("ASIC") has subsequently released rules and relevant regulatory guides for the licensing of derivative trade repositories and derivative transaction reporting. Derivative transaction reporting for the Company commenced in Australia in October 2013. The introduction of these requirements, in addition to other OTC reforms globally, adds to the costs and complexity of regulatory compliance for the Group.
- Industry development of a New Payments Platform ("NPP"), in response to the conclusions from the Reserve Bank of Australia's ("RBA's") Strategic Review of Innovation in the Payments Systems released in June 2012. The NPP will significantly impact the way low value payments will be processed. There will be additional costs for the Group in implementing the required changes associated with the industry development of the NPP and the Group's internal build to connect to the NPP.
- Development/maintenance of recovery plans that show how the Group would propose to recover from a significant loss that threatened its viability as a stand-alone entity. If elements of the recovery plan were implemented in response to a crisis, or preparatory actions relating to the plan were mandated by regulators, or implementation of the plan fails, it is possible that some or all of these actions may have an adverse impact on the Group's financial performance and position. The Reserve Bank of New Zealand has put in place a mechanism for how it will manage a New Zealand bank that encounters financial difficulty. Called "Open Bank Resolution" ("OBR"), the mechanism may have an adverse impact on the Group's financial performance and position if the Group's New Zealand subsidiary was subject to an OBR action. In other jurisdictions, including the United Kingdom and the United States, actions are also progressing for recovery and resolution planning of banks.
- Legislation passed in the United States, in March 2010, which will require foreign financial institutions to provide information regarding United States account holders (referred to as "FATCA"). If this information is not provided in a form satisfactory to the United States tax authorities, a foreign financial institution may be subject to a 30% withholding tax applied on certain amounts derived from United States sources and certain payments attributable to such amounts ("Passthru Payments"). Under

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United States Treasury regulations and administrative guidance, no such withholding tax will be imposed on any payments from United States sources made prior to 1 July 2014, and no such withholding tax will be imposed on any proceeds from the disposal of United States assets and Passthru Payments prior to 1 January 2017. The Australian Federal Government and certain other governments of countries where the Group operates have entered into or are considering entering into inter-governmental agreements with the government of the United States in respect of FATCA. It is not possible to determine at this time the costs of complying with the new legislation or whether such legislation will have a significant impact on the Group's financial performance and position.

- New financial services taxes and levies, which are being adopted in several European countries and, are designed to improve public sector finances. These financial services taxes and levies may have a significant impact on the Group's financial performance and position.
- Proposed changes and reviews by the International Accounting Standards Board ("IASB") and the Australian Accounting Standards Board ("AASB") to several of the accounting standards that govern key aspects of the Group's financial statements. While the outcome of these reviews and proposed changes is uncertain and difficult to predict, these changes may adversely impact the Group's reported financial performance and position.

Other potential regulatory reforms or changes may arise from:

- The Australian Federal Government's consultation in late 2012 on draft proposals to strengthen APRA's crisis management powers, including an extension of those powers to the Group's subsidiaries.
- APRA's planned 2014 consultation on the Domestic Systemically Important Banks ("D-SIBs") framework. Additional prudential measures are likely to apply to D-SIBs, including potentially a requirement to hold additional capital from 1 January 2016. The Group expects to be categorised as a D-SIB.
- An Australian Financial System inquiry, which is expected following the election of the new Australian Federal Government. The Australian Federal Government has also announced that it intends to undertake a root and branch review of competition policies to ensure there is a simple and predictable regulatory environment for new and existing market participants across all sectors of the Australian economy. At this stage there is no indication of what the recommendations will be and how they will be adopted, in respect of either review.
- An Australian Senate inquiry to examine the performance of ASIC, focusing on the legislative powers of ASIC and any barriers preventing ASIC from fulfilling its responsibilities and obligations, the accountability framework ASIC is subject to, and collaboration between regulators, amongst other requirements.
- The United Kingdom Independent Commission on Banking ("ICB") recommendations on reforming the banking sector in order to promote financial stability and competition. These include proposals to 'ring-fence' retail banks from investment (and wholesale) banking operations and capitalising each separately, as well as introducing more onerous minimum capital and capital buffers based on the size of the banking entity. There are also recommendations designed to improve choice and competition in the United Kingdom market. The United Kingdom Government's Financial Services (Bank Reform) Bill is currently under consideration in Parliament, and seeks to enact the recommendations of the ICB.
- Macro-prudential controls which restrict the activities of lenders in the market (such as restrictions on high loan-to-valuation lending), which have been introduced in several countries including New Zealand.

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

Competition or industry consolidation may adversely impact the financial performance and position of the Group.

There is substantial competition in the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins, changes in terms and conditions, increased advertising and related expenses to attract and retain customers, increased customer turnover, decreased customer loyalty or loss of market share. As technology and customer attitudes are rapidly evolving, this increases the risk of competition from new business entrants with lower cost operating models. The trend towards consolidation and rationalisation in the financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, more customer data, and greater efficiency. There has also been an increase in the direct role of governments in the international banking sector arising out of certain consolidations that occurred during the heightened period of instability during the Global Financial Crisis.

The Group's financial performance and position have been, and may continue to be, adversely affected by competitive market conditions and/ or industry trends.

Risks specific to the Group

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

The Group's business model and portfolio mix create a different risk profile compared to its Australian-based banking peers in a number of ways including, but not limited to, its higher business lending market share (and as a result, a higher exposure to commercial real estate) and the location of banking subsidiaries in the United Kingdom and United States.

The risks specific to the Group are set out below.

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

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans (including but not limited to acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, repurchase and reverse repurchase agreements, swaps, bonds and options), as well as the extension of commitments and guarantees and the settlement of transactions.

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

- Residential loans, which at 30 September 2013 represented approximately 55% of gross loans and acceptances. Currently there are differing external views as to whether or not the Australian and New Zealand residential property markets are overvalued and likely to experience a price downturn and if so, when. A significant downturn in the housing or employment markets in any of the economies in which the major businesses

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of the Group operate may have an adverse impact on the Group's financial performance and position.

- Commercial real estate loans, which at 30 September 2013 represented approximately 12% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's United Kingdom commercial real estate loan run-off portfolio continues to be managed separately and the value at 30 September 2013 has reduced to $6,960 million. Further deterioration in the economic conditions in the United Kingdom, or similar conditions being experienced in the commercial real estate markets in Australia and/ or New Zealand, may have a further adverse impact on the Group's financial performance and position.
- The Group's UK Banking business (excluding CRE assets in the loan run off portfolio), represents approximately 8.8% of gross loans and acceptances at 30 September 2013. This business is directly exposed to the economic and political environments in the United Kingdom and Eurozone. Interest only mortgage loans in the United Kingdom, at 30 September 2013 represent approximately 2.5% of total gross loans and acceptances. These loans in the United Kingdom were traditionally written with a longer interest only term. This type of lending may expose the Group to increased credit risk when the loan matures or converts from interest only to principal and interest (particularly in a rising interest rate environment where the original interest only loan was originated at, or near, the record low interest rates of recent years and/ or where those customers are concentrated in areas experiencing less favourable business or economic conditions.

Less favourable business or economic conditions, whether generally or in a specific industry sector or geographic region, may cause, and have caused, counterparties and customers to experience an adverse financial situation. This may expose the Group to the risk that those impacted counterparties or customers will fail to meet their obligations in accordance with agreed terms. The Group may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years.

Other factors that may have an adverse impact include, but are not limited to, declines in the Australian, New Zealand, United Kingdom, United States and other economies (impacting the Group's retail, small and medium-sized businesses, and large corporate business customer base) or further financial market dislocation which may lead to falling confidence, increased re-financing risk and further contagion risk among market participants, counterparties and customers. The Group's higher business lending market share in Australia and New Zealand exposes the Group to the potential of losses greater than peers should less favourable business and economic conditions be experienced across this sector. The continued high Australian dollar (relative to its average level since the currency was floated in 1983), despite recently falling against the United States dollar and some other currencies, continues to place pressure on customers with businesses exposed to currency movements, including but not limited to Australian based tourism, manufacturing, retail, wholesale and agriculture businesses. With a slowdown in mining investment in Australia a number of sectors servicing this industry have also come under pressure.

The Group provides for losses incurred in relation to loans, advances and other assets. Estimating losses incurred in the loan portfolio is by its very nature, uncertain and the accuracy of those estimates depends on many factors, including general economic conditions, assumptions of probability of default, loss given default and exposure at default, rating changes, structural changes within industries that alter competitive positions, and other external factors such as legal and regulatory requirements and a number of assumptions based on available experience and management judgements. If the information (or the assumptions upon which assessments are made) proves to be inaccurate, the provisions for credit impairment may need to be revised, which may adversely impact the Group's financial performance and position.

Refer to *Note 41 - Financial risk management* for further discussion of how the Group manages Credit Risk.

The Group is exposed to operational and compliance risks, which may adversely impact its financial performance and position.

Operational risk, including compliance risk, is the risk of loss resulting from inadequate internal processes and controls, people and systems or from external events (e.g. natural disasters, extreme weather events, biological hazards, terrorism, political, security and social events). Operational risks are a core component of doing business as they arise from the day-to-day operational activities of the Group as well as organisational changes such as projects and business change initiatives. Operational risks can also cause other risks to occur, for example, an uncontained biological hazard such as an outbreak of foot and mouth disease may result in increased credit risk across the Group's Agriculture portfolio. The Group's day-to-day operational and compliance risks may arise in the following ways:

- Fraud and/ or malicious acts by employees, customers (for example undetected money laundering) and external parties seeking to misappropriate funds (including from customer accounts) or gain unauthorised access to customer data, and/ or conduct cyber incidents including denial of service and malicious software attacks. While the Group continues to invest in capabilities to prevent, detect and appropriately respond to attacks of this nature, there can be no assurance that such incidents, or other cyber incidents, will not impact the Group. Fraud or other cyber incidents may result in reputation damage, fines or penalties, regulatory censure or financial loss.
- Weaknesses in employment practices (including those with respect to diversity and discrimination), workplace health and safety practices and compliance with employment undertakings. This may result in unsafe working environments, staff capability and capacity issues, mistreatment of employees (perceived or real), personal injury, legal or regulatory action, reputation damage, fines and penalties or financial loss.
- Systems, technology and infrastructure failures arising from poor design and implementation, operational error or ageing. The Group is dependent on:
    - Information systems and technology from a system stability, data quality and information security perspective, including payment systems and technology that interface with wider industry infrastructure. Internal or external failure of these systems and technology (including if such systems cannot be restored or recovered in acceptable time frames, or adequately protected) may impact the Group's ability to conduct its daily operations, and result in reputation damage and litigation, regulatory investigations and penalties, and/ or adversely impact the Group's financial performance and position; and
    - Select external technology providers (both in Australia and overseas) to continue to develop and provide the Group's technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, including for example, the appropriate management and control of confidential data. The Group also utilises various external service providers for other business activities. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers may adversely

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impact the Group's reputation and/ or financial performance and position.

- Process errors or failures arising from inadequate process design, untimely transaction processing, changes to or removal of key processes and operational failures by third parties (including off shored and outsourced providers) or other major participants in the financial services industry. This may result in reputation damage and litigation, regulatory investigations and penalties, and may adversely impact the Group's financial performance and position.
- Modelling error or failure arising from inaccurate or invalid assumptions, inappropriate logic, data issues or gaps, or poor management judgements. Models are used extensively throughout the Group (including but not limited to calculating capital requirements, collective provisioning, financial liabilities, pricing products, measuring and stressing exposures, evaluating businesses and/ or valuing assets). If the model (or assumptions/ judgements on which it is based) proves to be inaccurate or incorrect, this may adversely impact the Group's financial performance and position.
- Organisational changes such as projects and business change initiatives. Refer below "Transformation and change programmes"
- Deficiencies in product development and maintenance, or sales performance and practices, including unsuitable conduct by employees that is in breach of Group policies (such as selling or coercing customers into inappropriate products/ services, or conducting unsuitable/ inappropriate market practices and non-adherence to fiduciary requirements), all of which may result in reputation damage and litigation, customer redress, loss of customers, regulatory fines and penalties and may adversely impact the Group's financial performance and position.
- Failure to comply with laws, regulations, licence conditions, supervisory requirements, self regulatory industry codes of conduct and related internal policies, procedures and organisational frameworks and standards. If the Group's compliance controls were to fail significantly, or be set inappropriately, or not meet legal or regulatory expectations (including when they change over time), this may limit the Group's operations or flexibility, or result in fines, settlements, or restitution to customers, regulators or other stakeholders, which may adversely impact the Group's financial performance and position. The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group, and continues to work to improve regulatory and risk management compliance. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws. In late September 2013, Clydesdale Bank PLC was publicly fined £8.9 million by the United Kingdom's Financial Conduct Authority for their treatment of customers affected by mortgage payment errors.

Given operational risks cannot be fully mitigated the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation. Where actual losses exceed pre-determined limits, it may adversely impact the Group's financial performance and position. Failure in operational risk may also materially damage the Group's reputation. The Group is experiencing new dimensions of operational and compliance risks through the increased digitalisation of banking products and services and the rapid take up of social media. The Group expects ongoing challenges in these areas as digital/ technological innovation advances rapidly.

Transformation and change programmes

The Group is undertaking significant transformation programmes (including with respect to enterprise-wide technology and infrastructure and upgrading its core banking platform ("NextGen")) and is transitioning to a new organisational structure and operating model (within Australia) to support its technology and strategy update announced to the market on 13 March 2013. These activities aim to reduce operational complexity and cost as well as deliver a range of benefits for customers and shareholders.

The Group's UK Banking business has also been undergoing significant change as it completes implementation of its strategy (announced to the market on 30 April 2012 with the aim of reducing risk appetite, and improving the return and cost profile of the ongoing UK Banking business). While early indications show positive progress to plan, there remains a risk of underperformance, which may adversely impact the Group's financial performance and position.

Due to these programmes' scale, complexity, impact and time horizon, the Group's risk profile has increased for the near-term (for example, changes of this magnitude require the Group to invest significant management attention and resources, which may divert attention away from normal business activities and in doing so adversely affect the Group's business and operations). Additionally, as changes are being undertaken in an environment of economic fragility and increased regulatory activity and scrutiny, operational and compliance risks are magnified. There is also a risk that implementation may not be completed within expected time frames or budget, or that such changes do not deliver some or all of their anticipated benefits.

The unexpected loss of key personnel may adversely impact the Group's financial performance and position.

The Group is dependent on its ability to retain and attract key management and operating personnel. The Group has qualified and experienced management teams and operating personnel that it relies on in order to operate effectively and efficiently. The unexpected loss of any key member of these teams, or the Group's inability to attract the requisite personnel with suitable experience, may adversely impact the Group's financial performance and position.

Refer to the *Remuneration Report* and *Corporate governance* section for discussion of commencement and retention programs for senior executives.

Litigation and contingent liabilities arising from the Group's business conduct may have an adverse impact on its performance and position.

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's financial performance and position.

Refer to *Litigation and disputes* in *Other Matters* for a summary of ongoing proceedings arising from business conduct.

Insufficient holdings of capital may adversely impact the Group's financial performance and position.

Capital risk is the risk that the Group does not hold sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, or to cover the risks to which it is exposed and to protect against unexpected losses. The Group is required in all jurisdictions in which it undertakes regulated activities to maintain minimum levels of capital and reserves relative to the size and risk profile of its operations. Any change that limits the Group's

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ability to manage its capital, or to deploy capital across its entities within the Group, or requires it to hold more capital (including at a higher quality standard) may have an adverse impact on the Group's financial performance and position.

Changes in regulation have the potential to change the required levels of capital that the Company, and other members of the Group, are required to hold which may adversely impact the Group's ordinary share price, financial performance and position.

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

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its strategic plans and objectives. In particular, the Australian banking sector accesses global capital markets to help fund its businesses. Any dislocation in global capital markets may adversely affect the Group's: ability to access funds (including at a reasonable cost) to meet its strategic plans and objectives and its obligations to creditors; and reduce investor appetite for holding the Group's securities, all of which may adversely impact the Group's financial performance and position.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. Any significant deterioration in the Group's liquidity position may adversely impact the Group's financial performance and position.

In addition to the impact caused by any dislocation in global capital markets, the Group's financial performance and position may also be adversely impacted by any reduction in investor appetite for holding the Group's securities.

There are proposed changes to the minimum required levels of liquidity that the Company and other members of the Group are required to hold, which may adversely impact the Group's financial performance and position.

It is anticipated that to meet APRA's Basel III liquidity requirements, the Group will be able to establish a secured Committed Liquidity Facility ("CLF") with the RBA of sufficient size to meet any shortfall in high quality liquid assets. Access to this facility will be conditional on satisfying criteria established by the RBA and APRA that are yet to be finalised. A failure to meet the eligibility criteria may impact the Group's ability to access the CLF, with consequential impacts on the Group's balance sheet size and structure.

A significant downgrade in the Group's credit ratings may adversely impact its financial performance and position.

Credit ratings are an important reference for market participants in evaluating the Group or its products and services. A downgrade or potential downgrade in the Group's credit ratings, can affect the availability and/ or cost of funding for the Group.

Credit Rating agencies conduct ongoing review activity which is based on a number of factors including the Group's financial strength, as well as factors not entirely within the control of the Group such as conditions affecting the financial services industry and markets generally. This review activity can result in changes to credit rating settings and outlooks for the Group, including its members and individual securities issued by the Group, particularly in periods of increased market volatility. In August 2013, Moody's Investors Services ("Moody's") downgraded its credit rating for Clydesdale Bank PLC.

A downgrade to the Group's credit ratings may also result from a change in a rating agency's methodology. For example, in September 2013, Moody's completed a review of its framework for rating certain bank subordinated debt, which included Australian banks. Moody's concluded that government policy has evolved such that systemic support for bank subordinated debt has become less probable. Following the review, the Group's Upper Tier 2 subordinated debt rating and the Group's Lower Tier 2 subordinated debt rating were downgraded.

A downgrade in the credit ratings of the Company (or any other member of the Group) or the sovereign rating of one or more of the countries in which the Group operates or raises capital, may increase the Group's borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements, which may adversely impact the Group's financial performance and position.

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

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

See *Note 41 - Financial risk management* for discussion on how the Group manages interest rate risk.

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

Defined benefit pension fund risk is the risk that, at any point in time, a pension scheme is in deficit (i.e. the assets available to meet pension liabilities are at a value below current and future pension scheme obligations).

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members from 1 January 2004. As at 30 September 2013, the deficit in relation to this scheme was £197 million.

Asset values and liabilities are affected by a number of factors including, but not limited to, the discount rate used to calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality rates) and the value of the investment portfolio (which in turn is affected by a number of factors, for example, equity market conditions and bond yields). Many of these factors are outside the control of the Group.

The current deficit, and any further increase to it, may adversely impact the Group's financial performance and position as it increases the amount subsidiaries of the Company are, or may be, obliged to contribute to the scheme. Changes in the level of pension deficit result in volatility for the Group's Common Equity Tier 1 Capital position. The current deficit is, and any further deficit will be, a direct deduction from the Company's Common Equity Tier 1 Capital position.

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

Foreign exchange and translation risk arises from the impact of changes in foreign currency exchange rates on the value of

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the Group's cash flows and assets and liabilities as a result of participation in the global financial markets and international operations. Foreign exchange risk also arises from the Group's ownership structure, including investment in overseas subsidiaries or associates, the financial impact of which is held in the foreign currency translation reserve (noting the impact is only taken to the profit and loss account on a disposal), and exposures from known foreign currency transactions (such as repatriation of capital and dividends from offshore subsidiaries). It also includes any currency positions in the banking book emanating from transactions with customers, banks and other counterparties. Any adverse movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group has operations outside of Australia and conducts business in different currencies, mainly Australian, New Zealand and United States dollars, British pounds sterling and Euros. The Group's businesses may be affected by a change in currency exchange rates, or a full or partial break-up of the Eurozone or a change in the reserve status of any of these currencies.

The Group's financial statements are prepared and presented in Australian dollars, and any appreciation in the Australian dollar against other currencies in which the Group invests or transacts and profits may adversely impact its financial performance and position, including by reducing the net cash proceeds, in Australian dollars, of any assets or businesses sold in other currencies. Conversely, depreciation in the value of the Australian dollar relative to those currencies may magnify any losses incurred in other currencies, when expressed in Australian dollars. This may also adversely impact the Group's financial performance and position.

See *Note 41 – Financial risk management* for discussion of how the Group manages foreign exchange risk.

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

The Group carries equity investments in its banking book at fair value. Fair value represents mark to market valuations derived from market prices or independent valuations and methodologies. The fair value of an equity investment is impacted by various risks, including, but not limited to, economic risk, political risk, business and operational risk, legal and regulatory risk, currency risk, price risk and market risk. A material reduction in the fair value of an equity investment in the Group's banking book may adversely impact the financial performance and position of the Group.

The Group may suffer significant losses from trading activities, which may adversely impact its financial performance and position.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group as a result of adverse movements in market prices. Losses can arise from a change in the value of positions in financial instruments or their hedges, due to adverse movements in market prices (for example, interest rates, foreign exchange, commodities, equities and credit spreads). Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

See *Note 41 – Financial risk management* for discussion of how the Group manages traded market risk.

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

Life insurance risk is the potential for losses when life insurance claims exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the Group.

Provision for mortality and morbidity claims in the Group's life insurance businesses do not represent an exact calculation of liability, but rather are an estimate of the expected ultimate cost based on actuarial and statistical projections. Factors affecting these estimates include, but are not limited to, the trend of future claims and incidence of actual claims, unforeseen diseases or epidemics, estimates of longevity, longer than assumed recovery periods for morbidity claims and future investment returns. A change in any of these factors would necessitate a change in estimates of projected ultimate cost, and therefore may adversely impact the financial performance and position of the Group's life insurance business. In addition, insufficient provisions for such liabilities where, for example, the mortality and morbidity experience is higher than estimates, may adversely impact the financial performance and position of the Group's life insurance businesses. Currently in Australia, the life insurance industry, in which the Group is a participant, is experiencing poor lapse and claims experience, and lower underlying investment income. This may continue to adversely impact the Group's financial performance and position.

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

Reputation risk is the possible impact of negative stakeholder opinion of the Group's actions, behaviour, performance and position. This risk may expose the Group to litigation, financial loss, a decline in customer satisfaction and customer base and overall loss of competitiveness or loss of key personnel.

Reputation risk may arise through the actions of the Group or other financial services companies, as well as its employees, suppliers, affiliates and customers and adversely affect perceptions of the Group held by the public, shareholders, investors, customers, regulators and/ or rating agencies. Additionally, the impact of a risk event (for example, operational, compliance, credit or market) on the Group's reputation and brand may adversely impact the Group's financial performance and position.

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

As financial intermediaries, members of the Group underwrite or guarantee many different types of assets, risks and outcomes, including but not limited to listed and unlisted debt, equity-linked and equity securities. The guarantee may be over the pricing and placement of these securities and the Group may therefore suffer losses if they fail to sell down some or all of this risk to other market participants. This underwriting risk may adversely impact the Group's financial performance and position.

Certain strategic decisions may adversely impact the Group's financial performance and position.

There is a risk that the assumptions on which the Group's strategic decisions are based are, or prove to be incorrect, that conditions underpinning the strategic decision may change, that the risks arising exceed expected and approved appetite for strategic risk or that execution of the Group's strategic initiatives proves ineffective. It is also possible that certain strategic initiatives are unable to be easily reversed once the Group has commenced or completed execution of them. These risks may adversely impact the Group's financial performance and position.

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As the Group progressively implements its technology strategy, there is a risk that on completion, technology has evolved in such a way that the Group's technology solutions may no longer achieve planned outcomes.

The Group may undertake an acquisition or divestment that may adversely impact its financial performance and position.

The Group regularly examines a range of corporate opportunities (including acquisitions, joint ventures and divestments) with a view to assessing whether these opportunities are in line with its strategic priorities and are able to enhance its financial performance, position or prospects.

Any corporate opportunity that is pursued may change the Group's risk profile and result in possible negative sentiment and outcomes (including the Group's credit ratings being placed on negative outlook, negative watch or being downgraded). There are also risks associated with a transaction being executed at an incorrect value. This may arise through an over-valuation of the relevant business at the time of the transaction (in the case of an acquisition or joint venture), or through under-valuation (in the case of a divestment or joint venture). Risks may also arise through matters that are inherent in the business being acquired or divested, through problems with the integration of the business (including but not limited to the risk that expected synergies will not be realised, that the Group or the relevant business may lose customers, or face disruption to its operations), or in the case of divestments, through problems in separating the business from the Group. Additionally, if an acquisition is funded by the issuance of additional equity, it may be dilutive to existing shareholders. These factors may adversely impact the Group's financial performance and position, particularly when combined with negative sentiment in relation to the Group's acquisitions, joint ventures and divestments.

There are other commercial risks that may adversely impact the Group's future prospects, including its financial performance and position.

There are a number of general commercial risks which are common to investments in most listed companies, including (but not limited to) the following risks associated with:

- New projects, including cost overruns, and delays in (or inability to achieve) revenues or cost benefits intended to flow from such new projects;
- Development of new services or technology in competition with the Group's operations;
- The level of market acceptance for the products and services provided by the Group; and
- Loss of accreditation or regulatory or other licensing for the Group's operations, causing the loss of contracts, customers or market share.

If any of these risks are realised, they may adversely impact the financial performance and position of the Group.

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

The Group's approach to identifying, assessing, measuring, managing, reporting and governing its risks is subject to the successful application of a number of risk and control frameworks. Should these frameworks (including the assumptions on which they are based) be flawed or change, or the judgment of the people involved in their application, fail, this may adversely impact the Group's financial performance and position.

Furthermore, a series of failures in the Group's risk and control frameworks may be an underlying indicator of its risk culture which, if systemic or perceived to be systemic, may result in negative sentiment in relation to the Group's underlying value and its financial performance and position.

Other risks.

The risks outlined above do not represent an exhaustive list of the risks associated with the Group. Other risks not specifically referenced in this *Annual Financial Report* (including a failure to identify and convert business opportunities) may adversely impact the future financial performance and position of the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

Report of the Directors

Directors' Information

Directors

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

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

Age: 63

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

Independent: Yes

Skills & Experience: Over 28 years of experience in a range of industries in executive, financial management and governance roles, including Managing Director and Chief Executive Officer of Wesfarmers Limited from 1992 until July 2005. Three years with investment bank Australian Industry Development Corporation, from 1980 to 1983. Eight years in petroleum exploration in Australia, Indonesia and the United States from 1972 to 1980.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman of International Education Advisory Council (since October 2011)
- Chairman of Woodside Petroleum Ltd (since August 2007, Director since November 2005)
- Chairman of Gresham Partners Holdings Limited (since July 2005, Director since November 1985)
- Director of Centre for Independent Studies (since October 2000)
- Chancellor of University of Western Australia (since December 2005)
- Member of JP Morgan International Council (since October 2003)

Board Committee membership:
- Chairman of the Nomination Committee

Mr Cameron A Clyne BA

Age: 45

Term of office: Managing Director and Group Chief Executive Officer since January 2009.

Independent: No

Skills & Experience: Over 22 years in financial services, including 12 years with PricewaterhouseCoopers (PwC), culminating in leadership of the Financial Services Industry practice in Asia Pacific, prior to the acquisition of PwC Consulting by IBM. During his consulting career he worked with many of the world's leading banks in Australia, New Zealand, the United States, Europe and Asia. He is also a Director of Bank of New Zealand and Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC (subsidiaries of the Company). He is Co-Chair of the Company's Advisory Council on Corporate Responsibility.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of The Financial Markets Foundation for Children (since April 2009)
- Director of Australian Rugby Union Ltd (since October 2013)

Board Committee membership:
- Member of the Information Technology Committee

Mr Daniel T Gilbert AM, LLB

Age: 62

Term of office: Director since September 2004.

Independent: Yes

Skills & Experience: Over 35 years of experience in commercial law. He is Managing Partner of corporate law firm Gilbert + Tobin, which he co-founded in 1988. He is Co-Chair of the Company's Indigenous Advisory Group.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Chairman of National Museum of Australia (since March 2009)
- Chairman of University of Western Sydney Foundation (since January 2012)

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

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

Age: 55

Term of office: Director since November 2011.

Independent: Yes

Skills & Experience: Over 28 years in public service, serving in senior economic policy advisory positions to the Australian Government. He was Secretary to the Treasury for ten years from April 2001. He chaired Australia's Future Tax System Review, known as the Henry Tax Review, which was published in 2010. From June 2011 until December 2012, he was Special Advisor to the Prime Minister, with responsibility for leading the development of the White Paper on Australia in the Asian Century. He is a former member of the Board of the Reserve Bank of Australia, the Board of Taxation, the Council of Financial Regulators and the Council of Infrastructure Australia.

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

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

Mr Mark A Joiner ACA, MBA

Age: 55

Term of office: Director since March 2009. Mr Joiner was appointed Group Chief Financial Officer in October 2007 and Executive Director, Finance in March 2009. Mr Joiner will retire from his directorship of the Company in early 2014.

Independent: No

Skills & Experience: Over 26 years in commerce, banking and finance. He originally joined the Company as a member of the Australian Executive Committee in 2006. He was appointed

Directors' Information

Group Chief Financial Officer in October 2007, from his previous position as Group Executive General Manager, New Business and Development. Prior to joining the Group, he was Chief Financial Officer and Managing Director, Head of Strategy and Mergers and Acquisitions for Citigroup's Global Wealth Management business, based in New York. Before entering banking, he was with strategy consulting firm Boston Consulting Group for 17 years, working out of various Australian and United States offices. He is Chairman of JBWere Pty Ltd, Invia Custodian Pty Ltd and I.C. Nominees Pty Ltd and Director of National Australia Group Europe Limited and Clydesdale Bank PLC (all subsidiaries of the Company). He is Chairman of the Company's Corporate Responsibility Council and a Member of the Group's Capital and Funding Sub-Committee.

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Aurora Vineyard Limited (since October 1999)
- Member of the Founders' Board of Flora and Fauna International (since March 2010)

Mr Paul J Rizzo BCom, MBA

Age: 69

Term of office: Director since September 2004.

Independent: Yes

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

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

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

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

Age: 58

Term of office: Director since September 2004.

Independent: Yes

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

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

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

Mr John G Thorn FCA, FAICD

Age: 65

Term of office: Director since October 2003.

Independent: Yes

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

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

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

Mr Geoffrey A Tomlinson BEc

Age: 66

Term of office: Director since March 2000.

Independent: Yes

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

Directorships of listed entities within the last three years, other directorships and offices (current & recent):
- Director of Growthpoint Properties Australia Ltd (since September 2013)
- Director of Calibre Global Limited (since May 2012)
- Former Chairman of Programmed Maintenance Services Limited (from August 1999 to August 2011)

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

Directors' Information

Mr John A Waller BCom, FCA

Age: 61

Term of office: Director since February 2009.

Independent: Yes

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

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

- Director of Fonterra Co-operative Group Limited (since Feb 2009)
- Director of Sky Network Television Limited (since April 2009)
- Director of Alliance Group Limited (since January 2009)
- Director of Haydn & Rollett Limited (since February 2009)
- Director of Donaghys Limited (since March 2009)
- Director of Property for Industry Limited & subsidiary (formerly Direct Property Fund Limited) (since July 2013)
- Chairman of Eden Park Trust (since September 2009)
- Former Member of the Auckland Transition Agency (from 2009 to October 2011)
- Former Member of the New Zealand Takeovers Panel (from December 2006 to February 2011)
- Former Director of Yealands Wine Group Limited (from November 2011 to August 2013)

Board Committee membership:

- Member of the Audit Committee
- Member of the Risk Committee
- Member of the Nomination Committee

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

Age: 63

Term of office: Director since March 2010.

Independent: Yes

Skills & Experience: Over 39 years in international banking and finance. Prior to taking on a strategic investment management role on behalf of The Royal Bank of Scotland plc with Bank of China in 2006, he held senior executive roles, having Asia wide regional responsibility with Bank of America Corporation, National Westminster Bank plc and The Royal Bank of Scotland plc. He is a member of the Company's Australia in Asia Management Council.

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

- Member of Supervisory Committee, ABF Hong Kong Bond Index Fund (since 2006)

Board Committee membership

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

Board changes

Mrs Cross resigned from the Board of the Company on 2 August 2013.

Mrs Patricia A Cross BSc (Hons), FAICD

Age: 54

Term of office: Director from December 2005 to August 2013.

Independent: Yes

Skills & Experience: Over 30 years in international banking and finance, including management and senior executive roles in Europe, the United States and Australia with Chase Manhattan Bank, Banque Nationale de Paris and the Company. Mrs Cross was a founding member of the Financial Sector Advisory Council to the Federal Treasurer serving for five years. She has served in a variety of honorary advisory capacities to the Federal Government for 14 years, including as a member of the Federal Government's Panel of Experts for the Australian Financial Centre Forum. In 2003, she received a Centenary Medal for service to Australian society through the finance industry. She was a Director of JBWere Pty Ltd (a subsidiary of the Company).

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

- Director of Macquarie Group Limited (since August 2013)
- Director of Macquarie Bank Limited (since August 2013)
- Former Director of Qantas Airways Limited (from January 2004 to October 2013)
- Former Director of Wesfarmers Limited (from February 2003 to March 2010)

Board Committee membership (former):

- Chairman of the Remuneration Committee
- Member of the Risk Committee
- Member of the Nomination Committee

Company Secretaries

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

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

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

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

Ms Michaela Healey LLB, FCIS, was appointed Group Company Secretary in April 2006. Ms Healey ceased to be a Company Secretary on 8 May 2013 following her acceptance of the expanded role of Group Executive, People, Communications and Governance.

Report of the Directors

Directors’ Information

Directors’ and officers’ indemnity

The Company’s constitution

Article 20.1 of the Company’s constitution provides that to the maximum extent permitted by law and without limiting the Company’s power, the Company may indemnify any current or former officer out of the property of the Company against:

- Any liability incurred by the person in the capacity as an officer (except a liability for legal costs);
- Legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the officer becomes involved because of that capacity;
- Legal costs incurred in connection with any investigation or inquiry of any nature (including, without limitation, a royal commission) in which the officer becomes involved (including, without limitation, appearing as a witness or producing documents) because of that capacity; and
- Legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer, if that expenditure has been approved in accordance with the Board’s charter,

except to the extent that:

- The Company is forbidden by law to indemnify the person against the liability or legal costs; or
- An indemnity by the Company of the person against the liability or legal costs, if given, would be made void by law.

Under Article 20.2, the Company may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in that capacity, including a liability for legal costs, unless:

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

The Company may enter into an agreement with a person referred to in Articles 20.1 and 20.2 with respect to the subject matter of those Articles. Such an agreement may include provisions relating to rights of access to the books of the Company.

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

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

Directors’ and officers’ insurance

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

Directors’ attendances at meetings

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

	Board		Audit Committee		Risk Committee		Nomination Committee		Remuneration Committee		IT Committee		Directors’ meetings of controlled entities (1)		Additional meetings (2)
Directors	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**Attended**
MA Chaney	12	12	2	2	8	8	1	1	8	8	1	1	6	6	1
CA Clyne	12	12	-	-	9	9	-	-	9	9	2	3	38	38	3
PA Cross	10	10	-	-	7	7	1	1	8	8	-	-	7	8	1
DT Gilbert	12	12	-	-	9	9	1	1	11	11	3	3	4	4	6
KR Henry	12	12	9	9	9	9	1	1	-	-	1	1	6	6	-
MA Joiner	12	12	9	9	9	9	-	-	-	-	-	-	28	29	11
PJ Rizzo	12	12	9	9	9	9	1	1	-	-	2	3	6	6	10
JS Segal	12	12	9	9	8	9	1	1	-	-	1	1	6	6	1
JG Thorn	12	12	9	9	9	9	1	1	-	-	3	3	6	6	9
GA Tomlinson	12	12	-	-	9	9	1	1	11	11	-	-	47	47	2
JA Waller	12	12	9	9	9	9	1	1	-	-	2	2	41	43	-
AKT Yuen	12	12	-	-	9	9	1	1	11	11	1	1	6	6	1

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

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

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

(2) *Reflects the number of additional formal meetings attended during the year by each director, where any two directors are required to form a quorum other than (Audit Committee, Risk Committee, Nomination Committee, Remuneration or Information Technology Committee meetings). Such additional meetings include the Capital and Funding subcommittee and Board Pensions Committee.*

Directors' Information

Directors' and executives' interests

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

	National Income Securities No.	Performance options over fully paid ordinary shares of the Company (1) No.	Performance rights over fully paid ordinary shares of the Company (1) No.	Fully paid ordinary shares of the Company (2) No.
Directors				
MA Chaney	-	-	-	28,373
CA Clyne	-	-	482,364	612,039
DT Gilbert	1,253	-	-	16,190
KR Henry	-	-	-	2,000
MA Joiner	5,439	70,364	182,549	476,461
PJ Rizzo	-	-	-	5,824
JS Segal	180	-	-	14,836
JG Thorn	-	-	-	17,333
GA Tomlinson	350	-	-	42,781
JA Waller	-	-	-	4,000
AKT Yuen	-	-	-	5,059

	National Income Securities No.	Performance options over fully paid ordinary shares of the Company (1) No.	Performance rights over fully paid ordinary shares of the Company (1) No.	Fully paid ordinary shares of the Company (2) No.
Senior executives				
LJ Gray	-	-	136,453	137,398
AP Hagger	-	-	121,702	137,185
MJ Healey	700	-	82,704	123,319
JC Healy	-	-	167,341	70,328
BF Munro	-	-	106,297	152,339
RJ Sawers	-	-	143,385	151,696
GR Slater	-	-	131,804	61,141
AG Thorburn	-	-	182,647	50,297

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

(2) *Information on shareholdings is disclosed in Note 47 in the Financial report.*

The directors from time-to-time invest in various debentures, registered schemes and securities offered by the Company and certain subsidiaries of the Company. The level of interests held directly and indirectly by a director as at 30 September 2013 were:

Director	Nature of product	Relevant interest (Units)
DT Gilbert	NAB Subordinated Notes	2,000
MA Joiner	PIC Wholesale Horizon 5 Growth Portfolio	3,436,509

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

Executive performance options and performance rights

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

Directors' Information

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

The number and terms of performance options and performance rights granted by the Company during 2013 over ordinary shares under the executive share option plan and the performance rights plan, including the number of performance options and performance rights exercised during 2013, are shown in the following tables:

Exercise period (1)	Exercise price (2)	Number held at 30 September 2013	Number exercised from 1 October 2012 to 30 September 2013	Number granted since 1 October 2012
Performance options				
14 February 2011 - 14 August 2013	$31.70	-	142,246	-
16 January 2012 - 16 July 2014	$19.89	-	50,023	-
14 February 2012 - 14 August 2013	$31.70	-	142,244	-
16 January 2013 - 16 July 2014	$19.89	123,119	227,653	-
14 February 2013 - 14 August 2013	$31.70	-	135,767	-
16 January 2014 - 16 July 2014	$19.89	350,770	-	-

Exercise period (1)	Exercise price (2)	Number held at 30 September 2013	Number exercised from 1 October 2012 to 30 September 2013	Number granted since 1 October 2012
Performance rights				
10 November 2011 - 10 May 2013	-	-	1,765	-
1 January 2012 - 1 January 2016	-	4,038	-	-
10 November 2012 - 10 May 2013	-	-	27,554	-
23 November 2012 - 23 May 2014	-	3,655	30,956	-
16 December 2012 - 16 June 2013	-	-	15,985	-
31 December 2012 - 30 June 2013	-	-	26,582	-
9 May 2013 - 9 November 2013	-	-	3,482	-
23 May 2013 - 23 November 2015	-	7,120	-	-
15 June 2013 - 15 December 2013	-	106	1,060	-
7 November 2013 - 7 May 2015	-	500,542	-	509,694
23 November 2013 - 23 May 2014	-	37,124	-	-
15 December 2013 - 15 June 2014	-	113,812	-	-
15 May 2014 - 15 November 2015	-	3,540	-	3,540
23 May 2014 - 23 November 2015	-	7,638	-	-
7 November 2014 - 7 May 2015	-	538,921	-	548,774
14 December 2014 - 14 June 2015	-	1,587,819	-	-
15 May 2015 - 15 November 2015	-	3,812	-	3,812
23 May 2015 - 23 November 2015	-	25,594	-	-
14 June 2015 - 14 December 2015	-	124,861	-	-
22 May 2016 - 22 November 2016	-	18,786	-	18,786
19 December 2016 - 19 June 2018	-	2,424,023	-	2,770,407
22 May 2017 - 22 November 2017	-	8,171	-	8,171
19 June 2017 - 19 December 2017	-	61,258	-	61,258
19 June 2017 - 19 December 2018	-	15,349	-	15,349

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

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

Performance options and performance rights on issue and number exercised

There are currently 473,889 performance options and 5,135,877 performance rights which are exercisable, or may become exercisable in the future under the respective plans.

The Company has issued 350,292 fully paid ordinary shares of the Company since the end of the year as a result of performance options and performance rights granted being exercised for no consideration.

For the period 1 October 2012 to the date of this report, 337,856 performance options expired as they were not exercised before their expiry date and 424,593 otherwise lapsed before their expiry date. Similarly, during this period 26,622 performance rights expired and 559,492 performance rights lapsed.

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

Other Matters

Litigation and disputes

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

On 16 December 2011 Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar proceedings against several other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceedings. The Group has not been required to file a defence as the proceeding has been stayed until 7 March 2014. The proceeding will be vigorously defended.

In March 2013 a potential representative action against New Zealand banks (including, potentially the Company's subsidiary Bank of New Zealand) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the action. In June 2013 it was announced that representative proceedings had been commenced against another New Zealand bank. At this stage there is no representative action against Bank of New Zealand.

Market wide issues relating to the UK banking industry payment protection insurance (PPI) matter are ongoing. A provision of $264 million (£152 million) is held in respect of the estimated cost of redress and administration expenses for this matter. This includes $204 million (£130 million) provided for in September 2013. The provision calculation includes a number of assumptions, most of which are uncertain, and which have been based upon a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain a number of uncertainties as to the ultimate costs of redress and administration, including the number of PPI claims, the number of those claims that ultimately will be upheld, and the amount that will be paid in respect of those claims, as well as the impact of expected changes to the PPI complaints handling policy and the ongoing activities of regulatory bodies and claims management companies. The final amount required to settle the potential liability is therefore uncertain. The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation at each reporting date based upon experience and other relevant factors at that time.

On 29 June 2012 the UK Financial Services Authority (FSA) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium sized businesses. Clydesdale Bank PLC agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan products as well as the standalone hedging products identified in the FSA's notice.

A provision of $85 million (£49 million) is held for this matter. The total cost of this exercise as well as of any separate, thematic or other consideration of customer complaints in relation to out of scope tailored business loans, a number of which are currently subject to review and challenge by the Financial Ombudsman Service (FOS), is uncertain.

On 1 April 2013 the FSA was de-merged into the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA has expressed a willingness to be a more proactive and intrusive regulator, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct-related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products, is $112 million (£64.5 million). The total cost associated with these and other conduct related matters is uncertain.

Future Developments

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

Proceedings on behalf of the Company

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

Events subsequent to reporting date

No matter, item, transaction or event of a material nature or unusual nature has arisen in the interval between the end of the financial year and the date of this report that, in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

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

Further details of the role of the Board and its committees can be found in the *Corporate governance* section and on the Group's website at www.nabgroup.com.

Environmental regulation

The operations of the Group are not subject to any site specific environmental licences or permits which would be considered as particular or significant environmental regulation under laws of the Australian Commonwealth Government or of an Australian state or territory. However, the Group's operations at its main Melbourne-based data centre constitute a Scheduled Activity for the purposes of the *Environmental Protection (Environment and Resources Efficiency Plan) Regulations* 2007 (Vic). Therefore, the Group has been subject to registration, annual reporting and environment and resource efficiency planning requirements under the *Environment Protection Act* 1970 (Vic). The Group has complied with these requirements. In addition, the Group's main Melbourne-based data centre is subject to the reporting requirements of the National Pollutant Inventory (NPI). The NPI provides a public Internet database of emissions and transfers of specified NPI substances from various facilities. The Group is required to report on the greenhouse gas emissions from the Group's tri-generation facilities operated at the data centre and has complied with this requirement.

The operations of the Group are subject to the *Energy Efficiency Opportunities Act* 2006 (Cth) (EEO Act) and the *National Greenhouse and Energy Reporting Act* 2007 (Cth) (NGER Act) as part of the legislative response to climate change in Australia. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. Both the EEO Act and the NGER Act require the Group to make assessments and report on the

Other Matters

basis of the year from 1 July to 30 June (the environmental reporting year).

During the environmental reporting year to 30 June 2013, the Group continued to implement an energy efficiency program in Australia, including energy efficiency opportunity assessments pursuant to the EEO Act, which helped to produce greenhouse gas emissions savings and contributed to the Group's carbon neutral status. The environmental reporting year to 30 June 2013 was the second year of the second 5-year assessment cycle (Cycle II) under the EEO Act.

The Group's Australian vehicle fleet and building related net energy use during the 2013 environmental reporting year was 629,132 gigajoules (GJ), which is approximately 57% of the Group's measured total energy use.

To date in Cycle II of the EEO Program, the Group has assessed energy efficiency opportunities in 22% of the Australian vehicle fleet and building portfolio measured by energy use in the Cycle II baseline year. In total, since the commencement of the EEO Program on 1 July 2006, the Group has identified 1022 opportunities, of which 833 are 'under investigation', have been 'implemented' or have been approved to proceed. If the 833 opportunities are all implemented, they are expected to result in approximately 326,170 GJ of energy savings per annum. Of the energy efficiency opportunities identified to date, the Group has implemented opportunities equivalent to approximately 270,041 GJ of on-going annual energy savings.

During the 2013 environmental reporting year, the Group identified 79 energy efficiency opportunities with potential energy savings of 35,811 GJ per annum. Examples of key energy efficiency projects implemented during the 2013 environmental reporting year include:

- An upgrade of lighting at the Group's 800 Bourke Street office in Docklands, Victoria. This upgrade is expected to yield reductions of 540 MWh/year, 1,950 GJ/year and the equivalent of 735 tCO_2-e per year; and
- A program of works across the Group's store network that included a solar paint pilot to determine the effectiveness of solar reflective roof paint in reducing the heat load on cooling systems in stores as well as upgrades to air conditioning, lighting and hot water time controls to better regulate the use of these services. This program of works is expected to result in energy savings of 2,680 GJ per year and an annual greenhouse gas reduction of 899 tCO_2-e.

More information about the Group's participation in the EEO Program is available at www.nabgroup.com. You can also download a copy of our 2013 EEO Report.

In the United Kingdom, the Group is a participant in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EE Scheme).

The CRC EE Scheme 2012/13 reporting period (year ending 31 March 2013) is the second reporting period for which there is an obligation to purchase and surrender CRC Allowances in relation to carbon dioxide emissions. The Group's third regulatory return was made in July 2013 as required by the CRC EE Scheme Order 2010. Additionally, National Australia Group Europe Limited, on behalf of the Group's UK-based entities, purchased and surrendered 25,072 CRC Allowances, by 31 October 2013, equal to the quantity of CRC emissions for energy supplies reported in the Group's 2012/13 CRC Annual Report, in accordance with CRC EE Scheme requirements.

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

In addition to responding to regulatory requirements, the Group can as a global provider of financial products and services play a key role in contributing to the environmental sustainability of the communities in which it operates. This includes financing of renewable energy generation projects and the provision of products such as Environmental Upgrade Agreements to assist clients with improving the energy efficiency of commercial buildings. Further information about the Group's environmental agenda and management approach is outlined in the 2013 Annual Review and the associated Environmental Dig Deeper paper information available at www.nabgroup.com.

Report of the Directors

Other Matters

Past employment with external auditor

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

Non-audit services

Ernst & Young provided non-audit services to the Group during 2013. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2013 are as follows:

	Group 2013 $'000
Audit-related regulatory	
Guidance Statements (GS) 007 reports	1,654
APRA reporting	1,002
Audit of the Group's Australian Financial Services Licenses	313
Regulatory audit, reviews, attestations and assurances for Group entities:	
- Australia	953
- Offshore	533
Total audit-related regulatory	4,455
Other non-regulatory reviews, attestations and assurances for Group entities:	
- Australia	673
- Offshore	88
Total audit-related non-regulatory	761
All other	
Controls reviews and related work:	
- Australia	70
- Offshore	26
Other - Australia	346
Other - Offshore	45
Total all other	487
Total non-audit services fees	5,703

Ernst & Young also provides audit and non-audit services to non-consolidated trusts of which a Group entity is trustee, manager or responsible entity and to non-consolidated Group superannuation plans. The fees paid or due and payable to Ernst & Young for these services during the year to 30 September 2013 total $3.6 million.

In accordance with advice received from the Audit Committee, the directors are satisfied that the provision of non-audit services during the year to 30 September 2013 by Ernst & Young is compatible with the general standard of independence for auditors imposed by the *Corporations Act* 2001 (Cth). The directors are so satisfied because the Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Ernst & Young.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Details of the services provided by Ernst & Young to the Group during 2013 and the fees paid or due and payable for those services are set out in *Note 48* of the *Financial report*. A copy of Ernst & Young's independence declaration is set out on the following page.

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

In relation to our audit of the financial report of National Australia Bank Limited and the entities it controlled during the year for the financial year ended 30 September 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

18 November 2013

Remuneration Report

Introduction from the Remuneration Committee

Dear Shareholder,

The Remuneration Committee is pleased to present the 2013 Remuneration report.

We recognise that the Company must have in place robust and responsible remuneration practices, and at the same time continue to attract and retain high quality people in a competitive market.

Accordingly, the Remuneration Committee has established policies which encourage appropriate behaviours and support our risk management framework so as to help achieve sustainable, satisfactory returns to shareholders.

Key elements of our reward framework include:
- Competitive fixed remuneration to reflect the responsibilities of our senior executives;
- Incentives that align with shareholder returns, financial rewards and sound risk management practices;
- Deferred short-term incentives to assure performance, and to provide us with the flexibility to cancel awards should subsequent information support it;
- Long-term incentives with shareholder focussed performance hurdles that encourage and reward performance over the longer term (four year period); and
- The use of performance rights rather than shares so that dividends are not paid to senior executives on unvested grants or rewards that have yet to be achieved.

Your Board has taken a moderate and realistic approach to the short-term incentives for senior executives. There has been partial vesting of long term incentive grants made in 2008 and 2009, reflecting an improvement in total shareholder returns in recent years. Nonetheless and as in previous years, a portion of the grants have been cancelled as the targets set by the Board were not met.

As the new Chair of the Remuneration Committee, I encourage shareholders and other interested parties to provide feedback on the development of our remuneration practices and thank you for your continued support.

Yours sincerely,

Danny Gilbert

Remuneration Committee Chairman

Remuneration Report

Executive summary

Overview of the Group's approach to performance and reward

The Group's remuneration philosophy is underpinned by principles that:
- Link senior executives rewards to the creation of shareholder value; and
- Provide competitive levels of remuneration to attract and retain the highest quality talent.

The Group's executive remuneration strategy recognises and rewards performance consistent with general practices within the markets in which the Group operates while being linked to shareholder outcomes.

The Group's performance and reward framework remained generally consistent during 2013 when compared with 2012. Initiatives that have impacted the remuneration framework during 2013 are:
- Variation to the Group's operating model, announced in March 2013, changing Group Executive Committee roles and responsibilities;
- The introduction of minimum shareholding requirements for the Group Chief Executive Officer (Group CEO) and other senior executives to accumulate Company equity, over a maximum five year period. These requirements commence in 2014. The Group CEO is required to hold Company equity to the value of two times fixed remuneration and other senior executives, one times fixed remuneration; and
- Legislated superannuation increases during 2013 which have been accommodated within the existing fee structure for non-executive directors, resulting in no increase to non-executive directors' fees.

Remuneration governance

The Remuneration Committee (the Committee) has been established by the Board. Its Charter (which is approved by the Board) sets out the membership, responsibilities, authority and activities of the Committee.

The full Charter is available online at www.nabgroup.com.

The Committee:
- Makes recommendations to the Board on the remuneration strategy for the Group;
- Makes annual recommendations to the Board in relation to the remuneration arrangements and remuneration packages (including performance measures and targets) for the Group CEO and executive directors, and for other senior executives who report directly to the Group CEO;
- Monitors termination policies and payments for senior executives;
- Approves fees payable to non-executive directors of controlled entities;
- Makes annual recommendations to the Board on the remuneration structure applicable to employees in risk, compliance and financial control roles;
- Makes recommendations to the Board on the design and implementation of key variable reward programs (including equity-based arrangements), the methodology for assessing, determining and adjusting incentive outcomes and ensuring that incentive payments are aligned with shareholder outcomes;
- Approves and makes recommendations to the Board regarding the Group's annual remuneration report and ensures that remuneration arrangements for senior executives are disclosed in accordance with applicable accounting, legal and governance requirements;
- Supports the Board with monitoring the principles and framework for measuring the compliance and behavioural requirements of the Group; and
- Recommends to the Board, remuneration policies applicable to non-executive directors of the Company.

Committee members at the date of this report were Mr Gilbert (Chairman), Mr Tomlinson and Mr Yuen, all independent non-executive directors. Mrs Cross resigned from the Board of the Company and as Chairman of the Remuneration Committee on 2 August 2013.

The Committee's approach

The Group operates a global remuneration policy that is reviewed by the Committee and approved by the Board at least annually to maintain alignment with business and regulatory requirements. The Group's current remuneration policy was formally established in March 2010. In 2013 the remuneration policy was amended to incorporate the requirements of *Australian Prudential Regulatory Authority Standard SPS 510 Governance.*

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

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

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

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

The Committee invites the Chairman of the Board and members of the management team, including the Group Chief Risk Officer, to assist in its deliberations (except concerning their individual remuneration).

Use of external advisers

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

During 2013, the Committee engaged Stephen Walmsley of jws consulting to review and provide recommendations and advice on remuneration and governance matters. On 1 September 2013, Mr Walmsley established a new company, 3 degrees consulting. The Committee transferred its engagement to 3 degrees consulting under the existing terms and conditions that were in place with jws consulting from that date. Under the terms of a retainer arrangement, the Committee's external remuneration consultant provided remuneration advice to the Committee (inclusive of 'remuneration recommendations' as defined in section 9B of the *Corporations Act*

Remuneration Report

2001 (Cth)) for a fee of $6,500 (excluding GST) per month. As at 30 September 2013, $72,000 (excluding GST) of fees had been paid.

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

During 2013, the law firm of Johnson Winter & Slattery which is an associated business of jws consulting, provided dispute resolution, insolvency and recoveries, and commercial litigation legal services to the Company. The total fees paid for these other services during 2013 were $277,215 (excluding GST). 3 degrees consulting is an independent remuneration and corporate governance practice that is not associated with Johnson Winter & Slattery.

Senior executive remuneration

Remuneration policy for senior executives

The following section describes the remuneration policy for senior executives and how the remuneration of each senior executive is determined by the performance of both the Group and the individual. The relevant senior executives are Key Management Personnel (KMP) for 2013 as defined in the **Table of key terms** and listed in the **Statutory remuneration data** table.

Total Reward framework

The Group's remuneration policy uses a range of components to focus senior executives on achieving the Group's strategy and business objectives. The Group's overall philosophy is to adopt, where possible, a Total Reward methodology, which links remuneration directly to the performance and behaviour of an individual and the Group's results.

The Total Reward framework is designed to:
- Reward those who deliver the highest relative performance through the Group's incentive programs;
- Attract, recognise, motivate and retain high performers;
- Provide competitive, fair and consistent rewards, benefits and conditions within an integrated global strategy; and
- Align the interests of senior executives and shareholders through ownership of Company securities.

In setting an individual's target Total Reward the Board considers:
- Input from the Group CEO on the target Total Reward for senior executives who report directly to the Group CEO;
- Market data from comparable roles in the Australian Securities Exchange (ASX) - the peer group of 16 companies chosen contains the Company's major competitors and is large enough to provide meaningful market data information;
- Individual and Group performance over the last year;
- Internal relativities; and
- General remuneration market environment and trends.

Each individual's actual remuneration will reflect:
- The degree of individual achievement in meeting performance measures under the performance management framework;
- Parameters approved by the Board based on the Group's financial and risk performance and other qualitative factors;
- The Company's share price performance and relative shareholder returns; and
- The timing and level of deferral.

Components of Total Reward

Total Reward consists of:
- Fixed remuneration provided as cash and benefits (including employer superannuation);
- Short-term incentive (STI) reflecting both individual and business performance for the current year that support the longer term objectives of the Group; and
- Long-term incentive (LTI) provided to drive management decisions focussed on the long-term prosperity of the Group through the use of challenging performance hurdles.

Target reward mix

An appropriate Target Reward mix has been determined by the Board for senior executives. The Target Reward mix for 2013 is:

Table 1: Target reward mix

Target reward mix	Group Chief Executive Officer %	Group Chief Risk Officer %	Other Senior Executives %
Fixed remuneration	33.3	50	35
STI (50% Cash)	16.7	12.5	17.5
STI (50% Deferred)	16.7	12.5	17.5
LTI (100% Deferred)	33.3	25	30
Total	100	100	100

Actual reward mix will vary depending on the achievement of individual and business performance under the STI and LTI programs. The actual reward mix for 2013 for each senior executive is shown in the **Performance related remuneration** table.

Fixed remuneration

Fixed remuneration is generally reviewed annually. The Group targets median fixed remuneration for each position within the financial services industry in the relevant global markets in which it operates. A range of 80% to 120% is set around those market positions, with the upper half of the range limited to exceptional performers. Individual performance, skills, expertise, and experience are used to determine where the senior executive's fixed remuneration should sit within the market range.

Short-term incentive

STI targets and performance measures for senior executives are determined by the Board. An STI target is set for each individual as shown in the **Target reward mix** table, with reference to external relativities and internal relativities.

Performance measures are set as part of the Group's strategy development process, which cascade to scorecard measures for each senior executive, supporting four key business drivers. For 2013 these were:
- Financial and risk management;
- Strategic projects;
- Employees and culture; and
- Customer and community.

The measures under each business driver are selected for their alignment to the Group's strategic direction. Through the scorecard approach and the subsequent peer review, the annual incentive program is structured to reward the highest achievers against key individual, business and Group performance outcomes.

The key measures and achievements for 2013 are described in the **2013 STI outcomes** section.

Actual STI rewards reflect both individual and business performance. An individual's actual STI reward for the performance year is their STI target

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multiplied by their individual STI multiple and by the Group STI multiple (as described below). In this way, STI rewards reflect both individual and business performance.

The impact of individual performance on STI rewards

The Board assesses the performance of senior executives against their scorecards of key performance measures and demonstration of Enterprise Behaviours, taking into account input from the Group CEO on senior executives reporting to him, and assigns an overall performance outcome.

An individual STI multiple of between 0 and 2 is awarded based on the individual's overall performance outcome. Only the most outstanding performers may receive an individual STI multiple of 2 times their STI target. A senior executive would receive an individual STI multiple of 0 if their performance is demonstrably below scorecard targets and/or their behaviour falls short of Enterprise Behaviour expectations. The total STI reward paid to all employees of the Group is limited to the size of the funded STI pool.

The impact of business performance on STI rewards

The Group's annual business plan (set as part of the Group's longer-term strategy) and the associated STI pool measures and targets are approved by the Board. At the end of the performance period, the Committee, in consultation with the Board Risk Committee, recommends the size of the STI pool (i.e. the business STI multiple), taking into account a qualitative overlay that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

For 2013, the financial performance of the Group for the purposes of calculating the STI pool is determined by a mix of growth in cash earnings, Return on Equity (ROE) and Return on Total Allocated Equity (ROTAE). These measures reasonably capture the effects of a number of material risks and minimise actions that promote short-term results at the expense of longer-term business growth and success.

The business STI multiple can range from 0 up to 1.3 for exceptional business performance. The Board has absolute discretion to determine the business STI multiple.

STI risk adjustment

STI reward outcomes can be adjusted for risk at a number of levels:
Individual scorecards – Senior executives will have specific risk related measures relevant to their role included in their scorecard. Their performance against these measures is captured through the senior executive's individual STI multiple.

Compliance Gateway – Senior executives who do not pass the compliance expectations of their role will have their STI reduced in part, or in full, depending on the severity of the breach.

STI pool measures – The financial measures used to determine the STI pool capture a number of material risks.

Risk adjustment of business outcomes – The Committee may recommend to the Board adjustment of the financial outcomes upon which STI rewards are determined based on a qualitative overlay that reflects the Group's management of business risks, shareholder expectations and the quality of the financial results.

STI deferral and vesting

Senior executives will have half of their STI reward deferred in the form of performance rights (subject to jurisdictional legal or tax reasons and any required shareholder approval for executive directors). Half of the deferred STI performance rights will be restricted from being exercised and subject to lapsing and performance conditions for approximately 13 months following the end of the performance year, and the remaining half for approximately 25 months.

The remainder of the STI reward will be provided in the form of cash. The deferred STI performance rights will be restricted from being exercised and subject to lapsing and performance conditions during the deferral periods. The Board may, in its absolute discretion, and subject to compliance with the law, determine that the deferred STI performance rights be fully or partially lapsed during the deferral periods. In exercising its discretion, the Board will consider whether the rewards are appropriate given later individual or business performance. The Committee, in consultation with the Board Risk Committee, will review on an annual basis the appropriateness of releasing deferred STI equity. At that time, the Group's Risk and Finance functions will advise the Committee of any known risk or business performance issues that are likely to have materially impacted the financial soundness of the Group. The Committee may, taking into account all relevant information, recommend to the Board the full or partial lapsing of any deferred STI equity for senior executives. The Committee may recommend to the Board the full or partial lapsing of any deferred STI equity for any employees across the Group, by division, by role and / or individual, depending on circumstances. Further details are provided in the **Clawback** section.

Senior executives do not receive dividends on deferred STI performance rights during the deferral periods. The terms and forfeiture conditions of the deferred STI equity are set out in the **Table of key terms**.

The Committee believes the restrictions and lapsing conditions on the equity instil an appropriate focus on business performance beyond the current year, allow for alignment with risk outcomes, support consistent achievement of targets, and encourage an appropriate level of shareholding by senior executives.

STI awards for senior executives for 2013

The graph in the **2013 STI outcomes** section shows the average STI payment (including cash and deferred components) for senior executives for 2013. The **Performance related remuneration** table provides further details on the STI payments and the form and timing of payment.

Long-term incentive

LTI rewards help to drive management decisions concerning the long-term prosperity of the Group through the use of challenging performance hurdles. The hurdles are measured over no less than a three year period, and may combine internal and external performance measures.

An LTI award is set annually for each individual based on external market and internal relativities in line with the **Target reward mix** table.

The impact of individual performance on LTI rewards

An individual must pass threshold performance requirements and the Compliance Gateway to be eligible for any award of LTI.

The impact of business performance on LTI rewards

LTI programs reward both internal and/or external performance. Internal hurdles track the Group's financial performance against key measures within the Group's business plan (such as cash earnings and ROE) approved by the Board. External hurdles compare the Company's relative TSR over a three to five year period (depending on the grant) against that of the Company's competitors. From 2012 only external hurdles apply.

A full description of the LTI rewards currently held by senior executives is set out in the **Summary of prior LTI grants** section.

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LTI awards for senior executives for 2013

The **Performance related remuneration** table shows the LTI value which will be granted in respect of 2013 (in the column headed: 'LTI opportunity for 2013').

Delivery and deferral of the 2013 LTI award

The whole of the value of the LTI award for senior executives will be provided in the form of performance rights (subject to jurisdictional legal or tax reasons and any required shareholder approval for executive directors). The LTI performance rights are restricted for a minimum of four years and cannot be exercised during this period. The terms and lapsing conditions of the LTI performance rights are set out in the **Table of key terms** under "LTI Performance Conditions". These terms include conditions relating to lapsing if the performance hurdles are not met, as described below.

Life of the 2013 LTI award

The LTI performance rights are scheduled to be granted in December 2013 (after the AGM subject to shareholder approval, on or prior to May 2014 for the Group CEO). The LTI performance rights are restricted and cannot be exercised until, at the earliest, when the Test One Restriction Period ends and until the Board determines that the performance hurdles are satisfied. The Test One Restriction Period starts on 11 December 2013 and ends on or before 20 December 2017. A further restriction period applies to any LTI performance rights not vested at the first test. The LTI performance rights remain restricted and not able to be exercised until, at the earliest, when the Test Two Restriction Period ends and until the Board determines that the performance hurdles are satisfied. The Test Two Restriction Period starts on 11 December 2013 and ends on or before 20 December 2018. Any unexercised LTI performance rights expire at the end of an additional six month period allowed for exercise of any vested performance rights.

Performance hurdles for 2013 LTI award

The performance hurdles measure the Company's relative Total Shareholder Return (TSR) performance against two different peer groups over the performance period. In respect of half of the grant value (Tranche 1), the performance hurdle is the Company's TSR performance relative to the TSR performance of each company in the S&P/ASX Top 50 Index (which comprises the 50 largest companies by market capitalisation in Australia) as at 1 October 2013. For the other half of the grant value (Tranche 2), the performance hurdle is the Company's TSR performance relative to the TSR performance of the Top Financial Services (which can be found at www.nabgroup.com). There is no substitution for de-listed companies during the performance period.

For the purposes of calculating TSR for the relevant performance period, the value of the relevant shares on the start date and the end date of the relevant performance period is based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date. This approach avoids the impact of short-term share price fluctuations.

Performance hurdle testing and vesting

The performance hurdles for Tranche 1 and Tranche 2 will be assessed separately and therefore both hurdles do not need to be satisfied for some of the LTI performance rights to vest. The performance hurdles are initially assessed over a four year period from 11 November 2013 to 11 November 2017 (Test One Performance Period). Any vested performance rights are exercisable at the end of the Test One Restriction Period. If any performance rights do not vest upon testing at the end of the Test One Performance Period, those LTI performance rights will be assessed again over a five year period from 11 November 2013 to 11 November 2018 (Test Two Performance Period).

The Company's TSR at the end of the Test One Performance Period is then compared to the TSR for each of the companies in the peer group relevant to the tranche. The Company's ranking compared to the peer groups in a tranche will determine the proportion of LTI performance rights that will vest for that tranche. Vesting will be determined on a straight line scale commencing from 50% of the performance rights vesting at median (that is, 50th percentile) TSR performance, up to 100% of the LTI performance rights vesting at 75th percentile TSR performance.

Any LTI performance rights that have not vested at the end of the Test One Performance Period will not lapse. Instead they will be subject to an additional test after a further 12 months when the Company's TSR at the end of the Test Two Performance Period is then compared to the TSR for each of the companies in the peer group relevant to the tranche. If there is an increase in relative TSR performance from the first test to the second test, then vesting will be determined on a straight line scale from 50% of the LTI performance rights vesting at median (that is, 50th percentile) TSR performance, up to 100% of the performance rights vesting at 75th percentile TSR performance (taking into account any LTI performance rights which vested on the first test date). Any LTI performance rights that do not vest following the second test will lapse.

The directors strongly support the single additional testing of the LTI performance rights because the performance hurdles are relative TSR. Given the cumulative nature of relative TSR, in order for any additional performance rights to vest on the later test date, the Company has to achieve stronger performance in the final year.

The Board will assess TSR performance and the proportion of vesting in its absolute discretion, subject to compliance with law. Further details are provided in the **Clawback** section.

Senior executives do not receive dividends on LTI performance rights during the performance period.

Lapsing and forfeiture

Unvested LTI performance rights will lapse on the first to occur:

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

Where the Board does not exercise its discretion to lapse the LTI performance rights on cessation of employment, some or all of the performance rights are retained based on the elapsed period of service during the four year performance period. Any unvested LTI performance rights are retained if cessation of employment is after the Test One Restriction Period but prior to the end of the Test Two Restriction Period. Any performance rights that do not lapse remain subject to the performance hurdles and timetable of the award.

The Board also has discretion to lapse any vested LTI performance rights that have not lapsed on cessation of employment. Further details are provided in the **Clawback** section.

Value of previous LTI awards

The LTI performance hurdles are designed to deliver rewards to senior executives consistent with returns to shareholders when compared to returns delivered by the Group's competitors. A full description of the LTI instruments which are currently held by senior executives, and the relevant hurdles, is set out in the **Summary of prior LTI grants** section.

The remuneration data shown in the **Statutory remuneration data** table includes the accounting value of the LTI awards that each individual holds.

Details of previous LTI awards that have delivered value to senior executives during 2013 are provided in the **2013 LTI outcomes** table. No other LTI awards have delivered any value to current senior

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executives during 2013, other than dividends received on any 2009 and 2010 LTI shares.

Full details of all equity granted, vested and lapsed during 2013 for each senior executive is provided in the **Value of shares, performance options and performance rights** table.

Commencement and retention programs

Commencement awards for senior executives are only entered into with the recommendation of the Committee and approval of the Board. These enable buy-out of unvested equity from previous employment. The amount, timing and performance hurdles relevant to any such awards are based on satisfactory evidence. The awards are primarily provided in the form of shares or performance rights, subject to performance hurdles, restrictions and certain forfeiture conditions, including forfeiture on resignation, unique to each offer.

The Group's Remuneration Policy does not allow for discretionary sign-on bonuses to any employees.

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

Guaranteed incentives

Guaranteed incentives or bonuses do not support the Group's performance-based culture and are not provided as part of the Group's Remuneration Policy.

Clawback

The Board has absolute discretion, subject to compliance with the law, to adjust STI reward, LTI reward and other performance-based components of remuneration downwards, or to zero, to protect the financial soundness of the Company. This discretion can be applied at any time and may impact unvested equity awards, vested performance rights awards and performance-based rewards yet to be awarded whether in cash or equity.

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Linking remuneration and performance for 2013

The Group's results for 2013 reflect continued progress against the Group's strategic agenda.

2013 STI outcomes

A significant component of senior executive STI payments is determined by the Group STI pool result. The Group STI pool is based on the Group's achievement of three performance measures - cash earnings, ROE and ROTAE. The Board selected these measures to provide a balance between growth and return, and to adequately capture the Group's key risks. Definitions for these measures are provided in the **Table of key terms**.

The STI pool is adjusted to reflect the Group's management of business risks, the quality of the Group's financial results and any other qualitative factors that the Board considers have impacted on the overall performance of the Group. Senior executives' actual STI is further adjusted to account for their individual performance outcomes during 2013.

Individual senior executive performance is assessed against a number of key measures supporting the Group's strategy and business objectives. Measures and targets are tailored to the individual's role.

The table below details the key measures used in 2013 to assess individual performance outcomes:

Table 2: STI Key Achievements

Key Business Driver	Measure (1)	Achievements
Financial and risk management	Group cash earnings ROE ROTAE Tier 1 ratio Risk appetite	• Group cash earnings (2) of $5,936 million for 2013 increased by $503 million or 9.3% against 2012. This reflects a strong result for Wholesale Banking, and continued momentum in lending volumes for Personal Banking. • Group cash ROE increased by 30 basis points to 14.5% due to higher earnings, partially offset by higher levels of capital being held following the transition to Basel III. • Group ROTAE plan achieved. • The Common Equity Tier 1 capital ratio (Basel III) is 8.43%, in line with the Group's target. • Adherence to risk appetite across the Group and reinforcement of risk accountabilities across NAB's three lines of defence through the Risk Management Accountability Model.
Strategic projects	Technology and process transformation	• Several key milestones achieved in the multi-year project, including consolidation of Melbourne commercial properties, transformation of voice infrastructure, enhanced online banking capabilities to UBank, deployment of a new customer management system providing a single customer view for business and wealth customers, and a new credit risk engine.
Employees and culture	Employee engagement Diversity targets	• Decrease in employee engagement from prior year due primarily to significant structural changes during 2013, however, the Group remained above the financial services average. (3) • On track to meet diversity targets (for more details see the Diversity section).
Customer and community	Customer satisfaction Corporate responsibility objectives	• Strong customer satisfaction scores - improving from 68.9% in March 2009 to 81.7% in September 2013. (4) • Maintained or improved outcomes on the majority of corporate responsibility measures (for more details see the Company's 2013 Annual Review available at www.nabgroup.com).

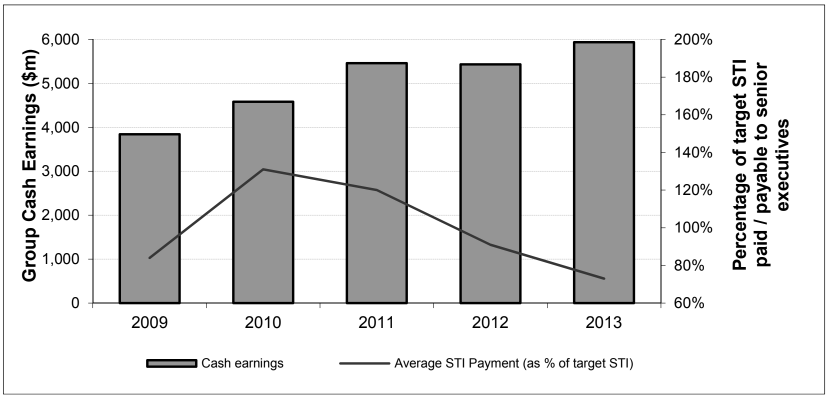
(1) *Refer to the Table of key terms for definitions of cash earnings, ROE and ROTAE and to the Glossary for a definition of Tier 1 ratio.*

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

(3) *August 2013, measured though an annual employee survey conducted by external consultants (Hay Group).*

(4) *Roy Morgan Research, March 2009, September 2013, Australian Main Financial Institution personal customers, population aged 14+, six-month moving average.*

The following graph shows the average of the individual total STI payments (including cash and deferred amounts) as a percentage of each individual's STI, (where 100% is the target) for the senior executives, and its relationship to the Group's cash earnings over the last five years. The average individual STI payment reflects both business and individual performance:



The average STI payments in the graph include the senior executives in each of those years. The 2013 average in the graph is based on the total STI payable (including deferred amounts) for each of the 2013 senior executives.

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2013 LTI outcomes

During 2013 a number of LTI grants were tested with the following outcomes:

Table 3: LTI outcomes

Grant	Securities	Grant Date	Test Date	Result [1]	Tranche	Previously Vested %	Vested in 2013 %	Lapsed in 2013 %	Remaining [2] %
2009 Long-term incentive	Shares or Rights	31/12/2009	31/12/2012	TSR 46th percentile - Financials	1	-	-	100.0	-
				Cash earnings and ROE targets met	2	-	100.0	-	-
2009 CEO Long-term incentive	Rights [3]	18/06/2009	1/01/2013	TSR 63rd percentile - Financials	1	96.0	-	-	4.0
	Shares		1/01/2013	Cash earnings and ROE targets met	1	-	90.0	10.0	-
2009 Executive Long-term incentive [4]	Options	16/01/2009	16/01/2013	TSR 62nd percentile - ASX50	1	92.2	-	7.8	-
				TSR 63rd percentile - Financials	2	-	64.9	-	35.1
2008 Executive Long-term incentive [5]	Options	14/02/2008	14/02/2013	TSR 56th percentile - ASX50	2	57.1	-	42.9	-
				TSR 61st percentile - Financials	3	-	54.5	45.5	-

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

(2) *Amounts shown indicate the unvested portion of the tranche which is subject to further testing.*

(3) *The performance rights have three test dates with the final test in 2014.*

(4) *The performance options have delivered actual value to participants because they have an exercise price of $19.89 (meaning they are 'in-the-money'). The award consists of three tranches. Tranches two and three are subject to testing in 2014.*

(5) *The performance options have delivered actual value to participants because they have an exercise price of $31.70 (meaning they are 'in-the-money'). No further testing of this award will occur.*

Further details on the LTI outcomes are provided in the **Value of previous LTI awards** section.

Five year Group performance

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

Table 4: Five year Group performance

	2013	2012	2011	2010	2009
Basic earnings per share (cents)	229.5	175.3	233.6	191.8	123.4
Cash earnings	$5,936m	$5,433m	$5,460m	$4,581m	$3,841m
Dividends paid per share	$1.83	$1.78	$1.62	$1.47	$1.70
Company share price at start of year	$25.49	$22.37	$25.34	$30.76	$24.26
Company share price at end of year	$34.32	$25.49	$22.37	$25.34	$30.76
Absolute TSR for the year	**42.9%**	**22.4%**	**(5.7%)**	**(13.3%)**	**34.6%**

The Group's total performance-based compensation expenditure is 8.2% of cash earnings for 2013:

Table 5: Total performance-based compensation

	2013	2012	2011	2010	2009
Performance-based compensation [1]	$486m	$506m	$506m	$699m	$643m
Cash earnings	$5,936m	$5,433m	$5,460m	$4,581m	$3,841m
Performance-based compensation as a % of cash earnings	**8.2%**	**9.3%**	**9.3%**	**15.3%**	**16.7%**

(1) *Determined in line with AASB 2 "Share-based Payments" (AASB 2) and AASB 119 "Employee Benefits" (AASB 119) as applicable.*

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

Remuneration Report

Overview of actual senior executive remuneration

The following table is a voluntary disclosure summarising the actual remuneration senior executives received, including annualised fixed remuneration and the value of equity that vested during 2013. Additionally, equity that has lapsed during the year without providing any value to the senior executive is shown. The equity information is different to that provided in the **Statutory remuneration data** table which shows accounting expensed amounts that reflect a portion of expected earnings from prior, current and future years. The data in the **Statutory remuneration data** table is presented in accordance with statutory requirements. The below information is provided to show a clearer representation of actual remuneration received by senior executives for the current year. All values are shown in Australian dollars.

Table 6: Remuneration outcomes

Name	Fixed remuneration (1) $	Cash STI (2) $	Deferred STI vested during year (3) $	Equity related amounts during year (4) $	Termination benefits $	Remuneration actually earned for 2013 (5) $	Equity lapsed during 2013 (6) $
Executive directors							
CA Clyne	2,765,063	1,081,350	1,895,769	3,193,244	-	8,935,426	**(2,229,347)**
MA Joiner	1,199,750	480,600	756,678	1,058,819	-	3,495,847	**(869,690)**
Other senior executives							
LJ Gray	1,034,253	400,500	479,658	414,153	-	2,328,564	**(493,212)**
AP Hagger	895,939	400,500	427,461	174,775	-	1,898,675	**(145,209)**
MJ Healey	711,838	340,425	361,268	308,160	-	1,721,691	**(380,488)**
JC Healy	1,087,126	440,550	702,666	455,894	-	2,686,236	**(528,441)**
BF Munro	1,281,795	240,300	424,952	402,308	-	2,349,355	**(493,212)**
RJ Sawers	1,023,751	480,600	533,302	458,705	-	2,496,358	**(563,670)**
GR Slater	935,844	400,500	491,479	445,638	-	2,273,461	**(563,670)**
AG Thorburn	1,103,323	368,460	604,578	393,525	-	2,469,886	**(812,572)**
Former senior executive							
SJ Tucker (For part year) (7)	454,778	-	503,859	398,416	1,410,128	2,767,181	**(3,831,718)**

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

(2) *The cash component reflects 50% of the STI received for eligible senior executives in respect of 2013. The remaining portion of the STI for 2013 is deferred in equity as disclosed in the Statutory remuneration data table.*

(3) *Deferred STI amounts from the 2010 Tranche 2 and 2011 Tranche 1 STI program fully vested in November 2012. The value is calculated using the closing share price of Company shares on the vesting date.*

(4) *Equity related amounts provided to senior executives during 2013. This includes equity-based programs from prior years (other than the deferred STI equity referred to in (3)) that have vested and/or been exercised during 2013. The value was calculated using the closing share price of Company shares on the vesting date for shares and performance rights. For performance options, the value is the market value less the exercise price on the day the senior executive exercises the performance options. Dividends received during 2013 for unvested STI and LTI share awards are also included. These awards were the 2011 Tranche 1 and 2 deferred STI, 2009 and 2010 LTI. The amount is calculated for the 2012 final dividend of 90 cents (record date of 15 November 2012) and the 2013 interim dividend of 93 cents (record date of 5 June 2013). Both dividends were fully franked.*

(5) *Total value of remuneration received during 2013. This is the total of the previous columns.*

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

(7) *Mr Tucker ceased employment with the Group on 31 March 2013. On cessation of employment, Mr Tucker received a retrenchment payment under his contract entered into in May 2005. Shares and performance rights were retained in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. These arrangements are in line with the Group's policy and practice in such circumstances.*

Remuneration Report

Senior executive remuneration

This section of the *Remuneration report* details information for executive Key Management Personnel (KMP) of both the Company and of the Group during 2013 (being the senior executives). Senior executives includes both current and former executive KMP.

Current executive KMP on 30 September 2013

Members of the Group Executive Committee on 30 September 2013 (current executive KMP) were:
- Mr Clyne and Mr Joiner, executive directors, who were also executive KMP for the year to 30 September 2012; and
- The other senior executives and former executive, as listed in the table below, who were also executive KMP for the year to 30 September 2012.

Former executive KMP during the year to 30 September 2013

Mr Tucker was a member of the Group Executive Committee during 2013 (former executive KMP). Mr Tucker left the Group on 31 March 2013 as part of changes to the Group's organisational structure and operating model announced on 13 March 2013. Mr Tucker was also an executive KMP for the year to 30 September 2012.

Other executive changes

In March 2013 the Group announced the retirement of Mr Joiner, Executive Director, Finance which will occur in early 2014. Mr Drummond commenced with the Group in October 2013 in the role of Group Executive, Finance and Strategy. He is a member of the Group Executive Committee. Details of Mr Drummond's appointment were announced on 24 July 2013.

Table 7: Contractual arrangements

The following table shows the position and contract terms for all senior executives:

Executive directors	Position	Period of the year for which the employee was a KMP (if not the full year)	Term of agreement/ contract and date commenced if during the year	Termination arrangements [(1)] Notice period (weeks) Employee	Company	Termination payment [(2)]
Senior executives for the year ended 30 September 2013						
Executive directors						
CA Clyne	Executive Director, Group Chief Executive Officer		No fixed term	52	52	2,700,000
MA Joiner	Executive Director, Finance		No fixed term	13	52	1,200,000
Other senior executives						
LJ Gray [(3)]	Group Executive, Enterprise Services and Transformation		No fixed term	4	26	454,545
AP Hagger [(4)]	Group Executive, NAB Wealth		No fixed term	4	26	454,545
MJ Healey [(5)]	Group Executive, People, Communication & Governance		No fixed term	4	26	386,364
JC Healy	Group Executive, Business Banking		No fixed term	26	52	1,000,000
BF Munro	Group Chief Risk Officer		No fixed term	13	52	1,200,000
RJ Sawers [(6)]	Group Executive, Product & Markets		No fixed term	4	52	1,090,909
GR Slater [(7)]	Group Executive, Personal Banking		No fixed term	4	52	909,091
AG Thorburn	Group Executive, New Zealand and the United States		No fixed term	13	52	920,000
Former executive						
SJ Tucker	Group Executive, NAB Wealth	To 31 March 2013	No fixed term	13	26	n/a

(1) *Employment may be terminated by either the senior executive or the Company giving the applicable notice.*

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

(3) *Ms Gray was appointed to this position from 8 April 2013. Ms Gray was the Group Executive, Personal Banking from 1 October 2012 to 7 April 2013 (also executive KMP).*

(4) *Mr Hagger was appointed to this position on 8 April 2013. Mr Hagger was the Group Executive, People, Marketing and Communications from 1 October 2012 to 7 April 2013 (also executive KMP).*

(5) *Ms Healey was appointed to this position on 8 April 2013. Ms Healey was the Group Executive, Group Governance and Legal from 1 October 2012 to 7 April 2013 (also executive KMP).*

(6) *Mr Sawers was appointed to this position on 8 April 2013. Mr Sawers was the Group Executive, Wholesale Banking from 1 October 2012 to 7 April 2013 (also executive KMP).*

(7) *Mr Slater was appointed to this position on 8 April 2013. Mr Slater was the Group Executive, Group Business Services from 1 October 2012 to 7 April 2013 (also executive KMP).*

Remuneration Report

Statutory remuneration data for senior executives

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

In addition to remuneration benefits below, the Company paid an insurance premium for a contract insuring all senior executives as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

Table 8: Statutory remuneration data

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary (1) $	Cash STI (2) $	Non-monetary (3) $	Superannuation (4) $	Other long-term benefits (5) $	Shares (6) $	Options and rights (7) $	Termination benefits $	Total $
Senior executives for the year ended 30 September										
Executive directors										
CA Clyne	**2013**	**2,632,889**	**1,081,350**	**70,394**	**26,013**	**35,767**	**1,428,207**	**2,487,446**	**-**	**7,762,066**
	2012	2,367,146	1,215,000	72,627	25,740	36,991	3,181,043	1,881,184	-	8,779,731
MA Joiner	**2013**	**1,167,087**	**480,600**	**1,171**	**18,606**	**12,886**	**587,633**	**804,809**	**-**	**3,072,792**
	2012	1,137,790	540,000	1,176	40,015	13,346	1,204,189	738,684	-	3,675,200
Other senior executives										
LJ Gray	**2013**	**960,197**	**400,500**	**3,764**	**19,166**	**51,126**	**407,716**	**751,755**	**-**	**2,594,224**
	2012	862,186	384,750	3,866	36,623	16,043	794,355	165,531	-	2,263,354
AP Hagger	**2013**	**862,505**	**400,500**	**4,961**	**18,796**	**9,677**	**306,364**	**698,410**	**-**	**2,301,213**
	2012	762,800	360,000	4,985	18,183	8,046	558,240	379,546	-	2,091,800
MJ Healey	**2013**	**682,485**	**340,425**	**1,327**	**18,898**	**9,128**	**276,367**	**517,334**	-	**1,845,964**
	2012	507,066	267,300	1,333	18,004	6,006	578,446	267,648	-	1,645,803
JC Healy	**2013**	**1,056,622**	**440,550**	**91**	**18,601**	**11,812**	**484,352**	**903,386**	**-**	**2,915,414**
	2012	1,062,359	495,000	92	18,283	12,234	990,461	524,059	-	3,102,488
BF Munro	**2013**	**1,233,776**	**240,300**	**13,517**	**18,606**	**15,896**	**366,330**	**543,816**	**-**	**2,432,241**
	2012	1,110,524	270,000	16,332	18,532	16,100	695,352	26,833	-	2,153,673
RJ Sawers	**2013**	**981,937**	**480,600**	**8,463**	**18,905**	**14,446**	**416,961**	**914,280**	**-**	**2,835,592**
	2012	870,884	688,500	8,962	18,184	11,054	831,960	549,813	-	2,979,357
GR Slater	**2013**	**883,359**	**400,500**	**17,440**	**18,796**	**16,249**	**372,759**	**750,525**	**-**	**2,459,628**
	2012	722,694	444,600	85,367	18,134	14,500	801,761	429,728	-	2,516,784
AG Thorburn	**2013**	**1,015,022**	**368,460**	**51,084**	**25,030**	**12,187**	**650**	**1,120,408**	**-**	**2,592,841**
	2012	996,530	497,250	44,577	45,137	10,922	442	1,306,519	-	2,901,377
Former senior executives										
DJ Thorburn	2012	609,226	-	322,944	81,129	-	177,632	148,826	-	1,339,757
SJ Tucker (for part year) (8)	**2013**	**396,180**	**-**	**2,598**	**47,721**	**8,279**	**464,946**	**356,052**	**1,410,128**	**2,685,904**
	2012	856,359	360,000	1,307	107,140	18,770	796,794	455,683	-	2,596,053
Total senior executives	**2013**	**11,872,059**	**4,633,785**	**174,810**	**249,138**	**197,453**	**5,112,285**	**9,848,221**	**1,410,128**	**33,497,879**
Total senior executives	2012	11,865,564	5,522,400	563,568	445,104	164,012	10,610,675	6,874,054	-	36,045,377

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

(2) *The cash component of the STI received in respect of 2013 is scheduled to be paid on 29 November 2013 in NZ and 4 December 2013 in Australia. The amount reflects 50% of the STI to be provided to eligible senior executives. The cash component of the STI received in respect of 2012 was paid during 2013 as disclosed with no adjustment.*

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

(4) *Includes Company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in NZ but such payments may be made as part of fixed remuneration. For Mr Tucker who is a member of a defined benefit superannuation plan, the amount included for remuneration purposes is the annual benefit received as per an independent actuarial valuation, and may or may not reflect the Company contributions made.*

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

- *Includes an adjustment in 2013 for Long Service Leave entitlements to reflect Ms Gray's commencement with Plum Financial Services Limited in 1998 (subsequently a controlled entity of the NAB Group). The portion of this adjustment relates only to the period in which Ms Gray has acted in the role of KMP of the Group since March 2009.*
- *From 2013 a Long Service Leave entitlement has been presented for Mr A Thorburn, as an international assignee based in New Zealand, to appropriately reflect the entitlement to Long Service Leave as an employee of the Company. The 2012 comparative amount has been adjusted to reflect the prior year Long Service Leave entitlement accrued.*

(6) *The amount included in remuneration each year for share rewards is the grant date fair value, amortised on a straight line basis over the vesting period. Refer to the Section: Fair value basis used to determine equity remuneration for an explanation of the fair value basis used to determine equity-based benefits. Amounts shown for 2013 include portions of shares allocated under employee programs as follows:*

- *2010 and 2011 deferred STI shares allocated each November, or after the respective AGM for Executive Directors. The 2010, and 2011 allocations are deferred STI shares, with half of each grant vesting 12 months after the date of allocation and the remaining half 24 months after the date of allocation. Tranche 2 of the 2010 and Tranche 1 of the 2011 deferred STI shares vested in November 2012. Forfeiture conditions apply during the deferral period.*
- *2009 and 2010 LTI shares allocated in December 2009 and December 2010, or after the respective AGM for executive directors.*
- *The June 2009 allocation for Mr Clyne as shown in the section: Summary of prior LTI grants. This allocation did not fully meet the performance hurdle and was partially lapsed on 31 December 2012. The amount includes a reversal for 10% of the grant date fair value of the allocation in line with AASB 2.*
- *The 2011, 2012 and 2013 General Employee Offer grants shares to senior executives located in NZ at the relevant offer times. In NZ, the shares vest after a three-year restriction period (with forfeiture conditions, including on resignation).*

- *Details of the above programs are described in the Remuneration policy for senior executives section and in the Table of key terms. For rewards allocated for the year to 30 September 2013, the maximum amount that may vest (if no portion is forfeited) is also shown for each senior executive in the table in the Value of shares, performance options and performance rights section. The minimum amount for these share awards is zero (if the shares are forfeited).*

(7) *The amount included in remuneration each year for performance options and performance rights is the grant date fair value amortised on a straight line basis over the expected vesting period. An explanation of fair value basis calculation at grant date used to determine equity-based remuneration is shown in the section: Fair value basis used to determine equity remuneration. Terms and conditions of all grants are included in the section: Summary of prior LTI grants. Amounts shown for 2013 include portions of performance options and performance rights allocated under employee programs, as shown below:*

- *Performance rights granted to the Group CEO in June 2009, following approval at the December 2008 AGM.*
- *2012 and 2013 deferred STI performance rights granted in November 2012 and November 2013 respectively, or after the respective AGM for executive directors. The 2012 performance rights are granted with half of each grant restricted for 12 months after the date of grant and the remaining half 24 months after the date of grant. The 2013 performance rights are granted with half of each grant restricted for approximately 13 months after the end of the performance year and the remaining half for approximately 25 months after the end of the performance year. Due to Mr Joiner retiring during 2014, Mr Joiner will be provided the deferred STI portion in cash, subject to the same time and performance criteria as the deferred STI performance rights. In accordance with the relevant accounting standard (AASB 119), no portion of this amount is accrued in 2013.*
- *Performance rights granted to Mr A Thorburn (granted each November) as a NZ-based participant, in lieu of 2010 and 2011 deferred STI shares. The performance rights are granted with half of each grant restricted for 12 months after the date of grant and the remaining half 24 months after the date of grant.*
- *Performance options granted to Mr Joiner and Mr Clyne in February 2008 and to Mr Joiner in January 2009, as part of the Group's LTI program.*
- *Performance rights granted to Mr A Thorburn (in March 2010 and December 2010) as a NZ-based participant, in lieu of LTI shares.*
- *LTI performance rights granted in December 2011, December 2012 and to be granted in December 2013 (after the AGM subject to shareholder approval, on or prior to May 2014 for the Group CEO), under the Group's LTI program.*
- *Retention performance rights granted to Mr Slater in May 2013 on his appointment to the Group Executive, Personal Banking. The performance rights are restricted for 4 years after the date of grant.*

(8) *On cessation of employment, Mr Tucker received a retrenchment payment in accordance with the NAB Enterprise Agreement 2011. Shares and performance rights were retained in accordance with the relevant terms and conditions of each grant and remain subject to the relevant performance hurdles and restriction periods. Under AASB 2, the value of retained equity has been fully accounted for on cessation. On separation, certain LTI performance grants were partially forfeited, and the associated expense was reversed. These arrangements are in line with the Group's policy and practice in such circumstances.*

STI and LTI rewards

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

Table 9: Performance related remuneration

The following table analyses the amounts shown in the **Statutory remuneration data** table, as a proportion of each individual's total remuneration.

		Performance-related remuneration					
		Cash-based	Equity-based				
	Fixed salary (not linked to Group performance) [(1)] %	Cash STI at risk %	Shares at risk %	Options and rights at risk %	Total %	Actual STI as % of STI Target %	LTI opportunity for 2013 [(2)] $
Senior executives for the year ended 30 September 2013							
Executive directors							
CA Clyne	36	14	18	32	100	80	2,700,000
MA Joiner	39	16	19	26	100	80	-
Other senior executives							
LJ Gray	40	15	16	29	100	80	850,000
AP Hagger	39	18	13	30	100	80	850,000
MJ Healey	39	18	15	28	100	80	722,500
JC Healy	37	15	17	31	100	80	935,000
BF Munro	53	10	15	22	100	80	600,000
RJ Sawers	36	17	15	32	100	80	1,020,000
GR Slater	38	16	15	31	100	80	850,000
AG Thorburn	43	14	-	43	100	80	782,000
Former senior executive							
SJ Tucker	36	-	36	28	100	-	-

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

(2) *The 2013 LTI will be granted in December 2013 (after the AGM subject to shareholder approval, on or prior to May 2014 for the Group CEO).*

Remuneration Report

STI potential outcomes

STI is provided in a mix of cash, deferred equity and retention equity. The deferred equity is granted as performance rights, that may lapse on cessation of employment (in some circumstances), or if the Board determines that performance has not been sustained. The range of final STI outcomes in respect of 2013 is between:

- The minimum amount of STI for 2013 (if the deferred equity-based portions are later forfeited), which is the amount shown in the column: 'Cash STI' in the **Remuneration outcomes** table; and
- The maximum amount of STI provided to current senior executives, which is twice the amount shown in the column: 'Cash STI' on the **Remuneration outcomes** table if the Deferred STI equity and retention equity are released in full.

LTI potential outcomes

LTI may lapse on cessation of employment (in some circumstances), if performance hurdles are not achieved and as a result they do not vest, or if the Board exercises its discretion. Potential outcomes for the LTI are:

- The minimum deferred value for LTI is zero if performance hurdles are not met;
- The maximum deferred value of the LTI is the anticipated fair value of the equity to be granted in December 2013 as shown in the column: 'LTI opportunity for 2013' in the **Performance related remuneration** table if the performance hurdles are fully met; and
- The actual value of the LTI is dependent on the level of performance achieved by the Group, relative to peers, over the next five years and the value of the Company's shares at the time of vesting.

Value of shares, performance options and performance rights

The following table shows the value of shares, performance options and performance rights issued to each senior executive as part of their remuneration that were granted, lapsed or vested during the year to 30 September 2013. The performance options and performance rights are rights to acquire Company ordinary shares, subject to certain conditions being met, under the National Australia Bank Executive Share Option Plan No. 2 and the National Australia Bank Performance Rights Plan. Each performance option and performance right entitles the holder to be provided with one Company ordinary share subject to adjustment for capital actions. No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right are set out in the **Summary of prior LTI grants** section. LTI shares are issued under: the National Australia Bank New Zealand Staff Share Allocation Plan; the National Australia Bank Staff Share Allocation Plan; the National Australia Bank Staff Share Ownership Plan; and the National Australia Bank Limited Share Incentive Plan.

The value of shares, performance options and performance rights is the fair value at grant date multiplied by the total number of shares, performance options or performance rights, and therefore represents the full value to be amortised over the vesting period, which is greater than one year. No amounts are paid by senior executives for the grant of shares, performance options and performance rights. All shares issued or transferred upon the exercise of performance options are paid for in full by the senior executive based on the relevant exercise price. Shares and performance rights have no exercise price. No amounts were paid per ordinary share by senior executives for any performance rights that were vested and exercised during 2013. The number of shares provided on the exercise of performance options and performance rights are on a one to one basis. No amounts are unpaid on any shares provided on the exercise of performance options or performance rights.

Remuneration Report

Table 10: Value of shares, performance options and performance rights

		Granted [1] No.	Grant date	Lapsed [2] No.	Vested [3] No.	Granted $	Lapsed $	Vested $
Senior executives for the year ended 30 September 2013								
Executive directors								
CA Clyne	options	94,474	14/02/2008	(41,756)	25,745	-	(157,488)	94,227
	shares	62,845	18/06/2009	(6,284)	56,561	-	(124,989)	1,124,998
	shares	130,747	31/12/2009	(83,056)	47,691	-	(1,249,993)	1,249,981
	shares	38,099	23/12/2010	-	38,099	-	-	958,190
	shares	41,838	19/12/2011	-	41,838	-	-	1,012,480
	rights	53,479	17/12/2012	-	-	1,214,989	-	-
	rights	271,490	17/12/2012	-	-	2,699,986	-	-
MA Joiner	options	80,214	14/02/2008	(35,453)	21,859	-	(133,715)	80,004
	options	104,167	16/01/2009	(4,062)	33,802	-	(14,055)	122,701
	shares	53,345	31/12/2009	(33,887)	19,458	-	(509,999)	509,994
	shares	16,402	23/12/2010	-	16,402	-	-	412,510
	shares	15,495	19/12/2011	-	15,495	-	-	374,979
	rights	23,768	17/12/2012	-	-	539,985	-	-
	rights	102,563	17/12/2012	-	-	1,019,996	-	-
Other senior executives								
LJ Gray	shares	31,119	31/12/2009	(19,768)	11,351	-	(297,508)	297,510
	shares	9,015	10/11/2010	-	9,015	-	-	233,759
	shares	11,215	9/11/2011	-	11,215	-	-	281,272
	rights	16,936	7/11/2012	-	-	384,768	-	-
	rights	76,923	12/12/2012	-	-	765,004	-	-
AP Hagger	shares	9,162	31/12/2009	(5,820)	3,342	-	(87,591)	87,594
	shares	9,288	10/11/2010	-	9,288	-	-	240,838
	shares	8,731	9/11/2011	-	8,731	-	-	218,973
	rights	15,847	7/11/2012	-	-	360,028	-	-
	rights	68,376	12/12/2012	-	-	680,004	-	-
MJ Healey	shares	24,007	31/12/2009	(15,250)	8,757	-	(229,513)	229,521
	shares	7,159	10/11/2010	-	7,159	-	-	185,633
	shares	8,075	9/11/2011	-	8,075	-	-	202,521
	rights	11,766	7/11/2012	-	-	267,312	-	-
	rights	46,155	12/12/2012	-	-	459,015	-	-
JC Healy	shares	33,342	31/12/2009	(21,180)	12,162	-	(318,759)	318,766
	shares	15,908	10/11/2010	-	15,908	-	-	412,494
	shares	13,707	9/11/2011	-	13,707	-	-	343,772
	rights	21,789	7/11/2012	-	-	495,023	-	-
	rights	94,017	12/12/2012	-	-	935,006	-	-
BF Munro	shares	31,119	31/12/2009	(19,768)	11,351	-	(297,508)	297,510
	shares	7,954	10/11/2010	-	7,954	-	-	206,247
	shares	9,969	9/11/2011	-	9,969	-	-	250,023
	rights	11,885	7/11/2012	-	-	270,015	-	-
	rights	60,332	12/12/2012	-	-	600,005	-	-
RJ Sawers	shares	35,565	31/12/2009	(22,592)	12,973	-	(340,010)	340,022
	shares	11,268	10/11/2010	-	11,268	-	-	292,179
	shares	11,215	9/11/2011	-	11,215	-	-	281,272
	rights	30,307	7/11/2012	-	-	688,544	-	-
	rights	76,923	12/12/2012	-	-	765,004	-	-
GR Slater	shares	35,565	4/03/2010	(22,592)	12,973	-	(340,010)	340,022
	shares	12,727	10/11/2010	-	12,727	-	-	330,011
	shares	7,975	9/11/2011	-	7,975	-	-	200,013
	rights	19,571	7/11/2012	-	-	444,633	-	-
	rights	68,376	12/12/2012	-	-	680,004	-	-
	rights	8,171	22/05/2013	-	-	205,010	-	-
AG Thorburn	rights	48,309	4/03/2010	(32,568)	15,741	-	(340,010)	340,006
	rights	11,838	10/11/2010	-	11,838	-	-	274,997
	rights	13,657	9/11/2011	-	13,657	-	-	318,754
	rights	21,888	7/11/2012	-	-	497,274	-	-
	shares	36	12/12/2012	-	-	877	-	-
	rights	72,650	12/12/2012	-	-	722,510	-	-
Former executive								
SJ Tucker	shares	34,453	31/12/2009	(21,886)	12,567	-	(329,384)	329,381
	shares	11,268	10/11/2010	-	11,268	-	-	292,179
	shares	9,969	9/11/2011	-	9,969	-	-	250,023
	rights	56,387	14/12/2011	(28,193)	-	-	(424,994)	-
	rights	15,847	7/11/2012	-	-	360,028	-	-
	rights	85,470	12/12/2012	(78,346)	-	850,005	(779,156)	-

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(1) The following securities have been granted during 2013:

- *Deferred STI performance rights allocations in November 2012 and December 2012 for the Executive Directors (in respect of the 2012 performance year).*
- *LTI performance rights allocations in December 2012 (in respect of the 2012 performance year).*
- *General Employee Share Offer granted to Mr A Thorburn in December 2012.*
- *Retention award granted to Mr Slater in May 2013.*

(2) The following securities have lapsed during 2013:

- *Partial lapsing of Tranche 2 and Tranche 3 Executive performance options granted to Mr Clyne and Mr Joiner in February 2008. The performance options had an exercise price of $31.70 and were 'out-of-the-money' on the lapsing date, providing a forfeited value of $0.*
- *Partial lapsing of Tranche 1 Executive performance options granted to Mr Joiner in January 2009. The performance options have an exercise value of $19.89 and were 'in-the-money' on the lapsing date providing a forfeited value ((closing share price on lapsing date less exercise price) by the lapsed number of units) of $24,210.*
- *Partial lapsing of Group CEO shares granted to Mr Clyne in June 2009 as approved by shareholders at the December 2008 AGM.*
- *2009 Tranche 1 LTI shares or rights granted in December 2009, fully lapsed in December 2012.*
- *Partial forfeiture of certain LTI performance rights for Mr Tucker upon cessation of employment.*

(3) The following securities have vested during 2013:

- *Partial vesting of Tranche 3 Executive performance options granted to Mr Clyne and Mr Joiner in February 2008. These options had an exercise price of $31.70. Mr Clyne exercised these options plus previously vested options from Tranche 1 and Tranche 2 of this award during the year. The total value of the options on exercise (based on the market value on exercise less the exercise price) was $50,206. Mr Joiner also exercised these options plus previously vested options from Tranche 1 and Tranche 2 of this award during the year. The value of the options on exercise (based on the market value on exercise less the exercise price) was $42,628.*
- *Partial vesting of Tranche 2 Executive performance options granted in January 2009 to Mr Joiner. These options had an exercise price of $19.89. Mr Joiner exercised these options during the year. The value of the options on exercise (based on the market value on exercise less the exercise price) was $338,129.*
- *Partial vesting of CEO shares granted to Mr Clyne in June 2009 as approved by shareholders at the December 2008 AGM.*
- *2009 Tranche 2 LTI shares or performance rights fully vested in December 2012.*
- *2010 Tranche 2 Deferred STI program shares or performance rights allocated in November 2010, and for executive directors in December 2010, fully vested in November 2012.*
- *2011 Tranche 1 Deferred STI shares or performance rights allocated in November 2011, and for executive directors in December 2011, fully vested in November 2012.*

Fair value basis used to determine equity remuneration

The grant date fair value of shares, performance options and performance rights in the previous tables are calculated in accordance with *AASB 2*, amortised on a straight line basis over the vesting period and included in each senior executive's remuneration for disclosure purposes.

The fair value of each share is determined by the market value of the share as at the grant date, and is generally a five day weighted average share price. The fair value of each performance option and performance right is determined using an appropriate numerical pricing model depending on the type of security, and whether there is a market-based performance hurdle (Black Scholes, Monte Carlo simulation, and/or a discounted cash flow methodology). These models take account of factors including: the exercise price; the current level and volatility of the underlying share price; the risk-free interest rate; expected dividends on the underlying share; current market price of the underlying share; and the expected life of the securities. For market-based performance hurdles, the probability of the performance hurdle being reached is taken into consideration in valuing the securities. For further details, refer to Note 1(ag) in the *Financial report*.

Fair value of securities granted to senior executives

The fair value per share and performance right (at grant) are set out below for grants provided to senior executives during 2013. No performance options have been granted during the year. Shares and performance rights granted during 2013 have a zero exercise price.

Table 11: Fair value of securities granted to senior executives

		Shares		Performance rights		
Type of allocation	Grant date	Fair value $	Restriction period end	Fair value $	Exercise period From	Exercise period To (1)
Deferred STI	7 November 2012			$23.59	7 November 2013	7 May 2015
Deferred STI	7 November 2012			$21.91	7 November 2014	7 May 2015
Long Term Incentive	12 December 2012			$10.66	19 December 2016	19 June 2018
Long Term Incentive	12 December 2012			$9.32	19 December 2016	19 June 2018
NZ Year End Share Offer	12 December 2012	$24.36	12 December 2015			
Deferred STI (2)	17 December 2012			$23.59	7 November 2013	7 May 2015
Deferred STI (2)	17 December 2012			$21.91	7 November 2014	7 May 2015
Long Term Incentive (2)	17 December 2012			$10.66	19 December 2016	19 June 2018
Long Term Incentive (2)	17 December 2012			$9.32	19 December 2016	19 June 2018
Retention (3)	22 May 2013			$25.09	22 May 2017	22 November 2017

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

(2) *Deferred STI and LTI allocations (in respect of the 2012 performance year) for the Executive Directors, as approved by shareholders at the December 2012 AGM.*

(3) *Mr Slater received a retention grant on his appointment to the role of Group Executive, Personal Banking.*

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Summary of prior LTI grants

The LTI program has changed over time to reflect market practice, changes in regulation, and to progressively improve alignment with shareholders' experience. Key terms are defined in the **Table of key terms.**

This section details the terms and conditions of LTI awards held by senior executives during 2013. The 2013 LTI award is described in the **Remuneration policy for senior executives** section.

Frequency of offers

There is generally one main LTI award per annum. There are occasional intervening grants for individuals who join the Group or receive a significant promotion during the year, and each references the structure and hurdles of the preceding main grant (only the grant date and exercise price may be different and for simplicity, these intervening grants are combined with the related main grant in this summary, and not described separately).

Form of securities

For February 2008 and January 2009, performance options were provided for half of the grant value, for senior executives (at the time of each allocation - excluding the Group CEO in 2008), with the remainder in shares (or performance rights in Asia and NZ due to jurisdictional reasons).

For 2009 and 2010, LTI rewards have been provided as shares or performance rights, dependent on jurisdictional circumstances, to all senior executives.

From 2011, LTI rewards have been provided as performance rights to all senior executives.

Exercise price

The exercise price for performance options is generally the weighted average price of ordinary Company shares traded on the ASX in the week up to and including the day of allocation. On occasion, for intervening grants made in relation to a previous grant, the price at the previous date may be used.

There is no exercise price for shares or performance rights.

Basis for allocation of LTI awards

Individual allocations are based on market relativity and Total Reward mix.

Life of the grant (and expiry date)

The February 2008 and January 2009 awards have tranche-based performance testing, with the final of the three tests occurring on the fifth anniversary date, and expire at the end of an additional six month period allowed for participants to exercise any securities that vest from that test. The additional six month period also applies to performance rights granted from 2009 to 2011, with one hurdle test on the third anniversary, and expiry at the end of the additional six month period allowed for exercise of any vested performance rights.

The LTI shares allocated for December 2009 and 2010 are released from restrictions on trading upon achievement of the related performance hurdle (and have no expiry date).

The LTI performance rights granted in December 2012 are tested on the fourth anniversary, with any LTI performance rights not vested at the first test, tested again on the fifth anniversary, and expire at the end of an additional six month period allowed for exercise of any vested performance rights.

Restriction period

Prior to 2012, the restriction period is three years during which no performance testing is conducted, and therefore no vesting occurs.

For 2012, there are two restriction periods. The first is approximately four years during which no performance testing is conducted, and the second is approximately five years applying to any unvested performance rights after the first test.

Performance hurdles

In February 2008 and January 2009, a relative TSR hurdle measured relative to peer companies, applied to the performance options allocated to the Group Executive Committee.

In 2009 and 2010, half the allocation has a TSR performance hurdle measured relative to peer companies, for the performance period and the other half has a performance hurdle based on cash earnings and ROE with a TSR overlay. Cash earnings and ROE targets are cumulative measures set in line with the relevant operational business plans.

For 2011, half the allocation has a TSR performance hurdle relative to peer companies, for the performance period and the other half has two components, namely cash earnings and ROE. Cash earnings and ROE targets are cumulative measures set in line with the operational business plans for the 2011, 2012 and 2013 years.

For 2012, the allocation has a TSR performance hurdle relative to two different peer groups, over the performance periods.

Reasons for the performance hurdles

The performance hurdles are chosen to support the Group's longer-term business strategy. TSR is considered a relevant and direct link to shareholder returns over the medium to long-term, and appropriate for the most senior executives. The cash earnings/ROE hurdles provide a link to longer-term business results.

Peer groups used in performance hurdles

Prior to September 2009 the TSR hurdles incorporated two peer groups, with each determining half of the TSR vesting. The first group is the Top 50 Companies and the second is the Top Financial Services (both defined in the **Table of key terms**).

From September 2009 to December 2011, the TSR performance for the Company is compared with that of the Top Financial Services. De-listed companies are replaced by new peers from a reserve list of companies approved at the time of each allocation.

From December 2012, the TSR hurdles incorporated two peer groups, with each determining half of the TSR vesting. The first group is the S&P/ASX Top 50 Index and the second is the Top Financial Services (both defined in the **Table of key terms**). There is no substitution for de-listed companies during the performance period (current listings are available at www.nabgroup.com).

Peer group selection criteria

Peer group selection is designed to provide a measure against the type of companies investors might reasonably hold as an alternative. Using a larger peer group helps to reduce volatility and lessens the impact of changes to the peer group (due to de-listings). The Top Financial Services peer group was introduced to allow performance to be specifically measured against comparable organisations as well as to a broader selection of financial industry organisations.

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Performance hurdle testing

For allocations made in February 2008 and January 2009, the TSR hurdles on performance options for the Group Executive Committee are tested on three separate occasions as above. The ROE/cash earnings hurdle for the LTI shares (or performance rights) was tested once only, at the end of the performance period.

From December 2009 until December 2012, the hurdles are tested once only, at the end of the three year performance period.

For the 2012 grant, the TSR performance hurdles are initially assessed over a four year performance period. Any unvested performance rights at the end of the first performance period, are assessed again 12 months later over a five year performance period.

Performance hurdle methodology

For February 2008 and January 2009, performance option allocations are divided into three equal tranches. Only Tranche 1 is tested at the end of the restriction period, on the 3rd anniversary of grant. Tranche 1 and Tranche 2 are tested one year later, and Tranche 2 and Tranche 3 are tested the following year. This minimises additional testing of the hurdle while maintaining senior executive focus on medium to long-term performance.

The shares (or performance rights) were tested only once, measuring cash earnings and ROE prior to the 3rd anniversary of grant, compared with business plan over three financial years.

For 2009, 2010 and 2011 the TSR performance hurdles measure the Company's TSR and the TSR for each of the peer group companies relevant to that tranche over the relevant performance period. The value of the relevant shares on the start date and the end date of the relevant performance period is based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date, in order to avoid the impact of short-term share price fluctuations. The performance hurdle is tested only once. The cash earnings and ROE performance hurdle measures achievement against the level budgeted in the Group's business plans over the three year performance period (cumulatively measured).

For 2012, the TSR performance hurdles measure the Company's TSR and the TSR for each of the peer group companies relevant to that tranche over the relevant performance period. The value of the relevant shares on the start date and the end date of the relevant performance period is based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date, in order to avoid the impact of short-term share price fluctuations.

Vesting schedule

For the February 2008 and January 2009 Executive awards, TSR vesting schedules have no vesting at the 50th percentile, and 35% to 97% progressive vesting from the 51st to 75th percentiles (2.6% vesting per percentile). All securities vest when the Company's performance ranking is at or above the 76th percentile of the peer group.

For 2009, 2010 and 2011, the awards have half external and half internal performance hurdles. The external hurdle, TSR, has no vesting if the Company is ranked below the 50th percentile of the peer group and 50% to 98% progressive vesting for the 50th to the 74th percentile ranking (2% vesting per percentile). All of the securities vest when the Company's performance ranking is at or above the 75th percentile of the peer group.

For the internal hurdle for the 2009 and 2010 awards, where TSR performance is in the top quartile cash earnings must achieve at least 90% of business plan. Where TSR performance is below the top quartile cash earnings must achieve 100% of business plan. If the cash earnings threshold is achieved, there is 50% to 100% progressive vesting when the level of ROE achieved is 90% to 100% of business plan. Assessment of cash earnings and ROE performance against target is determined by the Board in its absolute discretion. The Board may adjust its assessment to take into account extraordinary or significant items and the quality of the result.

For the 2011 award cash earnings must be at least 90% of the level budgeted in the Group's business plans over the 2012, 2013 and 2014 financial years, and ROE must also be at least 90% of business plan for the same financial years.

If both the cash earnings and ROE thresholds are met, then the level of achievement compared to business plan will determine vesting as follows:

- 25% of performance rights will vest if both cash earnings and ROE are 90% of business plan;
- Between 25% and 100% of performance rights will vest if both cash earnings and ROE are greater than 90% but less than 100% of business plan. The actual number will depend on a matrix of cash earnings and ROE achievement against business plan. For example, an ROE outcome of 95% and a cash earnings outcome of 95% will result in 56% of the internal hurdle vesting; and
- 100% of performance rights will vest if both cash earnings and ROE are equal to or greater than 100% of business plan.

Assessment of cash earnings and ROE performance against target is determined by the Board in its absolute discretion. The Board may adjust its assessment to take into account extraordinary or significant items and the quality of the result. The Board may adjust its assessment with a qualitative overlay that reflects shareholder expectations, the quality of the financial results and the Group's management of business risks.

For the 2012 award, no vesting occurs if the Company is ranked below the 50th percentile of the relevant peer group. Vesting will be determined on a straight line scale from 50% of the performance rights vesting at median (that is the 50th percentile) TSR performance, up to 100% of the performance rights vesting at 75th percentile TSR performance.

Details of previous LTI awards that have delivered value to senior executives during 2013 are provided in the **2013 LTI outcomes** table.

How shares are provided under the LTI

The terms of the performance options and performance rights plans allow shares issued upon exercise of performance options or performance rights to be either issued as new shares or purchased on market.

Lapsing and forfeiture

Performance options and performance rights - Performance options and performance rights lapse if not exercised on or before their expiry date (as described above). If a senior executive is dismissed or resigns, the Board may exercise its discretion to lapse all unvested performance options and performance rights immediately. All vested performance options and performance rights lapse immediately in the case of dismissal or after 90 days in the case of resignation. When a senior executive's employment ceases in any other circumstances all vested performance options and performance rights will be retained until the original expiry date. Unvested performance options and performance rights will be retained under the relevant performance conditions and restrictions. From 2011, where the Board does not exercise its discretion to lapse on cessation of employment, some or all of the performance rights

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are retained based on the elapsed period of the grant at the time of cessation, subject to the original terms and conditions.

Shares - If a senior executive fails to meet individual compliance requirements or is dismissed or resigns, shares are forfeited. When a senior executive's employment ceases in any other circumstances, shares are retained subject to the relevant performance hurdle and restriction periods.

Conditions for retaining securities

In the majority of cases, securities only vest as a result of achieving the relevant performance hurdle. The Board has discretion, following death or permanent disablement, to approve early vesting and retention of securities as permitted by law (and without requiring shareholder approval).

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

June 2009 award to Mr Clyne

Mr Clyne received a June 2009 LTI award, following approval by shareholders at the December 2008 Annual General Meeting. The award is consistent with the terms and conditions detailed above except as follows:

Form of securities - Half of the value of the allocation was provided in the form of performance rights and the remainder in shares.

Restriction period - For the performance rights, no performance testing was conducted until 1 January 2012 and for the shares until the restriction period ended on 30 September 2012.

Performance hurdles - Each half of the allocation has a separate performance hurdle:

- Performance rights: Vesting is based on TSR performance of the Company compared with that of the Top Financial Services on 1 January 2009 and 1 January 2012, 2013 and 2014. There is no vesting if the Company is below the 55th percentile, progressive vesting to the 82nd percentile and full vesting if above the 82nd percentile. TSR is averaged over a 30-day period for each test.
- Shares: Retention of the shares is based on the Group's performance against ROE, as projected in the Group's business plans, once a cash earnings threshold has been achieved for the periods 1 January 2009 to 30 September 2010, 1 October 2010 to September 2011 and 1 October 2011 to 30 September 2012. On 1 January 2013, all of the shares would be forfeited if the cash earnings threshold was not met, or if ROE performance is below 90% of plan, and 50% to 100% progressive release of the shares from restrictions when ROE performance is between 90% to 100% of plan (i.e. achievement of 100% of business plan is required for all of the shares to be released from restrictions). Assessment of performance against target is determined by the Board in its absolute discretion. The Board may adjust its assessment to take into account extraordinary or significant items. Vesting details of this award during 2013 are provided in the 2013 **LTI outcomes** table**.**

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Non-executive director remuneration

The table below shows the individuals who were both non-executive directors and KMP of the Company and Group during 2013:

Table 12: Non-executive director

Name	Period of the year for which the director was a KMP (if not the full year)	Position
MA Chaney		Chairman
DT Gilbert		Director
KR Henry		Director
PJ Rizzo		Director
JS Segal		Director
JG Thorn		Director
GA Tomlinson		Director
JA Waller		Director
AKT Yuen		Director
Former director		
PA Cross	To 2 August 2013	Director

Remuneration policy for non-executive directors

The fees paid to non-executive directors who serve on the Board are based on advice and market data from independent external remuneration advisers. This advice takes into consideration the level of fees paid to board members of other major Australian corporations, the size and complexity of the Group's operations, the activities of the Group and the responsibilities and workload requirements of Board members. Non-executive director fees are not related to the performance of the Company.

Generally, the Board annually reviews the fees paid to the Chairman and non-executive directors on the Board in line with general industry practice. Additional fees are paid, where applicable, for participation on Board committees and for serving on the boards of controlled entities and on internal advisory boards. The Chairman fee is inclusive of participation on Board committees.

Since October 2005, the fees have included the Company's compulsory contributions to superannuation. Non-executive directors can elect to take part of their remuneration as additional Company superannuation contributions. Non-executive directors are not paid any performance or incentive payments.

Non-executive directors must hold at least 2,000 fully paid ordinary shares in the Company within six months of appointment. (Details of non-executive director shareholdings in the Company are set out in *Note 47* of the *Financial report*.)

Board fees were reviewed during 2013. As a result of the review, the Board decided not to increase fees during 2013. The next review is scheduled for August 2014. There has been no increase to Board fees since 1 April 2008.

The total fees paid during the 2012 and 2013 years are shown in the total row of the **Non-executive director fees** table.

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

The appointment letters for the non-executive directors set out the terms and conditions of their appointments. These terms and conditions are in conjunction with, and subject to, the Company's Constitution and the charters and policies approved by the Board from time-to-time, as set out in the *Corporate governance* section.

Non-executive directors are not eligible for any payments on cessation of appointment.

Non-executive director remuneration

Non-executive director fees

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

Table 13: Non-executive director fees

Name	Board $	Audit Committee $	Risk Committee $	Remuneration Committee $	Information Technology Committee $	Controlled Entities $	Total $
MA Chaney	770,000	-	-	-	-	-	770,000
DT Gilbert	220,000	-	-	27,083	30,000	-	277,083
KR Henry	220,000	30,000	-	-	-	-	250,000
PJ Rizzo	220,000	30,000	60,000	-	15,000	-	325,000
JS Segal	220,000	30,000	30,000	-	-	-	280,000
JG Thorn	220,000	60,000	-	-	15,000	-	295,000
GA Tomlinson (1)	220,000	-	-	22,500	-	277,500	520,000
JA Waller (2)	220,000	30,000	30,000	-	-	144,016	424,016
AKT Yuen (3)	220,000	-	30,000	22,500	-	25,000	297,500
Former non-executive director							
PA Cross (for part year) (4)	185,000	-	25,227	42,045	-	37,842	290,114
Total	2,715,000	180,000	175,227	114,128	60,000	484,358	3,728,713

(1) *Mr Tomlinson receives fees in respect of services performed as Chairman of National Wealth Management Holdings Limited, MLC Limited, MLC Investments Limited, MLC Wealth Management Limited, WM Life Australia Ltd and Navigator Australia Ltd (all subsidiaries of the Company).*

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

(3) *Mr Yuen receives fees in respect of services performed on the Company's Australia in Asia Management Council.*

(4) *Mrs Cross resigned as a director of the Company, as Chairman of the Remuneration Committee and JBWere Pty Ltd on 2 August 2013. Mrs Cross received a fee in respect of services performed as non-executive director of JBWere Pty Ltd.*

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Table 14: Board and committee fee schedule

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

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

Table 15: Non-executive director remuneration statutory remuneration data

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

		Short-term benefits		Post-employment benefits	Total
Name		Cash salary and fees [(1)] fixed $	Non-monetary $	Superannuation [(2)] Fixed $	$
MA Chaney	**2013**	**753,204**	**-**	**16,796**	**770,000**
	2012	754,051	-	15,949	770,000
DT Gilbert	**2013**	**260,287**	**-**	**16,796**	**277,083**
	2012	233,385	-	39,115	272,500
KR Henry	**2013**	**233,204**	**-**	**16,796**	**250,000**
	2012	214,127	-	15,040	229,167
PJ Rizzo	**2013**	**297,500**	**-**	**27,500**	**325,000**
	2012	281,250	-	43,750	325,000
JS Segal	**2013**	**263,204**	**-**	**16,796**	**280,000**
	2012	264,051	-	15,949	280,000
JG Thorn	**2013**	**278,204**	**-**	**16,796**	**295,000**
	2012	279,051	-	15,949	295,000
GA Tomlinson	**2013**	**503,204**	**-**	**16,796**	**520,000**
	2012	504,051	-	15,949	520,000
JA Waller	**2013**	**407,220**	**-**	**16,796**	**424,016**
	2012	399,879	-	15,949	415,828
AKT Yuen	**2013**	**294,290**	**-**	**3,210**	**297,500**
	2012	294,022	-	3,478	297,500
Former non-executive director					
PA Cross (for part year) [(3)]	**2013**	**273,844**	**-**	**16,270**	**290,114**
	2012	324,472	-	20,528	345,000
GM Williamson (for part year)	2012	315,499	42,496	-	357,995
Total	**2013**	**3,564,161**	**-**	**164,552**	**3,728,713**
Total	2012	**3,863,838**	**42,496**	201,656	4,107,990

(1) Non-executive directors' remuneration represents fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities as set out on the previous page.

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

(3) Mrs Cross resigned as a director of the Company and JBWere Pty Ltd on 2 August 2013.

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Appendices

Insider trading and derivatives policy

The Group Securities Trading Policy specifically prohibits directors and employees from protecting the value of unvested securities (including unvested LTI or Deferred STI) with derivative instruments consistent with the *Corporations Act* 2001 (Cth) requirements on hedging. Directors and employees can protect the value of vested securities in limited circumstances. Further details on the Group Securities Trading Policy are set out in the *Corporate governance* section. The Group Securities Trading Policy is available online at www.nabgroup.com.

The Group treats compliance with the Group Securities Trading Policy seriously, and takes appropriate measures to ensure adherence to the policy. These measures include imposing employee trading blackout periods prior to each results announcement, and at other relevant times. All 'designated employees', as defined by the policy, are required to complete a compliance certificate prior to any trading in Company securities to confirm that they do not hold any price-sensitive information, and the policy prevents short-term or speculative trading. Any person found to be in breach of the policy is subject to appropriate sanctions, which could include forfeiture of the relevant securities and/or termination of employment with the Group.

Table of key terms

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

Term Used	Description
Compliance gateway	All employees must satisfy threshold measures for compliance which reflect a range of internal and external regulatory requirements.
Deferred STI performance rights	Deferred STI performance rights are restricted for at least one year and may be fully or partially lapsed if individual or business performance warrants. They are provided in respect of prior year(s) performance and are subject to performance conditions. Performance rights will lapse if the performance conditions are not achieved, if the participant fails to meet the Compliance Gateway, resigns during the restriction period (from 2013), or if the Board exercises its discretion to lapse. If performance rights are retained on cessation of employment, the number of performance rights retained will remain subject to the normal timetable and performance hurdles of the initial grant. No amounts are paid by participants for the grant of performance rights. Performance rights have no exercise price. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Deferred STI shares	Deferred STI shares are Company ordinary shares, allocated at no charge to the employee, in respect of prior year(s) performance, which provide dividend income to the employee from allocation. The shares are held on trust for at least one year, are restricted from trading and may be fully or partially forfeited if individual or business performance warrants. The shares are forfeited if the participant fails to meet the Compliance Gateway, or if they resign or are dismissed. The shares may be retained on cessation of employment in other circumstances.
Enterprise behaviours	The Enterprise behaviours are the foundation of the Group's culture and brand and define how employees relate to one another, work together and interact with customers and communities. They are to: · Be authentic and respectful; · Work together; and · Create value through excellence.
Group Executive Committee	The Group's leadership team, comprising the individuals listed in the Senior executive remuneration section.
Key management personnel (KMP)	Key executives of the Group and Company who have the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise). This is the definition used in AASB 124 "Related Party Disclosures" and the *Corporations Act* 2001 (Cth).
Long-term incentive (LTI)	An 'at risk' opportunity for individuals linked to the long-term performance of the Group. LTI is allocated under the Group's program in the form of LTI shares or performance rights. The LTI program is described in the section: LTI rewards.
LTI performance rights	A performance right is a right to acquire one Company ordinary share. Performance rights are restricted for at least three years and are subject to achievement of performance hurdles. Performance rights will lapse if the performance hurdles are not achieved, if the participant fails to meet the Compliance Gateway, resigns during the restriction period (from 2013), or if the Board exercises its discretion to lapse. If performance rights are retained on cessation of employment, the number of performance rights retained will be based on the elapsed time within the performance period as at the time of cessation. The performance hurdles remain subject to the normal timetable and performance hurdles of the initial grant. No amounts are paid by participants for the grant of performance rights. Performance rights have no exercise price. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
LTI shares	LTI shares are Company ordinary shares, allocated at no charge to the employee, which provide dividend income to the employee from allocation. The shares are held in trust for at least three years on the employee's behalf, are restricted from trading and are forfeited if the performance hurdles are not achieved, if the participant fails to meet the Compliance Gateway, or if they resign or are dismissed. The shares are retained on cessation of employment in other circumstances (unless the Board determines otherwise) with vesting still subject to the performance hurdles. LTI shares have not been provided to senior executives since 2010.
Performance options	A performance option is a right to acquire one Company ordinary share, once the performance option has vested based on achievement of the related performance hurdle or at the Board's discretion. The performance option is issued at no charge to the employee. To acquire a share, the holder must pay the exercise price, which is generally the weighted average price at which Company ordinary shares traded on the Australian Securities Exchange over the one week up to and including the grant date of the performance options. The lapsing of performance options is described in the section: Summary of LTI. Performance options are issued by the Company. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance options are exercised.

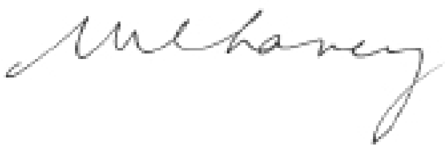
Remuneration Report

Term Used	Description
Performance rights	A performance right, such as an LTI Performance right (as described above), is a right to acquire one Company ordinary share, once the performance right has vested based on achievement of the related performance hurdle or at the Board's discretion. A performance right is similar to a performance option as described above, except that there is no exercise price to be paid to exercise the performance right. Performance rights may be used instead of shares due to jurisdictional reasons including awards such as deferred STI and commencement and other retention programs. The terms and conditions, including lapsing, will vary for each particular grant. Performance rights are issued by the Company. No dividend income is provided to the employee until the end of the restriction period and the performance conditions have been met and the performance rights are exercised.
Return on equity (ROE)	ROE is calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares. It allows for risk to the extent that actual equity aligns with target equity and Risk Weighted Assets (RWA). RWA measures the risk exposure of the Group's assets that are used to determine quantitative minimum capital requirements. ROE also measures inorganic growth. For senior executives, the STI and LTI programs use ROE performance for the consolidated Group.
Return on total allocated equity (ROTAE)	ROTAE is a function of cash earnings, combined divisional Risk Weighted Assets (and by capital adequacy for Wealth Management) and target regulatory capital ratios.
Senior executives	Persons who are (or were) members of the Group Executive Committee, comprising the individuals listed in the Statutory remuneration data tables.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual bonus. Each employee has a short-term incentive target (STI Target) which is usually described as a percentage of their fixed remuneration (e.g. 100% of TEC). The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance as set out in the STI rewards section. STI rewards may be allocated in the form of deferred STI shares as described above under deferred STI shares.
Sign-on bonuses	Discretionary amounts provided to employees on commencement with no linkage to prior employment. The Group's Remuneration Policy does not allow for sign-on bonuses.
S&P/ASX Top 50 Index	A Standard & Poors (S&P)/ASX capitalisation index comprised of the 50 largest companies by market capitalisation in Australia.
Top 50 Companies	The top 50 companies in the Standard & Poors (S&P)/ASX100 by market capitalisation, excluding the Company, determined on or around the effective date of the LTI award. The Top 50 Companies is used as a measure for the LTI performance hurdle.
Top Financial Services	The top financial services companies in the ASX200 (approximately 10 companies) by market capitalisation, excluding the Company, determined on or around the effective date of the LTI award. The Top Financial Services is used as a measure for the LTI performance hurdle.
Total Employment Compensation (TEC)	The Group's primary measure of fixed remuneration, or salary paid to employees, is called Total Employment Compensation (TEC). It includes employer and employee superannuation contributions (where applicable), but does not include STI or LTI. A portion of TEC may be taken in the form of packaged, non-monetary benefits (such as motor vehicle and parking) and associated fringe benefits tax. Senior executives are also eligible to participate in other benefits that are normally provided to executives of the Group, subject to any overriding legislation prevailing at the time including the *Corporations Act* 2001 (Cth).
Total Remuneration Package (TRP)	Total Employment Compensation (as above) less employer superannuation contributions (where applicable).
Total Reward	Overall remuneration, comprising fixed remuneration (TEC) and 'at risk' remuneration (STI and LTI) as defined in this table.
Total Shareholder Return (TSR)	A measure of the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. TSR is calculated on the basis that all dividends and distributions are reinvested in Company shares. TSR is an external measure which aligns shareholder wealth creation and market expectations for employee equity plans. TSR is a common measure for the LTI performance hurdle.

Report of the Directors

Directors' signatures

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



Michael A Chaney
Chairman

18 November 2013

Cameron A Clyne
Group Chief Executive Officer

Corporate governance

The Board of directors of the Company is responsible for the governance of the Company and its controlled entities (the Group). Good corporate governance is a fundamental part of the culture and business practices of the Group. The key aspects of the Group's corporate governance framework and primary corporate governance practices for the 2013 year are outlined below.

The Board of directors

The role and responsibilities of the Board

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

The Board's most significant responsibilities are:

Stakeholder interests

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

Strategy

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

Performance

- Reviewing business results; and
- Monitoring budgets.

Integrity of external reporting

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

Risk management and compliance

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

Executive review, succession planning and culture

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

Board performance

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

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

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

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

Composition of the Board

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

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

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

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

The Company's Constitution provides that the Company is to have not less than five, nor more than 14 directors. At the date of this report, the Board consisted of 11 directors, comprising:

- Nine independent non-executive directors, including the Chairman; and
- Two executive directors, being the Managing Director and Group Chief Executive Officer, and the Executive Director, Finance.

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

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

There was one change to the composition of the Board during the year. Mrs Patricia Cross resigned from the Board on 2 August 2013.

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

Corporate governance

Chairman

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

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

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

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

Independence of directors

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

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

In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the ASX Corporate Governance Principles and Recommendations.

To assist the Board in determining independence, each non-executive director is required to make an annual disclosure of all relevant information to the Board. Any assessment of independence for a non-executive director who does not meet the independence standards adopted by the Board will be specifically disclosed to the market.

The Board has determined that all non-executive directors of the Company are independent. The Company's independent directors (together with the period they have been in office) are identified in the *Report of the Directors*.

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

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

Messrs Tomlinson and Thorn have been on the Board for 13 and 10 years respectively. The Board is satisfied that, notwithstanding their period of service, each director has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to fulfil their role as an independent director. Both directors are planning to retire from the Board at the 2014 Annual General Meeting.

Succession Planning

Managed succession planning has been and continues to be a focus for the Board. Given the complexity of the Group's portfolio and the regulatory environment, it is important to retain a core of directors with long-standing knowledge of the Group while implementing succession plans. The Board is committed to delivering an orderly multi-year transition that maintains an appropriate mix of skills, experience and diversity on the Board, and maintains the Board's effectiveness. In the last three years, two new directors have been appointed, and three new Board endorsed directors are anticipated to stand for election at the 2014 Annual General Meeting. In addition, following the retirement of the Executive Director Finance, there will be only one executive director on the Board, namely the Group Chief Executive Officer. The external expert's evaluation of the Board's 2013 performance was used as input to the Board's succession planning.

Conflicts of interest

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

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

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

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

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

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

Corporate governance

Appointment and re-election of Board members

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

The process for appointing a director is that, when a vacancy exists, the Nomination Committee assesses the skills and experience required and then identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed by the Board but must stand for election by shareholders at the next Annual General Meeting of the Company.

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

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

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

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

Induction and continuing education

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

Board meetings

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

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

Performance of the Board, its Committees and individual directors

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

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

This process is designed to assist the Board in fulfilling its functions and ensuring that it remains an effective decision-making body. The annual performance evaluation for the Board, its Committees and the individual directors in respect of the 2013 year has taken place in accordance with the process disclosed in this report and included the engagement of an external expert.

Remuneration arrangements

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

Access to management

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

The Group Company Secretary also provides advice and support to the Board and is responsible for managing the Group's day-to-day governance framework.

Access to independent professional advice

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

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

Shareholding requirements

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

Details of directors' shareholdings in the Company are set out in the *Report of the Directors* and *Note 47* in the *Financial report*.

The Company introduced minimum shareholding requirements for the Group Chief Executive Officer and the Group Executive Committee. These requirements take effect in 2014. The minimum shareholding requirement for the Group Chief Executive Officer is two times his fixed remuneration and the minimum shareholding requirement for each other member of the Group Executive Committee is one times their respective fixed remuneration. The Group Chief Executive Officer and members of the Group Executive Committee are required to maintain these minimum shareholding requirements during the period that they remain a member of the Group Executive Committee. New appointments to the Group Executive Committee are to accumulate the minimum shareholding requirement over a five year period from commencement.

Company secretaries

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

Senior executives

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

Corporate governance

Board and Committee operations

To help it carry out its responsibilities, the Board has established the following Committees:

- Audit Committee;
- Risk Committee;
- Remuneration Committee;
- Nomination Committee; and
- Information Technology Committee.

The Board has adopted charters for each Committee setting out the matters relevant to the composition, responsibilities and administration of each Committee. As required, the Board also created sub-committees to assist the Board in the oversight of specific areas that may require more detailed attention such as the capital and funding committee.

Following each Committee meeting, the Board receives a copy of the minutes of meeting from the relevant Committee. Further, on an annual basis, the Board receives a report from each Committee on its activities undertaken during the year. The qualifications of each Committee's members and the number of meetings they attended during the 2013 year are set out in the *Report of the Directors*.

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

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

(1) Prior to her retirement from the Board on 2 August 2013, Mrs Patricia Cross was a member of the Risk Committee, Remuneration Committee (Chairman) and Nomination Committee.

Responsibilities:

Audit Committee

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

Risk Committee

- Review and oversight of the risk profile of the Group within the context of the Board approved risk appetite;
- Making recommendations to the Board concerning the Group's risk appetite and particular risks or risk management practices of concern to the Committee;
- Review of management's plans for mitigation of material risks faced by the various business units of the Group; and
- Promoting awareness of a risk-based culture and the achievement of a balance between risk and reward for the risks accepted.

Remuneration Committee

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

Nomination Committee

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

Information Technology Committee

- Monitoring significant technology projects.

Audit Committee

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

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

in relation to external financial reporting.

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

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

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

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

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

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

Access to the Audit Committee

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

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

Audit Committee finance professional

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

Activities during the year

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

- Review of the scope of the annual audit plans for 2013 of the external auditor and internal auditor, and oversight of the work performed by the auditors throughout the year;
- Review of significant accounting, financial reporting and other issues raised by management, and the internal and external auditors;
- Review of the performance and independence of the external auditor and internal auditor, together with their assurances that all applicable independence requirements were met;
- Holding of separate meetings, without the presence of management, with Internal Audit and key partners from the external auditor, Ernst & Young;
- Consideration and recommendations to the Board on significant accounting policies and areas of accounting judgement;
- Review and recommendations to the Board for the adoption of the Group's half-year and annual financial statements; and
- Regular review of minutes and updates from subsidiary board audit committee meetings.

The Audit Committee met nine times during the 2013 year. Senior representatives from Ernst & Young and Internal Audit attended every scheduled meeting of the Audit Committee throughout the period. The Chairs of each main subsidiary board audit committee met twice during the 2013 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. These meetings were chaired by the Chairman of the Board Audit Committee.

External auditor

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

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

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

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

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

Details of the services provided by Ernst & Young to the Group and the fees paid or due and payable for those services are set out in the *Report of the Directors* and *Note 48* in the *Financial report*.

Internal audit

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

Audit Committee pre-approval policies and procedures

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

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

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

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

The Audit Committee may set an annual fee limit for each type of audit or non-audit service to be provided by the external auditor. Unless the Audit Committee approves otherwise, the fees paid or due and payable to the external auditor for the provision of non-audit services in any financial year must not exceed the fees paid or due and payable to the external auditor for audit services in that year. Details of the non-audit services provided by Ernst & Young to the Group and the fees paid or due and payable for non-audit services are set out in the *Report of the Directors* and *Note 48* in the *Financial Report*.

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

Risk Committee

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

Activities during the year

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

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

- Review of the Group's key risks and risk management framework as developed by management;
- Review of the Group's internal capital adequacy assessment process;
- Ongoing critical review of the credit environment, asset quality and provisioning;
- Approval of the budget and headcount of the Group's risk management function;
- Review of the Group's 2013 risk appetite statement;
- Review of risk profiles for divisions of the Group;
- Review of the certifications from management in relation to the Group's compliance with applicable prudential standard obligations;
- Review of the certifications and assurances from Internal Audit and management in relation to the effectiveness of the Group's internal controls and risk management framework; and
- Regular review of minutes and updates from subsidiary board risk committee meetings.

The Risk Committee met nine times during the 2013 year, with senior representatives from the Company's external auditor, Ernst & Young, in attendance. Internal Audit is invited to attend every scheduled meeting of the Risk Committee throughout the period.

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

The Chairs of each main subsidiary board risk committee met twice in the 2013 financial year, to discuss and share current issues and challenges in their respective jurisdictions of the United Kingdom, the United States, Australia and New Zealand. These meetings were chaired by the Chairman of the Board Risk Committee. During the year, members of the Committee met with regulators in certain jurisdictions.

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

Remuneration Committee

Members of the remuneration committee have been selected to ensure the appropriate level of remuneration, risk legal and industry expertise and knowledge. One member of the Remuneration Committee is also a member of the Risk Committee recognising the importance of aligning remuneration and risk.

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

Information in relation to the Group's remuneration framework (including information regarding the remuneration strategy and policies and their relationship to Group performance) can be found in the Remuneration report which forms part of the *Report of the Directors*, together with details of the remuneration paid to Board members and senior executives who were the key management personnel of the Company during the 2013 year.

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

Activities during the year

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

- Approval of the 2013 *Remuneration report*;
- Review and recommendation to the Board of the remuneration package for the Group Chief Executive Officer and the Executive Director, Finance;
- Review and recommendation to the Board of the remuneration packages for other senior executives;
- Review and recommendation to the Board of remuneration structures for categories of persons across the Group, as required by applicable regulators;
- Monitoring global regulatory and legislative reform in relation to remuneration, market trends and stakeholder views on remuneration and reward in the financial services industry;
- Meeting with regulators to discuss the Group's remuneration frameworks;
- Monitoring executive director terminations across the Group;
- Review and recommendation to the Board of award values for the long-term incentive plan for 2013;
- Review and recommendation to the Board of the incentives payable to senior executives based on performance and risk criteria structured to increase shareholder value;
- Review, approval and determination of vesting outcomes of employee equity plans and allocations, including the long-term incentive program;
- Oversight of the Company's compliance framework to manage underperformance and consider impact on remuneration outcomes; and
- Review of remuneration of non-executive directors of subsidiary companies.

The Remuneration Committee met 11 times during the 2013 year.

As part of the review process for approval of incentive payments in 2013, the Remuneration Committee held a joint meeting with the Risk Committee to ensure that risk impacts had been taken into account in the determination of the allocation and calculation of short and long-term incentive payments.

Nomination Committee

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

Activities during the year

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

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

Information Technology Committee

The purpose of the Information Technology Committee is to assist the Board to monitor significant technology projects. The Information Technology Committee's role, responsibilities, composition and membership requirements are documented in the Information Technology Committee charter approved by the Board.

The Information Technology Committee met three times during the 2013 year.

Other Committees

The Board establishes sub-committees from time to time to support the Board in carrying out its responsibilities. The Board has also established the standing Capital and Funding Sub-Committee to exercise delegated authority on behalf of the Board in relation to the Group's capital and funding activities. Its members are Mr Joiner, Mr Rizzo and Mr Thorn.

Controlled entities

The activities of each company in the Group are overseen by its own respective Board of Directors. Mr Tomlinson is the Chairman of National Wealth Management Holdings Limited, and certain wealth management controlled entities. Mr Clyne is the Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC. Mr Waller is the Chairman of Bank of New Zealand. Mr A Thorburn is the Chairman of Great Western Bank. The chairs of each of the Group's major subsidiary boards (except for Great Western Bank) are members of the Board and this provides a key link between the Board of the Company and its subsidiary entities and enables issues considered by the major operating subsidiaries to be efficiently escalated to the Board. The Board's confidence in the activities of a controlled entity board is based on having a high-quality controlled entity board committed to the Group's objectives.

There is a standing invitation to the Company's directors to attend any board meeting of a controlled entity. Attendance is through consultation with the relevant Chairman and develops a broader understanding of the Group's total operations.

Communicating with shareholders

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

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

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

The Group is committed to maintaining a level of disclosure that provides all investors with timely and equal access to information. To allow as many shareholders as possible to participate in the Annual General Meeting, as well as allowing people to view the meeting online, the location of the meeting rotates around Australian capital cities.

Continuous disclosure

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

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

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

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

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

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

ASX Corporate Governance Principles and Recommendations

The Company has complied with the ASX Corporate Governance Principles and Recommendations for the 2013 year.

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

Assurance provided to the Board

The Board has received jointly from the Group Chief Executive Officer and the Executive Director, Finance:

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

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

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

Corporate responsibility

Our approach to corporate responsibility

The Group's approach to Corporate Responsibility (CR) seeks to ensure that our beliefs and behaviours are embedded in our everyday decision making and our longer-term planning for the future. This approach is centred around the following core commitments:

- Getting the fundamentals right with our customers - by delivering fair value and quality advice;
- Being a good employer - through investing in the skills and capabilities of our employees; and
- Addressing our broader responsibility to society - by supporting communities, managing our environmental impact and having a positive impact through our supply chain.

We ensure our CR approach continues to be relevant by:

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

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

In 2011, a CR Council was established, consisting of the Executive Committee and chaired by the Executive Director, Finance. This Council meets twice a year. Our CR performance is reported to this committee and to the NAB Advisory Council on Corporate Responsibility on a half yearly basis, and an update on our CR strategy is provided to the Board on an annual basis.

Corporate responsibility performance

Further information on our CR approach, scorecard and performance is provided in our *Annual Review* and on the Group's website at www.nabgroup.com. External assurance is provided over the CR data contained in the 2013 *Annual Review*.

Code of conduct

The Company has a Code of Conduct which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees and directors of the Group, with the conduct of the Board and each director also governed by the Board charter.

The Code of Conduct covers:

- Personal conduct;
- Honesty and integrity;
- Conflicts of interest and relations with customers and/or third party providers;
- Fairness to our customers and fair competition; and
- Confidentiality, access and disclosure.

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

Corporate governance

The Group supports the Code of Banking Practice 2004 of the Australian Bankers' Association, which includes:

- Major obligations and commitments to customers;
- Principles of conduct; and
- The role and responsibilities of an independent external body, the Code Compliance Monitoring Committee, which investigates complaints about non-compliance with this Code.

Escalation

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

Whistleblower protection

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

There are established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

Employees are also encouraged to escalate any issues they believe could have a material impact on the Group's profitability, reputation, governance or regulatory compliance.

It is a responsibility of the Audit Committee to oversee that employees can make confidential, anonymous submissions regarding such matters.

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

Restrictions on dealing in securities

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

Diversity

Diversity

The Group is committed to creating and maintaining a workforce which is representative of our customers and communities and in which individual differences are valued and respected – it is good for our employees and good for the business.

It helps attract and retain talented people, create more innovative solutions, and be more flexible and responsive to our customers' and shareholders' needs. There is increasing momentum on diversity in the Group with a particular focus on gender and age, as well as greater work and career flexibility.

Gender diversity and inclusion continues to be a key priority for the Group. The Company is committed to building strong female representation at all levels within the Group, including executive management.

During the year, the responsibilities of the Group's Diversity Forum, which was established in 2010 to oversee the execution of the diversity and inclusion agenda, were transferred to the Group Executive Committee. The Group Executive Committee now has direct accountability for execution of this agenda. The Board receives regular updates on diversity from senior executives of the Group.

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

Diversity policy (Recommendation 3.2)

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

Measurable objectives and progress (Recommendation 3.3)

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

Measurable objectives	Progress
Increase the number of women in executive management (the top three layers of the organisation [(1)]), from 23% to 33% by 2015.	As at 30 September 2013, 30% of the Group's executive management were women.
Increase the proportion of women on Group subsidiary boards from 14% to 30% by 2015.	The Company has actively encouraged women to join Group subsidiary boards during the year. Of the total number of subsidiary directors, the proportion of women has increased to 31% as at 30 September 2013.
Increase the number of female non-executive directors on the Board of directors of the Company, as vacancies and circumstances allow, with the aim of achieving a representation of at least 30%.	Diversity, including gender diversity, continues to be an important consideration of the Board in its director succession planning. The proportion of female non-executive directors on the Board as at 30 September 2013 was 11% (see Succession planning in the Corporate Governance Section on page 53).
Strengthen the talent pipeline by targeting a 50/50 gender balance in the Australian graduate program intake and an even representation of women and men on the Company's core Australian talent development programs from 2011 onwards.	Graduate program (Australia): As at 30 September 2013, 47% of the graduates who have accepted positions in the Company's 2014 graduate program are women. Core talent development programs (Australia): For the 2013 financial year, 47% of the Australian talent development program participants, on an aggregated basis across the Company's core talent development programs (Elevate, Ignite and Accelerate) were women.

Proportion of women employees and Board members (Recommendation 3.4)

Recommendation 3.4 requirement	Disclosure
Proportion of women employees in the whole organisation.	As at 30 September 2013, 57% of the Group's employees were women.
Proportion of women in senior executive positions (executive management positions) within the Group. [(1)]	As at 30 September 2013, 30% of the senior executive positions within the Group were held by women.
Proportion of women on the Board of the Company.	As at 30 September 2013, 9% of the Company's Board of directors (including executive directors) were women. The Company is committed to ensuring that the composition of its Board continues to be appropriate (see Succession planning in the Corporate Governance Section on page 53).

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

Some of the Group's diversity and inclusion initiatives during the year include:

Women in Executive Management Positions:

The Group is committed to creating and maintaining a workforce which is representative of our customers and communities. A key part of this is creating a workplace where women are able to grow their careers and that also supports their personal and family life.

Some of our diversity and inclusion initiatives for women include:
- Requiring that a mix of men and women be short-listed for executive management roles in Australia and that men and women make hiring decisions on interview panels together, where possible;
- Offering a range of learning and development programs in Australia including the 'Realise' program, which prepares female employees for the transition into more senior management roles; and
- 'NAB Board Ready', which supports women by coaching and educating them in the skills necessary for subsidiary board positions and community partner directorships. The key goal of the program is to build a pipeline of women who are competent, up-skilled and ready to join the boards of the Group's subsidiary companies.

Diversity

Service Recognition:

This year the Group changed the way service is calculated for the purpose of recognising career milestones. Any extended leave that employees take (or have taken in the past) is now included in the calculation of their years of tenure for service recognition. Many women take extended breaks from the workplace while on parental leave - this change recognises women's ongoing service to the Group and demonstrates our commitment to equality in the workplace.

Domestic Violence Support Policy:

Domestic violence affects an employee's attendance at work, performance and safety. It also costs Australian workplaces and businesses in loss of productivity, attendance and turn over. To address this, the Group launched its Domestic Violence Support Policy, the first of its kind for a major Australian bank, which supports our employees who experience domestic violence in dealing with the impacts of this issue.

Women in Leadership Award:

Bank of New Zealand was honoured by the Women's Empowerment Principles, a joint initiative of UN Women and the UN Global Compact in its inaugural leadership awards for its work in driving greater representation of women at senior management level.

The Accessibility Action Plan 2012-2014:

In Australia, on 3 December 2012, International Day of People with a Disability, we launched our Accessibility Action Plan 2012-2014. The Plan demonstrates how we are developing an inclusive and supportive culture at NAB to help remove the barriers to access that exist for people with a disability.

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

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Financial report

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Income statement

For the year ended 30 September	Note	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Interest income	3	**31,311**	34,542	**26,905**	30,487
Interest expense	3	**(17,960)**	(21,300)	**(17,169)**	(20,654)
Net interest income		**13,351**	13,242	**9,736**	9,833
Premium and related revenue		**1,511**	1,406	**-**	-
Investment revenue		**11,065**	7,463	**-**	-
Fee income		**546**	525	**-**	-
Claims expense		**(909)**	(800)	**-**	-
Change in policy liabilities		**(9,072)**	(5,677)	**-**	-
Policy acquisition and maintenance expense		**(928)**	(908)	**-**	-
Investment management expense		**(4)**	(5)	**-**	-
Movement in external unitholders' liability		**(1,649)**	(1,264)	**-**	-
Net life insurance income		**560**	740	**-**	-
Gains less losses on financial instruments at fair value	4	**769**	223	**1,205**	1,182
Other operating income	4	**3,604**	3,510	**2,726**	2,797
Total other income		**4,373**	3,733	**3,931**	3,979
Personnel expenses	5	**(4,362)**	(4,526)	**(3,113)**	(3,291)
Occupancy-related expenses	5	**(600)**	(609)	**(405)**	(358)
General expenses	5	**(3,311)**	(3,687)	**(1,830)**	(1,958)
Total operating expenses		**(8,273)**	(8,822)	**(5,348)**	(5,607)
Charge to provide for doubtful debts	5	**(1,810)**	(2,734)	**(1,523)**	(1,476)
Profit before income tax expense		**8,201**	6,159	**6,796**	6,729
Income tax expense	6	**(2,741)**	(2,076)	**(1,758)**	(1,714)
Net profit for the year		**5,460**	4,083	**5,038**	5,015
Attributable to:					
Owners of the Company		**5,452**	4,082	**5,038**	5,015
Non-controlling interest in controlled entities		**8**	1	**-**	-
Net profit for the year		**5,460**	4,083	**5,038**	5,015
Basic earnings per share (cents)	8	**229.5**	175.3		
Diluted earnings per share (cents)	8	**227.5**	174.4		

Statement of comprehensive income

For the year ended 30 September	Note	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Net profit for the year		**5,460**	4,083	**5,038**	5,015
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) on defined benefit superannuation plans	36	**19**	(535)	**-**	-
Revaluation of land and buildings	35	**6**	(1)	**-**	-
Exchange differences on translation of other contributed equity		**221**	(61)	**93**	(54)
Tax on items transferred directly (from)/to equity	36	**(62)**	104	**-**	-
Total items that will not be reclassified to profit or loss		**184**	(493)	**93**	(54)
Items that will be reclassified subsequently to profit or loss					
Cash flow hedges					
(Losses)/gains on cash flow hedging instruments	35	**(438)**	123	**(102)**	104
Losses/(gains) transferred to the income statement	35	**11**	(7)	**(5)**	5
Exchange differences on translation of foreign operations		**1,158**	(78)	**(27)**	(9)
Investments - available for sale					
Revaluation (losses)/gains	35	**(18)**	66	**-**	36
Gains from sale transferred to the income statement	35	**(38)**	(19)	**(11)**	-
Impairment transferred to the income statement	35	**13**	5	**6**	-
Tax on items transferred directly to/(from) equity		**61**	(69)	**38**	(42)
Total items that will be reclassified subsequently to profit or loss		**749**	21	**(101)**	94
Other comprehensive income for the year, net of income tax		**933**	(472)	**(8)**	40
Total comprehensive income for the year		**6,393**	3,611	**5,030**	5,055
Attributable to:					
Owners of the Company		**6,385**	3,610	**5,030**	5,055
Non-controlling interest in controlled entities		**8**	1	**-**	-
Total comprehensive income for the year		**6,393**	3,611	**5,030**	5,055

Balance sheet

As at 30 September	Note	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Assets					
Cash and liquid assets	9	**35,666**	19,464	**29,834**	13,586
Due from other banks	10	**43,193**	47,410	**31,628**	35,322
Trading derivatives	11	**39,214**	40,899	**39,778**	41,680
Trading securities	12	**32,996**	28,614	**29,132**	25,741
Investments - available for sale	13	**34,886**	28,985	**31,309**	25,605
Investments - held to maturity	14	**5,629**	9,762	**3,163**	5,533
Investments relating to life insurance business	15	**75,599**	68,414	**-**	-
Other financial assets at fair value	16	**75,756**	64,027	**49,038**	38,737
Hedging derivatives	11	**3,926**	3,615	**3,839**	3,177
Loans and advances	17	**411,979**	394,735	**324,138**	308,728
Due from customers on acceptances		**29,319**	36,957	**29,311**	36,946
Current tax assets	23	**63**	92	**-**	-
Property, plant and equipment	20	**1,993**	1,901	**709**	1,106
Due from controlled entities		**-**	-	**64,474**	57,523
Investments in controlled entities	21	**-**	-	**18,720**	18,291
Goodwill and other intangible assets	22	**7,641**	7,088	**1,431**	1,018
Deferred tax assets	23	**1,616**	2,150	**1,720**	1,597
Other assets	24	**8,951**	8,977	**6,200**	6,526
Total assets		**808,427**	763,090	**664,424**	621,116
Liabilities					
Due to other banks		**34,623**	28,691	**32,648**	26,169
Trading derivatives	11	**41,749**	45,127	**40,475**	43,947
Other financial liabilities at fair value	25	**26,431**	21,732	**5,841**	4,675
Hedging derivatives	11	**3,431**	6,348	**3,942**	5,921
Deposits and other borrowings	26	**445,572**	419,921	**347,829**	336,355
Liability on acceptances		**3,228**	7,801	**3,220**	7,790
Life policy liabilities	27	**64,509**	56,584	**-**	-
Current tax liabilities	28	**922**	713	**933**	722
Provisions	29	**1,636**	1,820	**812**	906
Due to controlled entities		**-**	-	**69,935**	46,629
Bonds, notes and subordinated debt	30	**110,722**	103,372	**101,605**	94,677
Other debt issues	31	**2,944**	1,783	**2,365**	1,288
Defined benefit superannuation plan liabilities	32	**354**	482	**-**	-
External unitholders' liability		**11,837**	12,546	**-**	-
Other liabilities	33	**13,849**	12,367	**8,190**	7,402
Total liabilities		**761,807**	719,287	**617,795**	576,481
Net assets		**46,620**	43,803	**46,629**	44,635
Equity					
Contributed equity	34	**28,139**	27,373	**27,297**	26,039
Reserves	35	**(1,420)**	(2,319)	**668**	760
Retained profits	36	**19,842**	18,702	**18,664**	17,836
Total equity (parent entity interest)		**46,561**	43,756	**46,629**	44,635
Non-controlling interest in controlled entities		**59**	47	**-**	-
Total equity		**46,620**	43,803	**46,629**	44,635

Cash flow statement

For the year ended 30 September	Note	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Cash flows from operating activities					
Interest received		**31,254**	34,340	**27,014**	30,315
Interest paid		**(18,326)**	(21,731)	**(17,548)**	(20,951)
Dividends received		**10**	46	**995**	870
Life insurance:					
Premiums and other revenue received		**9,139**	6,648	**-**	-
Investment revenue received		**2,073**	2,371	**-**	-
Policy and other payments		**(9,210)**	(8,127)	**-**	-
Fees and commissions paid		**(496)**	(507)	**-**	-
Net trading revenue received/(paid)		**2,577**	(72)	**2,600**	40
Other operating income received		**3,971**	4,879	**1,858**	2,769
Payments to employees and suppliers:					
Personnel expenses paid		**(4,210)**	(4,434)	**(2,973)**	(3,153)
Other operating expenses paid		**(3,862)**	(3,960)	**(1,335)**	(2,156)
Goods and services tax (paid)/received		**(15)**	15	**(8)**	18
Payments for income taxes		**(1,845)**	(1,912)	**(1,459)**	(1,507)
Cash flows from operating activities before changes in operating assets and liabilities		**11,060**	7,556	**9,144**	6,245
Changes in operating assets and liabilities arising from cash flow movements					
Net placement of deposits with supervisory central banks that are not part of cash equivalents		**(313)**	(168)	**(293)**	(166)
Net funds advanced to other banks with maturity greater than three months		**(4,518)**	(3,756)	**(4,346)**	(2,932)
Net receipts from acceptance transactions		**3,061**	3,270	**3,061**	3,270
Net funds advanced to customers for loans and advances		**(8,014)**	(15,691)	**(6,199)**	(15,981)
Net acceptance from deposits and other borrowings		**8,388**	21,196	**3,879**	22,019
Net movement in life insurance business investments		**(659)**	(2,373)	**-**	-
Net movement in other life insurance assets and liabilities		**(93)**	(303)	**-**	-
Net receipts from/(payments for) treasury bills and other eligible bills held for trading and not part of cash equivalents		**921**	70	**245**	(80)
Net (payments for)/receipts from transactions in trading securities		**(4,957)**	7,029	**(3,535)**	2,710
Net (payments for)/receipts from trading derivatives		**(692)**	4,016	**(602)**	2,935
Net funds advanced for hedging derivative assets and other financial assets at fair value		**(7,714)**	(12,609)	**(9,132)**	(12,768)
Net receipts from/(payments for) hedging derivative liabilities and other financial liabilities at fair value		**390**	(7,438)	**152**	(1,203)
Net decrease/(increase) in other assets		**414**	(1,116)	**221**	(1,252)
Net increase/(decrease) in other liabilities		**3,890**	(2,230)	**3,804**	(2,560)
Changes in operating assets and liabilities arising from cash flow movements		**(9,896)**	(10,103)	**(12,745)**	(6,008)
Net cash provided by/(used in) operating activities	**38(a)**	**1,164**	(2,547)	**(3,601)**	237
Cash flows from investing activities					
Movement in investments - available for sale					
Purchases		**(24,673)**	(32,616)	**(24,105)**	(31,979)
Proceeds from disposal		**2,309**	1,153	**1,819**	893
Proceeds on maturity		**16,245**	23,921	**16,108**	23,456
Movement in investments - held to maturity					
Purchases		**(1,896)**	(11,501)	**(409)**	(11,441)
Proceeds on disposal and maturity		**6,404**	13,524	**4,327**	11,921
Net movement in amounts due from controlled entities		**-**	-	**6,347**	(3,027)
Net movement in shares in controlled entities		**-**	-	**(390)**	(1,145)
Purchase of controlled entities and business combinations, net of cash acquired	38(d)	**-**	(57)	**-**	-
Purchase of property, plant, equipment and software		**(1,232)**	(946)	**(865)**	(649)
Proceeds from sale of property, plant, equipment and software, net of costs		**104**	115	**525**	6
Net cash (used in)/provided by investing activities		**(2,739)**	(6,407)	**3,357**	(11,965)
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(24,442)**	(18,535)	**(21,388)**	**(12,894)**
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**25,777**	31,388	**22,771**	24,129
Proceeds from issue of ordinary shares, net of costs		**20**	5	**20**	5
Repayments of BNZ income securities		**(380)**	-	**-**	-
Proceeds from other debt issues, net of costs		**1,496**	-	**1,496**	-
Purchase of shares for dividend reinvestment plan neutralisation		**(300)**	-	**(300)**	-
Dividends and distributions paid (excluding dividend reinvestment plan)		**(3,493)**	(2,744)	**(3,441)**	(2,613)
Net cash (used in)/provided by financing activities		**(1,322)**	10,114	**(842)**	8,627
Net (decrease)/increase in cash and cash equivalents		**(2,897)**	1,160	**(1,086)**	(3,101)
Cash and cash equivalents at beginning of year		**36,212**	36,006	**20,079**	23,941
Effects of exchange rate changes on balance of cash held in foreign currencies		**4,026**	(954)	**2,489**	(761)
Cash and cash equivalents at end of year	**38(b)**	**37,341**	36,212	**21,482**	20,079

Statement of changes in equity

Group	Contributed equity [(1)] $m	Reserves [(2)] $m	Retained profits [(3)] $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2012						
Balance at 1 October 2011	25,274	(773)	17,667	42,168	20	**42,188**
Net profit for the year	-	-	4,082	4,082	1	**4,083**
Other comprehensive income for the year	-	(41)	(431)	(472)	-	**(472)**
Total comprehensive income for the year	-	(41)	3,651	3,610	1	**3,611**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,405	-	-	1,405	-	**1,405**
Exercise of executive share options	5	-	-	5	-	**5**
Conversion of other debt issues	600	-	-	600	-	**600**
Transfer from equity-based compensation reserve	253	(253)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	(164)	-	-	(164)	-	**(164)**
Transfer (to)/from retained profits	-	(1,471)	1,471	-	-	**-**
Equity-based compensation	-	219	-	219	-	**219**
Dividends paid	-	-	(3,880)	(3,880)	-	**(3,880)**
Distributions on other equity instruments	-	-	(207)	(207)	-	**(207)**
Changes in ownership interests [(4)]						
Movement of non-controlling interest in controlled entities	-	-	-	-	26	**26**
Balance at 30 September 2012	**27,373**	**(2,319)**	**18,702**	**43,756**	**47**	**43,803**
Year to 30 September 2013						
Net profit for the year	-	-	5,452	5,452	8	**5,460**
Other comprehensive income for the year	-	976	(43)	933	-	**933**
Total comprehensive income for the year	-	976	5,409	6,385	8	**6,393**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	843	-	-	843	-	**843**
Exercise of executive share options	20	-	-	20	-	**20**
Conversion of other debt issues	500	-	-	500	-	**500**
Buyback of BNZ Income Securities	(380)	-	-	(380)	-	**(380)**
Transfer from equity-based compensation reserve	195	(195)	-	-	-	**-**
Treasury shares adjustment relating to life insurance business	(112)	-	-	(112)	-	**(112)**
On market purchase of shares for dividend reinvestment plan neutralisation	(300)	-	-	(300)	-	**(300)**
Transfer (to)/from retained profits	-	(67)	67	-	-	**-**
Equity-based compensation	-	185	-	185	-	**185**
Dividends paid	-	-	(4,148)	(4,148)	-	**(4,148)**
Distributions on other equity instruments	-	-	(188)	(188)	-	**(188)**
Changes in ownership interests [(4)]						
Movement of non-controlling interest in controlled entities	-	-	-	-	4	**4**
Balance at 30 September 2013	**28,139**	**(1,420)**	**19,842**	**46,561**	**59**	**46,620**

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

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

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

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

Statement of changes in equity

Company	Contributed equity [1] $m	Reserves [2] $m	Retained profits [3] $m	Total $m	Total equity $m
Year to 30 September 2012					
Balance at 1 October 2011	23,776	964	16,629	41,369	**41,369**
Net profit for the year	-	-	5,015	5,015	**5,015**
Other comprehensive income for the year	-	40	-	40	**40**
Total comprehensive income for the year	-	40	5,015	5,055	**5,055**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	1,405	-	-	1,405	**1,405**
Exercise of executive share options	5	-	-	5	**5**
Conversion of other debt issues	600	-	-	600	**600**
Transfer from equity-based compensation reserve	253	(253)	-	-	**-**
Transfer (to)/from retained profits	-	(210)	210	-	**-**
Equity-based compensation	-	219	-	219	**219**
Dividends paid	-	-	(3,904)	(3,904)	**(3,904)**
Distributions on other equity instruments	-	-	(114)	(114)	**(114)**
Balance at 30 September 2012	26,039	760	17,836	44,635	**44,635**
Year to 30 September 2013					
Net profit for the year	-	-	5,038	5,038	**5,038**
Other comprehensive income for the year	-	(8)	-	(8)	**(8)**
Total comprehensive income for the year	-	(8)	5,038	5,030	**5,030**
Transactions with owners, recorded directly in equity:					
Contributions by and distributions to owners					
Issue of ordinary shares	843	-	-	843	**843**
Exercise of executive share options	20	-	-	20	**20**
Conversion of other debt issues	500	-	-	500	**500**
Transfer from equity-based compensation reserve	195	(195)	-	-	**-**
On market purchase of shares for dividend reinvestment plan neutralisation	(300)	-	-	(300)	**(300)**
Transfer (to)/from retained profits	-	(74)	74	-	**-**
Equity-based compensation	-	185	-	185	**185**
Dividends paid	-	-	(4,196)	(4,196)	**(4,196)**
Distributions on other equity instruments	-	-	(88)	(88)	**(88)**
Balance at 30 September 2013	**27,297**	**668**	**18,664**	**46,629**	46,629

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

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

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

1 Principal accounting policies

The financial report of National Australia Bank Limited (Company) and its controlled entities (Group) for the year ended 30 September 2013 was authorised for issue on 18 November 2013 in accordance with a resolution of the directors.

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

(a) Basis of preparation

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

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

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

(b) Statement of compliance

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

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

(c) New and amended accounting standards and interpretations

(i) Changes in accounting policy and disclosure

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 October 2012 with no material impact:

- AASB 2010-8 "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets" which clarifies that the tax base of investment property measured using the fair value model is based on the premise that the carrying amount will be recovered entirely through sale rather than through use;
- AASB 2011-9 "Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income" which requires presentation of items of other comprehensive income that will be reclassified to profit or loss in the future separately from those that will never be reclassified to profit or loss; and
- AASB 2013-2 "Amendments to AASB 1038 – Regulatory Capital" which makes amendments to AASB 1038 Life Insurance Contracts as a consequence of changes to the Australian Prudential Regulation Authority's reporting requirements relating to life insurers, particularly Prudential Standard LPS 110 Capital Adequacy, applicable from 1 January 2013. Primarily the amendments align terminology by changing references of 'solvency' in AASB 1038 to 'capital.'

(ii) Early adoptions

The Group has not elected to early adopt any new or amended accounting standards or interpretations in the current year.

(iii) New and amended accounting standards and interpretations issued but not yet effective

The following issued, but not yet effective, new and amended Australian Accounting Standards and AASB Interpretations have not been applied in preparing this financial report:

Applicable for the year commencing 1 October 2013:

- Amended AASB 119 "Employee Benefits" (and consequential amendment AASB 2011-10) requires the amounts recorded in profit or loss to be limited to current and past service costs, gains or losses settlements and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses, will be recognised in other comprehensive income with no subsequent recycling to profit or loss. Therefore the expected return on plan assets will no longer be recognised in profit or loss. Instead, the expected return on plan assets is replaced by recording interest income in profit or loss and this is calculated using the same discount rate used to measure the pension obligation. These changes are not significant to the Group as it only affects the allocation of the expected return of plan assets between profit or loss and other comprehensive income. There is no change to the overall defined benefit asset (liability);
- AASB 10 "Consolidated Financial Statements" (and consequential amendments AASB 2011-7 and 2012-20) introduces a single control model to determine which investees should be consolidated. It defines control as consisting of three elements: power, exposure to variable returns, and an investor's ability to use power to affect its amount of variable returns. This will require an analysis of all facts and circumstances and the application of judgement in making the control assessment. The implementation of AASB 10 will result in the Group consolidating some entities that were previously not consolidated and others that are no longer required to be consolidated. Entities that will be newly consolidated will be primarily due to instances where the Group has additional involvement with a managed investment scheme, for example through their role as responsible entity, trustee or in some instances, fund manager. The overall impact of the implementation of AASB 10 is not significant to the net assets of the Group;
- AASB 12 "Disclosure of Interests in Other Entities" (and consequential amendment AASB 2012-10) requires disclosures to be made in respect of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Whilst the new Standard will not affect any of the amounts recognised in the financial statements, it will require new disclosures about the judgements made by management to determine whether control exists, and to require summarised information about these entities. AASB 2012-10 provides relief from disclosing comparatives for interests in unconsolidated structured entities when AASB 12 is applied for the first time;
- AASB 13 "Fair Value Measurement" (and consequential amendment AASB 2011-8) provides a single source of guidance for determining the fair value of assets and liabilities measured at fair value. The impact of AASB 13 on the Group's financial

1 Principal accounting policies (continued)

statements is not significant, however there will be new disclosures for the inputs and valuation techniques to develop fair value measurement; and

- AASB 132 "Financial Instruments: Presentation", has been amended to clarify the conditions for offsetting financial assets and liabilities. These amendments will not impact the Group's current accounting practice for offsetting arrangements, however additional disclosures will be required.

Applicable for the year commencing 1 October 2013 with no material impact:

- AASB 11 "Joint Arrangements" (and consequential amendments AASB 2011-7, 2010-10 and amendments to AASB 128) introduces a revised model for accounting for joint arrangements;
- AASB 1053 "Application of Tiers of Australian Accounting Standards" establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The Group will be considered Tier 1;
- AASB 2011-4 "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements" removes the requirements to include individual key management personnel disclosures in the notes to the financial statements, although does not change the *Corporations Act 2001 (Cth)* requirements in respect of the Remuneration report;
- AASB 2012-2 "Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Liabilities" requires the disclosure of information to evaluate the potential effect of netting arrangements relating to financial assets and liabilities on an entity's financial position;
- AASB 2012-5 "Amendments to Australian Accounting Standards arising from annual improvements 2009-2011 cycle" provides clarification of the requirements for comparative information and other financial instrument presentation changes; and
- AASB 2012-9 "Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039" amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.

Applicable for the year commencing 1 October 2014, with no expected material impact:

- AASB 2012-3 "Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities" adds application guidance to AASB 132 "Financial Instruments Presentation" to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement;
- AASB 2013-3 "Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets" amends the disclosure requirements of AASB 136 to include additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal;
- AASB 2013-4 "Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting" amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. The impact of this amendment is still being assessed;
- AASB 2013-5 "Amendments to Australian Accounting Standards – Investment Entities" defines an investment entity and requires that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 when it obtains control of another entity. This amendment will only affect subsidiaries of the Group that prepare separate financial statements. The impact is still being assessed; and
- Interpretation 21 "Levies" confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.

Applicable to the Group for the year commencing after 1 October 2015:

- AASB 9 "Financial Instruments" contains new requirements for classification and measurement of financial assets and liabilities, replacing the corresponding requirements in AASB 139 "Financial Instruments: Recognition and Measurement". It will introduce significant changes in the way that the Group accounts for financial instruments. The standard is effective for the Group in the year commencing 1 October 2015, however early adoption is permitted. The impact of AASB 9 on the Group's financial statements has not yet been assessed. It is expected that the IASB will release IFRS 9 'Financial Instruments' in 2014 which will include new requirements for impairment and hedge accounting. The changes arising from applying these standards are likely to significantly affect the Group's accounting for its financial instruments.

(d) Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

(e) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998, all amounts have been rounded to the nearest million dollars, except where indicated.

(f) Principles of consolidation

(i) Controlled entities

The consolidated financial report comprises the financial report of the Company and its controlled entities. Controlled entities are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. Special purpose entities require consolidation in circumstances such as those where the Group has access to the majority of the residual income or is exposed to the majority of the residual risk associated with the special purpose entity.

An assessment of control, and in respect of special purpose entities an assessment of the Group's exposure to the majority of residual income or majority of residual risk, is performed on an ongoing basis.

Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation.

External interest in the equity and results of the entities that are controlled by the Group is shown as non-controlling interest in controlled entities in the equity section of the consolidated balance sheet.

Statutory funds of the Group's life insurance business are consolidated in the financial report. The financial report consolidates all of the assets, liabilities, revenues and expenses of the statutory funds and non-statutory fund life insurance business irrespective

1 Principal accounting policies (continued)

of whether they are designated as relating to policyholders or shareholders. In addition, where the Group's life insurance statutory funds have the capacity to control managed investment schemes, the Group consolidates all of the assets, liabilities, revenues and expenses of these managed investment schemes. External interest in the units and results of the managed investment schemes that are controlled by the statutory funds is shown as external unitholders' liability in the liability section of the consolidated balance sheet.

Investments in controlled entities are recorded at cost less any provision for impairment in the financial statements of the Company.

(ii) Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operation. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

(g) Business combinations

The acquisition method of accounting is used for all business combinations. Consideration is measured at fair value and is calculated as the sum of the acquisition date fair value of assets transferred, liabilities incurred to former owners of the acquiree and equity instruments issued. Acquisition related costs are expensed as incurred.

When a non-controlling interest is present in an entity over which the Group gains control, the non-controlling interest is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. This choice of accounting treatment is applied on a transaction by transaction basis. Any put and call instruments transacted concurrently with a business combination to acquire the remaining non-controlling interest are assessed to determine whether there is creation of a forward purchase agreement to acquire the remaining outstanding equity at a future date.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the carrying amount of contingent consideration are recognised either in the income statement or in equity depending on the nature of the payment.

(h) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the income statement. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(iii) Group Companies

The results and financial position of all Group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are normally translated at average exchange rates for the period, unless average is not a reasonable approximation; and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other foreign currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in the income statement.

When a foreign operation is disposed, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating amortised cost using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

Loan origination fees are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred until the commitment is exercised and are recognised over the life of the loan as an adjustment of yield or, if unexercised, recognised as income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised as income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised as income over the commitment period.

Direct loan origination costs are netted against loan origination fees and the net amount recognised as income over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

(ii) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction.

When the Group acts in the capacity of an agent, revenue is recognised as the net amount of fees and commissions made by the Group.

Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time. Account keeping charges, credit card fees, money transfer fees and loan servicing fees are recognised in the

1 Principal accounting policies (continued)

period the service is provided. Syndication fees are recognised as income after certain retention, timing and yield criteria are satisfied.

(iii) Gains less losses on financial instruments at fair value

Gains less losses on financial instruments at fair value comprise fair value gains and losses from:

- trading derivatives;
- trading securities;
- instruments designated in hedge relationships; and
- other financial assets and liabilities designated at fair value through profit or loss.

In general, gains less losses on trading derivatives recognise the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where a trading derivative is economically offsetting movements in the fair value of a financial asset or liability designated at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are recognised within net interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness from both fair value and cash flow hedge relationships. Interest income and expense on both hedging instruments and instruments designated at fair value through profit or loss are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss recognises fair value movements (excluding interest) on those items designated as fair value through profit or loss. Interest income and expense on financial assets and liabilities designated at fair value through profit or loss are recognised within net interest income.

(iv) Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Group's right to receive the dividend is established.

(j) Life insurance

The Group conducts its life insurance business, comprising of insurance and investment contracts, through a number of controlled entities including MLC Limited and BNZ Life Insurance Limited.

(i) Allocation of profit

Life insurance contracts

Profits are brought to account in the statutory funds on a Margin on Services (MoS) basis in accordance with Actuarial Standards. Under MoS, profit is recognised as fees are received and services are provided to policyholders over the life of the contract that reflects the pattern of risk accepted from the policyholder. When fees are received but the service has not been provided, profit is not recorded at the point of sale. Losses are expensed when identified.

Consistent with the principle of deferring unearned profit is the requirement to defer expenditure associated with the deferred profit. MoS permits costs associated with the acquisition of life insurance policies to be charged to the income statement over the period that the policy will generate profits. However, costs may only be deferred to the extent that a policy is expected to be profitable.

Profits arising from policies comprising non-investment-linked business are based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that will be incurred over the estimated life of the policies. The profit is systematically recognised over the estimated period the policy will remain in force.

Certain policies are entitled to share in the profits that arise from the non-investment-linked business. This profit sharing is governed by the *Life Insurance Act 1995 (Cth*) and the life insurance companies' constitutions. This profit sharing amount is treated as an expense in the income statement.

Life investment contracts

Profit from investment-linked business is derived as the excess of the fees earned by the shareholder for managing the funds invested over operating expenses.

(ii) Premium and related revenue

Life insurance contracts

Premiums are separated into their revenue and liability components. Premium amounts earned by providing services and bearing risks, including protection business, are treated as revenue. Other premium amounts received, net of initial fee income, which are akin to deposits, are recognised as an increase in policy liabilities.

Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue or an increase in policy liabilities on a cash received basis. Premiums due before the reporting date but not received at reporting date are included as outstanding premiums receivable. Premiums due after but received before the reporting date are accounted for as premiums in advance.

Life investment contracts

The initial fee, which is the difference between the premium received and the initial surrender value, is recognised as fee income. Premiums are recognised as an increase in policy liabilities.

(iii) Investment revenue

Dividend and interest income is brought to account on an accruals basis when the life insurance controlled entity obtains control of the right to receive the dividend or interest income. Net realised profits and losses and changes in the measurement of fair values in respect of all investments recognised at fair value are recognised in the income statement in the period in which they occur.

(iv) Claims expense

Claims are recognised when the liability to a policyholder under a policy contract has been established or upon notification of the insured event, depending on the type of claim. Claims are separated into their expense and liability components.

Life insurance contracts

Claims incurred that relate to the provision of services and bearing of risks are treated as expenses and are recognised on an accruals basis.

Life investment contracts

Claims incurred in respect of investment contracts, which are in the nature of investment withdrawals, are recognised as a reduction in policy liabilities.

1 Principal accounting policies (continued)

(v) Basis of expense apportionment

All expenses charged to the income statement are equitably apportioned to the different classes of business in accordance with Division 2 of Part 6 of the *Life Insurance Act 1995 (Cth)* as follows:

- Expenses and other outgoings that relate specifically to a particular statutory fund are directly charged to that fund; and
- Expenses and other outgoings (excluding commissions, medical fees and stamp duty relating to the policies which are all directly allocated) are apportioned between each statutory fund and shareholders' fund.

Expenses are apportioned between classes of business by first allocating the expenses to major functions and activities, including sales support and marketing, new business processing and policyholder servicing. Expenses are then allocated to classes of products using relevant activity cost drivers, including commissions, policy counts, funds under management and benchmark profit.

Investment income, gains and losses on sale of property, plant and equipment, gains and losses on sale of investments, and appreciation and depreciation of investments are directly credited or charged to the appropriate statutory fund or shareholders' fund.

(vi) Deferred acquisition costs

The extent to which policy acquisition costs are deferred varies according to the classification of the contract acquired (either life insurance or life investment).

Life insurance contracts

The costs incurred in selling or generating new business include adviser fees, commission payments, application processing costs, relevant advertising costs and costs for promotion of products and related activities. These costs are deferred to the extent they are deemed recoverable from premiums or policy charges (as appropriate for each policy class). Deferred acquisition costs are amortised over the period that they will be recovered from premiums or policy charges.

Life investment contracts

The incremental costs incurred in selling or generating new business are expensed as incurred.

(k) Income tax

Income tax expense (or benefit) is the tax payable (or receivable) on the current period's taxable income based on the applicable tax rate in each jurisdiction adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it related to items recognised directly in other comprehensive income, in which case it is recognised in the Statement of Comprehensive Income. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are realised simultaneously.

For life insurance business, taxation is not based on the concept of profit. Legislative provisions apply to tax policyholders and shareholders on different bases. According to the class of business to which their policies belong, policyholders have their investment earnings taxed at the following rates in Australia:

- Superannuation policies - 15%;
- Annuity policies - 0%; or
- Other policies - 30%.

The life insurance business shareholders' funds in Australia are taxed at the company rate of 30% on fee income and profit arising from insurance risk policies less deductible expenses.

(i) Tax consolidation

The Group and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 October 2002 and are taxed as a single entity from that date. The head entity within the tax-consolidated group is National Australia Bank Limited.

Current tax expense (or benefit) and deferred tax assets and liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the Group allocation approach.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable to (or receivable from) other entities in the tax-consolidated group under the tax funding arrangement. Any difference between the amounts assumed and amounts receivable/payable under the tax funding agreement are recognised by the Company as an equity contribution to or distribution from its subsidiaries.

The members of the tax-consolidated group have entered into a tax funding arrangement that sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant taxation authority.

(ii) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax or other value-added tax, except where the tax incurred is not recoverable from the relevant taxation authority. In these circumstances, the tax is recognised as part of the expense or the cost of acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the relevant taxation authority is included in other assets or other liabilities. Cash flows are included in the cash flow statement on a gross basis. The tax component of cash flows arising from investing and financing

1 Principal accounting policies (continued)

activities which is recoverable from, or payable to, the relevant taxation authority is classified as operating cash flows.

(l) Cash and liquid assets

Cash and cash equivalents comprise the net amount of short-term, highly liquid investments that are readily convertible to known amounts of cash within three months and are subject to an insignificant risk of change in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes). For the purposes of the cash flow statement, cash and liquid assets also includes amounts due from other banks (including securities held under reverse repurchase agreements and short-term government securities), net of amounts due to other banks.

(m) Due from other banks

Due from other banks includes loans, deposits with central banks and other regulatory authorities and settlement account balances due from other banks. Amounts due from other banks are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

(n) Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction. Securities lent to counterparties are also retained in their respective balance sheet categories.

Securities purchased under agreements to resell are accounted for as collateralised loans. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Such amounts are normally classified as due from other banks or cash and liquid assets.

Securities borrowed are not recognised in the financial statements unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return securities borrowed is recorded at fair value.

(o) Financial instruments

(i) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

The Group classifies its financial assets as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available for sale securities. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial liabilities as liabilities at fair value through profit or loss, liabilities at amortised cost or derivative liabilities.

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

A financial liability is derecognised from the balance sheet when the Group has discharged its obligation or the contract is cancelled or expires.

(ii) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Items at fair value through profit or loss

Items at fair value through profit or loss comprise both items held for trading and items specifically designated as fair value through profit or loss on initial recognition. Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Where a financial liability is measured at fair value, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates.

Upon initial recognition, financial instruments may be designated as fair value through profit or loss. Restrictions are placed on the use of the designated fair value option and the classification can only be used:

- In respect of an entire contract if a host contract contains one or more embedded derivatives;
- If designating the financial instruments eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis; or
- If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Financial instruments held for trading

A financial instrument is classified as held for trading, if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

(iv) Investments - available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of fair value through profit or loss, loans and receivables or held to maturity.

Available for sale investments primarily comprise debt securities.

Available for sale investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in the available for sale investments reserve within equity until disposal, when the cumulative gain or loss is transferred to the income statement. Upon disposal or impairment, the accumulated

1 Principal accounting policies (continued)

change in fair value in the available for sale investments reserve is recognised in the income statement.

(v) Investments - held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that the Group has the intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, net of any provision for impairment.

Any sale or reclassification of a more than insignificant amount of held to maturity investments would result in a reclassification of all held to maturity investments as available for sale, other than certain sales or reclassifications, such as those that are close to an asset's maturity or those that are attributable to an isolated event that could not have been reasonably anticipated (for example, a significant deterioration in an issuer's credit worthiness). Following a sale or reclassification of held to maturity investments to available for sale in circumstances other than those noted above, the Group would be prevented from classifying financial assets as held to maturity in the financial year of the sale or reclassification and the following two financial years.

(p) Assets relating to life insurance business

All assets held in statutory funds are considered to back policy liabilities and are classified at fair value through profit or loss.

Assets and liabilities held in the statutory funds of the Australian life insurance business are subject to the restrictions of the *Life Insurance Act 1995 (Cth)* and the constitutions of the life insurance entities. The main restrictions are that the assets in a statutory fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995 (Cth)* are met.

(q) Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are separated from the host contract and accounted for separately; if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges); or
- Hedges of net investments in foreign operations.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Group's risk management objective and strategy for undertaking these hedge transactions. The Group also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Group documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis.

(i) Fair value hedges

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the period(s) in which the hedged item affects the income statement (e.g. when the forecast hedged variable cash flows are recognised in the income statement).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the income statement.

(iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are transferred to the income statement when the foreign operation is disposed.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. This could occur for two reasons:

- The derivative is held for the purpose of short-term profit taking; or
- The derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.

1 Principal accounting policies (continued)

In both of these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(r) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

In certain circumstances the Group applies the fair value measurement option to loans and advances. This option is applied to loans and advances where there is an embedded derivative within the loan contract or the assets are managed on a fair value basis. The loan is designated as fair value through profit or loss to offset the movements in the fair value of the hedging derivatives in the income statement. When this option is applied, the asset is included in other financial assets at fair value.

Where a loan is measured at fair value, a credit valuation adjustment to reflect the credit worthiness of the counterparty is included.

(s) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a portfolio of financial assets that are not carried at fair value through profit or loss, is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date and it is considered that the loss event has had an impact on the estimated future cash flows of the financial asset (or the portfolio) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and advances and held to maturity investments, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The amount of the reversal is recognised in the income statement.

If the originally contracted terms of loans and advances are amended, the amounts are classified as restructured. Such amounts accrue interest as long as the loan performs in accordance with the restructured terms.

In the case of equity instruments classified as available for sale, the Group seeks evidence of a significant or prolonged decline in the fair value of the instrument below its cost to determine whether impairment exists. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as for other financial assets not carried at fair value through profit or loss. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is recognised in the income statement. Reversals of impairment of debt instruments classified as available for sale are recognised in the income statement. Reversals of impairment of equity instruments classified as available for sale are not recognised in the income statement, but rather directly in equity.

(t) Acceptances

The Group's liability arising from the acceptance of bills of exchange and the asset under acceptance representing the claims against its customer are measured initially at fair value and subsequently at amortised cost. When the Group discounts its own acceptance, the acceptance liability is derecognised. When the Group rediscounts its own acceptance, an acceptance liability is re-recognised and the asset remains recognised as an acceptance. The difference between the purchase and sale of the Group's own acceptance gives rise to realised profits and losses that are recognised in the income statement. Bill acceptance fees are deferred and amortised on an effective yield basis over the life of the instrument.

(u) Leases

Determining whether an arrangement contains a lease

At the inception of an arrangement, the Group determines whether the arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. At inception or upon reassessment of an arrangement, the Group separates payment and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Leases where the Group assumes substantially all risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) As lessee

Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease. When an operating

1 Principal accounting policies (continued)

lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the income statement in the period of termination. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As lessor

For finance leases, the net investment in the lease, which comprises of the present value of lease payments including any guaranteed residual value and initial direct costs, is recognised within loans and advances. The difference between the gross receivable and the present value of the receivable is unearned income. Income is recognised over the term of the lease using the net investment method (before tax), reflecting a constant periodic rate of return.

For operating leases, assets leased are included within property, plant and equipment at cost and depreciated over the life of the lease after taking into account anticipated residual values. Operating lease rental income is recognised within other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within the income statement consistent with the nature of the asset.

(v) Property, plant and equipment

Land and buildings are measured at fair value and are revalued on a rolling three year cycle, effective 31 July, by directors to reflect fair values. Directors' valuations are based on advice received from independent valuers. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date. Newly acquired property assets are held at cost (i.e. equivalent to fair value due to their recent acquisition) until the time of the next annual review, a period not exceeding 12 months.

Revaluation increments are credited directly to the asset revaluation reserve, net of tax. However, the increment is recognised in the income statement to the extent it reverses a revaluation decrement previously recognised as an expense for a specific asset. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset. Any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Other items of plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The cost of plant and equipment includes an obligation for removal of the asset or restoration of the site where such an obligation exists and if that cost can be reliably estimated.

With the exception of freehold land, all items of property, plant and equipment are depreciated using the straight-line method at rates appropriate to their estimated useful life to the Group. For major classes of property, plant and equipment, the annual rates of depreciation are:

- Buildings - 3.3%;
- Furniture, fixtures and fittings and other equipment - from 10% to 20%;
- Motor vehicles - 20%;
- Personal computers - 33.3%; and
- Other data processing equipment - from 20% to 33.3%; and
- Leasehold improvements are depreciated on a straight-line basis over the shorter of their useful lives and the remaining expected term of the lease.

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds, if any, and the carrying amount at the time of disposal are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained profits.

(w) Goodwill and other intangible assets

(i) Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the Group's share of the identifiable net assets at the date of the acquisition. If the Group's interest in the fair value of the identifiable net assets of the acquired entity is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the excess is recognised in the income statement on acquisition date and no goodwill is recognised.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. For the purposes of impairment testing, goodwill has been allocated to cash generating units that benefit from the synergies of the acquisition. Each cash generating unit or group of cash generating units to which goodwill is allocated is the lowest level within the Group at which goodwill is monitored by management. Impairment is assessed by comparing the carrying amount of the cash generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash generating unit or group of units is greater than its recoverable amount. Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Software costs

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised and recognised as an intangible asset where the software is controlled by the Group, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred.

Computer software and other intangible assets are stated at cost less amortisation and impairment losses, if any.

Capitalised software costs and other intangible assets are amortised on a systematic basis, using the straight-line method over their expected useful lives which are between three and ten years (2012: three and seven years).

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably, and are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition.

Subsequent to acquisition, finite life intangible assets are stated at cost less amortisation and impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives which vary from three to 15 years. Amortisation methods, useful lives and residual values are reviewed each financial year end and adjusted if appropriate.

1 Principal accounting policies (continued)

Subsequent to acquisition, indefinite life intangible assets are stated at cost less impairment losses, if any. Indefinite life intangible assets are assessed for impairment annually or more frequently if there is indication that the intangible asset may be impaired.

(x) Impairment of non-financial assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use.

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which that asset belongs. Management judgement is applied to identify cash generating units (which are determined according to the lowest level of aggregation for which an active market exists, as this evidences the assets involved that create largely independent cash inflows). Each of these cash generating units is represented by an operating segment or a subdivision of an operating segment.

(y) Due to other banks

Due to other banks includes deposits, repurchase agreements and settlement account balances due to other banks. Amounts due to other banks are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

(z) Deposits and other borrowings

Deposits and other borrowings include non-interest-bearing deposits redeemable at call, on-demand and short-term deposits lodged for periods of less than 30 days, certificates of deposit, interest-bearing deposits, debentures and other borrowings. Deposits and other borrowings are initially recognised at fair value less directly attributable transactions costs and subsequently measured at amortised cost.

(aa) Life policy liabilities

Life insurance liabilities consist of life insurance contract liabilities and life investment contract liabilities.

(i) Life insurance contracts

Life insurance contract liabilities are typically determined using a projection method, whereby estimates of policy cash flows are projected into the future and discounted back to their net present value using best estimate assumptions. When the benefits under a contract are linked to the supporting assets, the discount rate applied is based on the expected future earning rate of those assets. In other cases a discount rate based on an appropriate risk-free rate is used.

The assumptions used in the calculation of policy liabilities are reviewed at the end of each reporting period.

Life policy liabilities in the Group's balance sheet and the change in policy liabilities in the Group's income statement have been calculated in accordance with Prudential Standard LPS1.04 'Valuation of Policy Liabilities' issued by the Australian Prudential Regulation Authority (APRA).

Unvested policyholder benefits represent amounts that have been allocated to certain non-investment-linked policyholders that have not yet vested with specific policyholders.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations. Where the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities are discounted using discount rates based on the market returns on assets backing life insurance liabilities.

For reinsurance contracts, the Group retains the primary obligation of the underlying life insurance contract.

(ii) Life investment contracts

Policy liabilities relating to life investment contracts are measured at fair value. As the value of these liabilities is closely linked to the performance and value of the assets that support the liabilities, the fair value of such liabilities is the same as the fair value of those assets.

(ab) Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be necessary to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

(i) Operational risk events

Provisions for operational risk event losses are raised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, frauds and the correction of operational issues.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

(ii) Restructuring costs

Provisions for restructuring costs include provisions for costs incurred but not yet paid and future costs that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Group has made a commitment and entered into an obligation such that the Group has no realistic alternative but to carry out the restructure and make future payments to settle the obligation. A provision for restructuring costs is only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus lease space. Costs related to ongoing activities and future operating losses are not provided for.

(ac) Employee benefits

(i) Annual leave, long service leave and other employee benefits

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using

1 Principal accounting policies (continued)

remuneration rates that the Group expects to pay when the liabilities are settled.

Employee entitlements to long service leave are accrued using an actuarial calculation, including assumptions regarding staff departures, leave utilisation and future salary increases.

A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(ii) Superannuation plans

Employees of the Group are entitled to benefits on retirement, disability or death, from the Group's superannuation plans. The Group operates superannuation plans which have both defined benefit and defined contribution components.

The defined contribution plans receive fixed contributions and the obligation for contributions to these plans are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. An asset or liability in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the superannuation plan's assets at the reporting date.

The present value of the defined benefit obligation for each plan is discounted by either the government bond rate, or the average AA credit rated bond rate for bonds that have maturity dates approximating the terms of the obligation. The present value of the defined benefit obligations is calculated every three years using the projected unit credit method and updated on an annual basis for material movements in the plan position.

The Group does not offset plan assets and liabilities arising from different defined benefit plans. Past service costs are recognised immediately in the income statement. Where actuarial gains and losses arise as a result of actual experience, such amounts are fully recognised directly in retained profits through other comprehensive income.

Future taxes that are funded by the entity, and are part of the provision of existing benefit obligations, are taken into account in measuring the net asset or liability.

(ad) Bonds, notes, subordinated debt and other debt issues

Bonds, notes, subordinated debt and other debt issues are short and long-term debt issues including commercial paper, notes, term loans, medium-term notes, mortgage backed securities and other discrete debt issues.

Bonds, notes, subordinated debt and other debt issues are generally initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue to accrete the carrying value of securities to redemption values by maturity date. Embedded derivatives within debt instruments are separately accounted for where not closely related to the terms of the host debt instrument.

In certain circumstances the Group applies the fair value measurement option to bonds, notes and subordinated debt issues and other debt issues. This option is applied where an accounting mismatch is significantly reduced or eliminated that would occur if the liability was measured on another basis. Where liabilities are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise.

(ae) Financial guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. A financial guarantee contract is initially recorded at fair value which is equal to the premium received or receivable, unless there is evidence to the contrary. Subsequently, financial guarantee contracts are measured at the higher of:

- The liability for the estimated amount of the loss payable where it is likely that a loss will be incurred as a result of issuing the contract; and
- The amount initially recognised less, when appropriate, amortisation of the fee over the life of the guarantee.

(af) Equity

(i) Contributed equity

In accordance with the *Corporations Act 2001 (Cth)*, the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

(ii) Treasury shares

If a controlled entity acquires shares in the Company (treasury shares), the cost of the acquired shares is recognised as a deduction from issued capital. Dividends on treasury shares are not credited to income, but eliminated on consolidation. Gains and losses on the sale of treasury shares are accounted for as adjustments to issued capital and not as part of income.

Shares in the Company held by certain statutory funds of the Group's life insurance business (which are consolidated in the financial report) are accounted for as treasury shares. Additionally, shares purchased on market to meet the requirements of employee incentive schemes and held in trust are accounted for as treasury shares.

(iii) Reserves

General reserve

The balance of the general reserve was transferred to retained profits as at 30 September 2012. The statutory funds' retained profits are no

1 Principal accounting policies (continued)

longer segregated but instead form part of the Group's consolidated retained profits.

Asset revaluation reserve

The asset revaluation reserve records revaluation increments and decrements arising from the revaluation of land and buildings.

Foreign currency translation reserve

The foreign currency translation reserve records foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

Cash flow hedge reserve

The cash flow hedge reserve records the fair value revaluation of derivatives designated and effective as cash flow hedging instruments.

Equity-based compensation reserve

The equity-based compensation reserve records the value of equity benefits provided to employees as part of their remuneration.

Share capital tainting rules contained in Australian tax legislation apply prospectively from 26 May 2006 to discourage companies from distributing profits to shareholders as preferentially taxed capital rather than dividends. The focus of the tax legislation is on the transfer of amounts to a share capital account from another account.

The tainting rules are inconsistent with AASB 2 "Share-based Payment" which allows transfers between equity accounts upon the vesting of employee equity-based payments (i.e. when all conditions have been met by the employee).

During 2009, the Group received a private binding ruling from the Australian Taxation Office on this matter. The ruling allows, under certain circumstances, vested employee shares to be reversed from the equity-based compensation reserve and ultimately recorded in paid-up capital without giving rise to a tainting of the Company's share capital account for tax purposes.

The share capital tainting rules and private binding ruling have no impact on the regulatory capital of the Group.

General reserve for credit losses

APRA Prudential Standard APS 220 "Credit Quality" requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses represents an appropriation of retained profits to non-distributable reserves.

(ag) Equity-based compensation

The Group provides equity-based compensation to employees in respect of services received. The value of the services received is measured by reference to the grant date fair value of the shares, performance options and performance rights provided to employees.

The expense for each tranche of shares, performance options or performance rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the period that the services are received (the vesting period), with a corresponding increase in the equity-based compensation reserve.

The grant date fair value of shares is generally determined by reference to the weighted average price of the Company's shares in the week up to, and including, the date on which the shares are granted. Employee share plans are linked to internal performance, market performance and/or service conditions. The fair value of shares with a market performance condition is determined using a Monte Carlo simulation.

The grant date fair value of the performance options and performance rights is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance options or performance rights, the expected volatility of the Company's share price, the risk-free interest rate and the expected dividend yield on the Company's shares for the life of the performance options and performance rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulation takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested performance options or performance rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares, performance options and performance rights. Instead, non-market conditions are taken into account by adjusting the number of shares, performance options and performance rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares, performance options or performance rights that actually vest.

(ah) Trustee and funds management activities

The Group acts as trustee, custodian or manager of a number of funds and trusts, including superannuation and approved deposit funds, and wholesale and retail investment trusts. Where the Group does not have direct or indirect control of these funds and trusts, the assets and liabilities are not included in the consolidated financial statements of the Group. When controlled entities, as responsible entities or trustees, incur liabilities in respect of their activities, a right of indemnity exists against the assets of the applicable trusts and funds. Where these assets are determined to be sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the Group does not include the liabilities in the consolidated financial statements.

Commissions and fees earned in respect of the Group's trust and funds management activities are included in the income statement.

(ai) Securitisation

Through its loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction.

In addition to its loan securitisation program, the Group has various contractual relationships with entities that undertake securitisation of third party assets. The Group sponsors, manages and provides liquidity facilities and derivative contracts to these securitisation conduits.

(aj) Critical accounting assumptions and estimates

The application of the Group's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Group.

1 Principal accounting policies (continued)

Assumptions made at each reporting date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies which are most sensitive to the use of judgment, estimates and assumptions are included in the policies below.

(i) Fair value measurement

A significant portion of financial instruments are carried on the balance sheet at fair value.

Fair value is the amount for which an asset could be exchanged or a liability settled, between willing parties in an arm's length transaction.

Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined by reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk is also incorporated into the fair value as appropriate.

Fair value for a net open position that is a financial liability quoted in an active market is the current offer price, and for a financial asset the bid price, multiplied by the number of units of the instrument held or issued.

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

(ii) Impairment charges on loans and advances

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in *Note 18 - Provision for doubtful debts and Note 19 - Asset quality disclosures*.

(iii) Goodwill

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

Goodwill is assessed for impairment annually, or more frequently if there is indication that goodwill may be impaired. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. The assumptions applied to determine if any impairment exists are outlined in *Note 22 - Goodwill and other intangible assets*.

(iv) Provisions other than loan impairment

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and litigation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimate future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

(v) Life insurance policyholder liabilities

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of policy liabilities at each reporting date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. Best estimate means that assumptions are neither optimistic nor pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date. Deferred acquisition costs are presented as an offset in policy liabilities.

(vi) Superannuation obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer to *Note 32 - Defined benefit superannuation plan assets and liabilities* for the assumptions used.

2 Segment information

The Group's reportable segments are business units engaged in providing either different products or services, or similar products and services in different geographical areas. The businesses are managed separately as each requires a strategy focused on the specific services provided for the economic, competitive and regulatory environment in which it operates.

The Group's business consists of the following reportable segments: Business Banking; Personal Banking; Wholesale Banking; NAB Wealth; and NZ Banking. In addition, information on the following segments that do not meet the threshold to be reportable segments is also included in this note to reconcile to Group information: UK Banking; Great Western Bank; NAB UK Commercial Real Estate and Corporate Functions & Other.

The NAB UK Commercial Real Estate business was transferred from Clydesdale Bank PLC to the Company on 5 October 2012. Following this change, the results of this segment are now separately reported going forward and no longer included in UK Banking. In addition, due to the run-down of the Specialised Group Assets portfolio, the business is no longer separately reported as a separate segment and instead is included in Corporate Functions & Other. Also, in addition to these changes NAB Asia is no longer reported in Corporate Functions & Other and is now reported in the Business Banking and NAB Wealth segments. As a result of these changes, the segment information for the current period has been presented on both the old basis (2012) and new basis (2013) of segmentation. The corresponding items of segment information for comparative periods has not been restated as the information is not available and the cost to develop it would be excessive.

The accounting policies of the reportable segments are consistent with those described in *Note 1 - Principal Accounting Policies*.

The Group evaluates reportable segments' performance on the basis of cash earnings. Cash earnings represents the net profit attributable to owners of the Company, adjusted for certain non-cash items, distributions and significant items.

Revenues, expenses and tax directly associated with each reportable segment are included in determining their result. Transactions between reportable segments are based on agreed recharges between segments operating within the same country and are at arm's length between segments operating in different countries.

Major customers

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

Reportable segments (new basis)

For the year ended 30 September 2013	Business Banking $m	Personal Banking $m	Wholesale Banking $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	GWB $m	NAB UK CRE $m	Corporate Functions & Other $m	Eliminations $m	Group Cash Earnings $m
Net interest income	5,017	3,343	1,231	421	1,207	1,177	296	61	654	-	13,407
Other operating income	1,047	570	1,356	73	411	368	79	(17)	36	(85)	3,838
NAB Wealth net operating income	-	-	-	1,335	-	-	-	-	-	-	1,335
Net operating income	6,064	3,913	2,587	1,829	1,618	1,545	375	44	690	(85)	18,580
Operating expenses	(1,787)	(1,848)	(966)	(1,154)	(651)	(1,098)	(182)	(56)	(517)	85	(8,174)
Underlying profit	4,277	2,065	1,621	675	967	447	193	(12)	173	-	10,406
Charge to provide for doubtful debts	(755)	(319)	(29)	(11)	(81)	(247)	(23)	(477)	8	-	(1,934)
Cash earnings before tax (1)	3,522	1,746	1,592	664	886	200	170	(489)	181	-	8,472
Income tax expense	(1,034)	(518)	(398)	(171)	(237)	(50)	(57)	114	14	-	(2,337)
Cash earnings after tax (1)	2,488	1,228	1,194	493	649	150	113	(375)	195	-	6,135
Net profit - non-controlling interest	-	-	-	(8)	-	-	-	-	-	-	(8)
Investment earnings on shareholders' retained profits	-	-	-	(3)	-	-	-	-	-	-	(3)
Distributions	-	-	-	-	-	-	-	-	-	(188)	(188)
Cash earnings	2,488	1,228	1,194	482	649	150	113	(375)	195	(188)	5,936

Reportable segments (old basis)

For the year ended 30 September 2013	Business Banking $m	Personal Banking $m	Wholesale Banking $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Group Cash Earnings $m
Net interest income	4,975	3,343	1,231	360	1,207	1,238	296	66	691	-	13,407
Other operating income	1,037	570	1,356	65	411	351	79	47	7	(85)	3,838
NAB Wealth net operating income	-	-	-	1,335	-	-	-	-	-	-	1,335
Net operating income	6,012	3,913	2,587	1,760	1,618	1,589	375	113	698	(85)	18,580
Operating expenses	(1,747)	(1,848)	(966)	(1,110)	(651)	(1,154)	(182)	(36)	(565)	85	(8,174)
Underlying profit	4,265	2,065	1,621	650	967	435	193	77	133	-	10,406
Charge to provide for doubtful debts	(750)	(319)	(29)	(10)	(81)	(724)	(23)	11	(9)	-	(1,934)
Cash earnings before tax (1)	3,515	1,746	1,592	640	886	(289)	170	88	124	-	8,472
Income tax expense	(1,034)	(518)	(398)	(164)	(237)	64	(57)	(16)	23	-	(2,337)
Cash earnings after tax (1)	2,481	1,228	1,194	476	649	(225)	113	72	147	-	6,135
Net profit - non-controlling interest	-	-	-	(8)	-	-	-	-	-	-	(8)
Investment earnings on shareholders' retained profits	-	-	-	(3)	-	-	-	-	-	-	(3)
Distributions	-	-	-	-	-	-	-	-	-	(188)	(188)
Cash earnings	2,481	1,228	1,194	465	649	(225)	113	72	147	(188)	5,936

(1) *Cash earnings before and after tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

2 Segment information (continued)

Reportable segments (old basis)

For the year ended 30 September 2012	Business Banking $m	Personal Banking $m	Wholesale Banking $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Group Cash Earnings $m
Net interest income	5,026	2,967	1,519	325	1,106	1,324	272	80	678	-	13,297
Other operating income	1,036	599	982	47	354	429	74	24	(40)	(93)	3,412
NAB Wealth net operating income	-	-	-	1,515	-	-	-	-	-	-	1,515
Net operating income	6,062	3,566	2,501	1,887	1,460	1,753	346	104	638	(93)	18,224
Operating expenses	(1,741)	(1,836)	(948)	(1,143)	(592)	(1,067)	(173)	(35)	(386)	93	(7,828)
Underlying profit	4,321	1,730	1,553	744	868	686	173	69	252	-	10,396
Charge to provide for doubtful debts	(893)	(242)	(67)	(12)	(76)	(966)	(25)	(85)	(249)	-	(2,615)
Cash earnings before tax [(1)]	3,428	1,488	1,486	732	792	(280)	148	(16)	3	-	7,781
Income tax expense	(1,019)	(443)	(394)	(213)	(217)	67	(50)	7	84	-	(2,178)
Cash earnings after tax [(1)]	2,409	1,045	1,092	519	575	(213)	98	(9)	87	-	5,603
Net profit - non-controlling interest	-	-	-	(1)	-	-	-	-	-	-	(1)
Investment earnings on shareholders' retained profits	-	-	-	38	-	-	-	-	-	-	38
Distributions	-	-	-	-	-	-	-	-	-	(207)	(207)
Cash earnings	2,409	1,045	1,092	556	575	(213)	98	(9)	87	(207)	5,433

(1) *Cash earnings before and after tax excludes investment earnings on shareholders' retained profits, distributions and non-controlling interest.*

Reportable segments (new basis)

Reportable segment assets	Business Banking $m	Personal Banking $m	Wholesale Banking $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	GWB $m	NAB UK CRE $m	Corporate Functions & Other $m	Eliminations $m	Group Total Assets $m
30 September 2013	**196,439**	**167,668**	**243,567**	**108,908**	**56,856**	**64,314**	**9,829**	**6,600**	**28,968**	**(74,722)**	**808,427**

Reportable segments (old basis)

Reportable segment assets	Business Banking $m	Personal Banking $m	Wholesale Banking $m	NAB Wealth $m	NZ Banking $m	UK Banking $m	GWB $m	Specialised Group Assets $m	Corporate Functions & Other $m	Eliminations $m	Group Total Assets $m
30 September 2013	**191,836**	**167,668**	**243,567**	**105,933**	**56,856**	**70,914**	**9,829**	**6,128**	**30,418**	**(74,722)**	**808,427**
30 September 2012	198,745	154,271	227,008	98,195	49,069	69,408	8,646	6,339	35,811	(84,402)	763,090

Reconciliations between reportable segment information and statutory results are as follows:

The tables below reconcile the information in the segment tables presented above, which have been prepared on a cash earnings basis, to the relevant statutory information presented in the Financial Report. In addition to the sum of the reportable segments, the cash earnings basis includes the segments that do not meet the threshold to be reportable segments and intra group eliminations. The NAB Wealth net adjustment represents a reallocation of the income statement of the NAB Wealth business prepared on a cash earnings basis into the appropriate statutory income statement lines.

	Group	
	2013 $m	2012 $m
Net interest income		
Net interest income on a cash earnings basis	**13,407**	13,297
NAB Wealth net adjustment	**(56)**	(55)
Net interest income on a statutory basis	**13,351**	13,242
Total other income and NAB Wealth income		
Total other income on a cash earnings basis	**3,838**	3,412
NAB Wealth net operating income	**1,335**	1,515
Total other operating and NAB Wealth income [(1)]	**5,173**	4,927
NAB Wealth net adjustment	**650**	296
Treasury shares	**(386)**	(175)
Fair value and hedge ineffectiveness	**(313)**	(256)
IoRE discount rate variation	**32**	24
Hedging costs on SCDO assets	**-**	(141)
Amortisation of acquired intangible assets	**(19)**	(18)
PPI and customer redress provision	**(204)**	(184)
Total other income and Net life insurance income on a statutory basis	**4,933**	4,473

(1) *Includes eliminations and distributions.*

2 Segment information (continued)

	Group 2013 $m	Group 2012 $m
Operating expenses		
Operating expenses on a cash earnings basis	**8,174**	7,828
NAB Wealth net adjustment	**75**	(25)
Fair value and hedge ineffectiveness	**-**	5
Litigation expense/recovery	**(55)**	141
Amortisation of acquired intangible assets	**79**	105
Customer redress provisions	**-**	73
Impairment of goodwill and software	**-**	349
Restructure costs	**-**	222
Due diligence, acquisition and integration costs	**-**	124
Operating expenses on a statutory basis	**8,273**	8,822
Charge to provide for doubtful debts		
Charge to provide for doubtful debts on a cash earnings basis	**1,934**	2,615
Fair value and hedge ineffectiveness	**(124)**	119
Charge to provide for doubtful debts on a statutory basis	**1,810**	2,734
Income tax expense		
Income tax expense on a cash earnings basis	**2,337**	2,178
Income tax benefit/(expense) on non-cash earnings items:		
NAB Wealth net adjustment	**522**	228
Treasury shares	**(44)**	(20)
Fair value and hedge ineffectiveness	**(38)**	(110)
IoRE discount rate variation	**10**	8
Hedging costs on SCDO assets	**-**	(42)
Litigation expense/recovery	**16**	(40)
Amortisation of acquired intangible assets	**(21)**	(24)
PPI and customer redress provisions	**(41)**	(18)
Restructure costs	**-**	(48)
Due diligence, acquisition and integration costs	**-**	(36)
Income tax expense on a statutory basis	**2,741**	2,076
Investment earnings on shareholders' retained profits		
Investment earnings on shareholders' retained profits on a cash earnings basis	**(3)**	38
NAB Wealth net adjustment	**3**	(38)
Investment earnings on shareholders' retained profits on a statutory basis	**-**	-
Distributions and net profit attributable to non-controlling interest in controlled entities		
Distributions and non-controlling interest in controlled entities	**(196)**	(208)
Distributions	**188**	207
Net profit attributable to non-controlling interest in controlled entities	**(8)**	(1)

2 Segment information (continued)

	Group	
	2013 **$m**	2012 $m
Cash earnings		
Group cash earnings [1]	**5,936**	5,433
Non-cash earnings items (after tax):		
Distributions	**188**	207
Treasury shares	**(342)**	(155)
Fair value and hedge ineffectiveness	**(151)**	(270)
IoRE discount rate variation	**22**	16
Hedging costs on SCDO assets	**-**	(99)
Litigation expense/recovery	**39**	(101)
Amortisation of acquired intangible assets	**(77)**	(99)
PPI and customer redress provisions	**(163)**	(239)
Impairment of goodwill and software	**-**	(349)
Restructure Costs	**-**	(174)
Due diligence, acquisition and integration costs	**-**	(88)
Net profit attributable to owners of the Company	**5,452**	4,082

[1] *Includes eliminations and distributions.*

Geographical information

The Group has operations in Australia (the Company's country of domicile), Europe, New Zealand, the United States and Asia. The allocation of income and non-current assets is based on the geographical location in which transactions are booked.

	Group			
	Income		Non-current assets [1]	
	2013 **$m**	2012 $m	**2013** **$m**	2012 $m
Australia	**14,034**	13,944	**8,537**	7,729
Europe	**1,930**	2,024	**856**	759
New Zealand	**1,554**	1,259	**610**	561
United States	**633**	420	**893**	828
Asia	**208**	189	**34**	18
Total before inter-geographic eliminations	**18,359**	17,836	**10,930**	9,895
Elimination of inter-geographic items	**(75)**	(121)	**-**	-
Total	**18,284**	17,715	**10,930**	9,895

[1] *Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the reporting date. They do not include financial instruments, deferred tax assets, post-employment benefits assets or rights under insurance contracts.*

2 Segment information (continued)

Non-cash Earnings Items

Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in *Note 7 - Dividends and Distributions*. The effect of this in the September 2013 full year is to reduce cash earnings by $188 million.

Treasury shares

For statutory reporting purposes, the Group eliminates the effect on statutory income of the Group's life insurance business investment in National Australia Bank Limited shares. The elimination includes unrealised mark-to-market movements arising from changes in the Company's share price, dividend income and realised profits and losses on the disposal of shares. In determining cash earnings in the September 2013 year, a net gain of $386 million ($342 million after tax) attributable to these adjustments has been included to ensure there is no asymmetric impact on profit because the treasury shares relate to life policy liabilities which are revalued in deriving income.

Fair value and hedge ineffectiveness

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of transactions. This arises from fair value movements relating to trading derivatives for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.

In the September 2013 year there was a reduction in statutory profit of $189 million ($151 million after tax) from fair value and hedge ineffectiveness. This was largely due to the change in the fair value of derivatives used to manage the Group's long-term funding from movements in spreads between Australian and overseas interest rates, and mark-to-market movements of assets and liabilities designated at fair value reflecting current market conditions. In particular, the narrowing of cross currency basis and credit spreads has resulted in mark-to-market losses on these derivatives and term funding issuances, partially offset by favourable foreign exchange translation gains.

IoRE discount rate variation

The IoRE discount rate variation represents the impact on earnings of the change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in inflation and the risk free discount rate. This item resulted in a pre-tax gain of $32 million ($22 million after tax).

Litigation expense and recovery

Following the agreement to settle the Bell Resources litigation, the Group recognised $80 million ($56 million after tax) receivable during the 2013 financial year relating to settlement proceeds. The recovery was partially offset by litigation expenses of $25 million relating to the final settlement of a class action against the Group.

Amortisation of acquired intangible assets

The amortisation of acquired intangibles represents the amortisation of intangible assets arising from the acquisition of controlled entities and associates such as core deposit intangibles, mortgage servicing rights, brand names, value of business and contracts in force.

PPI and customer redress provisions

In the year to 30 September 2013 an additional provision of $204 million or $163 million after tax, was raised in Other Income in relation to UK payment protection insurance (PPI), including the estimated cost of redress and administration expenses.

In the prior year, $184 million for a provision relating to PPI and $73 million relating to other UK conduct related matters was recognised in non-cash earnings.

The following non-cash earnings items were reported for 30 September 2012.

UK Banking strategic review

The outcomes of the 2012 UK Banking strategic review included the following non-cash earnings items:
- The write-off of $295 million of goodwill relating to UK Banking
- The impairment of capitalised software of $54 million relating to assets that will be used in a substantially reduced form from what had been planned
- $222 million restructuring costs, of which $215 million relates to redundancy, lease break fees and other costs in UK Banking.

Hedging costs on SCDO assets

The recognition of remaining hedging costs related to the SCDO risk mitigation trades of $141 million ($99 million after tax) was expensed through non-cash earnings.

Due diligence, acquisition and integration costs

Acquisition and integration costs represent expenses associated with integrating acquisitions within the NAB operating model and reporting platforms, as well as costs associated with acquisitions. There were no such amounts reported in non-cash earnings for the year ended 30 September 2013 (30 September 2012: $124 million, $88 million after tax).

3 Net interest income

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Interest income				
Due from other banks	**479**	720	**386**	634
Marketable debt securities	**2,084**	2,153	**1,862**	1,854
Loans and advances [(1)]	**26,027**	27,495	**20,253**	21,791
Due from customers on acceptances	**2,143**	2,943	**2,143**	2,942
Due from controlled entities	**-**	-	**1,750**	2,110
Other interest income	**578**	1,231	**511**	1,156
Total interest income	**31,311**	34,542	**26,905**	30,487
Interest expense				
Due to other banks and official institutions	**593**	946	**546**	866
Deposits and other borrowings [(2)]	**11,367**	13,117	**9,471**	11,307
Liability on acceptances	**487**	663	**487**	663
Bonds, notes and subordinated debt [(3)]	**5,440**	6,385	**4,789**	5,740
Due to controlled entities	**-**	-	**1,816**	1,893
Other debt issues	**62**	142	**56**	131
Other interest expense	**11**	47	**4**	54
Total interest expense	**17,960**	21,300	**17,169**	20,654
Net interest income	**13,351**	13,242	**9,736**	9,833

(1) *Includes $4,156 million (2012: $3,704 million) of interest income on loans and advances accounted for at fair value for the Group, and $2,933 million (2012: $2,444 million) for the Company.*

(2) *Includes $128 million (2012: $129 million) of interest expense on deposits and other borrowings accounted for at fair value for the Group, and $11 million (2012: $15 million) for the Company.*

(3) *Includes $436 million (2012: $466 million) of interest expense on bonds, notes and subordinated debt accounted for at fair value for the Group, and $82 million (2012: $53 million) for the Company.*

4 Other income

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Gains less losses on financial instruments at fair value				
Trading securities	**162**	969	**204**	970
Trading derivatives	**1,391**	(519)	**1,217**	(26)
Assets, liabilities and derivatives designated in hedge relationships [(1)]	**93**	116	**154**	123
Assets and liabilities designated at fair value	**(900)**	(281)	**(400)**	157
Impairment of investments - available for sale	**(13)**	(5)	**(6)**	-
Other	**36**	(57)	**36**	(42)
Total gains less losses on financial instruments at fair value	**769**	223	**1,205**	1,182
Other operating income				
Dividend revenue				
Controlled entities	**-**	-	**981**	820
Other entities	**10**	46	**14**	50
Gains from sale of investments - available for sale	**38**	19	**11**	-
Gains from sale of property, plant and equipment and other assets	**-**	16	**-**	-
Banking fees	**969**	936	**752**	732
Money transfer fees	**654**	652	**476**	484
Fees and commissions [(2)]	**1,734**	1,650	**410**	379
Investment management fees	**204**	177	**-**	-
Fleet management fees	**29**	26	**29**	26
Rentals received on leased vehicle assets	**12**	13	**6**	8
Revaluation (losses)/gains on investment properties	**2**	(11)	**-**	-
Other income [(3)]	**(48)**	(14)	**47**	298
Total other operating income	**3,604**	3,510	**2,726**	2,797

(1) *Represents hedge ineffectiveness of designated hedging relationships, plus economic hedges of long-term funding that do not meet the requirements for hedge accounting.*

(2) *Included in fees and commissions is $113 million (2012: $117 million) of fee income from trust and other fiduciary activities for the Group, and $103 million (2012: $108 million) for the Company.*

(3) *Other income (Group) includes the impact of UK customer redress provisions for payment protection insurance of $204 million for September 2013, $184 million for September 2012.*

5 Operating expenses

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Personnel expenses				
Salaries and related on-costs	**3,242**	3,236	**2,235**	2,217
Superannuation costs - defined contribution plans	**266**	256	**205**	196
Superannuation costs - defined benefit plans	**31**	38	**-**	-
Performance-based compensation				
Cash	**312**	292	**207**	215
Equity-based compensation	**174**	214	**149**	172
Other expenses	**337**	490	**317**	491
Total personnel expenses	**4,362**	4,526	**3,113**	3,291
Occupancy-related expenses				
Operating lease rental expense	**447**	430	**338**	301
Other expenses	**153**	179	**67**	57
Total occupancy-related expenses	**600**	609	**405**	358
General expenses				
Fees and commission expense	**285**	253	**55**	70
Depreciation and amortisation of property, plant and equipment	**301**	299	**177**	200
Amortisation of intangible assets	**330**	337	**128**	124
Depreciation on leased vehicle assets	**8**	9	**5**	5
Operating lease rental expense	**30**	27	**14**	15
Advertising and marketing	**205**	181	**134**	124
Charge to provide for operational risk event losses	**146**	276	**51**	112
Communications, postage and stationery	**295**	262	**176**	152
Computer equipment and software	**559**	524	**478**	456
Data communication and processing charges	**134**	124	**68**	63
Transport expenses	**86**	85	**57**	58
Professional fees	**373**	450	**216**	285
Travel	**79**	72	**49**	44
Loss on disposal of property, plant and equipment and other assets	**16**	4	**8**	1
Impairment losses/(reversals) recognised	**8**	355	**(2)**	33
Other expenses	**456**	429	**216**	216
Total general expenses	**3,311**	3,687	**1,830**	1,958
Charge to provide for doubtful debts				
Investments - held to maturity [1]	**11**	213	**11**	213
Loans and advances	**1,799**	2,521	**1,512**	1,263
Total charge to provide for doubtful debts	**1,810**	2,734	**1,523**	1,476

[1] *Includes provisions for impairment of intercompany loans to securitisation conduits held by the Company.*

6 Income tax expense

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Income tax expense				
Current tax	**2,149**	2,146	**1,773**	1,756
Deferred tax	**592**	(70)	**(15)**	(42)
Total income tax expense	**2,741**	2,076	**1,758**	1,714

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

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Profit before income tax expense	**8,201**	6,159	**6,796**	6,729
Deduct profit before income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**(885)**	(850)	**-**	-
Total profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts, before income tax expense	**7,316**	5,309	**6,796**	6,729
Prima facie income tax at 30%	**2,195**	1,593	**2,039**	2,019
Add/(deduct) tax effect of amounts not deductible/(assessable):				
Assessable foreign income	**8**	8	**5**	5
Foreign tax rate differences	**27**	36	**43**	(11)
Depreciation on buildings not deductible	**3**	3	**-**	-
Foreign branch income not assessable	**(103)**	(82)	**(103)**	(82)
(Over)/under provision in prior years	**(13)**	38	**1**	3
Offshore banking unit income	**(49)**	(37)	**(42)**	(33)
Restatement of deferred tax balances for UK, US and NZ tax changes	**13**	5	**18**	8
Treasury shares adjustment	**71**	32	**-**	-
Dividend income adjustments	**-**	-	**(202)**	(199)
Goodwill impairment	**-**	88	**-**	-
Other	**(33)**	3	**(1)**	4
Total income tax expense on profit excluding that attributable to the statutory funds of the life insurance business and their controlled trusts	**2,119**	1,687	**1,758**	1,714
Income tax expense attributable to the statutory funds of the life insurance business and their controlled trusts	**622**	389	**-**	-
Total income tax expense	**2,741**	2,076	**1,758**	1,714

7 Dividends and distributions

Dividends on ordinary shares recognised by the Group and Company for the year ended 30 September:

	Amount per share cents	Total amount $m
2013		
Final dividend declared in respect of the year ended 30 September 2012	90	2,070
Interim dividend declared in respect of the year ended 30 September 2013	93	2,179
Deduct: Bonus shares in lieu of dividend	n/a	(53)
Dividends paid by the Company during the year ended 30 September 2013		4,196
Deduct: Dividends on treasury shares		(75)
Total dividends paid by the Group during the year ended 30 September 2013		4,121
2012		
Final dividend declared in respect of the year ended 30 September 2011	88	1,940
Interim dividend declared in respect of the year ended 30 September 2012	90	2,015
Deduct: Bonus shares in lieu of dividend	n/a	(51)
Dividends paid by the Company during the year ended 30 September 2012		3,904
Deduct: Dividends on treasury shares		(62)
Total dividends paid by the Group during the year ended 30 September 2012		3,842

Franked dividends declared or paid during the year were fully franked at a tax rate of 30% (2012: 30%).

Final dividend

On 31 October 2013, the directors declared the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend declared in respect of the year ended 30 September 2013	97	2,278	100

The final 2013 ordinary dividend is payable on 18 December 2013. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2013 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2013, after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as receivable at reporting date, are estimated to be $1,047 million (2012: $1,035 million). Franking credits to be utilised as a result of the payment of the proposed final dividend are $976 million (2012: $886 million). The extent to which future dividends will be franked will depend on a number of factors including the level of the profits that will be subject to Australian income tax.

New Zealand imputation credits

No New Zealand imputation credits have been attached to the 2013 final dividend.

Distributions on other equity instruments

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
National Income Securities	**88**	114	**88**	114
Trust Preferred Securities [(1)]	**35**	35	**-**	-
Trust Preferred Securities II [(1)]	**44**	43	**-**	-
National Capital Instruments	**21**	15	**-**	-
Total distributions on other equity instruments	**188**	207	**88**	114

[(1)] *$A Equivalent.*

Dividends on preference shares

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
BNZ Income Securities	**13**	25	**-**	-
BNZ Income Securities 2	**14**	13	**-**	-
Total dividends on preference shares [(1)]	**27**	38	**-**	-

[(1)] *$A Equivalent.*

8 Earnings per share

	Group			
	2013		2012	
	Basic	**Diluted**	Basic	Diluted
Earnings ($m)				
Net profit attributable to owners of the Company	**5,452**	**5,452**	4,082	4,082
Distributions on other equity instruments	**(215)**	**(215)**	(245)	(245)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes [(1)]	**-**	**6**	-	-
Interest expense on convertible preference shares	**-**	**36**	-	-
Adjusted earnings	**5,237**	**5,279**	3,837	3,837
Weighted average ordinary shares (No. '000)				
Weighted average ordinary shares (net of treasury shares)	**2,282,185**	**2,282,185**	2,188,873	2,188,873
Potential dilutive ordinary shares				
Performance options and performance rights	**-**	**5,676**	-	2,869
Partly paid ordinary shares	**-**	**60**	-	63
Employee share plans	**-**	**5,274**	-	8,366
Convertible notes [(1)]	**-**	**3,550**	-	-
Convertible preference shares	**-**	**23,978**	-	-
Total weighted average ordinary shares	**2,282,185**	**2,320,723**	2,188,873	2,200,171
Earnings per share (cents)	**229.5**	**227.5**	175.3	174.4

(1) *During the year ended 30 September 2012, the impact of all convertible notes was not included in the diluted earnings per share because they were anti-dilutive.*

There has been no material conversion to, calls of, or subscriptions for ordinary shares, or issues of potential ordinary shares since 30 September 2013, and before the completion of this Financial report.

9 Cash and liquid assets

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Coins, notes and cash at bank	**5,010**	4,979	**838**	835
Securities purchased under agreements to resell	**29,257**	13,268	**28,659**	12,281
Other (including bills receivable and remittances in transit)	**1,399**	1,217	**337**	470
Total cash and liquid assets	**35,666**	19,464	**29,834**	13,586

Reverse repurchase and securities borrowing agreements

As part of the reverse repurchase and securities borrowing agreements included within 'Cash and liquid assets' and 'Due from other banks' (*Note 10*), the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under these terms as at 30 September 2013 amounts to $39,512 million (2012: $33,149 million) for the Group and $38,907 million (2012: $32,099 million) for the Company, of which $15,161 million (2012: $12,929 million) for the Group and $15,097 million (2012: $12,576 million) for the Company has been sold or re-pledged to third parties in connection with financing activities or to comply with commitments under short-sale transactions.

The Group is obliged to return equivalent securities. The obligation to return securities for short-sale transactions is included in 'Other financial liabilities at fair value' *(Note 25)*. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing activities.

10 Due from other banks

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Central banks and other regulatory authorities	**14,749**	15,099	**3,594**	3,212
Other banks	**28,444**	32,311	**28,034**	32,110
Total due from other banks	**43,193**	47,410	**31,628**	35,322

11 Trading and hedging derivative assets and liabilities

Derivative financial instruments held or issued for trading purposes

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting.

Derivative financial instruments held for hedging purposes

The operations of the Group are subject to risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held or issued for the purpose of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors this non-trading interest rate risk by simulating future net interest income requirements, through the application of a range of possible future interest rate scenarios to its projected balance sheet.

The Group also holds or issues derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than the Australian dollar.

(a) Fair value hedges

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

(b) Cash flow hedges

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The tables below set out the fair value of both trading and hedging derivatives including notional principal values:

Trading derivative financial instruments

	Group					
	Notional principal 2013 $m	**Fair value assets 2013 $m**	**Fair value liabilities 2013 $m**	Notional principal 2012 $m	Fair value assets 2012 $m	Fair value liabilities 2012 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**389,404**	**5,996**	**6,807**	410,756	3,544	4,763
Cross currency swaps	**533,623**	**10,228**	**11,580**	403,114	6,592	8,944
Options/swaptions purchased	**14,653**	**208**	**57**	14,124	162	77
Options/swaptions written	**14,530**	**72**	**183**	13,795	83	154
Total foreign exchange rate-related contracts	**952,210**	**16,504**	**18,627**	841,789	10,381	13,938
Interest rate-related contracts						
Forward rate agreements	**211,144**	**12**	**16**	520,227	73	72
Swaps	**2,377,354**	**21,790**	**21,915**	1,575,682	29,274	29,739
Futures	**1,251,252**	**161**	**362**	881,480	86	287
Options/swaptions purchased	**40,340**	**294**	**83**	26,319	443	79
Options/swaptions written	**39,302**	**39**	**181**	24,233	56	301
Total interest rate-related contracts	**3,919,392**	**22,296**	**22,557**	3,027,941	29,932	30,478
Credit derivatives	**30,825**	**116**	**222**	33,147	212	273
Commodity derivatives	**2,609**	**66**	**126**	1,901	69	70
Other derivatives	**2,428**	**232**	**217**	2,127	305	368
Total trading derivative financial instruments	**4,907,464**	**39,214**	**41,749**	3,906,905	40,899	45,127

11 Trading and hedging derivative assets and liabilities (continued)

Trading derivative financial instruments

	Company					
	Notional principal 2013 $m	**Fair value assets 2013 $m**	**Fair value liabilities 2013 $m**	Notional principal 2012 $m	Fair value assets 2012 $m	Fair value liabilities 2012 $m
Foreign exchange rate-related contracts						
Spot and forward contracts	**363,101**	**5,891**	**6,379**	402,639	3,182	4,296
Cross currency swaps	**531,348**	**10,216**	**11,282**	409,626	6,633	8,623
Options/swaptions purchased	**16,136**	**211**	**111**	15,174	163	104
Options/swaptions written	**12,468**	**72**	**140**	13,347	83	129
Total foreign exchange rate-related contracts	**923,053**	**16,390**	**17,912**	840,786	10,061	13,152
Interest rate-related contracts						
Forward rate agreements	**208,473**	**12**	**16**	515,317	73	72
Swaps	**2,305,810**	**22,439**	**21,370**	1,636,116	30,317	29,362
Futures	**1,242,401**	**161**	**362**	787,655	86	287
Options/swaptions purchased	**39,846**	**327**	**77**	27,378	527	75
Options/swaptions written	**39,581**	**34**	**183**	25,106	25	303
Total interest rate-related contracts	**3,836,111**	**22,973**	**22,008**	2,991,572	31,028	30,099
Credit derivatives	**31,173**	**117**	**222**	35,007	217	278
Commodity derivatives	**2,005**	**66**	**126**	1,751	69	70
Other derivatives	**2,429**	**232**	**207**	2,128	305	348
Total trading derivative financial instruments	**4,794,771**	**39,778**	**40,475**	3,871,244	41,680	43,947

Hedging derivative financial instruments

	Group					
	Notional principal 2013 $m	**Fair value assets 2013 $m**	**Fair value liabilities 2013 $m**	Notional principal 2012 $m	Fair value assets 2012 $m	Fair value liabilities 2012 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**50,862**	**2,404**	**985**	43,638	881	3,804
Total foreign exchange rate-related contracts	**50,862**	**2,404**	**985**	43,638	881	3,804
Interest rate-related contracts						
Swaps	**48,788**	**719**	**1,703**	45,876	1,238	1,647
Total interest rate-related contracts	**48,788**	**719**	**1,703**	45,876	1,238	1,647
Total derivatives held for hedging - fair value hedges	**99,650**	**3,123**	**2,688**	89,514	2,119	5,451
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**119,027**	**803**	**709**	100,243	1,496	897
Total interest rate-related contracts	**119,027**	**803**	**709**	100,243	1,496	897
Total derivatives held for hedging - cash flow hedges	**119,027**	**803**	**709**	100,243	1,496	897
Derivatives held for hedging - net investment hedges						
Foreign exchange rate-related contracts						
Forward rate agreements (1)	**361**	**-**	**34**	-	-	-
Total foreign exchange rate-related contracts	**361**	**-**	**34**	-	-	-
Total derivatives held for hedging - net investment hedges	**361**	**-**	**34**	-	-	-
Total hedging derivative financial instruments	**219,038**	**3,926**	**3,431**	189,757	3,615	6,348

(1) *Refer to Note 41 for further details on the net investment hedge.*

11 Trading and hedging derivative assets and liabilities (continued)

Hedging derivative financial instruments

	Company					
	Notional principal 2013 $m	**Fair value assets 2013 $m**	**Fair value liabilities 2013 $m**	Notional principal 2012 $m	Fair value assets 2012 $m	Fair value liabilities 2012 $m
Derivatives held for hedging - fair value hedges						
Foreign exchange rate-related contracts						
Cross currency swaps	**58,473**	**2,404**	**1,863**	42,047	881	3,723
Total foreign exchange rate-related contracts	**58,473**	**2,404**	**1,863**	42,047	881	3,723
Interest rate-related contracts						
Swaps	**41,787**	**707**	**1,515**	40,315	1,223	1,354
Total interest rate-related contracts	**41,787**	**707**	**1,515**	40,315	1,223	1,354
Total derivatives held for hedging - fair value hedges	**100,260**	**3,111**	**3,378**	82,362	2,104	5,077
Derivatives held for hedging - cash flow hedges						
Interest rate-related contracts						
Swaps	**75,213**	**728**	**564**	76,769	1,073	844
Total interest rate-related contracts	**75,213**	**728**	**564**	76,769	1,073	844
Total derivatives held for hedging - cash flow hedges	**75,213**	**728**	**564**	76,769	1,073	844
Total hedging derivative financial instruments	**175,473**	**3,839**	**3,942**	159,131	3,177	5,921

In certain instances, the Group has applied cash flow hedge accounting to hedge highly probable cash flows, which primarily vary with interest rates. These cash flows are expected to occur and impact the income statement in the following periods:

Group							
As at 30 September 2013	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	1,455	1,064	621	407	232	113	3,892
Forecast payable cash flows	770	609	359	153	96	143	2,130

As at 30 September 2012	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,491	673	390	263	150	159	3,126
Forecast payable cash flows	967	499	248	127	87	143	2,071

Company							
As at 30 September 2013	**0 to 1 year $m**	**1 to 2 year(s) $m**	**2 to 3 years $m**	**3 to 4 years $m**	**4 to 5 years $m**	**Greater than 5 years $m**	**Total $m**
Forecast receivable cash flows	1,231	849	492	319	190	89	3,170
Forecast payable cash flows	658	542	335	126	63	96	1,820

As at 30 September 2012	0 to 1 year $m	1 to 2 year(s) $m	2 to 3 years $m	3 to 4 years $m	4 to 5 years $m	Greater than 5 years $m	Total $m
Forecast receivable cash flows	1,282	545	314	221	134	123	2,619
Forecast payable cash flows	655	311	147	92	74	90	1,369

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Gains/(losses) arising from fair value hedges				
Gains/(losses) on hedging instruments	**3,405**	(2,795)	**3,577**	(1,971)
(Losses)/gains on the hedged items attributable to the hedged risk	**(3,300)**	2,904	**(3,428)**	2,099
(Losses)/gains arising from cash flow hedges				
(Losses)/gains on hedge ineffectiveness	**(11)**	7	**5**	(5)

12 Trading securities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Government bonds, notes and securities	**10,771**	8,457	**9,027**	6,493
Semi-government bonds, notes and securities	**2,374**	3,895	**1,987**	3,460
Corporate/financial institution bonds, notes and securities	**19,327**	15,318	**17,676**	14,909
Other bonds, notes and securities	**524**	944	**442**	879
Total trading securities	**32,996**	28,614	**29,132**	25,741

13 Investments - available for sale

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Government bonds, notes and securities	**5,826**	4,777	**2,580**	1,702
Semi-government bonds, notes and securities	**18,630**	11,456	**18,630**	11,456
Corporate/financial institution bonds, notes and securities	**4,989**	8,168	**4,945**	8,166
Other bonds, notes and securities	**5,441**	4,584	**5,154**	4,281
Total investments - available for sale	**34,886**	28,985	**31,309**	25,605

14 Investments - held to maturity

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Corporate/financial institution bonds, notes and securities	**1,864**	5,473	**1,864**	5,473
Other bonds, notes and securities [(1)]	**3,842**	4,369	**1,299**	62
Deduct: Provision for impairment	**(77)**	(80)	**-**	(2)
Total investments - held to maturity	**5,629**	9,762	**3,163**	5,533
Provision for impairment				
Balance at beginning of year	**80**	204	**2**	3
Charge to the income statement [(2)]	**11**	213	**(2)**	-
Amounts written off	**(11)**	(330)	**-**	-
Foreign currency translation adjustments	**(3)**	(7)	**-**	(1)
Balance at end of year	**77**	80	**-**	2

[(1)] *During the year the Company purchased held to maturity securities with a carrying value of $1,374 million from a controlled entity. This transaction has no impact on the Group's consolidated balance sheet.*

[(2)] *Included within charge to income statement in 2012 are amounts recovered through the realisation of the associated collateral on impaired assets.*

15 Investments relating to life insurance business

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Equity security investments				
Direct	**223**	231	**-**	-
Indirect	**47,888**	43,538	**-**	-
Total equity security investments	**48,111**	43,769	**-**	-
Debt security investments				
Direct	**2,351**	2,748	**-**	-
Indirect	**21,513**	18,585	**-**	-
Total debt security investments	**23,864**	21,333	**-**	-
Units held in property trusts				
Indirect	**3,624**	3,312	**-**	-
Total units held in property trusts	**3,624**	3,312	**-**	-
Total investments relating to life insurance business	**75,599**	68,414	**-**	-

Direct investments refer to investments that are held directly with the issuer of the investment. Indirect investments refer to investments that are held through unit trusts or similar investment vehicles.

16 Other financial assets at fair value

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Loans at fair value	**75,012**	63,027	**49,038**	38,578
Other financial assets at fair value	**744**	1,000	**-**	159
Total other financial assets at fair value	**75,756**	64,027	**49,038**	38,737

Loans

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets at fair value through profit or loss (designated on initial recognition) is $75,012 million (2012: $63,027 million) for the Group and $49,038 million (2012: $38,578 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounts to a $795 million loss (2012: $678 million loss) for the Group and a $455 million loss (2012: $219 million loss) for the Company and the change for the current year is a $117 million loss (2012: $52 million loss) for the Group and a $236 million loss (2012: $11 million loss) for the Company.

17 Loans and advances

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Housing loans	**289,363**	268,729	**228,978**	215,082
Other term lending	**86,668**	89,135	**68,159**	66,865
Asset and lease financing	**13,069**	14,578	**11,299**	12,594
Overdrafts	**13,534**	14,168	**8,530**	7,263
Credit card outstandings	**7,867**	7,915	**5,972**	6,153
Other lending	**6,925**	6,348	**5,752**	5,219
Total gross loans and advances	**417,426**	400,873	**328,690**	313,176
Deduct:				
Unearned income and deferred net fee income	**(1,429)**	(1,917)	**(1,349)**	(1,730)
Provision for doubtful debts	**(4,018)**	(4,221)	**(3,203)**	(2,718)
Total net loans and advances	**411,979**	394,735	**324,138**	308,728

Description of collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include:

- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or inter-locking guarantees;
- specific charges over defined assets of the counterparty; and
- loan agreements which include affirmative and negative covenants and in some instances, guarantees of counterparty obligations.

Loans and advances by credit quality

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Gross loans and advances								
Neither past due nor impaired	**108,111**	110,700	**292,112**	271,653	**85,033**	83,153	**229,830**	216,544
Past due but not impaired	**3,858**	5,045	**7,561**	7,221	**2,709**	3,607	**6,360**	5,913
Impaired	**4,982**	5,390	**802**	864	**4,168**	3,311	**590**	648
Total gross loans and advances	**116,951**	121,135	**300,475**	279,738	**91,910**	90,071	**236,780**	223,105

Loans and advances past due but not impaired

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
1 to 7 day(s) past due	**2,113**	3,106	**3,058**	3,080	**1,563**	2,544	**2,817**	2,817
8 to 29 days past due	**384**	518	**1,578**	1,581	**224**	270	**1,212**	1,165
30 to 59 days past due	**231**	287	**927**	774	**158**	198	**688**	531
60 to 89 days past due	**153**	200	**512**	375	**101**	141	**394**	259
Past due over 90 days	**977**	934	**1,486**	1,411	**663**	454	**1,249**	1,141
Total loans and advances past due but not impaired	**3,858**	5,045	**7,561**	7,221	**2,709**	3,607	**6,360**	5,913

Loans and advances that are past due but are not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs etc.) due on the facility.

17 Loans and advances (continued)

Investment in finance lease receivables

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Due within one year	**1,884**	2,433	**1,486**	1,908
Due after one but no later than five years	**2,671**	3,375	**2,084**	2,650
Due after five years	**934**	866	**44**	61
Total investment in finance lease receivables	**5,489**	6,674	**3,614**	4,619

Investment in finance lease receivables, net of unearned income

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Due within one year	**1,686**	2,150	**1,289**	1,626
Due after one but no later than five years	**2,441**	3,070	**1,892**	2,390
Due after five years	**915**	839	**44**	59
Total investment in finance lease receivables, net of unearned income	**5,042**	6,059	**3,225**	4,075

18 Provision for doubtful debts

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Specific provision for doubtful debts	**1,840**	1,875	**1,437**	1,065
Collective provision for doubtful debts	**2,178**	2,346	**1,766**	1,653
Total provision for doubtful debts	**4,018**	4,221	**3,203**	2,718

Group	**2013** Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	**1,725**	**150**	**1,875**	**2,346**	**4,221**
Transfer to/(from) specific/collective provision	**1,657**	**388**	**2,045**	**(2,045)**	**-**
Bad debts recovered	**50**	**110**	**160**	**-**	**160**
Bad debts written off	**(1,794)**	**(504)**	**(2,298)**	**-**	**(2,298)**
Charge to income statement [(1)]	**-**	**-**	**-**	**1,799**	**1,799**
Foreign currency translation and other adjustments	**53**	**5**	**58**	**78**	**136**
Balance at end of year	**1,691**	**149**	**1,840**	**2,178**	**4,018**

(1) *Excludes $11 million of impairment charges on investments - held to maturity. Refer to Note 14.*

Group	2012 Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	1,307	168	1,475	2,505	3,980
Transfer to/(from) specific/collective provision	2,216	444	2,660	(2,660)	-
Bad debts recovered	82	78	160	-	160
Bad debts written off	(1,876)	(537)	(2,413)	-	(2,413)
Charge to income statement [(1)]	-	-	-	2,521	2,521
Foreign currency translation and other adjustments	(4)	(3)	(7)	(20)	(27)
Balance at end of year	1,725	150	1,875	2,346	4,221

(1) *Excludes $213 million of impairment charges on investments - held to maturity. Refer to Note 14.*

Company	**2013** Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	**983**	**82**	**1,065**	**1,653**	**2,718**
Transfer to/(from) specific/collective provision	**1,421**	**295**	**1,716**	**(1,716)**	**-**
Bad debts recovered	**34**	**80**	**114**	**-**	**114**
Bad debts written off	**(1,543)**	**(369)**	**(1,912)**	**-**	**(1,912)**
Charge to income statement [(1)]	**-**	**-**	**-**	**1,512**	**1,512**
Transfer between entities	**481**	**-**	**481**	**312**	**793**
Foreign currency translation and other adjustments	**(24)**	**(3)**	**(27)**	**5**	**(22)**
Balance at end of year	**1,352**	**85**	**1,437**	**1,766**	**3,203**

(1) *Excludes $13 million of impairment charges on intercompany loans to securitisation conduits, and $2 million of impairment write backs on investments - held to maturity. Refer to Note 14.*

Company	2012 Specific Non-retail $m	Specific Retail $m	Total Specific $m	Collective $m	Total $m
Balance at beginning of year	1,003	90	1,093	1,946	3,039
Transfer to/(from) specific/collective provision	1,219	331	1,550	(1,550)	-
Bad debts recovered	55	45	100	-	100
Bad debts written off	(1,286)	(384)	(1,670)	-	(1,670)
Charge to income statement [(1)]	-	-	-	1,263	1,263
Foreign currency translation and other adjustments	(8)	-	(8)	(6)	(14)
Balance at end of year	983	82	1,065	1,653	2,718

(1) *Excludes $213 million impairment charges on intercompany loans to securitisation conduits.*

19 Asset quality disclosures

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

The following table provides an analysis of the asset quality of the Group's loans and advances. Gross amounts are shown before taking into account any collateral held or other credit enhancements.

	Group				Company			
	Non-retail		Retail		Non-retail		Retail	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Gross impaired assets [(1)]	**5,545**	5,679	**802**	864	**4,500**	3,343	**590**	648
Specific provision for doubtful debts [(2)]	**(1,881)**	(1,833)	**(149)**	(150)	**(1,472)**	(983)	**(85)**	(82)
Net impaired assets [(3)]	**3,664**	3,846	**653**	714	**3,028**	2,360	**505**	566

(1) *Gross impaired assets include $533 million (2012: $256 million) for the Group and $304 million (2012: nil) for the Company of gross impaired other financial assets at fair value and $30 million (2012: $33 million) of impaired off-balance sheet credit exposures for the Group and $28 million (2012: $32 million) for the Company.*

(2) *Specific provision for doubtful debts includes $190 million (2012: $108 million) for the Group and $120 million (2012: nil) for the Company of fair value credit adjustments on other financial assets at fair value.*

(3) *The fair value of security in respect of impaired assets is $3,790 million (2012: $4,438 million) for the Group and $3,207 million (2012: $3,039 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.*

20 Property, plant and equipment

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Land and buildings				
Freehold				
At cost (acquired subsequent to previous valuation date)	**44**	45	**-**	-
At directors' valuation	**219**	210	**-**	12
Leasehold				
At cost (acquired subsequent to previous valuation date)	**5**	5	**-**	-
At directors' valuation	**11**	10	**-**	-
Deduct: Accumulated depreciation on buildings	**(14)**	(11)	**-**	-
Total land and buildings	**265**	259	**-**	12
Leasehold improvements				
At cost	**1,389**	1,496	**636**	1,144
Deduct: Accumulated amortisation	**(603)**	(780)	**(360)**	(584)
Deduct: Accumulated impairment losses	**(3)**	(2)	**(2)**	(2)
Total leasehold improvements	**783**	714	**274**	558
Furniture, fixtures and fittings and other equipment				
At cost	**700**	799	**90**	284
Deduct: Accumulated depreciation and amortisation	**(328)**	(385)	**(72)**	(127)
Deduct: Accumulated impairment losses	**(6)**	(3)	**-**	-
Total furniture, fixtures and fittings and other equipment	**366**	411	**18**	157
Data processing equipment				
At cost	**1,389**	1,219	**1,082**	968
Under finance lease	**133**	113	**120**	102
Deduct: Accumulated depreciation and amortisation	**(1,031)**	(908)	**(802)**	(716)
Deduct: Accumulated impairment losses	**(5)**	(5)	**(5)**	(5)
Total data processing equipment	**486**	419	**395**	349
Leased assets held as lessor				
At cost	**133**	135	**42**	54
Deduct: Accumulated amortisation	**(36)**	(37)	**(16)**	(24)
Deduct: Accumulated impairment losses	**(4)**	-	**(4)**	-
Total leased assets held as lessor	**93**	98	**22**	30
Total property, plant and equipment	**1,993**	1,901	**709**	1,106

Included within land and buildings are freehold and leasehold land and buildings that are carried at directors' valuation. Had these land and buildings been recognised under the cost model, as at 30 September 2013, the carrying amount for the Group and the Company would have been $141 million and $nil respectively (2012: $144 million and $1 million respectively).

As at 30 September 2013 the Group and the Company had data processing equipment held under finance lease with a net carrying value of $44 million and $40 million respectively (2012: $49 million and $44 million respectively).

As at 30 September 2013 the Group and the Company had contractual commitments to acquire property, plant and equipment of $58 million and $56 million respectively (2012: $186 million and $174 million respectively).

20 Property, plant and equipment (continued)

Reconciliations of movements in property, plant and equipment

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Land and buildings				
Balance at beginning of year	**259**	286	**12**	14
Additions from the acquisition of controlled entities and business combinations	**-**	10	**-**	-
Additions	**2**	6	**-**	-
Disposals [(1)]	**(7)**	(21)	**(12)**	(2)
Net amount of revaluation increments/(decrements) to asset revaluation reserve	**6**	(1)	**-**	-
Net amount of revaluation (decrements) to income statement	**(2)**	(5)	**-**	-
Depreciation	**(8)**	(7)	**-**	-
Foreign currency translation adjustments	**15**	(9)	**-**	-
Balance at end of year	**265**	259	**-**	12
Leasehold improvements				
Balance at beginning of year	**714**	691	**558**	514
Additions	**184**	183	**133**	121
Disposals [(1)]	**(22)**	(53)	**(363)**	(1)
Amortisation	**(101)**	(102)	**(54)**	(74)
Impairment losses recognised	**(1)**	(1)	**-**	(2)
Foreign currency translation adjustments	**9**	(4)	**-**	-
Balance at end of year	**783**	714	**274**	558
Furniture, fixtures and fittings and other equipment				
Balance at beginning of year	**411**	392	**157**	142
Additions from the acquisition of controlled entities and business combinations	**-**	2	**-**	-
Additions	**73**	98	**26**	41
Disposals [(1)]	**(73)**	(18)	**(143)**	-
Depreciation and amortisation	**(63)**	(62)	**(23)**	(26)
Impairment losses recognised	**(3)**	-	**-**	-
Foreign currency translation adjustments	**21**	(1)	**1**	-
Balance at end of year	**366**	411	**18**	157
Data processing equipment				
Balance at beginning of year	**419**	437	**349**	362
Additions from the acquisition of controlled entities and business combinations	**-**	1	**-**	-
Additions	**202**	121	**155**	96
Disposals	**(11)**	(5)	**(9)**	(4)
Depreciation and amortisation	**(129)**	(128)	**(100)**	(100)
Impairment losses recognised	**-**	(5)	**-**	(5)
Foreign currency translation adjustments	**5**	(2)	**-**	-
Balance at end of year	**486**	419	**395**	349
Leased assets held as lessor				
Balance at beginning of year	**98**	113	**30**	37
Disposals	**(3)**	-	**(3)**	-
Depreciation	**(8)**	(9)	**(5)**	(5)
Impairment losses recognised	**(4)**	-	**(4)**	-
Foreign currency translation adjustments	**10**	(6)	**4**	(2)
Balance at end of year	**93**	98	**22**	30

(1) *During the year the Company transferred property assets with a carrying value of $501 million to a controlled entity. Subsequently, under a cancellable lease agreement the Company leased back the property assets. The transfer had no material impact on the Company and no impact on the Group.*

21 Investments in controlled entities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
At cost	**-**	-	**18,885**	18,492
Deduct: Provision for diminution in value	**-**	-	**(165)**	(201)
Total investments in controlled entities	**-**	-	**18,720**	18,291

Refer to *Note 39* for further details in relation to controlled entities.

22 Goodwill and other intangible assets

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Goodwill				
Total goodwill (at cost less impairment losses)	**5,347**	5,266	**-**	-
Internally generated software				
At cost	**3,341**	2,557	**2,172**	1,677
Deduct: Accumulated amortisation	**(1,422)**	(1,165)	**(892)**	(792)
Deduct: Accumulated impairment losses	**(91)**	(87)	**-**	-
Total internally generated software	**1,828**	1,305	**1,280**	885
Acquired software				
At cost	**570**	473	**389**	341
Deduct: Accumulated amortisation	**(400)**	(324)	**(238)**	(208)
Total acquired software	**170**	149	**151**	133
Other acquired intangible assets [(1)]				
At cost	**685**	664	-	-
Deduct: Accumulated amortisation	**(389)**	(296)	**-**	-
Total other acquired intangible assets	**296**	368	**-**	-
Total goodwill and other intangible assets	**7,641**	7,088	**1,431**	1,018

(1) *Other acquired intangible assets include core deposit intangibles, mortgage servicing rights, brand names and the value of business and contracts in force.*

As at 30 September 2013 the Group and the Company had contractual commitments to acquire software of $117 million and $108 million respectively (2012: $40 million and $40 million respectively).

Reconciliation of movements in goodwill and other intangible assets

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Goodwill				
Balance at beginning of year	**5,266**	5,567	**-**	-
Additions from the acquisition of controlled entities and business combinations	**-**	41	**-**	-
Impairment losses recognised	**-**	(295)	**-**	-
Foreign currency translation adjustments	**81**	(47)	**-**	-
Balance at end of year	**5,347**	5,266	**-**	-
Internally generated software				
Balance at beginning of year	**1,305**	1,098	**885**	637
Additions from internal development	**696**	466	**497**	342
Disposals	**(3)**	(4)	**(3)**	-
Amortisation	**(208)**	(189)	**(99)**	(94)
Impairment losses recognised	**-**	(54)	**-**	-
Foreign currency translation adjustments	**38**	(12)	**-**	-
Balance at end of year	**1,828**	1,305	**1,280**	885
Acquired software				
Balance at beginning of year	**149**	154	**133**	123
Additions	**58**	50	**47**	40
Disposals	**(1)**	(2)	**-**	-
Amortisation	**(37)**	(52)	**(29)**	(30)
Impairment losses recognised	**-**	-	**-**	-
Foreign currency translation adjustments	**1**	(1)	**-**	-
Balance at end of year	**170**	149	**151**	133
Other acquired intangible assets				
Balance at beginning of year	**368**	443	**-**	-
Additions	**9**	9	**-**	-
Additions from the acquisition of controlled entities and business combinations	**-**	16	**-**	-
Disposals and write-offs	**-**	-	**-**	-
Amortisation	**(85)**	(96)	**-**	-
Foreign currency translation adjustments	**4**	(4)	**-**	-
Balance at end of year	**296**	368	**-**	-

22 Goodwill and other intangible assets (continued)

Impairment and cash generating units
For the purpose of undertaking impairment testing, cash generating units (CGUs) are identified and determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Impairment testing compares the carrying value of a CGU with its recoverable amount as determined using a value in use calculation.

Assumptions for determining the recoverable amount of each CGU are based on past experience and expectations for the future. Cash flow projections are based on three year management approved forecasts which are then extrapolated using a constant growth rate for up to a further seven years. In the final year a terminal growth rate is applied in perpetuity. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs long-term performance in their respective markets.

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

	Goodwill		Discount rate per annum		Terminal value growth rate per annum	
Reportable segment	**2013 $m**	2012 $m	**2013 %**	2012 %	**2013 %**	2012 %
Personal Banking	**279**	279	**11.2**	9.6	**5.5**	6.0
NZ Banking	**258**	258	**11.6**	9.9	**4.4**	4.7
NAB Wealth	**4,068**	4,068	**11.2**	10.9	**5.5**	6.0
Great Western Bank	**742**	661	**10.3**	9.7	**4.9**	4.9
Total Goodwill	**5,347**	5,266	**n/a**	n/a	**n/a**	n/a

23 Current and deferred tax assets

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Current tax assets	**63**	92	**-**	-
Deferred tax assets	**1,616**	2,150	**1,720**	1,597
Total income tax assets	**1,679**	2,242	**1,720**	1,597
Deferred tax assets				
Life company statutory funds	**657**	598	**-**	-
Specific provision for doubtful debts	**299**	351	**229**	291
Collective provision for doubtful debts	**505**	547	**434**	468
Employee entitlements	**232**	257	**202**	216
Tax losses	**524**	453	**269**	166
Defined benefit superannuation plan liabilities	**90**	144	**22**	34
Other	**603**	605	**707**	636
Total deferred tax assets	**2,910**	2,955	**1,863**	1,811
Set-off of deferred tax liabilities pursuant to set-off provisions	**(1,294)**	(805)	**(143)**	(214)
Net deferred tax assets	**1,616**	2,150	**1,720**	1,597
Deferred tax asset amounts recognised in the income statement				
Provision for doubtful debts	**(99)**	(128)	**(103)**	(107)
Employee entitlements	**(21)**	(31)	**(11)**	(24)
Tax losses	**109**	232	**48**	3
Defined benefit superannuation plan liabilities	**(12)**	(31)	**(14)**	34
Other	**(8)**	408	**16**	96
Total deferred tax asset amounts recognised in the income statement	**(31)**	450	**(64)**	2
Deferred tax asset amounts recognised in equity				
Available for sale investment reserve	**20**	(15)	**2**	(13)
Cash flow hedge reserve	**29**	(29)	**33**	(29)
Foreign currency translation reserve	**-**	(5)	**-**	-
Retained profits	**(71)**	87	**(5)**	(4)
Total deferred tax asset amounts recognised in equity	**(22)**	38	**30**	(46)
Total deferred tax asset amounts recognised during the year	**(53)**	488	**(34)**	(44)

Deferred tax assets not brought to account

Deferred tax assets have not been brought to account for the following items as realisation of the benefits is not regarded as probable:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Capital gains tax losses	**766**	769	**759**	761
Income tax losses	**173**	149	**110**	89

24 Other assets

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Accrued interest receivable	**2,941**	3,461	**2,231**	2,817
Prepayments	**236**	211	**130**	92
Receivables	**862**	538	**569**	344
Other life insurance assets	**708**	528	**-**	-
Investment properties carried at fair value	**109**	119	**-**	-
Other [(1)]	**4,095**	4,120	**3,270**	3,273
Total other assets	**8,951**	8,977	**6,200**	6,526

[(1)] *Other includes receivables relating to collateral paid and settlements clearing.*

25 Other financial liabilities at fair value

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Bonds, notes and subordinated debt	**15,137**	11,973	**2,517**	1,448
Deposits and other borrowings				
On-demand and short-term deposits	**265**	240	**-**	-
Certificates of deposit	**1,534**	1,473	**-**	-
Term deposits	**2,865**	2,341	**727**	879
Borrowings	**3,401**	2,814	**-**	-
Securities sold short	**2,485**	2,164	**2,485**	2,164
Other financial liabilities	**744**	727	**112**	184
Total other financial liabilities at fair value	**26,431**	21,732	**5,841**	4,675

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss for the year of $133 million (2012: $153 million loss) for the Group and $16 million (2012: $6 million loss) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of $210 million (2012: $56 million loss) for the Group and $22 million loss (2012: $6 million loss) for the Company. The contractual amount to be paid at maturity of the bonds, notes and subordinated debt is $14,573 million (2012: $11,325 million) for the Group and $2,498 million (2012: $1,372 million) for the Company.

26 Deposits and other borrowings

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Deposits				
Term deposits	**166,736**	159,950	**135,214**	128,316
On-demand and short-term deposits	**167,193**	152,000	**121,583**	114,218
Certificates of deposit	**61,150**	68,019	**60,491**	67,049
Deposits not bearing interest	**28,917**	24,667	**22,427**	19,365
Other borrowings	**14,025**	8,417	**563**	539
Securities sold under agreements to repurchase	**7,551**	6,868	**7,551**	6,868
Total deposits and other borrowings	**445,572**	419,921	**347,829**	336,355

27 Life policy liabilities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Life insurance contracts				
Best estimate liabilities				
Value of future policy benefits	**9,293**	8,608	**-**	-
Value of future expenses	**1,241**	976	**-**	-
Future charges for acquisition costs	**(24)**	(25)	**-**	-
Value of future revenues	**(11,183)**	(10,761)	**-**	-
Total best estimate liabilities for life insurance contracts	**(673)**	(1,202)	**-**	-
Value of future profits				
Value of policyholder bonuses	**308**	222	**-**	-
Value of future shareholder profit margins	**2,336**	2,876	**-**	-
Total value of future profits	**2,644**	3,098	**-**	-
Unvested policyholder benefits	**105**	111	**-**	-
Net policy liabilities for life insurance contracts	**2,076**	2,007	**-**	-
Policy liabilities ceded under reinsurance	**334**	277	**-**	-
Gross policy liabilities for life insurance contracts	**2,410**	2,284	**-**	-
Life investment contracts				
Life investment contract liabilities	**62,099**	54,300	**-**	-
Total life policy liabilities	**64,509**	56,584	**-**	-

The calculation of policy liabilities is subject to various actuarial assumptions which are summarised in *Note 50 - Life insurance business disclosures*. All policy liabilities relate to the business conducted in the statutory funds, including international life insurance funds, and will be settled from the assets of each statutory fund (refer to *Note 1(aa) - Life policy liabilities*).

In respect of life insurance contracts with a discretionary participating feature, there are $1,584 million (2012: $1,692 million) of liabilities that relate to the guaranteed element. In respect of investment contracts, there are $3,882 million (2012: $4,133 million) of policy liabilities subject to investment performance guarantees.

Reconciliation of movements in policy liabilities

	Group	
	2013 $m	2012 $m
Life insurance contract policy liabilities		
Balance at beginning of year	**2,284**	2,316
Increase reflected in the income statement	**126**	79
Other	**-**	(111)
Balance at end of year	**2,410**	2,284
Life investment contract liabilities		
Balance at beginning of year	**54,300**	51,292
Increase reflected in the income statement	**9,003**	5,611
Premiums recognised in policy liabilities	**7,067**	4,707
Claims recognised in policy liabilities	**(8,271)**	(7,310)
Balance at end of year	**62,099**	54,300
Total gross policy liabilities at end of year	**64,509**	56,584
Liabilities ceded under reinsurance		
Balance at beginning of year	**(277)**	(249)
Increase reflected in the income statement	**(57)**	(13)
Other	**-**	(15)
Balance at end of year [1]	**(334)**	(277)
Net policy liabilities at end of year	**64,175**	56,307

[1] *The $334 million (2012: $277 million) reinsurance balance is included within 'Other life insurance assets'.*

28 Current and deferred tax liabilities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Current tax liabilities	922	713	933	722
Deferred tax liabilities	-	-	-	-
Total income tax liabilities	**922**	713	**933**	722
Deferred tax liabilities				
Intangible assets	**68**	87	**-**	-
Depreciation	**5**	7	**(126)**	(126)
Life company statutory funds	**908**	275	**-**	-
Defined benefit superannuation plan assets	**6**	6	**6**	6
Other	**307**	430	**263**	334
Total deferred tax liabilities	**1,294**	805	**143**	214
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(1,294)**	(805)	**(143)**	(214)
Net deferred tax liability	**-**	-	**-**	-
Deferred tax liability amounts recognised in the income statement				
Intangible assets	**(17)**	(25)	**-**	-
Depreciation	**(43)**	(53)	**(3)**	(31)
Life company statutory funds	**728**	485	**-**	-
Other	**(107)**	(27)	**(76)**	(9)
Total deferred tax liability amounts recognised in the income statement	**561**	380	**(79)**	(40)
Deferred tax liability amounts recognised in equity				
Available for sale investment reserve	**5**	(2)	**4**	(9)
Cash flow hedge reserve	**(54)**	(7)	**-**	-
Asset revaluation reserve	**1**	-	**-**	-
Retained profits	**6**	(2)	**-**	-
Total deferred tax liability amounts recognised in equity	**(42)**	(11)	**4**	(9)
Total deferred tax liability amounts recognised during the year	**519**	369	**(75)**	(49)

29 Provisions

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Employee entitlements	**916**	955	**713**	754
Operational risk event losses	**119**	258	**29**	120
Restructuring	**113**	224	**54**	26
Other	**488**	383	**16**	6
Total provisions	**1,636**	1,820	**812**	906

Reconciliations of movements in provisions

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Employee entitlements				
Balance at beginning of year	**955**	1,111	**754**	839
Acquisition of controlled entities	**-**	18	**-**	-
Provisions made	**565**	516	**409**	373
Payments out of provisions	**(568)**	(682)	**(428)**	(454)
Provisions no longer required and net foreign currency movements	**(36)**	(8)	**(22)**	(4)
Balance at end of year	**916**	955	**713**	754
Operational risk event losses				
Balance at beginning of year	**258**	61	**120**	44
Provisions made	**146**	276	**51**	112
Payments out of provisions	**(304)**	(77)	**(141)**	(37)
Provisions no longer required and net foreign currency movements	**19**	(2)	**(1)**	1
Balance at end of year	**119**	258	**29**	120
Restructuring				
Balance at beginning of year	**224**	28	**26**	26
Provisions made	**97**	297	**96**	56
Payments out of provisions	**(238)**	(105)	**(69)**	(55)
Provisions no longer required and net foreign currency movements	**30**	4	**1**	(1)
Balance at end of year	**113**	224	**54**	26
Other [(1)]				
Balance at beginning of year	**383**	396	**6**	30
Provisions made	**615**	510	**84**	102
Payments out of provisions	**(552)**	(525)	**(75)**	(126)
Provisions no longer required and net foreign currency movements	**42**	2	**1**	-
Balance at end of year	**488**	383	**16**	6

(1) *Other provisions include provisions for contributions tax on superannuation funds and legal and other business claims (including certain claims relating to customer redress).*

30 Bonds, notes and subordinated debt

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Medium-term notes	**83,498**	82,747	**83,498**	82,747
Other senior notes	**21,608**	14,656	**12,855**	6,322
Subordinated medium-term notes	**5,364**	5,681	**5,364**	5,681
Other subordinated notes	**364**	361	**-**	-
Total bonds, notes and subordinated debt	**110,834**	103,445	**101,717**	94,750
Net discounts	**(112)**	(73)	**(112)**	(73)
Total net bonds, notes and subordinated debt	**110,722**	103,372	**101,605**	94,677

Issued bonds, notes and subordinated debt by currency

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
AUD	**30,782**	35,188	**27,314**	32,155
USD	**33,769**	28,310	**32,359**	26,902
EUR	**23,510**	18,159	**22,564**	17,290
GBP	**11,974**	9,020	**8,682**	5,635
Other	**10,687**	12,695	**10,686**	12,695
Total bonds, notes and subordinated debt	**110,722**	103,372	**101,605**	94,677

Subordinated medium term notes

			Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
USD	50m	Fixed due 2013	**-**	48	**-**	48
USD	50m	Floating due 2013	**-**	48	**-**	48
AUD	750m	Floating due 2013	**-**	750	**-**	750
AUD	2,123m	Floating due 2017	**2,126**	1,924	**2,126**	1,924
GBP	350m	Fixed due 2018	**717**	682	**717**	682
EUR	500m	Fixed due 2018	**866**	772	**866**	772
EUR	1,000m	Fixed due 2020	**1,605**	1,401	**1,605**	1,401
AUD	20m	Fixed due 2027	**25**	28	**25**	28
AUD	20m	Fixed due 2028	**25**	28	**25**	28
TOTAL			**5,364**	5,681	**5,364**	5,681

Other subordinated notes

			Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
AUD	100m	Floating due 2016	**100**	101	**-**	-
AUD	200m	Fixed due 2016	**200**	201	**-**	-
USD	54m	Floating due 2033	**57**	52	**-**	-
USD	2m	Floating due 2035	**2**	2	**-**	-
AUD	5m	Floating due 2042	**5**	5		
TOTAL			**364**	361	**-**	-

The Group operates a number of funding programs which feature either senior or subordinated debt status.

The Group has designated certain debt issues as being carried at fair value, which are included within other financial liabilities at fair value on the balance sheet. Refer to *Note 25 - Other financial liabilities at fair value* for further information.

The Group holds derivative financial instruments to manage interest rate and foreign exchange risk on bonds, notes and subordinated debt. Refer to *Note 11 - Trading and hedging derivative assets and liabilities* for further information on the Group's trading and hedging derivative assets and liabilities.

Refer to *Note 41 - Financial risk management* for a description of the Group's risk management practices in relation to market risks such as interest rate, foreign currency and liquidity risk.

31 Other debt issues

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Perpetual floating rate notes	**180**	160	**180**	160
Stapled securities	**-**	497	**-**	497
National capital instruments	**579**	495	**-**	-
Capital notes	**689**	631	**689**	631
Convertible preference shares	**1,496**	-	**1,496**	-
Total other debt issues	**2,944**	1,783	**2,365**	1,288

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued US$250 million undated subordinated floating rate notes. Interest is payable semiannually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The floating rate notes are unsecured and have no final maturity. All or some of the floating rate notes may be redeemed at the option of the Group with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million floating rate notes, which were subsequently cancelled by the Group.

Stapled Securities

On 30 September 2009, the Group issued $500 million stapled securities (2009 stapled securities). The Group extended the terms of the 2009 stapled securities on 4 March 2010 and again on 8 March 2011. Each 2009 stapled security paid a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. On 30 November 2012, the Group completed the conversion of $500 million of Tier 1 stapled securities. The stapled securities were converted into 21,242,246 ordinary shares with an issue price of $23.5380. The conversion supported the Group's CET1 capital position.

National Capital Instruments

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments Euro LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The Euro NCIs are unsecured and all or some of them may be redeemed at the option of the Group with the prior consent of APRA.

Capital Notes

On 24 September 2009, the Group issued US$600 million hybrid tier 1 capital notes. The capital notes are perpetual capital instruments. The capital notes initially carry a fixed distribution of 8.0% per annum, payable semi-annually in arrears, from and including 24 September 2009, up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the seven year US Treasury benchmark rate of 3.06% per annum (the base rate) plus an initial margin of 4.94% per annum. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the capital notes are redeemable at the Group's option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

Convertible Preference Shares

On 20 March 2013, the Group issued $1.51 billion of convertible preference shares (NAB CPS), which will mandatorily convert into ordinary shares on the mandatory conversion date, 22 March 2021. With prior written approval from APRA, NAB also has the option to convert, redeem or resell NAB CPS on 20 March 2019 or on the occurrence of particular events, provided certain conditions are met. NAB CPS may also convert in certain circumstances if required by prudential regulatory requirements. Interest is payable quarterly in arrears at a rate of 3.20% per annum above the 90 day BBSW. The issuance has supported the Group's Tier 1 capital position.

32 Defined benefit superannuation plan assets and liabilities

(a) Superannuation plans

The Group maintains several defined benefit superannuation plans in different geographies including some superannuation plans which have defined benefit and defined contribution components. Defined benefit plans provide defined lump sum benefits based on years of service and a salary component determined in accordance with the specific plan. All defined benefit plans are closed to new members. An asset (surplus) or liability (deficit) in respect of defined benefit plans is recognised on the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the plan's assets. Surpluses and deficits depend on various factors and can vary significantly over time having regard, for example, to movements in investment markets, future salaries and changes in employment patterns.

This note sets out details of defined benefit plans only, and is based on the most recent information available prior to the reporting date.

From 2012, the Company ceased disclosing the National Australia Bank Superannuation Fund A which contains both defined contribution and defined benefit components. The Plan no longer contains any material defined benefit components.

(b) Balance sheet amounts

The defined benefit net asset and net liability recognised on the balance sheet are comprised of the following:

	Group	
	2013 $m	2012 $m
Net asset on the balance sheet (plans in surplus)		
Fair value of plan assets	**105**	35
Present value of funded obligations	**(92)**	(33)
Net asset before adjustment for contribution tax	**13**	2
Adjustment for contribution tax	**-**	-
Net asset included in other assets on the balance sheet	**13**	2
Net liability on the balance sheet (plans in deficit)		
Fair value of plan assets	**4,716**	3,924
Present value of partly funded obligations	**(5,070)**	(4,405)
Net liability before adjustment for contribution tax	**(354)**	(481)
Adjustment for contribution tax	**-**	(1)
Net liability on the balance sheet	**(354)**	(482)

(c) Plan assets by asset category

The fair value of plan assets (for both the plans in surplus and deficit), by asset category, including the percentage of the total plan assets, as at 30 September is as follows:

	Group			
	2013		2012	
	$m	**%**	$m	%
Cash	**159**	**3.3**	38	1.0
Equity instruments	**1,414**	**29.3**	1,579	39.8
Debt instruments	**3,084**	**64.0**	2,150	54.3
Property	**164**	**3.4**	157	4.0
Other assets	**-**	**-**	35	0.9
Fair value of plan assets	**4,821**	**100.0**	3,959	100.0

The fair value of plan assets includes land and buildings occupied by the Group with a fair value of $nil (2012: $39 million).

32 Defined benefit superannuation plan assets and liabilities (continued)

(d) Reconciliations

Reconciliation of the defined benefit obligation and fair value of plan assets for the plan in a net surplus.

	Group 2013 $m	Group 2012 $m
Reconciliation of the present value of the defined benefit obligation		
Balance at beginning of year	**(33)**	(3,279)
Present value of defined benefit obligations for plan no longer in (deficit)/surplus	**(66)**	73
Current service cost	**(4)**	-
Interest cost	**(3)**	(1)
Actuarial gains/(losses)	**6**	(2)
Benefits paid	**10**	3
Foreign currency translation adjustments	**(2)**	(1)
Other [(1)]	-	3,174
Balance at end of year	**(92)**	(33)
Reconciliation of the fair value of plan assets		
Balance at beginning of year	**35**	3,292
Fair value of assets for plan no longer in deficit/(surplus)	**60**	(71)
Expected return on plan assets [(2)]	**5**	-
Actuarial gains	**8**	3
Contributions by Group companies	**4**	-
Benefits paid	**(10)**	(3)
Contributions tax paid	**-**	-
Foreign currency translation adjustments	**3**	1
Other [(1)]	-	(3,187)
Balance at end of year	**105**	35

Reconciliation of the defined benefit obligation and fair value of plan assets for those plans in a net deficit.

	Group 2013 $m	Group 2012 $m
Reconciliation of the present value of the defined benefit obligation		
Balance at beginning of year	**(4,405)**	(3,608)
Present value of defined benefit obligations for plan no longer in deficit/(surplus)	**66**	(73)
Current service cost	**(46)**	(56)
Interest cost	**(185)**	(188)
Actuarial (losses)	**(98)**	(714)
Benefits paid	**143**	138
Past service cost	**(21)**	(2)
Foreign currency translation adjustments	**(524)**	98
Balance at end of year	**(5,070)**	(4,405)
Reconciliation of the fair value of plan assets		
Balance at beginning of year	**3,924**	3,313
Fair value of assets for plan no longer in (deficit)/surplus	**(60)**	71
Expected return on plan assets [(2)]	**205**	209
Actuarial gains	**103**	178
Contributions by Group entities	**209**	374
Benefits paid	**(143)**	(138)
Foreign currency translation adjustments	**478**	(83)
Balance at end of year	**4,716**	3,924

(1) *From 2012, the Company ceased disclosing the National Australia Bank Superannuation Fund A which contains both defined contribution and defined benefit components. The Plan no longer contains any material defined benefit components.*

(2) *The actual return on plan assets for the Group was $321 million (2012: $390 million).*

32 Defined benefit superannuation plan assets and liabilities (continued)

The following tables present a historic summary of the aggregate fair values of plan assets and present values of plan obligations before contribution tax and experience adjustments for all of the Group's defined benefit superannuation plans for the last five years as at 30 September:

	Group				
	2013 $m	2012 $m	2011 $m	2010 $m	2009 $m
Fair value of plan assets	**4,821**	3,959	6,605	6,338	6,113
Present value of plan obligation	**(5,162)**	(4,438)	(6,887)	(6,845)	(6,676)
(Deficit)/surplus	**(341)**	(479)	(282)	(507)	(563)
Experience adjustments:					
Plan assets - actuarial gains/(losses)	**111**	181	(108)	132	(875)
Plan obligations - actuarial (losses)/gains	**(92)**	(716)	188	(246)	(256)

(e) Amounts recognised in the income statement

Amounts recognised in the income statement in the line item personnel expenses are in *Note 5 - Operating expenses* as follows:

	Group	
	2013 $m	2012 $m
Current service cost	**50**	56
Interest cost	**188**	189
Expected return on plan assets	**(210)**	(209)
Contributions tax expense	**-**	-
Past service cost [(1)]	**3**	2
Total defined benefit plan expense	**31**	38

[(1)] *During the year, a number of members retired from the Yorkshire and Clydesdale Bank Pension Scheme. The past service cost relating to these early retirements of $21 million was offset in the income statement by a corresponding release from the restructure provision.*

The total cumulative amount of actuarial losses recognised directly in retained profits for the Group is $1,127 million (2012: $1,146 million). Actuarial gains and losses are translated at the closing spot rate and have been grossed up for contribution taxes.

(f) Principal actuarial assumptions

The Group plans to make contributions in accordance with actuarial recommendations. The estimated contribution for the Group for the year ended 30 September 2013 is $167 million (2012: $188 million). The Group's expected rate of return on defined benefit plan assets is determined by the plan assets' historical long-term investment performance, the current asset allocation and estimates of future long-term returns by asset class.

The assets of all the plans are held independently of the Group's assets in separate administered plans. Defined benefit plans are valued every year by independent actuaries for accounting purposes using the projected unit credit method. The latest actuarial valuations were made by applying the following principal actuarial assumptions at 30 September (weighted averages):

	Group	
	2013 %	2012 %
Discount rate (per annum)	**4.6**	4.3
Expected return on plan assets (per annum)	**4.8**	5.1
Rate of compensation increase (per annum)	**3.2**	2.5
Future superannuation increases (per annum)	**3.1**	2.4

	Group	
Expected future lifetime at the age of 60	**2013 Years**	2012 Years
Male retired	**27.9**	27.8
Female retired	**28.4**	28.3
Male non-retired	**29.1**	29.1
Female non-retired	**29.8**	29.7

33 Other liabilities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Accrued interest payable	**4,562**	4,801	**3,607**	3,964
Payables and accrued expenses	**2,973**	2,128	**2,370**	1,343
Notes in circulation	**2,942**	2,436	**-**	-
Other life insurance liabilities (1)				
Unsettled investment liabilities	**2**	-	**-**	-
Outstanding policy claims	**120**	108	**-**	-
Other	**51**	53	**-**	-
Other (2)	**3,199**	2,841	**2,213**	2,095
Total other liabilities	**13,849**	12,367	**8,190**	7,402

(1) *Life insurance statutory fund liabilities are quarantined and will be settled from the assets of the statutory funds (refer to Note 1(p)).*

(2) *Other includes payables relating to collateral received and settlements clearing.*

34 Contributed equity

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**23,605**	22,459	**23,941**	22,683
Issued and paid-up preference share capital				
BNZ Income Securities	**-**	380	**-**	-
BNZ Income Securities 2	**203**	203	**-**	-
Other contributed equity				
National Income Securities	**1,945**	1,945	**1,945**	1,945
Trust Preferred Securities	**975**	975	**-**	-
Trust Preferred Securities II	**1,014**	1,014	**1,014**	1,014
National Capital Instruments	**397**	397	**397**	397
Total contributed equity	**28,139**	27,373	**27,297**	26,039

Ordinary Shares

Reconciliation of movement in contributed equity

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Ordinary share capital				
Balance at beginning of year	**22,459**	20,360	**22,683**	20,420
Shares issued				
Dividend reinvestment plan	**843**	1,405	**843**	1,405
Exercise of executive share options	**20**	5	**20**	5
Conversion of other debt issues	**500**	600	**500**	600
Transfer from equity-based compensation reserve	**195**	253	**195**	253
Treasury shares adjustment relating to life insurance business	**(112)**	(164)	**-**	-
On market purchase of shares for dividend reinvestment plan neutralisation	**(300)**	-	**(300)**	-
Balance at end of year	**23,605**	22,459	**23,941**	22,683

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Preference share capital				
Balance at beginning of period	**583**	583	**-**	-
Buyback of BNZ Income Securities	**(380)**	-	**-**	-
Balance at end of period	**203**	583	**-**	-

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company 2013 No. '000	Company 2012 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**2,297,247**	2,201,189
Shares issued		
Dividend reinvestment plan	**32,278**	62,952
Bonus share plan	**2,075**	2,255
Conversion of other debt issues	**21,242**	23,999
Employee share plans	**5,593**	5,841
Performance options and performance rights	**805**	958
Paying up of partly paid shares	**15**	53
On market purchase of shares for dividend reinvestment plan neutralisation	**(10,352)**	-
Total ordinary shares, fully paid	**2,348,903**	2,297,247
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**104**	157
Paying up of partly paid shares	**(15)**	(53)
Total ordinary shares, partly paid to 25 cents	**89**	104
Total number of ordinary shares on issue at end of year (including treasury shares)	**2,348,992**	2,297,351
Deduct: Treasury shares	**(53,910)**	(53,526)
Total number of ordinary shares on issue at end of year (excluding treasury shares)	**2,295,082**	2,243,825

34 Contributed equity (continued)

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Treasury shares				
Balance at beginning of year	**1,273**	1,110	**25**	26
Treasury shares adjustment relating to life insurance business	**112**	164	**-**	-
Transfer from equity-based compensation reserve - purchased shares	**(18)**	(1)	**(18)**	(1)
Balance at end of year	**1,367**	1,273	**7**	25

BNZ Income Securities

On 28 March 2008, the Group raised $380 million through the issue by BNZ Income Securities Limited of 449,730,000 perpetual non-cumulative shares (BNZIS Shares) at NZ$1 each. Each BNZIS Share earns a non-cumulative distribution, payable quarterly in arrears at a rate of 9.89% per annum. The dividend rate is reset five yearly.

In accordance with the terms of the BNZIS shares, the Company exercised its right to call the BNZIS shares for their issue price (plus any accrued but unpaid distributions) of $380 million on the dividend payment date of 28 March 2013.

BNZ Income Securities 2

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate of 9.10% per annum. The dividend rate is reset five yearly.

With the prior written consent of APRA, any member of the Group other than BNZ Income Securities 2 Limited has the right to acquire the BNZIS 2 Shares for their issue price (plus any accrued but unpaid distributions) on any dividend payment date on or after 28 June 2014, or at any time after the occurrence of certain specified events. The BNZIS 2 Shares have no maturity date and are quoted on the NZDX.

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the Australian Securities Exchange (ASX).

Trust Preferred Securities

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

Trust Preferred Securities II

On 23 March 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 23 March 2015 equal to 5.486%. For all distribution periods ending after 23 March 2015, each Trust Preferred Security earns a non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month London Interbank Offered Rate (LIBOR).

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on or after 23 March 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the unpaid distributions for the last distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

National Capital Instruments

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after 30 September 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior written consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or earlier in certain circumstances.

Notes to the financial statements

35 Reserves

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
General reserve	**-**	-	**-**	-
Asset revaluation reserve	**79**	75	**-**	8
Foreign currency translation reserve	**(2,501)**	(3,828)	**(217)**	(283)
Cash flow hedge reserve	**105**	446	**45**	119
Equity-based compensation reserve	**296**	319	**296**	319
General reserve for credit losses	**539**	592	**539**	592
Available for sale investments reserve	**62**	77	**5**	5
Total reserves	**(1,420)**	(2,319)	**668**	760

Reconciliations of movements in reserves

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
General reserve				
Balance at beginning of year	**-**	1,267	**-**	6
Transfer to retained profits	**-**	(1,267)	**-**	(6)
Balance at end of year	**-**	-	**-**	-
Asset revaluation reserve				
Balance at beginning of year	**75**	76	**8**	8
Revaluation of land and buildings	**6**	(1)	**-**	-
Transfer to retained profits	**(1)**	-	**(8)**	-
Tax on revaluation adjustments	**(1)**	-	**-**	-
Balance at end of year	**79**	75	**-**	8
Foreign currency translation reserve				
Balance at beginning of year	**(3,828)**	(3,667)	**(283)**	(220)
Currency translation adjustments	**1,379**	(139)	**66**	(63)
Tax on foreign currency translation reserve	**(52)**	(22)	**-**	-
Balance at end of year	**(2,501)**	(3,828)	**(217)**	(283)
Cash flow hedge reserve				
Balance at beginning of year	**446**	355	**119**	38
(Losses)/gains on cash flow hedging instruments	**(438)**	123	**(102)**	104
Losses/(gains) transferred to the income statement	**11**	(7)	**(5)**	5
Tax on cash flow hedging instruments	**86**	(25)	**33**	(28)
Balance at end of year	**105**	446	**45**	119
Equity-based compensation reserve				
Balance at beginning of year	**319**	433	**319**	433
Equity-based compensation	**185**	219	**185**	219
Transfer to contributed equity	**(195)**	(253)	**(195)**	(253)
Transfer of shares, options and rights lapsed to retained profits	**(13)**	(80)	**(13)**	(80)
Balance at end of year	**296**	319	**296**	319
General reserve for credit losses				
Balance at beginning of year	**592**	716	**592**	716
Transfer to retained profits	**(53)**	(124)	**(53)**	(124)
Balance at end of year	**539**	592	**539**	592
Available for sale investments reserve				
Balance at beginning of year	**77**	47	**5**	(17)
Revaluation (losses)/gains	**(18)**	66	**-**	36
Gains from sale transferred to the income statement	**(38)**	(19)	**(11)**	-
Impairment transferred to the income statement	**13**	5	**6**	-
Tax on available for sale investments	**28**	(22)	**5**	(14)
Balance at end of year	**62**	77	**5**	5

36 Retained profits

	Group		Company	
	2013	2012	**2013**	2012
	$m	$m	**$m**	$m
Balance at beginning of year	**18,702**	17,667	**17,836**	16,629
Actuarial gains/(losses) on defined benefit superannuation plans	**19**	(535)	**-**	-
Tax on items taken directly (from)/to equity	**(62)**	104	**-**	-
Net profit attributable to owners of the Company	**5,452**	4,082	**5,038**	5,015
Transfer from general reserve for credit losses	**53**	124	**53**	124
Transfer from general reserve	**-**	1,267	**-**	6
Transfer from asset revaluation reserve	**1**	-	**8**	-
Transfer of options and rights lapsed from equity-based compensation reserve	**13**	80	**13**	80
Dividends paid	**(4,148)**	(3,880)	**(4,196)**	(3,904)
Distributions on other equity instruments	**(188)**	(207)	**(88)**	(114)
Balance at end of year	**19,842**	18,702	**18,664**	17,836

37 Shares, performance options and performance rights

The Group's employee equity plans provide Company shares, performance options and performance rights to employees of the Group. Each plan allows employees to be invited to participate in the offers under the relevant plan. Employee equity plans may be specific to employees in a particular region (e.g. New Zealand (NZ) staff share allocation plan, United Kingdom (UK) share incentive plan).

The Board determines the maximum number of shares, performance options or performance rights offered, and where required, the formula used in calculating the fair value per instrument. Each plan provides that the total number of shares issued in the last five years under the Company's employee share, performance option or performance right plans and the total number of outstanding performance options and performance rights granted under its plans, including any proposed offer, must not exceed 5% of the number of shares in the issued share capital of the Company at the time of the proposed offer. The calculation does not include offers or grants made of shares, performance options or performance rights acquired as a result of an offer made to a person situated outside Australia at the time of the offer or offers which did not require disclosure under section 708 of the *Corporations Act* 2001 (Cth), otherwise than as a result of relief granted by the ASIC. Under ASX Listing Rules, shares, performance options and performance rights may not be issued to Company directors under an employee incentive scheme without specific shareholder approval.

Equity-based programs for employees

Equity-based programs offered to employees form part of the Group's remuneration strategy in rewarding current and future contributions to the Group's performance and strengthening the link between value created for shareholders and rewards for employees.

Under the terms of most offers, there is a minimum holding period during which the shares are held on trust (or performance rights or options cannot be exercised) and cannot be dealt with by the employee. There may be forfeiture conditions particular to each program as described below if the employee leaves during this period. Shares allocated under the programs below are eligible for any cash dividends paid from the time they are allocated to the trustee on an employee's behalf.

Short-term incentives (STI) may be provided under the STI Deferral program. Employees become eligible for these shares based on their individual or business performance (or both).

The STI deferral model for employees based in Australia, Asia, the UK and the United States (US) as well as for senior management employees in NZ allows for a proportion of an employee's STI reward to be deferred. The deferred amount is commensurate with the level of risk and responsibility within a role and the length of deferral, ranging from 6 to 42 months, aligns with both the level of risk and impact of the role on business performance and results. A threshold is in place whereby deferral only applies to STI deferred amounts of $1,000 or more.

Generally, STI shares (or performance rights granted to senior executives or for jurisdictional reasons) are forfeited during the deferral period if the employee resigns or fails to pass the Compliance Gateway during the following financial year(s) or, subject to certain exclusions, if the employee is terminated from the Group. In determining the release of an employee's STI shares from restrictions during the deferral period, the Board may in its absolute discretion, subject to compliance with the law, forfeit some or all of the STI Deferral shares. For further details on STI awards granted to the executive directors of the Company, refer to the *Remuneration report*.

Commencement and recognition / retention shares (or performance rights granted for jurisdictional reasons) respectively enable the buy-out of equity from previous employment, based on evidentiary information, for significant new hires or provide retention awards for key individuals in roles where retention is critical over a medium to long-term time frame. The shares may be subject to individual and business performance hurdles, including meeting minimum compliance, behaviour and performance thresholds, regional Return on Equity (ROE) and cash earnings, and internal qualitative measures. The shares are subject to forfeiture, or staggered forfeiture, if the participant resigns or retires before specified key dates or key milestones are achieved, if the individual fails to pass the Compliance Gateway or if their employment is terminated.

General employee shares up to a target value of $1,000 of Company shares are offered to each eligible employee when the Group's performance is on target, measured against a scorecard of objectives for the financial year. These shares are held on trust, are restricted from dealing for three years and, in Australia and Asia, are not subject to forfeiture. In NZ and the US, the shares are effectively forfeited if the employee voluntarily ceases employment with the Group before the end of three years. In the UK, the shares are forfeited if an employee is summarily dismissed prior to the end of three years.

UK Share Incentive Plan shares are allocated on a monthly basis to UK employees when they nominate to contribute a portion of their gross salary to receive Company shares.

Other employee share offers include various other offers made to employees of the Group from time to time. These include MLC Ownership shares, which are provided under legacy arrangements to employees in the MLC business as part of their fixed remuneration package. These shares do not have a restriction period and are forfeited for misconduct. The MLC Ownership plan ceased in 2013.

Long-term incentives (LTI) taking the form of shares, performance options or performance rights, help to drive management decisions focused on the long-term prosperity of the Company through the use of challenging performance hurdles. The Executive LTI program is awarded to senior executives across the Group. A LTI target is set with reference to external and internal relativities for each executive who must also meet minimum performance and compliance thresholds. Performance hurdles (both internal and external) are measured at the end of a three to five year restriction period and during the restriction period an executive's performance rights or performance options will lapse (or their shares will be forfeited) for cessation of employment (if the Board so determines) or, if compliance requirements or performance hurdles are not met.

For historical awards a variety of performance measures are used for different grants of long-term incentives including Total Shareholder Return (TSR) compared against peer companies, and regional or Group ROE and cash earnings. The measures used depend on the level and impact of the participant's role, the business or region in which they work and the relevant program.

Vesting of an LTI award generally occurs to the extent that the relevant performance hurdle is satisfied (as determined by the Board Remuneration Committee). The performance options and performance rights generally have an expiry date between three and six years from the effective date, if they remain unexercised.

37 Shares, performance options and performance rights (continued)

Each performance option or performance right is exchanged for one fully paid ordinary share in the Company upon exercise, subject to standard adjustments for capital actions. The exercise price for performance options is generally the market price for the Company's fully paid ordinary shares as at the date the performance option was granted or such other relevant date determined by the Board Remuneration Committee. No exercise price is payable by the holder on exercise of performance rights.

All other Group senior employees participate in the Restricted Share Plan where a $3,000 target award is granted based on Group performance. Eligibility is based on service and threshold performance and compliance outcomes. An employee forfeits shares for voluntary cessation of employment or failure to meet compliance requirements within the three year restriction period. The Restricted Share Plan ceased in 2013.

Details of shares, performance options and performance rights are set out in the following tables:

Employee share plans

	2013		2012	
Employee share plans	**Fully paid ordinary shares granted during the year No.**	**Weighted average grant date fair value $**	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $
Salary sacrifice shares	**71,495**	**28.30**	92,406	23.86
Short-term incentive shares	**3,648,305**	**25.51**	4,223,991	25.04
Commencement and recognition shares	**708,198**	**29.28**	1,041,258	23.97
General employee shares	**1,424,916**	**24.36**	1,595,880	24.43
Long-term incentive shares	**566,659**	**23.61**	630,818	24.23
Other employee shares	**57,800**	**28.63**	80,592	24.69

The closing market price of the Company's shares at 30 September 2013 was $34.32 (2012: $25.49). The volume weighted average share price during the year ended 30 September 2013 was $28.82 (2012: $24.03).

Performance options and performance rights movements

	Performance options		Performance rights	
	No.	Weighted average exercise price $	No.	Weighted average exercise price $
Equity instruments outstanding as at 30 September 2011	14,410,871	33.70	3,650,369	-
Granted	-	-	2,046,164	-
Forfeited	(6,818,492)	40.62	(1,701,550)	-
Exercised	(273,396)	19.89	(684,258)	-
Expired	(5,384,712)	32.21	(1,070,849)	-
Equity instruments outstanding as at 30 September 2012	1,934,271	18.02	2,239,876	-
Granted	-	-	3,939,791	-
Forfeited	(424,593)	30.94	(559,492)	-
Exercised	(697,933)	27.00	(107,384)	-
Expired	(337,856)	31.70	(26,622)	-
Equity instruments outstanding as at 30 September 2013	**473,889**	**19.89**	**5,486,169**	**-**
Equity instruments exercisable as at 30 September 2013	**-**	**-**	**10,881**	**-**
Equity instruments exercisable as at 30 September 2012	563,222	30.65	2,460	-

37 Shares, performance options and performance rights (continued)

Executive share option plan and performance rights outstanding

Terms and conditions	**2013** Outstanding at 30 Sep No.	**2013** Range of exercise prices $	**2013** Weighted average remaining life Months	2012 Outstanding at 30 Sep No.	2012 Range of exercise prices $	2012 Weighted average remaining life Months
Performance options						
External hurdle (1)	**473,889**	**19.89**	**10**	1,934,271	19.89-31.70	15
Performance rights						
External hurdle (1)	**3,568,663**	**-**	**46**	1,277,442	-	32
Internal hurdle (2)	**749,297**	**-**	**23**	771,880	-	32
Individual hurdle (3)	**1,168,209**	**-**	**20**	190,554	-	20

(1) *Performance hurdles based on the Company's relative TSR compared with peer companies.*

(2) *Performance hurdles based on achievement of internal financial measures such as cash earnings and ROE compared to business plan.*

(3) *Vesting is determined by individual performance or time-based hurdles.*

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of performance options and performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance options and performance rights which have non-market based performance hurdles attached.

For further details on the fair value methodology, refer to *Note 1(ag) - Equity based compensation*.

	2013	2012
Weighted average values		
Contractual life (years)	**4.7**	3.5
Risk-free interest rate (per annum)	**2.66%**	3.07%
Expected volatility of share price	**23.00%**	29.00%
Closing share price on grant date	**$24.89**	$23.86
Dividend yield (per annum)	**7.40%**	7.00%
Fair value of performance rights	**$9.94**	$12.14
'No hurdle' value of performance rights	**$22.72**	$20.05
Expected time to vesting (years)	**3.34**	2.97

38 Notes to the cash flow statement

(a) Reconciliation of net profit attributable to owners of the Company to net cash provided by operating activities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Net profit attributable to owners of the Company	**5,452**	4,082	**5,038**	5,015
Add/(deduct) non-cash items in the income statement:				
Decrease in interest receivable	**446**	200	**486**	89
Decrease in interest payable	**(348)**	(431)	**(371)**	(296)
Decrease in unearned income and deferred net fee income	**(523)**	(402)	**(387)**	(262)
Fair value movements on assets, liabilities and derivatives held at fair value	**1,795**	(300)	**1,389**	(1,142)
Decrease in personnel provisions	**(62)**	(166)	**(47)**	(81)
(Decrease)/increase in other operating provisions	**(329)**	376	**(55)**	52
Equity-based compensation recognised in equity or reserves	**185**	219	**185**	219
Superannuation costs - defined benefit pension scheme	**31**	38	**-**	-
Impairment losses/(reversals) on non-financial assets	**8**	355	**(2)**	33
Impairment losses on financial assets	**13**	5	**6**	-
Charge to provide for bad and doubtful debts	**1,810**	2,734	**1,523**	1,476
Depreciation and amortisation expense	**639**	645	**310**	329
Movement in life insurance policyholder liabilities	**7,853**	3,067	**-**	-
Unrealised gain on investments relating to life insurance business	**(8,556)**	(4,003)	**-**	-
Decrease in other assets	**1,490**	1,473	**140**	842
Increase/(decrease) in other liabilities	**282**	(469)	**633**	(237)
Increase in income tax payable	**304**	234	**314**	249
Decrease/(increase) in deferred tax assets	**31**	(450)	**64**	(2)
Increase/(decrease) in deferred tax liabilities	**561**	380	**(79)**	(40)
Operating cash flow items not included in profit	**(9,896)**	(10,103)	**(12,745)**	(6,008)
Investing or financing cash flows included in profit:				
Gain on investments classified as available for sale	**(38)**	(19)	**(11)**	-
Loss/(gain) on disposal of property, plant, equipment and other assets	**16**	(12)	**8**	1
Net cash provided by/(used in) operating activities	**1,164**	(2,547)	**(3,601)**	237

(b) Reconciliation of cash and cash equivalents

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

	Group		Company	
Cash and cash equivalents	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Assets				
Cash and liquid assets	**35,666**	19,464	**29,834**	13,586
Treasury and other eligible bills	**81**	135	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**33,809**	44,307	**22,432**	32,268
Total cash and cash equivalent assets	**69,556**	63,906	**52,266**	45,854
Liabilities				
Due to other banks	**(32,215)**	(27,694)	**(30,784)**	(25,775)
Total cash and cash equivalents	**37,341**	36,212	**21,482**	20,079

Included within cash and liquid assets are cash and liquid assets within the Group's life insurance business statutory funds of $1,912 million (2012: $2,262 million) which are subject to restrictions imposed under the *Life Insurance Act* 1995 (Cth) and other restrictions and therefore are not available for use in operating, investing or financing activities of other parts of the Group.

(c) Non-cash financing and investing activities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
New share issues				
Dividend reinvestment plan	**843**	1,405	**843**	1,405
Debt to equity conversion	**500**	600	**500**	600

38 Notes to the cash flow statement (continued)

(d) Acquisitions of controlled entities and business combinations

There were no acquisitions of controlled entities during the year ended 30 September 2013.

Details of acquisitions in the prior period relating to Great Western Bancorporation, Inc's acquisition of North Central Bancshares, Inc., the holding company of First Federal Savings Bank of Iowa on 22 June 2012, were as follows:

	Group	
	2013 $m	2012 $m
Consideration transferred		
Cash paid	-	90
Deferred cash consideration	-	6
Total consideration transferred	-	96

	Group	
	2013 $m	2012 $m
Recognised amounts of identifiable assets acquired and liabilities assumed		
Net identifiable assets and liabilities	-	55
Goodwill on acquisition	-	41
Total purchase consideration	-	96
Less Deferred consideration	-	(6)
Less: Cash and cash equivalents acquired	-	(33)
Net cash outflow	-	57

39 Particulars in relation to controlled entities

The following table presents the material controlled entities of the Group as at 30 September 2013 and 30 September 2012. Investment vehicles holding life policyholder assets are excluded from the list below.

Entity name	Ownership %	Incorporated/formed in
National Australia Bank Limited		Australia
National Equities Limited (1)	100	Australia
National Americas Holdings LLC	100	United States of America
Great Western Bancorporation Inc	100	United States of America
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand
BNZ International Funding Limited	100	New Zealand
National Australia Group Europe Limited	100	England
Clydesdale Bank PLC	100	Scotland
National Wealth Management Holdings Limited	100	Australia
National Australia Financial Management Limited	100	Australia
MLC Holdings Limited	100	Australia
MLC Lifetime Company Limited	100	Australia
MLC Investments Limited	100	Australia
MLC Limited	100	Australia
National Australia Trustees Limited	100	Australia
National Australia Group Services Limited	100	Australia
NBA Properties Limited (1)	100	Australia
National Australia Corporate Services Limited (1)	100	Australia
ARDB Limited (1)	100	Australia
National HK Investments Limited	100	Hong Kong
National Australia Finance (Asia) Limited	100	Hong Kong

(1) *These controlled entities and C.B.C. Holdings Limited, C.B.C. Properties Limited and NAB Properties Australia Limited have entered into a deed of cross guarantee (refer to Note 40(d) for details) with the Company and National Australia Trustees Limited as trustees pursuant to ASIC Class Order 98/1418 dated 13 August 1998. These controlled entities and the Company form a closed group (a closed group is defined as a group of entities comprising a holding entity and its related wholly owned entities). Relief was granted to these controlled entities from the Corporations Act 2001 (Cth) requirements for preparation, audit and publication of an annual financial report.*

Section 323D(3) of the *Corporations Act* 2001 (Cth) requires the Company to ensure that its controlled entities have the same financial year as the Company. Pursuant to Australian Securities and Investments Commission (ASIC) instrument 06/480 dated 5 June 2006, the Company is relieved from this requirement in respect of certain registered managed investment schemes of which MLC Investments Limited is the responsible entity. Each scheme prepares an audited financial report following its year end in accordance with its constituent document.

In addition, pursuant to ASIC instrument 12-1140 dated 21 September 2012, the Company is relieved from this requirement in respect of certain securitisation special purpose entities (Customer Trusts) to which the Group provides liquidity facilities and which are consolidated by the Company. With respect to each Customer Trust, relief is granted until either 30 September 2014 or 30 September 2015.

40 Contingent liabilities and credit commitments

(a) Financial assets pledged

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 43 - Financial asset transfers and securisations*.

(b) Contingent liabilities

The Group's exposure to potential loss in the event of non-performance by a counterparty in respect of commitments to extend credit, letters of credit and financial guarantees written is represented by the contractual notional principal amount of those instruments less any amounts that may be recovered under recourse provisions. The Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off balance sheet risks as it does for on-balance sheet loan assets.

The following table shows details of the notional amount of contingent liabilities as at 30 September:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Contingent liabilities				
Bank guarantees	**4,802**	4,724	**4,802**	6,107
Standby letters of credit	**2,147**	2,068	**2,147**	2,068
Documentary letters of credit	**752**	624	**336**	312
Performance-related contingencies	**5,508**	5,006	**4,897**	4,414
Total contingent liabilities	**13,209**	12,422	**12,182**	12,901

(i) Guarantees

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit rating of the Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds and ongoing obligations to government entities. The Group has four principal types of guarantees:

- Bank guarantees – a financial guarantee that is an agreement by which the Group agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- Standby letters of credit – an obligation of the Group on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- Documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Group agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- Performance-related contingencies – a guarantee given by the Group that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Group with a written indemnity, undertaking that, in the event the Group is called upon to pay, the Group will be fully reimbursed by the customer.

(ii) Clearing and settlement obligations

The Company is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Clearing Association Limited Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Company also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

40 Contingent liabilities and credit commitments (continued)

(iii) Inter-bank deposit agreement

The Company is a party to an inter-bank deposit agreement between the four major Australian banks. Each participant, including the Company, has a maximum commitment to provide a deposit of an amount of up to $2,000 million, for a period of 30 days, to any other participant experiencing liquidity problems. Repayment of the deposit by the recipient bank may be by cash or by transfer of mortgages securing eligible housing loans to the value of the deposit. The agreement is certified by the Australian Prudential Regulation Authority as an industry support contract under section 11CB of the *Banking Act* 1959 (Cth).

(iv) Legal proceedings

Entities within the Group are defendants from time to time in legal proceedings arising from the conduct of their business.

There are contingent liabilities in respect of claims, potential claims and court proceedings against entities of the Group. Where appropriate, provisions have been made. The aggregate of potential liability in respect thereof cannot be accurately assessed.

(v) Contingent liability – Class actions

On 16 December 2011 Steven Farey and Others commenced a class action proceeding against the Group in relation to the payment of exception fees, along with similar proceedings against several other financial institutions. The quantum of the claim against the Group has not yet been identified in the proceeding. The Group has not been required to file a defence as the proceeding has been stayed until 7 March 2014. The proceeding will be vigorously defended.

In March 2013, a potential representative action against New Zealand banks (including, potentially the Company's subsidiary Bank of New Zealand) was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the action. In June 2013, it was announced that representative proceedings had been commenced against another New Zealand bank. At this stage there is no representative action against Bank of New Zealand.

(vi) Contingent liability - United Kingdom Financial Services Compensation Scheme

The United Kingdom (UK) Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions in the UK, claims were triggered against the FSCS, initially to pay interest on borrowings which the FSCS has raised from the UK Government to support the protected deposits.

During the last year, the FSCS has also invoiced institutions for the first of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings which remains after the three annual levies have been paid is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that the size of the future levies will be kept under review in light of developments from the insolvent estates.

The FSCS has estimated levies due to 31 March 2014 and an accrual of $12.6 million (£7.3 million) is held for the Group's calculated liability to that date. The ultimate FSCS levy as a result of the failures is uncertain.

(vii) Claims for potential mis-selling of Payment Protection Insurance

Market wide issues relating to the UK banking industry payment protection insurance (PPI) matter are ongoing. A provision of $264 million (£152 million) is held in respect of the estimated cost of redress and administration expenses for this matter. This includes $204 million (£130 million) provided for in September 2013. The provision calculation includes a number of assumptions, most of which are uncertain, and which have been based upon a combination of past experience, estimated future experience, industry comparison and the exercise of judgement. There remain a number of uncertainties as to ultimate costs of redress and administration, including the number of PPI claims, the number of those claims that ultimately will be upheld, and the amount that will be paid in respect of those claims, as well as the ongoing activities of regulatory bodies and claims management companies. The final amount required to settle the potential liability is therefore uncertain. The Group will continue to reassess the adequacy of the provision for this matter and the assumptions underlying the provision calculation at each reporting date based upon experience and other relevant factors at that time.

(viii) Review of sales of certain interest rate hedging products

On 29 June 2012 the UK Financial Services Authority (FSA) announced that it had reached agreement with a number of UK banks in relation to a review and redress exercise on sales of certain interest rate hedging products to small and medium sized businesses. Clydesdale Bank PLC agreed to participate in this exercise, as announced by the FSA on 23 July 2012, and has embarked on a program to identify small and medium sized customers that may have been affected and where due, pay financial redress. The exercise incorporates certain of the Group's tailored business loan products as well as the standalone hedging products identified in the FSA's notice.

A provision of $85 million (£49 million) is held for this matter. The total cost of this exercise as well as, of any separate, thematic or other consideration of customer complaints in relation to out of scope tailored business loans, a number of which are currently subject to review and challenge by the Financial Ombudsman Service (FOS), is uncertain.

(ix) Other UK conduct related matters

On 1 April 2013, the FSA was de-merged into the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The FCA has expressed a willingness to be a more proactive and intrusive regulator, and this may impact upon the manner in which the Group's UK operations deal with, and the ultimate extent of, conduct-related customer redress and associated costs. The current provision held in respect of UK conduct related matters, other than payment protection insurance and interest rate hedging products, is $112 million (£64.5 million). The total cost associated with these and other conduct related matters is uncertain.

40 Contingent liabilities and credit commitments (continued)

(c) Credit-related commitments

Binding commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Refer to *Note 17 - Loans and advances* for a description of collateral held as security and other credit enhancements.

The following tables show details of the notional amount of credit-related commitments as at 30 September:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Credit-related commitments				
Underwriting facilities	**2**	62	**2**	62
Binding credit commitments	**121,215**	116,054	**92,006**	90,214
Total credit-related commitments	**121,217**	116,116	**92,008**	90,276

The following table shows the geographical concentrations of credit-related commitments as at 30 September:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Australia	**85,990**	85,016	**85,990**	85,016
Europe	**18,396**	16,652	**3,205**	2,835
New Zealand	**13,136**	11,305	**-**	-
United States	**2,564**	2,592	**1,682**	1,874
Asia	**1,131**	551	**1,131**	551
Total	**121,217**	116,116	**92,008**	90,276

(d) Parent entity guarantee and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note.

- Commercial paper issued by National Australia Funding (Delaware) Inc. of $12,725 million (2012: $7,199 million), of which up to $21,471 million of issuances will be guaranteed by the Company;
- The Company will indemnify each customer of National Nominees Limited against any loss suffered by reason of National Nominees Limited failing to perform any obligation undertaken by it to a customer;
- The Company and National Wealth Management Services Limited (NWMSL) have been granted licences by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme. Under these arrangements, the Company has agreed that in the event it is proposed that NWMSL no longer continue as a wholly owned controlled entity of the Company, the Company will provide the Commission with a guarantee of the then current workers' compensation liabilities of NWMSL;
- The Company has provided a guarantee of the obligations of National Australia Group Services Limited pursuant to the sale agreement relating to the sale of the Custom Fleet business. The primary ongoing obligations of these companies under the sale agreement relate to warranties and indemnities to the buyers consistent with agreements of this nature;
- The Company has issued letters of support in respect of certain subsidiaries in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries continue to meet their obligations; and
- Pursuant to Australian Securities and Investment Commission Class Order 98/1418 dated 13 August 1998, relief was granted to certain controlled entities (Note 39, footnote (1)) from the *Corporations Act* 2001 (Cth) requirements for preparation, audit and publication of annual financial reports. It is a condition of the Class Order that the Company and each of the controlled entities enter into a deed of cross guarantee. The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding-up of any of the controlled entities under certain provisions of the *Corporations Act* 2001 (Cth). If a winding-up occurs under other provisions of the *Corporations Act* 2001 (Cth), the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entities have also given similar guarantees in the event that the Company is wound up.

40 Contingent liabilities and credit commitments (continued)

Closed group

The tables below presents the consolidated proforma income statement and balance sheet for the Company and controlled entities which are party to the deed of cross guarantee (referred to as a closed group).

The effects of transactions between entities to the deed are eliminated in full in the consolidated proforma income statement and balance sheet

	2013 $m	2012 $m
Pro forma income statement		
For the year ended 30 September		
Profit before income tax expense	**6,907**	6,689
Income tax expense	**(1,755)**	(1,702)
Net profit for the year	**5,152**	4,987
Pro forma balance sheet		
As at 30 September		
Assets		
Cash and liquid assets	**29,839**	13,592
Due from other banks	**31,628**	35,322
Trading derivatives	**39,481**	41,378
Trading securities	**29,132**	25,741
Investments - available for sale	**31,326**	25,625
Investments - held to maturity	**3,163**	5,455
Other financial assets at fair value	**49,038**	38,737
Hedging derivatives	**3,839**	3,177
Loans and advances	**324,138**	308,728
Due from customers on acceptances	**29,311**	36,946
Current tax assets	**-**	6
Property, plant and equipment	**1,378**	1,310
Investments in controlled entities	**18,279**	18,632
Goodwill and other intangible assets	**1,431**	1,018
Deferred tax assets	**1,758**	1,831
Other assets	**69,907**	63,463
Total assets	**663,648**	620,961
Liabilities		
Due to other banks	**32,648**	26,169
Trading derivatives	**40,223**	43,639
Other financial liabilities at fair value	**5,841**	4,675
Hedging derivatives	**3,975**	5,921
Deposits and other borrowings	**347,829**	336,355
Liability on acceptances	**3,220**	7,790
Current tax liabilities	**933**	728
Provisions	**812**	906
Bonds, notes and subordinated debt	**101,605**	94,677
Other debt issues	**2,365**	1,288
Deferred tax liabilities	**1**	178
Other liabilities	**78,049**	53,897
Total liabilities	**617,501**	576,223
Net assets	**46,147**	44,738
Equity		
Contributed equity	**27,297**	26,039
Reserves	**561**	558
Retained profits	**18,289**	18,141
Total equity (parent entity interest)	**46,147**	44,738
Total equity	**46,147**	44,738

41 Financial risk management

The Group is a major participant in the banking and financial services industry. The financial risks associated with these activities are a significant component of the Group's overall risk exposure. The key financial risks faced by the Group are:
- credit risk;
- market risk - trading;
- market risk - non-trading / banking positions;
- market risk - Wealth Management; and
- liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Group, and how these risks are managed, are outlined as part of this note. Financial risks are managed and overseen as part of the Group's broader risk management framework and governance processes as follows:

Board Governance

The Group's corporate governance provides a framework for effective decision making in all areas of the Group through the following practices:
- strategic and operational planning;
- risk management and compliance;
- financial management and external reporting; and
- succession planning and culture.

The Board is assisted in discharging its duties through its committees including the Principal Board Risk Committee (PBRC) which supports the framework for risk and capital management in the Group through:
- oversight of the risk profile and risk management of the Group within the context of the Board determined risk appetite;
- making recommendations to the Board concerning the Group's risk appetite and particular risks or risk management practices;
- reviewing management's plans for mitigation of material risks faced by the Group;
- oversight of the implementation and review of risk management and internal compliance and control systems throughout the Group; and
- promotion of awareness of a risk-based culture and the achievement of a balance between risk and return for risks accepted.

Executive Governance

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC) which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance.

GRRMC is supported by sub-committees which provide oversight of strategy, risk/return and performance of specific risks as follows:
- Group Asset & Liability Committee (GALCO): balance sheet structure;
- Group Credit Risk Committee (GCRC): credit portfolio; and
- Group Capital Committee (GCC): regulatory and economic capital.

GCRC is further supported by two sub-committees which provide specialist advice, support and decision making in areas requiring deep subject matter experience and expertise as follows:
- Transactional Credit Committee (TCC): significant credit facility approvals; and
- Group Credit Model Approval Committee (GCMAC): credit model frameworks and methodology.

Individual businesses have risk management committees comprising senior business unit executives. Their role is to provide management focus on specific risk issues prevalent within their business.

Risk management

Risk is identified and managed as part of an enterprise Group-wide risk management framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to the businesses qualitatively (through the Group's risk postures, policies, standards and operating procedures) and quantitatively (through the Group's risk limits, settings and decision making authorities).

Further details of risk accountabilities across the Group are disclosed in the *Corporate Governance* section of the Group's website at www.nabgroup.com.

The key financial risks faced by the Group are set out in detail in this note.

41 Financial risk management (continued)

Credit risk

Credit is any transaction that creates an actual or potential obligation for a counterparty or customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

(a) Derivatives

At any one time, the maximum exposure to credit risk is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Group uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis.

(c) Credit-related commitments

Credit-related commitments are facilities where the Group is under a legal obligation to extend credit unless some event occurs, which gives the Group the right, in terms of the commitment letter of offer or other documentation, to withdraw or suspend the facilities. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct unsecured borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(d) Collateral and other credit enhancements obtained

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet, with the exception of 'other real estate owned' assets in the United States. It is the Group's policy to dispose of the repossessed assets in an orderly fashion.

Real estate assets obtained by the Group, located in the United States, from assuming ownership or foreclosing on the settlement of debt (referred to as 'other real estate owned' assets) in the year ended 30 September 2013 and held at the reporting date, have a carrying amount of $31 million (2012: $32 million). As at 30 September 2013 the Group's cumulative amount of 'other real estate owned' assets has a carrying amount of $61 million (2012: $66 million). Of this amount, $26 million (2012: $42 million) is covered by loss sharing agreements with the Federal Deposit Insurance Corporation (FDIC), where the FDIC will absorb 80% of any losses arising from recovery of these assets. Other real estate owned assets are included in other assets and are not included in impaired assets.

41 Financial risk management (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for recognised and unrecognised financial instruments. The maximum exposure is shown gross before both the effect of mitigation through use of master netting and collateral arrangements. The extent to which collateral and other credit enhancements have on mitigating the maximum exposure to credit risk are described in the footnotes to the table.

For financial assets recognised on the balance sheet, the gross exposure to credit risk equals their carrying amount.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

		Group		Company	
	Footnote	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Cash and liquid assets	(a)	**30,656**	14,485	**28,996**	12,751
Due from other banks	(b)	**43,193**	47,410	**31,628**	35,322
Trading derivatives	(c)	**39,214**	40,899	**39,778**	41,680
Trading securities	(d)	**32,996**	28,614	**29,132**	25,741
Investments - available for sale	(d)	**34,886**	28,985	**31,309**	25,605
Investments - held to maturity	(d)	**5,629**	9,762	**3,163**	5,533
Investments relating to life insurance business	(f)	**75,599**	68,414	**-**	-
Other financial assets at fair value	(e)	**75,756**	64,027	**49,038**	38,737
Hedging derivatives	(c)	**3,926**	3,615	**3,839**	3,177
Loans and advances	(e)	**417,426**	400,873	**328,690**	313,176
Due from customers on acceptances	(e)	**29,319**	36,957	**29,311**	36,946
Due from controlled entities	(g)	**-**	-	**64,474**	57,523
Other assets	(g)	**3,803**	3,999	**2,800**	3,161
Total		**792,403**	748,040	**642,158**	599,352
Contingent liabilities	(h)	**13,209**	12,422	**12,182**	12,901
Credit-related commitments	(i)	**121,217**	116,116	**92,008**	90,276
Total		**134,426**	128,538	**104,190**	103,177
Total credit risk exposure		**926,829**	876,578	**746,348**	702,529

a) The balance of **Cash and liquid assets** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements. These are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and liquid assets*.

b) The balance of **Due from other banks** which is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest bearing assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount. The fair value of the securities pledged as collateral by the counterparty under these agreements is disclosed in *Note 9 - Cash and liquid assets*.

   Balances held with central supervisory banks and other interest bearing assets that are due from other banks are managed based on the counterparties creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk. Details on the credit grading of Due from other banks balances held by the Group is disclosed in the Credit quality table on page 138.

c) Credit risk from over-the-counter **Trading and hedging derivatives** is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances.

   Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and/or the nature of the transaction.

d) **Trading securities, Investments available for sale and Investments held to maturity** are generally comprised of similar financial instruments being Government and Corporate bonds and notes. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

   The Group may utilise Credit Default Swaps (CDS), guarantees provided by central banks, other forms of credit enhancements or collateral in order to minimise the Group's exposure to credit risk. The credit grading of Investments available for sale and Investments held to maturity are disclosed in the Credit quality table.

e) **Other financial assets at fair value, Loans and advances and Due from customers on acceptances,** mainly comprise general lending and line of credit products. The distinction in classification reflects the type of lending product or is due to an accounting designation. These lending and line of credit products will generally have a significant level of collateralisation depending on the nature of the product.

41 Financial risk management (continued)

Non-retail lending

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptance the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Retail lending

Housing loans are secured against residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) in order to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

f) **Investments relating to life insurance business** consist of $59,711 million (2012: $51,347 million) of investment assets linked to policyholder liabilities, $4,051 million (2012: $4,521 million) of assets not linked to policyholder liabilities, and $11,837 million (2012: $12,546 million) of assets within managed investment schemes that are controlled by the Group's life insurance statutory funds that relate to external interests in the units of those managed investment schemes (External unitholders' liability).

Credit and market risk is borne by policyholders and external unitholders' in respect of investment assets linked to policyholder liabilities and external interests in the units of consolidated managed investment schemes, respectively.

Investments not linked to policyholder liabilities consist of $2,076 million (2012: $2,456 million) of debt securities, which expose the Group to credit risk, and $1,975 million (2012: $2,065 million) of other investments, such as equity securities and units held in managed investment schemes. Minimal collateral or other credit enhancements are held in respect of these debt securities, however, the Group has the ability (at its discretion) to adjust the non-guaranteed bonuses and interest credits of $556 million (2012: $467 million) to absorb any credit losses that may occur.

g) The balance of **Other assets** which is exposed to credit risk is primarily comprised of interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

h) **Contingent liabilities** are comprised mainly of guarantees to customers, and to controlled entities of the Group under the deed of cross guarantee, standby or documentary letters of credit and performance related contingencies. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party.

i) **Credit-related commitments** are comprised mainly of irrevocable credit commitments to lend to a customer provided there is no breach of any condition established in the contract. If such credit commitments are drawn down by the customer there will typically be specific collateral requirements that will need to be satisfied by the customer in order to access the credit facilities.

Credit quality of financial assets

The Group has an internally developed credit rating system that uses data drawn from a number of sources to assess the potential risk in lending or through providing other financial services products to counterparties or customers. For loans and advances, the Group has a single common master-scale across all, retail and non-retail, counterparties for probability of default. The probability of default master-scale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post-default) grades. Impaired assets consist of: retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non-retail loans which are contractually past due 90 days and there is sufficient doubt about the ultimate collectability of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are classified as impaired when they become 180 days past due (if not written off).

Financial assets neither past due nor impaired

The credit quality of the portfolio of financial assets that are neither past due nor impaired can be assessed by reference to the Group's standard credit rating. The credit rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty/customer risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy.

The tables below represent an analysis of the credit quality of financial assets that are neither past due nor impaired, based on the following grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5);
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11); and
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ up to but not including defaulted or impaired (internal rating 12 to 23).

41 Financial risk management (continued)

	Group				Company			
	Loan and advances Non-retail [(1)]		Loan and advances Retail [(1)]		Loan and advances Non-retail [(1)]		Loan and advances Retail [(1)]	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Senior investment grade	**13,170**	13,404	**74,902**	67,923	**11,480**	11,271	**71,455**	65,009
Investment grade	**36,277**	37,283	**91,763**	85,156	**31,114**	30,292	**85,569**	79,446
Sub-investment grade	**58,664**	60,013	**125,447**	118,574	**42,439**	41,590	**72,806**	72,089
Total	**108,111**	110,700	**292,112**	271,653	**85,033**	83,153	**229,830**	216,544

	Due from other banks		Investments - HTM		Investments - AFS [(2)]		Acceptances [(1)]	
Group	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Senior investment grade	**40,393**	42,763	**3,820**	7,910	**34,129**	28,439	**736**	973
Investment grade	**2,627**	4,527	**1,395**	1,430	**460**	279	**6,137**	7,970
Sub-investment grade	**173**	120	**217**	233	**29**	15	**22,446**	28,014
Total	**43,193**	47,410	**5,432**	9,573	**34,618**	28,733	**29,319**	36,957

	Due from other banks		Investments - HTM		Investments - AFS [(2)]		Acceptances [(1)]	
Company	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Senior investment grade	**28,828**	30,685	**2,866**	5,174	**30,756**	25,263	**734**	973
Investment grade	**2,627**	4,517	**198**	248	**385**	185	**6,135**	7,968
Sub-investment grade	**173**	120	**99**	111	**14**	1	**22,442**	28,005
Total	**31,628**	35,322	**3,163**	5,533	**31,155**	25,449	**29,311**	36,946

(1) *From 2013, the credit grading of lending assets such as loans and advances and acceptances are presented based on a probability of default methodology (that excludes the impact of collateral held), instead of expected loss which factored in the impact of collateral held (terminology as defined for regulatory purposes). This change in presentation better aligns to the Group's Pillar 3 regulatory disclosures. The 2012 comparative figures have been adjusted to align with the revised presentation.*

(2) *Investments - available for sale excluding equity investments.*

Risk concentrations

Concentration of risk is managed by counterparty, by industry sector and geographical region.

Counterparty concentration

Concentration of risk to a counterparty or groups of related counterparties is monitored in accordance with APS 221 "Large Exposures", including the establishment of policies governing large exposures, implementation of appropriate limits and regular monitoring and reporting against those limits.

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group are such that its lending is widely spread both geographically and in terms of the types of industries it serves.

Industry concentration of financial assets

The following tables show the level of industry concentrations of financial assets as at 30 September:

	Loans at fair value		Loans at amortised cost		Provisions for doubtful debts		Contingent liabilities and credit-related commitments	
Group	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Government and public authorities	**1,709**	1,287	**723**	876	**1**	3	**2,401**	1,887
Agriculture, forestry, fishing and mining	**21,051**	17,995	**11,715**	11,408	**258**	237	**10,142**	9,775
Financial, investment and insurance	**2,176**	1,926	**14,862**	14,105	**96**	116	**12,169**	10,916
Real estate - construction	**2,505**	2,803	**4,978**	5,517	**149**	123	**1,850**	1,784
Manufacturing	**4,223**	3,481	**6,090**	6,536	**171**	252	**8,861**	8,926
Instalment loans to individuals and other personal lending (including credit cards)	**259**	232	**13,707**	14,288	**363**	310	**18,856**	18,266
Real estate - mortgage	**-**	-	**289,363**	268,729	**285**	301	**29,956**	27,851
Asset and lease financing	**-**	-	**13,069**	14,578	**104**	135	**570**	586
Commercial property services	**19,550**	15,478	**20,303**	22,103	**688**	1,177	**9,954**	9,964
Other commercial and industrial	**23,539**	19,825	**42,616**	42,733	**1,903**	1,567	**39,667**	38,583
Total	**75,012**	63,027	**417,426**	400,873	**4,018**	4,221	**134,426**	128,538

41 Financial risk management (continued)

Group	Due from other banks 2013 $m	Due from other banks 2012 $m	Investments - HTM 2013 $m	Investments - HTM 2012 $m	Investments - AFS 2013 $m	Investments - AFS 2012 $m	Acceptances 2013 $m	Acceptances 2012 $m
Government and public authorities	**1,947**	2,071	**-**	-	**22,899**	13,160	**45**	61
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**2,548**	3,420
Financial, investment and insurance	**41,246**	45,339	**5,081**	9,178	**8,506**	12,007	**668**	920
Real estate - construction	**-**	-	**-**	-	**-**	-	**155**	260
Manufacturing	**-**	-	**-**	-	**7**	-	**1,400**	1,860
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**23**	54
Real estate - mortgage	**-**	-	**370**	402	**3,402**	3,732	**-**	-
Commercial property services	**-**	-	**97**	109	**26**	35	**17,543**	21,031
Other commercial and industrial	**-**	-	**81**	73	**46**	51	**6,937**	9,351
Total	**43,193**	47,410	**5,629**	9,762	**34,886**	28,985	**29,319**	36,957

Company	Loans at fair value 2013 $m	Loans at fair value 2012 $m	Loans at amortised cost 2013 $m	Loans at amortised cost 2012 $m	Provisions for doubtful debts 2013 $m	Provisions for doubtful debts 2012 $m	Contingent liabilities and credit-related commitments 2013 $m	Contingent liabilities and credit-related commitments 2012 $m
Government and public authorities	**1,495**	1,029	**609**	766	**1**	2	**876**	635
Agriculture, forestry, fishing and mining	**10,830**	9,419	**6,233**	6,531	**172**	187	**8,125**	8,075
Financial, investment and insurance	**1,604**	1,271	**13,710**	12,596	**68**	104	**11,379**	12,130
Real estate - construction	**1,819**	591	**3,711**	1,111	**134**	74	**1,655**	1,561
Manufacturing	**2,482**	2,170	**4,298**	4,726	**135**	203	**6,209**	6,426
Instalment loans to individuals and other personal lending (including credit cards)	**28**	15	**9,006**	9,291	**252**	201	**12,461**	12,329
Real estate - mortgage	**-**	-	**228,978**	215,082	**202**	211	**23,830**	22,918
Asset and lease financing	**-**	-	**11,299**	12,594	**93**	109	**267**	254
Commercial property services	**14,003**	10,451	**18,045**	17,377	**592**	457	**8,232**	8,293
Other commercial and industrial	**16,777**	13,632	**32,801**	33,102	**1,554**	1,170	**31,156**	30,556
Total	**49,038**	38,578	**328,690**	313,176	**3,203**	2,718	**104,190**	103,177

Company	Due from other banks 2013 $m	Due from other banks 2012 $m	Investments - HTM 2013 $m	Investments - HTM 2012 $m	Investments - AFS 2013 $m	Investments - AFS 2012 $m	Acceptances 2013 $m	Acceptances 2012 $m
Government and public authorities	**1,947**	2,070	**-**	-	**21,209**	13,159	**45**	61
Agriculture, forestry, fishing and mining	**-**	-	**-**	-	**-**	-	**2,549**	3,420
Financial, investment and insurance	**29,681**	33,252	**2,943**	5,290	**6,704**	8,741	**668**	920
Real estate - construction	**-**	-	**-**	-	**-**	-	**155**	260
Manufacturing	**-**	-	**-**	-	**-**	-	**1,392**	1,849
Instalment loans to individuals and other personal lending (including credit cards)	**-**	-	**-**	-	**-**	-	**23**	54
Real estate - mortgage	**-**	-	**42**	62	**3,353**	3,655	**-**	-
Commercial property services	**-**	-	**97**	109	**-**	5	**17,543**	21,031
Other commercial and industrial	**-**	-	**81**	72	**43**	45	**6,936**	9,351
Total	**31,628**	35,322	**3,163**	5,533	**31,309**	25,605	**29,311**	36,946

Geographical concentrations of financial assets

The following tables show the geographical concentrations of financial assets as at 30 September:

Group	Australia 2013 $m	Australia 2012 $m	Europe 2013 $m	Europe 2012 $m	New Zealand 2013 $m	New Zealand 2012 $m	United States 2013 $m	United States 2012 $m	Asia 2013 $m	Asia 2012 $m
Cash and liquid assets	**9,625**	3,416	**14,258**	5,924	**595**	983	**6,138**	4,154	**40**	8
Due from other banks	**8,130**	13,851	**24,952**	24,216	**1,424**	1,282	**7,329**	7,489	**1,358**	572
Trading derivatives	**23,332**	22,679	**12,828**	14,388	**2,667**	3,115	**134**	290	**253**	427
Trading securities	**27,552**	24,262	**1,669**	1,349	**3,747**	2,784	**-**	-	**28**	219
Investments - available for sale	**23,252**	15,826	**4,416**	6,677	**60**	40	**3,337**	3,749	**3,821**	2,693
Investments - held to maturity	**771**	983	**1,444**	5,487	**1,111**	997	**2,206**	2,186	**97**	109
Investments relating to life insurance business	**75,534**	68,369	**-**	-	**65**	45	**-**	-	**-**	-
Other financial assets at fair value	**47,424**	38,693	**5,353**	6,632	**22,075**	18,043	**904**	659	**-**	-
Hedging derivatives	**3,669**	2,953	**176**	472	**81**	190	**-**	-	**-**	-
Loans and advances	**312,207**	304,476	**51,886**	49,737	**33,839**	29,528	**6,826**	6,115	**7,221**	4,879
Due from customers on acceptances	**29,311**	36,946	**8**	11	**-**	-	**-**	-	**-**	-
Other assets	**2,228**	2,776	**514**	498	**126**	123	**59**	52	**14**	12
Total	**563,035**	535,230	**117,504**	115,391	**65,790**	57,130	**26,933**	24,694	**12,832**	8,919

41 Financial risk management (continued)

	Australia		Europe		United States		Asia	
Company	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Cash and liquid assets	**8,689**	2,815	**14,139**	5,808	**6,132**	4,135	**36**	(7)
Due from other banks	**8,130**	13,850	**15,072**	13,619	**7,078**	7,317	**1,348**	536
Trading derivatives	**25,102**	24,264	**14,205**	16,618	**209**	366	**262**	432
Trading securities	**27,436**	24,173	**1,669**	1,349	**-**	-	**27**	219
Investments - available for sale	**23,138**	15,717	**2,728**	5,062	**1,622**	2,133	**3,821**	2,693
Investments - held to maturity	**42**	62	**1,444**	3,801	**1,580**	1,559	**97**	111
Other financial assets at fair value	**47,424**	38,737	**1,614**	-	**-**	-	**-**	-
Hedging derivatives	**3,669**	2,952	**170**	225	**-**	-	**-**	-
Loans and advances	**306,567**	297,681	**9,419**	5,235	**931**	937	**7,221**	4,875
Due from customers on acceptances	**29,311**	36,946	**-**	-	**-**	-	**-**	-
Other assets	**2,099**	2,688	**106**	104	**12**	13	**14**	12
Total	**481,607**	459,885	**60,566**	51,821	**17,564**	16,460	**12,826**	8,871

Market risk - trading

Traded market risk is the potential for losses to arise from trading activities undertaken by the Group as a result of adverse movements in market prices. Losses can arise from a change in the value of positions in traded financial instruments due to adverse movements in market prices (for example, interest rates, foreign exchange, commodities, equities and credit spreads).

The trading activities of the Group are principally carried out by Wholesale Banking's Fixed Income, Currencies & Commodities division. Trading activity represents dealings that encompass both active management of market risk and supporting the Group's client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Traded market risk is primarily managed and controlled using Value at Risk (VaR) which is a standard measure used in the industry, and is subject to the disciplines prescribed in the Traded market risk policy.

Objectives and limitations of the VaR methodology

VaR is a statistical estimate of the potential loss that could arise from shifts in interest rates, currency exchange rates, option volatility, equity prices, credit spreads, commodity prices and inflation. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

VaR is predominantly calculated using historical simulation. This method involves multiple revaluations of the trading books using 550 days (approximately two years) of historical pricing shifts. The pricing data is rolled daily so as to have the most recent 550 day history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one day holding period for all positions.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management, the Risk Committee of the Board and ultimately the Board. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests;
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked via back-testing for reasonableness and continued relevance of the model assumptions.

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk.

41 Financial risk management (continued)

Value at risk for physical and derivative positions

The following table shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

Group	As at 30 September		Average value during reporting period		Minimum value during reporting period [(1)]		Maximum value during reporting period [(1)]	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**1.0**	1.5	**3.4**	2.4	**0.9**	0.5	**8.0**	6.5
Interest rate risk	**6.0**	3.6	**6.0**	4.6	**2.3**	2.6	**13.3**	9.3
Volatility risk	**1.2**	0.6	**0.9**	0.6	**0.4**	0.3	**1.6**	1.2
Commodities risk	**0.3**	0.3	**0.6**	0.5	**0.1**	0.2	**2.4**	1.1
Credit risk	**6.4**	6.4	**7.5**	6.4	**4.9**	4.5	**9.8**	8.8
Inflation risk	**0.3**	0.5	**0.5**	0.5	**0.3**	0.1	**0.8**	0.7
Diversification benefit	**(7.0)**	(5.9)	**(8.3)**	(6.3)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**8.2**	7.0	**10.6**	8.7	**7.0**	5.8	**14.0**	11.3
Other market risks [(2)]	**0.4**	1.4	**1.0**	1.2	**0.2**	0.1	**2.2**	2.2
Total VaR for physical and derivative positions	**8.6**	8.4	**11.6**	9.9	**7.2**	5.9	**16.2**	13.5

Company	As at 30 September		Average value during reporting period		Minimum value during reporting period [(1)]		Maximum value during reporting period [(1)]	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Value at risk at a 99% confidence level								
Foreign exchange risk	**1.1**	1.3	**3.2**	2.2	**0.9**	0.5	**7.8**	6.3
Interest rate risk	**5.3**	3.7	**5.7**	4.5	**2.5**	2.5	**13.4**	9.6
Volatility risk	**1.2**	0.6	**0.9**	0.6	**0.4**	0.3	**1.6**	1.2
Commodities risk	**0.3**	0.3	**0.6**	0.5	**0.1**	0.2	**2.4**	1.1
Credit risk	**6.0**	5.9	**7.2**	6.1	**4.6**	4.5	**9.2**	8.8
Inflation risk	**0.3**	0.5	**0.5**	0.5	**0.3**	0.1	**0.8**	0.7
Diversification benefit	**(6.4)**	(4.2)	**(8.0)**	(5.2)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**7.8**	8.1	**10.1**	9.2	**6.2**	6.6	**13.3**	12.3
Other market risks [(2)]	**0.4**	1.4	**1.0**	1.2	**0.2**	0.1	**2.2**	2.2
Total VaR for physical and derivative positions	**8.2**	9.5	**11.1**	10.4	**6.4**	6.7	**15.5**	14.5

(1) The maximum/minimum by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/minimum VaR, which is the maximum/minimum aggregate VaR position during the period.

(2) Other market risks includes exposures to various basis risks measured individually at a portfolio level.

Market risk - non-trading / banking positions

The Group has exposure to non-traded market risk, primarily, Interest Rate Risk in the Banking Book (IRRBB).

Interest Rate Risk in the Banking Book

IRRBB is the risk that the Group's earnings or economic value will be affected or reduced due to changes in interest rates. The sources of IRRBB are as follows:

- repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items;
- yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve;
- basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items; and
- optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risk types.

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The risk management framework incorporates both market valuation and earnings based approaches in accordance with the Group Non-Traded Market Risk (GNTMR) policy and IRRBB guidance notes. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains/ losses and any inter-risk and/or inter-currency diversification. The IRRBB risk and control framework achieved APRA accreditation for the internal model approach under Basel II, and is used to calculate the IRRBB regulatory capital requirement.

Key features of the internal interest rate risk management model include:

- historical simulation approach utilising instantaneous interest rate shocks;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- VaR and EaR are measured on a consistent basis;
- 99% confidence level;
- three month holding period;
- EaR utilises a 12 month forecast period;

41 Financial risk management (continued)

- eight years of business day historical data (updated daily by GNTMR);
- rate changes are proportional rather than absolute (VaR only);
- investment term for capital is modelled with an established benchmark term of between one and five years; and
- investment term for core 'Non-Bearing Interest' (non-interest bearing assets and liabilities) is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

Model parameters and assumptions are reviewed and updated on at least an annual basis by GNTMR, in consultation with Group Treasury. Material changes require the approval of the GALCO and are advised to the local regulatory authorities.

Value at risk and earnings at risk for the IRRBB

The following tables show the Group and Company aggregate VaR and EaR for the IRRBB:

	2013			
Group	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia Region	105.2	81.9	59.1	115.1
UK Region	68.4	65.7	55.5	76.1
New Zealand Region	21.6	22.8	14.2	31.8
United States Region	10.1	10.4	6.8	18.7
Asia Region	2.3	1.8	1.2	3.0
Earnings at risk				
Australia Region	83.9	50.2	26.0	83.9
UK Region	11.4	14.4	4.9	30.0
New Zealand Region	6.5	5.6	2.9	9.1
United States Region	16.1	14.2	12.4	16.1

	2012			
Group	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	89.8	108.8	63.1	175.4
UK Region	60.7	74.4	60.7	88.1
New Zealand Region	18.1	18.0	10.3	31.1
United States Region	5.6	11.7	4.9	32.5
Asia Region	3.3	2.6	0.6	4.5
Earnings at risk				
Australia Region	27.5	42.7	16.3	78.9
UK Region	5.7	8.8	3.8	20.1
New Zealand Region	6.0	6.5	1.9	13.3
United States Region	12.2	11.7	9.5	13.6

	2013			
Company	**As at 30 September $m**	**Average value $m**	**Minimum value $m**	**Maximum value $m**
Value at risk				
Australia Region	105.2	81.9	59.1	115.1
UK Region	16.8	14.8	10.6	18.0
Earnings at risk				
Australia Region	83.9	50.2	26.0	83.9

	2012			
Company	As at 30 September $m	Average value $m	Minimum value $m	Maximum value $m
Value at risk				
Australia Region	89.8	108.8	63.1	175.4
UK Region	12.8	18.6	12.8	22.9
Earnings at risk				
Australia Region	27.5	42.7	16.3	78.9

41 Financial risk management (continued)

Market risk - Wealth Management

This is the potential for losses to arise from the Group's wealth management business activities as a result of its investments, balance sheet items and cash flows being exposed to market risk. Wealth Management refers to the National Wealth Management Holdings Limited consolidated group (NWMHL) which has investment linked and non-investment linked businesses, operations and investments (including shareholder and policyholder investments). For investment linked business the policyholder liabilities are directly linked to performance of the assets held to back those liabilities. Consequently, financial risks associated with those assets do not flow through to Wealth Management. However, a decline in the performance of investments would reduce the value of funds under management which, in turn, would reduce the fee income earned from this type of business. A significant proportion of the Wealth Management's business is investment linked business. For non-investment linked business, Wealth Management is exposed to market risk. The primary financial risk on non-investment linked business is that income from and values of assets and balance sheet items backing the liabilities and obligations are insufficient to fund or meet the amounts payable. The sources of market risk are: (a) interest rate risk, (b) equity and other price risk, and (c) foreign currency risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument or balance sheet item will fluctuate due to changes in interest rates. Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that acquisition or claims costs are impacted by interest rates, policyholder liabilities are exposed to interest rate risk.

Wealth Management manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and by managing the maturity dates of interest bearing instruments. Wealth Management also enters into interest rate derivative financial instruments to manage cash flows, maximise opportunities to increase returns, and reduce risk and transaction costs. The management of risks that relate to life insurance businesses are also governed by the requirements of the *Life Insurance Act* 1995 (Cth) and APRA both of which include provisions to hold capital against unmatched assets and liabilities.

Interest rate sensitivity analysis [(1)]

The following table shows the pre-tax impact of a change in interest rates as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2013 $m	2012 $m	**2013 $m**	2012 $m
+100 basis points	**(33.2)**	(51.2)	**(33.2)**	(51.2)
-100 basis points	**33.9**	51.6	**33.9**	51.6

(1) *Interest rate sensitivity excludes the impact of internal hedging derivatives taken out at the NWMHL consolidated level.*

(b) Equity and other price risk

Equity and other price risk is the risk that the fair value of equities and unit priced investments change as a result of changes in market prices, whether these changes are caused by factors specific to an individual investment or factors affecting all instruments, or classes of instruments, in the market.

Pricing sensitivity analysis

The following table shows the pre-tax impact of a change in equity and unit prices as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2013 $m	2012 $m	**2013 $m**	2012 $m
10% increase	**22.3**	12.7	**22.3**	12.7
10% decrease	**(22.3)**	(12.7)	**(22.3)**	(12.7)

(c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Wealth Management's financial assets that directly support the policy liabilities are predominantly denominated in the same currency as its policy liabilities. Currency derivative financial instruments are entered into to facilitate efficient portfolio management by obtaining desired currency exposures or to hedge against existing holdings of certain investments in foreign currencies or significant foreign currency transactions.

Currency sensitivity analysis

The following tables shows the pre-tax impact of a change in foreign exchange rates as at 30 September assuming that all other variables remain constant:

	Impact on profit		Impact on equity	
	2013 $m	2012 $m	**2013 $m**	2012 $m
10% increase	**8.2**	5.1	**8.2**	5.1
10% decrease	**(8.2)**	(5.1)	**(8.2)**	(5.1)

41 Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations mostly include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature and the payment of interest on borrowings. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. This is managed by Group Treasury and measured and monitored by Group Balance Sheet and Liquidity Risk with oversight by GALCO. The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:

- monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet cash flow information;
- maintaining a high quality liquid asset portfolio which supports intra-day operations and can be sold in times of market stress;
- operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements;
- maintaining a contingent funding plan designed to respond to an accelerated outflow of funds from the Group; and
- requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, Government, State Government and highly rated investment grade paper. In addition to these liquid assets, the Group holds Internal Securitisations in the form of Residential Mortgage Backed Securities (RMBS) as a source of contingent liquidity to further support its liquidity requirements. RMBS notes must meet central bank requirements to be eligible for repurchase agreements with a central bank. The volume of securities eligible for repurchase agreements globally (including contingent liquidity) available after the appropriate haircuts applied by the relevant central bank as at 30 September 2013 was $134,191 million (2012: $110,885 million).

Funding mix

The Group's funding liabilities are comprised of a mix of deposits, term wholesale funding and short-term wholesale funding. The Group manages funding mix and liquidity risk within risk appetite settings to enable it to respond to changing market and regulatory conditions.

The Group maintains a strong focus on deposit growth, which has funded all core asset growth in the 2013 financial year. Customer deposits remain a high proportion of total funding liabilities at 58.3% as at 30 September 2013 (2012: 57.7%).

The Group achieved its term funding program, raising $25,842 million of term wholesale funding in the 2013 financial year (2012: $31,308 million) at a weighted average maturity of approximately 4.8 years to first call (2012: 5.1 years). The Group's term wholesale funding (with a remaining term to maturity of greater than 1 year) as a percentage of total funding liabilities has remained broadly flat at 16.6% as at 30 September 2013 (2012: 16.8%).

The Group continued to access international and domestic short-term wholesale markets over the 2013 financial year. The focus has been on maintaining the longer average maturity of the short-term book to support the Group's liquidity position. The growth in customer deposits has reduced reliance on short-term wholesale funding, with short-term funding reducing from 21.6% of funding liabilities as at 30 September 2012 to 20.5% as at 30 September 2013.

41 Financial risk management (continued)

The following table shows the Group's funding position as at 30 September:

Core assets	2013 $m	2012 $m
Gross loan and advances	**417,426**	400,873
Loans at fair value	**75,012**	63,027
Other financial assets at fair value	**28**	971
Due from customers on acceptances	**29,319**	36,957
Investments held to maturity	**5,629**	9,762
Total core assets	**527,414**	511,590
Customer deposits		
On-demand and short-term deposits	**167,193**	152,000
Term deposits	**166,736**	159,950
Deposits not bearing interest	**28,917**	24,667
Customer deposits at fair value	**3,130**	2,581
Total customer deposits	**365,976**	339,198
Wholesale funding		
Bonds, notes and subordinated debt	**110,722**	103,372
Other debt issues	**2,944**	1,783
Preference shares and other contributed equity	**4,534**	4,914
Certificates of deposit	**61,150**	68,019
Securities sold under repurchase agreements	**7,551**	6,868
Due to other banks - Securities sold under repurchase agreements	**15,068**	16,774
Due to other banks - Other	**19,555**	11,917
Other borrowings	**14,025**	8,417
Liability on acceptances	**3,228**	7,801
Other financial liabilities at fair value	**23,301**	19,151
Total wholesale funding	**262,078**	249,016
Total funding liabilities	**628,054**	588,214
Total equity excluding preference shares and other contributed equity	**42,086**	38,889
Life insurance liabilities [(1)]	**76,346**	69,130
Other liabilities	**61,941**	66,857
Total liabilities and equity	**808,427**	763,090
Wholesale funding by maturity		
Short-term funding	**128,741**	126,974
Term funding		
less than 1 year residual maturity	**29,147**	23,187
greater than 1 year residual maturity	**104,190**	98,855
Total wholesale funding by maturity	**262,078**	249,016
Funding liabilities		
Customer deposits	**58.3%**	57.7%
Short-term funding less than 1 year residual maturity	**20.5%**	21.6%
Term funding		
less than 1 year residual maturity	**4.6%**	3.9%
greater than 1 year residual maturity	**16.6%**	16.8%
Total funding liabilities	**100.0%**	100.0%

(1) *Comprises life policy liabilities and external unitholders' liability.*

41 Financial risk management (continued)

Contractual maturity of financial liabilities on an undiscounted basis

The following tables show cash flows associated with non-derivative financial liabilities and hedging derivatives, within relevant maturity groupings based on the earliest date on which the Group and Company may be required to pay.

The balances in the tables will not necessarily agree to amounts presented on the balance sheet as amounts incorporate cash flows on an undiscounted basis and therefore include both principal and associated future interest payments.

				2013			
Group	**At call $m**	**0 to 3 month(s) $m**	**3 to 12 months $m**	**1 to 5 year(s) $m**	**Over 5 years $m**	**No specific maturity $m**	**Total $m**
Due to other banks	9,392	22,845	2,298	124	-	-	34,659
Other financial liabilities at fair value (1)	726	7,498	3,394	12,716	3,140	166	27,640
Deposits	192,587	127,263	94,842	13,762	104	-	428,558
Other borrowings	329	14,597	6,126	450	147	-	21,649
Liability on acceptances	-	2,996	232	-	-	-	3,228
Life investment contract liabilities (2)	-	357	390	97	16	61,248	62,108
Bonds, notes and subordinated debt	-	7,549	19,140	73,592	21,125	-	121,406
Other debt issues (3)	-	-	-	-	-	2,944	2,944
External unitholders' liability (4)	-	-	-	-	-	11,837	11,837
Other financial liabilities	3,330	2,209	15	14	-	-	5,568
Hedging derivatives							
- contractual amounts payable	-	2,454	5,967	58,215	39,088	-	105,724
- contractual amounts receivable	-	(2,203)	(5,404)	(55,835)	(38,936)	-	(102,378)
Total cash flow payable	206,364	185,565	127,000	103,135	24,684	76,195	722,943
Contingent liabilities	13,209	-	-	-	-	-	13,209
Credit-related commitments and investment commitments	122,317	-	-	-	-	-	122,317
Total (5)	135,526	-	-	-	-	-	135,526

				2012			
Group	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
Due to other banks	4,615	23,043	470	572	-	-	28,700
Other financial liabilities at fair value (1)	1,727	5,261	2,964	9,346	3,265	122	22,685
Deposits	168,881	143,953	82,681	13,591	81	-	409,187
Other borrowings	2,920	9,521	2,374	450	101	-	15,366
Liability on acceptances	-	7,662	264	-	-	-	7,926
Life investment contract liabilities (2)	-	329	461	124	26	53,371	54,311
Bonds, notes and subordinated debt	-	2,389	19,390	73,056	18,115	-	112,950
Other debt issues (3)	-	-	-	-	-	1,783	1,783
External unitholders' liability (4)	-	-	-	-	-	12,546	12,546
Other financial liabilities	2,742	1,371	16	21	-	-	4,150
Hedging derivatives							-
- contractual amounts payable	-	2,326	8,592	28,618	18,893	-	58,429
- contractual amounts receivable	-	(2,328)	(7,252)	(25,327)	(16,940)	-	(51,847)
Total cash flow payable	180,885	193,527	109,960	100,451	23,541	67,822	676,186
Contingent liabilities	12,422	-	-	-	-	-	12,422
Credit-related commitments and investment commitments	117,256	-	-	-	-	-	117,256
Total (5)	129,678	-	-	-	-	-	129,678

41 Financial risk management (continued)

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
2013							
Due to other banks	8,890	21,911	1,788	77	-	-	32,666
Other financial liabilities at fair value [(1)]	437	1,239	551	2,223	1,944	164	6,558
Deposits	143,328	114,177	79,425	6,660	-	-	343,590
Other borrowings	141	7,763	212	-	-	-	8,116
Liability on acceptances	-	2,988	232	-	-	-	3,220
Bonds, notes and subordinated debt	-	7,492	18,686	68,107	16,869	-	111,154
Other debt issues [(3)]	-	-	-	-	-	2,365	2,365
Other financial liabilities	382	1,994	15	14	-	-	2,405
Hedging derivatives							
- contractual amounts payable	-	2,111	4,921	49,819	33,477	-	90,328
- contractual amounts receivable	-	(1,888)	(4,457)	(47,428)	(33,009)	-	(86,782)
Total cash flow payable	153,178	157,787	101,373	79,472	19,281	2,529	513,620
Contingent liabilities	12,182	-	-	-	-	-	12,182
Credit-related commitments and investment commitments	92,008	-	-	-	-	-	92,008
Total [(5)]	104,190	-	-	-	-	-	104,190

Company	At call $m	0 to 3 month(s) $m	3 to 12 months $m	1 to 5 year(s) $m	Over 5 years $m	No specific maturity $m	Total $m
2012							
Due to other banks	4,244	21,555	394	-	-	-	26,193
Other financial liabilities at fair value [(1)]	1,485	111	811	1,714	399	122	4,642
Deposits	128,658	130,378	68,684	5,077	-	-	332,797
Other borrowings	2,732	4,433	243	-	-	-	7,408
Liability on acceptances	-	7,651	264	-	-	-	7,915
Bonds, notes and subordinated debt	-	2,343	17,745	69,767	13,389	-	103,244
Other debt issues [(3)]	-	-	-	-	-	1,288	1,288
Other financial liabilities	302	943	16	21	-	-	1,282
Hedging derivatives							
- contractual amounts payable	-	2,260	8,443	28,465	18,892	-	58,060
- contractual amounts receivable	-	(2,293)	(7,148)	(25,236)	(16,940)	-	(51,617)
Total cash flow payable	137,421	167,381	89,452	79,808	15,740	1,410	491,212
Contingent liabilities	12,901	-	-	-	-	-	12,901
Credit-related commitments and investment commitments	90,276	-	-	-	-	-	90,276
Total [(5)]	103,177	-	-	-	-	-	103,177

(1) *Some other financial liabilities at fair value have not been allocated by contractual maturity because they are typically held for varying periods of time.*

(2) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $61,248 million (2012: $53,371 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, have contractual maturities.*

(3) *Certain debt issues have no dated maturity (refer to Note 31 for further details). Therefore, the face value of these issues are disclosed as no specific maturity. The next interest cash flows payable under these floating rate financial liabilities are $nil monthly, $18 million quarterly and $26 million semi-annually (2012: $2 million monthly, $2 million quarterly, and $23 million semi-annually) for the Group, and $nil monthly, $15 million quarterly and $26 million semi-annually (2012: $2 million monthly and $23 million semi-annually) for the Company.*

(4) *External unitholders' liability does not have a contractual maturity. Liquidity risk is borne by the unitholders based on the ability to liquidate assets held by managed investment schemes which are controlled by the Group.*

(5) *The full notional amount of contingent liabilities, credit-related commitments and investment commitments have been disclosed as 'at-call' as they could be payable on demand. The Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.*

41 Financial risk management (continued)

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities at reporting date of assets and liabilities. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

	2013			
Group	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	35,666	-	-	35,666
Due from other banks	40,678	2,515	-	43,193
Trading derivatives (1)	-	-	39,214	39,214
Trading securities	11,390	21,300	306	32,996
Investments - available for sale	5,760	28,858	268	34,886
Investments - held to maturity	1,367	4,262	-	5,629
Investments relating to life insurance business	7,177	14,863	53,559	75,599
Other financial assets at fair value	24,094	51,662	-	75,756
Loans and advances	82,519	321,593	7,867	411,979
Due from customers on acceptances	29,319	-	-	29,319
All other assets	6,114	3,796	14,280	24,190
Total assets	244,084	448,849	115,494	808,427
Liabilities				
Due to other banks	34,500	123	-	34,623
Trading derivatives (1)	-	-	41,749	41,749
Other financial liabilities at fair value	11,266	14,999	166	26,431
Deposits	411,173	12,823	-	423,996
Other borrowings	21,030	546	-	21,576
Liability on acceptances	3,228	-	-	3,228
Life insurance contract liabilities (2)	-	-	2,410	2,410
Life investment contract liabilities (3)	747	104	61,248	62,099
Bonds, notes and subordinated debt	23,608	87,114	-	110,722
Other debt issues	-	-	2,944	2,944
All other liabilities	13,331	3,292	15,406	32,029
Total liabilities	518,883	119,001	123,923	761,807
Net (liabilities)/assets	(274,799)	329,848	(8,429)	46,620

41 Financial risk management (continued)

Group	2012 Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
Assets				
Cash and liquid assets	19,464	-	-	19,464
Due from other banks	47,291	119	-	47,410
Trading derivatives (1)	-	-	40,899	40,899
Trading securities	13,162	14,764	688	28,614
Investments - available for sale	7,647	21,087	251	28,985
Investments - held to maturity	4,735	5,027	-	9,762
Investments relating to life insurance business	1,917	13,334	53,163	68,414
Other financial assets at fair value	18,970	45,057	-	64,027
Loans and advances	79,973	306,847	7,915	394,735
Due from customers on acceptances	36,957	-	-	36,957
All other assets	6,848	3,146	13,829	23,823
Total assets	236,964	409,381	116,745	763,090
Liabilities				
Due to other banks	28,144	547	-	28,691
Trading derivatives (1)	-	-	45,127	45,127
Other financial liabilities at fair value	9,387	12,223	122	21,732
Deposits	391,874	12,762	-	404,636
Other borrowings	14,794	491	-	15,285
Liability on acceptances	7,801	-	-	7,801
Life insurance contract liabilities (2)	-	-	2,284	2,284
Life investment contract liabilities (3)	790	139	53,371	54,300
Bonds, notes and subordinated debt	18,540	84,832	-	103,372
Other debt issues	-	-	1,783	1,783
All other liabilities	13,008	5,287	15,981	34,276
Total liabilities	484,338	116,281	118,668	719,287
Net (liabilities)/assets	(247,374)	293,100	(1,923)	43,803

Company	**2013 Less than 12 months $m**	**Greater than 12 months $m**	**No specific maturity $m**	**Total $m**
Assets				
Cash and liquid assets	29,834	-	-	29,834
Due from other banks	29,113	2,515	-	31,628
Trading derivatives (1)	-	-	39,778	39,778
Trading securities	9,271	19,555	306	29,132
Investments - available for sale	5,336	25,805	168	31,309
Investments - held to maturity	1,134	2,029	-	3,163
Other financial assets at fair value	12,620	36,418	-	49,038
Loans and advances	68,506	249,660	5,972	324,138
Due from customers on acceptances	29,311	-	-	29,311
All other assets	4,170	3,724	89,199	97,093
Total assets	189,295	339,706	135,423	664,424
Liabilities				
Due to other banks	32,571	77	-	32,648
Trading derivatives (1)	-	-	40,475	40,475
Other financial liabilities at fair value	2,049	3,628	164	5,841
Deposits	333,855	5,860	-	339,715
Other borrowings	8,114	-	-	8,114
Liability on acceptances	3,220	-	-	3,220
Bonds, notes and subordinated debt	23,287	78,318	-	101,605
Other debt issues	-	-	2,365	2,365
All other liabilities	8,355	3,844	71,613	83,812
Total liabilities	411,451	91,727	114,617	617,795
Net (liabilities)/assets	(222,156)	247,979	20,806	46,629

41 Financial risk management (continued)

Company	Less than 12 months $m	Greater than 12 months $m	No specific maturity $m	Total $m
	2012			
Assets				
Cash and liquid assets	13,586	-	-	13,586
Due from other banks	35,203	119	-	35,322
Trading derivatives (1)	-	-	41,680	41,680
Trading securities	10,938	14,115	688	25,741
Investments - available for sale	7,530	17,919	156	25,605
Investments - held to maturity	4,428	1,105	-	5,533
Other financial assets at fair value	9,005	29,732	-	38,737
Loans and advances	64,165	238,410	6,153	308,728
Due from customers on acceptances	36,946	-	-	36,946
All other assets	5,078	2,772	81,388	89,238
Total assets	186,879	304,172	130,065	621,116
Liabilities				
Due to other banks	26,169	-	-	26,169
Trading derivatives (1)	-	-	43,947	43,947
Other financial liabilities at fair value	2,361	2,192	122	4,675
Deposits	324,460	4,488	-	328,948
Other borrowings	7,407	-	-	7,407
Liability on acceptances	7,790	-	-	7,790
Bonds, notes and subordinated debt	17,017	77,660	-	94,677
Other debt issues	-	-	1,288	1,288
All other liabilities	8,625	4,894	48,061	61,580
Total liabilities	393,829	89,234	93,418	576,481
Net (liabilities)/assets	(206,950)	214,938	36,647	44,635

(1) *Trading derivatives have not been shown by contractual maturity because they are typically held for varying periods of time.*

(2) *Life insurance contract liabilities do not have a fixed maturity date. Based on the Group's assumptions as to likely withdrawals and claim patterns, $1,094 million (2012: $940 million) is estimated to be settled within 12 months from the reporting date.*

(3) *Life investment contract liabilities disclosed as 'no specific maturity' include investment-linked contracts of $61,248 million (2012: $53,371 million). The liability to policyholders for investment-linked contracts is linked to the performance and value of the assets that back those liabilities, and liquidity risk is borne by the policyholder based on the ability to liquidate assets that back those liabilities in a timely manner to meet redemption requirements. Non-linked investment contracts, such as term annuities, have contractual maturities.*

Hedge accounting

(a) Fair value hedges

The Group hedges part of its existing interest rate and foreign currency risk resulting from potential movements in the fair value of fixed rate assets and liabilities attributable to both interest rate and foreign currency risk denominated both in local and foreign currencies using interest rate, cross currency interest rate and cross currency swaps. The fair value of these swaps is disclosed in *Note 11 - Trading and hedging derivative assets and liabilities*.

(b) Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to the interest rate risk of variable rate assets and liabilities at any given time using derivatives such as interest rate swaps, forward rate agreements and futures contracts. The Group also utilises derivatives to hedge a portion of the variability in future cash flows attributable to foreign exchange risk created by assets, liabilities and forecast transactions denominated in a currency other than an entity's functional currency. The fair value of these hedges is disclosed in *Note 11 - Trading and hedging derivative assets and liabilities*.

There were no forecast transactions for which cash flow hedge accounting had to be ceased as a result of the forecast transaction no longer being expected to occur in the current or the prior period.

(c) Hedges of net investments in foreign operations

Borrowings of GBP 1,033 million (2012: GBP 1,030 million) have been designated as a hedge of net investments in foreign operations with a GBP functional currency.

Foreign exchange forward contracts of NZD 450 million (2012: nil) have been designated as a hedge of the spot foreign exchange risk arising on a net investment in foreign operation with a NZD functional currency.

These hedges have been designated to protect against the Group's exposure to foreign exchange risk on investments. Gains or losses on the translation of these borrowings and any effective portion of gains or losses on the forward contract hedging instruments are transferred to equity to the extent that they offset any gains or losses on translation of the net investment in the foreign operations. For the year ended 30 September 2013 there was a $1 million loss due to hedge ineffectiveness (2012: no hedge ineffectiveness) recognised in profit or loss related to net investment hedges.

42 Fair value of financial instruments

(a) Fair value of financial instruments, including those carried at amortised cost

The tables below show a comparison of the carrying amounts, as reported on the balance sheet, and fair values of all financial assets and liabilities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values are based on relevant information available for the last two years at 30 September and involve judgement. The methodologies and assumptions used in the fair value estimates are described in the footnotes to the tables.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Group's financial instruments can be exchanged in an active trading market. The Group obtains the fair values for investment securities from quoted market prices where available. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. The difference to fair value is relevant in a trading environment, but is not relevant to assets held to maturity and loans and advances.

		2013		2012	
Group	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**35,666**	**35,666**	19,464	19,464
Due from other banks	(a)	**43,193**	**43,193**	47,410	47,410
Trading derivatives	(b)	**39,214**	**39,214**	40,899	40,899
Trading securities	(c)	**32,996**	**32,996**	28,614	28,614
Investments - available for sale	(c)	**34,886**	**34,886**	28,985	28,985
Investments - held to maturity	(c)	**5,629**	**5,452**	9,762	9,488
Investments relating to life insurance business	(d)	**75,599**	**75,599**	68,414	68,414
Other financial assets at fair value	(e)	**75,756**	**75,756**	64,027	64,027
Hedging derivatives	(b)	**3,926**	**3,926**	3,615	3,615
Loans and advances	(f)	**411,979**	**413,379**	394,735	397,452
Due from customers on acceptances	(a)	**29,319**	**29,319**	36,957	36,957
Other assets	(a)	**3,803**	**3,803**	3,999	3,999
Total financial assets		**791,966**	**793,189**	746,881	749,324
Financial liabilities					
Due to other banks	(a)	**34,623**	**34,623**	28,691	28,691
Trading derivatives	(b)	**41,749**	**41,749**	45,127	45,127
Other financial liabilities at fair value	(e)	**26,431**	**26,431**	21,732	21,732
Hedging derivatives	(b)	**3,431**	**3,431**	6,348	6,348
Deposits and other borrowings	(g)	**445,572**	**446,055**	419,921	420,968
Liability on acceptances	(a)	**3,228**	**3,228**	7,801	7,801
Life policy liabilities	(h)	**64,509**	**64,509**	56,584	56,584
Bonds, notes and subordinated debt	(i)	**110,722**	**112,880**	103,372	104,073
Other debt issues	(i)	**2,944**	**2,944**	1,783	1,783
External unitholders' liability	(d)	**11,837**	**11,837**	12,546	12,546
Other liabilities	(a)	**13,849**	**13,849**	12,367	12,367
Total financial liabilities		**758,895**	**761,536**	716,272	718,020

42 Fair value of financial instruments (continued)

		2013		2012	
Company	Footnote	**Carrying value $m**	**Fair value $m**	Carrying value $m	Fair value $m
Financial assets					
Cash and liquid assets	(a)	**29,834**	**29,834**	13,586	13,586
Due from other banks	(a)	**31,628**	**31,628**	35,322	35,322
Trading derivatives	(b)	**39,778**	**39,778**	41,680	41,680
Trading securities	(c)	**29,132**	**29,132**	25,741	25,741
Investments - available for sale	(c)	**31,309**	**31,309**	25,605	25,605
Investments - held to maturity	(c)	**3,163**	**3,243**	5,533	5,536
Other financial assets at fair value	(e)	**49,038**	**49,038**	38,737	38,737
Hedging derivatives	(b)	**3,839**	**3,839**	3,177	3,177
Loans and advances	(f)	**324,138**	**324,965**	308,728	311,371
Due from customers on acceptances	(a)	**29,311**	**29,311**	36,946	36,946
Due from controlled entities	(j)	**64,474**	**64,291**	57,523	57,217
Other assets	(a)	**2,800**	**2,800**	3,161	3,161
Total financial assets		**638,444**	**639,168**	595,739	598,079
Financial liabilities					
Due to other banks	(a)	**32,648**	**32,648**	26,169	26,169
Trading derivatives	(b)	**40,475**	**40,475**	43,947	43,947
Other financial liabilities at fair value	(e)	**5,841**	**5,841**	4,675	4,675
Hedging derivatives	(b)	**3,942**	**3,942**	5,921	5,921
Deposits and other borrowings	(g)	**347,829**	**348,352**	336,355	337,217
Liability on acceptances	(a)	**3,220**	**3,220**	7,790	7,790
Due to controlled entities	(j)	**69,935**	**69,935**	46,629	46,629
Bonds, notes and subordinated debt	(i)	**101,605**	**103,682**	94,677	95,320
Other debt issues	(i)	**2,365**	**2,365**	1,288	1,288
Other liabilities	(a)	**8,190**	**8,190**	7,402	7,402
Total financial liabilities		**616,050**	**618,650**	574,853	576,358

The fair value estimates are based on the following methodologies and assumptions:

a) the carrying amounts of **cash and liquid assets**, **due from and to other banks**, **due from customers on acceptances**, **liability on acceptances**, **other assets** and **other liabilities**, approximate their fair value as they are short-term in nature or are receivable or payable on demand;

b) the fair values of **trading and hedging derivative assets and liabilities**, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate;

c) the fair values of **trading securities**, **investments - available for sale** and **investments - held to maturity** are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity. The fair value of the SCDO asset held by a securitisation conduit as held to maturity reflects the Group's exposure subsequent to the risk mitigation strategy;

d) the fair values of **investments relating to life insurance business** and **external unitholders' liability** are based on quoted closing market prices at reporting date. Where no quoted market value exists, various valuation methods have been adopted;

e) the fair values of **other financial assets** and **liabilities at fair value** are based on quoted closing market prices and data or valuation techniques appropriate to the nature and type of the underlying instrument;

f) the fair value of **loans and advances** that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of all other loans and advances are calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date. The difference between estimated fair values of loans and advances and carrying value reflects changes in interest rates since loan or advance origination and credit worthiness of the borrower;

g) the fair value of **deposits and other borrowings** that are non-interest-bearing, at call or at a fixed rate that reprice within six months of reporting date are assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity;

h) **life policy liabilities** consist of policy liabilities from insurance contracts and policy liabilities from investment contracts. Policy liabilities from insurance contracts are measured predominantly using the projection method using assumptions outlined in *Note 50 - Life insurance business disclosures* and the carrying amount approximates fair value. Policy liabilities from investment contracts are measured at fair value which is based on the value of the assets that back those liabilities;

i) the fair values of **bonds**, **notes and subordinated debt** and **other debt issues** are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads; and

j) the fair values of **amounts due from and to controlled entities** approximate their carrying amounts as they are short-term in nature or are receivable or payable on demand, except for amounts due from securitisation conduits which are determined on a look through basis. The fair values of the securitisation conduits' underlying assets are determined using the same basis as trading securities as described in footnote (c).

42 Fair value of financial instruments (continued)

Guarantees, **letters of credit**, **performance related contingencies** and **credit related commitments** are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items was not calculated as very few of the commitments extending beyond six months would commit the Company or the Group to a predetermined rate of interest and the fees attaching to these commitments are the same as those currently charged to enter into similar arrangements.

(b) Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 September 2013			
Group	**Quoted market prices (Level 1) $m**	**Valuation techniques (observable inputs) (Level 2) $m**	**Valuation techniques (significant non-observable inputs) (Level 3) $m**	**Total $m**
Financial assets				
Trading derivatives	174	38,970	70	39,214
Trading securities	11,076	21,920	-	32,996
Investments - available for sale	5,824	28,905	157	34,886
Investments relating to life insurance business	3,755	68,971	2,873	75,599
Other financial assets at fair value	5	70,376	5,375	75,756
Hedging derivatives	-	3,926	-	3,926
Total financial assets measured at fair value	20,834	233,068	8,475	262,377
Financial liabilities				
Trading derivatives	348	41,395	6	41,749
Other financial liabilities at fair value	1,656	24,567	208	26,431
Hedging derivatives	-	3,431	-	3,431
Life investment contract liabilities	-	62,098	-	62,098
External unitholders' liability	-	11,837	-	11,837
Total financial liabilities measured at fair value	2,004	143,328	214	145,546

	Fair value measurement as at 30 September 2012			
Group	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m
Financial assets				
Trading derivatives	123	40,536	240	40,899
Trading securities	6,935	21,679	-	28,614
Investments - available for sale	4,906	23,904	175	28,985
Investments relating to life insurance business	2,618	63,158	2,638	68,414
Other financial assets at fair value	-	57,373	6,654	64,027
Hedging derivatives	-	3,615	-	3,615
Total financial assets measured at fair value	14,582	210,265	9,707	234,554
Financial liabilities				
Trading derivatives	327	44,796	4	45,127
Other financial liabilities at fair value	1,423	20,081	228	21,732
Hedging derivatives	-	6,348	-	6,348
Life investment contract liabilities	-	54,300	-	54,300
External unitholders' liability	-	12,546	-	12,546
Total financial liabilities measured at fair value	1,750	138,071	232	140,053

42 Fair value of financial instruments (continued)

	Fair value measurement as at 30 September 2013			
Company	**Quoted market prices (Level 1) $m**	**Valuation techniques (observable inputs) (Level 2) $m**	**Valuation techniques (significant non-observable inputs) (Level 3) $m**	**Total $m**
Financial assets				
Trading derivatives	173	39,535	70	39,778
Trading securities	9,335	19,797	-	29,132
Investments - available for sale	2,451	28,732	126	31,309
Other financial assets at fair value	-	47,424	1,614	49,038
Hedging derivatives	-	3,839	-	3,839
Total financial assets measured at fair value	11,959	139,327	1,810	153,096
Financial liabilities				
Trading derivatives	377	40,098	-	40,475
Other financial liabilities at fair value	1,656	4,185	-	5,841
Hedging derivatives	-	3,942	-	3,942
Total financial liabilities measured at fair value	2,033	48,225	-	50,258

	Fair value measurement as at 30 September 2012			
Company	Quoted market prices (Level 1) $m	Valuation techniques (observable inputs) (Level 2) $m	Valuation techniques (significant non-observable inputs) (Level 3) $m	Total $m
Financial assets				
Trading derivatives	123	41,317	240	41,680
Trading securities	5,272	20,469	-	25,741
Investments - available for sale	1,715	23,750	140	25,605
Other financial assets at fair value	-	38,737	-	38,737
Hedging derivatives	-	3,177	-	3,177
Total financial assets measured at fair value	7,110	127,450	380	134,940
Financial liabilities				
Trading derivatives	321	43,626	-	43,947
Other financial liabilities at fair value	1,420	3,255	-	4,675
Hedging derivatives	-	5,921	-	5,921
Total financial liabilities measured at fair value	1,741	52,802	-	54,543

42 Fair value of financial instruments (continued)

Assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	2013				
Group	**Trading derivatives $m**	**Investments - available for sale $m**	**Investments relating to life insurance business $m**	**Other financial assets at fair value $m**	**Total $m**
Balance at the beginning of year	240	175	2,638	6,654	9,707
Total gains/(losses)					
In profit or loss	(9)	(1)	454	(611)	(167)
In other comprehensive income	-	14	-	-	14
Purchases and issues	-	1	49	-	50
Sales and settlements	(20)	(31)	-	(1,436)	(1,487)
Transfers into Level 3	43	9	-	-	52
Transfers out of Level 3	(196)	(11)	(269)	-	(476)
Foreign currency translation adjustments	12	1	1	768	782
Balance at the end of year	70	157	2,873	5,375	8,475
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:					
- In profit or loss	(9)	(1)	454	(544)	(100)
- In other comprehensive income	-	14	-	-	14

	2012				
Group	Trading derivatives $m	Investments - available for sale $m	Investments relating to life insurance business $m	Other financial assets at fair value $m	Total $m
Balance at the beginning of year	118	144	2,600	20	2,882
Total gains/(losses)					
In profit or loss	20	(4)	(92)	3	(73)
Purchases and issues	-	51	130	-	181
Sales and settlements	(6)	(4)	-	-	(10)
Transfers into Level 3	139	5	-	6,631	6,775
Transfers out of Level 3	(30)	(16)	-	-	(46)
Foreign currency translation adjustments	(1)	(1)	-	-	(2)
Balance at the end of year	240	175	2,638	6,654	9,707
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:					
- In profit or loss	42	(3)	(92)	3	(50)

	2013			
Company	**Trading derivatives $m**	**Investments - available for sale $m**	**Other financial assets at fair value $m**	**Total $m**
Balance at the beginning of year	240	140	-	380
Total gains/(losses)				
In profit or loss	(9)	(1)	(163)	(173)
In other comprehensive income	-	15	-	15
Purchases and issues	-	-	2,519	2,519
Sales and settlements	(20)	(32)	(742)	(794)
Transfers into Level 3	43	9	-	52
Transfers out of Level 3	(196)	(8)	-	(204)
Foreign currency translation adjustments	12	3	-	15
Balance at the end of year	70	126	1,614	1,810
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:				
- In profit or loss	(9)	-	(97)	(106)
- In other comprehensive income	-	15	-	15

42 Fair value of financial instruments (continued)

Company	2012 Trading derivatives $m	Investments - available for sale $m	Total $m
Balance at the beginning of year	118	90	208
Total gains/(losses)			
In profit or loss	20	-	20
Purchases and issues	-	55	55
Sales and settlements	(6)	(4)	(10)
Transfers into Level 3	139	-	139
Transfers out of Level 3	(30)	-	(30)
Foreign currency translation adjustments	(1)	(1)	(2)
Balance at the end of year	240	140	380
Total gains/(losses) for the reporting period related to assets held at the end of the reporting period:			
- In profit or loss	42	-	42

Liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

	2013			2012		
Group	**Trading derivatives $m**	**Other financial liabilities at fair value $m**	**Total $m**	Trading derivatives $m	Other financial liabilities at fair value $m	Total $m
Balance at the beginning of year	**4**	**228**	**232**	4	-	4
Total gains/(losses)						
In profit or loss	**2**	**(11)**	**(9)**	-	-	-
Sales and settlements	**-**	**(36)**	**(36)**	-	-	-
Transfers into Level 3	**-**	**2**	**2**	-	228	228
Transfers out of Level 3	**-**	**(2)**	**(2)**	-	-	-
Foreign currency translation adjustments	**-**	**27**	**27**	-	-	-
Balance at the end of year	**6**	**208**	**214**	4	228	232

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement.

The most significant exposure to Level 3 fair value measurements for the Group is in respect of the UK Tailored Business Loans (TBL) fair value loans and private equity investments included in investments relating to life insurance business.

The most significant inputs impacting the carrying value of the UK TBL fair value loans are future expectations of credit losses and the expected payment profile of the loans. If the loans were to be repaid six months earlier than currently predicted the loan carrying value would decline by $12 million (2012: $14 million). Similarly, if the level of prepayment is less than expected the loan carrying value would increase by up to $62 million (2012: $78 million). If lifetime expected losses were 20% greater, the carrying value of the loan would decrease by $26 million (2012: $25 million). If lifetime expected losses were 20% lower, the carrying value of the loan would increase by $26 million (2012: $25 million). There are inter-dependencies between a number of the key assumptions which add to the complexity of the judgements the Group has to make which mean that no single factor is likely to move independent of others, however, the sensitivities disclosed above assume all other assumptions remain unchanged.

Investments relating to the life insurance business largely comprise of private equity investments. Changing one or more of the inputs for measurement of these private equity investments using reasonable alternative assumptions would result in a change by the same amount to both the fair value of investments relating to life insurance business and life investment contract liabilities. Life investment contract liabilities are classified as Level 2 fair value measurements as the liabilities are not directly matched with individual underlying assets in the same statutory fund, and underlying assets with significant non-observable inputs are not significant to the fair value measurement of life investment contract liabilities in a statutory fund in their entirety.

Other than these significant Level 3 measurements, the Group and the Company have a limited remaining exposure to Level 3 fair value measurements, and changing one or more of the inputs for fair value measurements in Level 3 to reasonably alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity on these remaining Level 3 measurements.

43 Financial asset transfers and securitisations

The majority of financial asset transfers that do not qualify for derecognition are associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. The carrying amount of associated liabilities is net of derivatives used to manage currency risk associated with this liability. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets:

	2013			2012		
Group	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**7,231**	**22,541**	**7,799**	10,301	15,615	7,803
Carrying amount of associated liabilities	**7,231**	**18,741**	**6,002**	10,301	11,729	5,578
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**7,826**			7,857
Fair value of associated liabilities			**6,118**			5,616
Net position			**1,708**			2,241

	2013			2012		
Company	**Repurchase agreements $m**	**Covered bonds $m**	**Securitisation $m**	Repurchase agreements $m	Covered bonds $m	Securitisation $m
Carrying amount of transferred assets	**7,139**	**14,265**	**30,478**	10,110	7,424	20,634
Carrying amount of associated liabilities	**7,139**	**12,831**	**31,194**	10,110	6,337	21,343
For those liabilities that have recourse only to the transferred assets						
Fair value of transferred assets			**30,556**			20,810
Fair value of associated liabilities			**31,831**			21,488
Net position			**(1,275)**			(678)

(i) Repurchase agreements

Securities sold subject to repurchase agreements are retained in their respective balance sheet categories. The counterparty liability is included in amounts due to other banks and deposits and other borrowings, as appropriate, based upon the counterparty to the transaction.

(ii) Covered bonds

Certain residential mortgages have been assigned to a bankruptcy remote special purpose entity (SPE) associated with covered bond programs to provide security for the obligations payable on the covered bonds issued by the Group. Similarly to securitisation programs, the Group is entitled to any residual income after all payments due to covered bonds investors have been met. The Group retains all of the risks and rewards associated with the residential mortgages and where derivatives have not been externalised, interest rate and foreign currency risk are held in the Group. The covered bonds SPEs are consolidated, the residential mortgages are retained on the Group’s balance sheet and the covered bonds issued are included within debt securities on issue. The covered bond holders have dual recourse to the Bank or the covered pool assets.

(iii) Securitisation

Through its loan securitisation programs, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits of the vehicles.

The loans do not qualify for derecognition because the Company and Group remain exposed to the risks and rewards of ownership on an ongoing basis. The Company and Group continue to be exposed primarily to liquidity risk, interest rate risk and credit risk of the loans. The securitisation trusts are consolidated into the Group. The note holders have only recourse to the mortgage pool of assets.

In addition to its loan securitisation programs, the Group has various contractual relationships with entities that undertake securitisation of third party assets. The Group sponsors, manages and provides liquidity facilities and derivative contracts to these securitisation conduits.

44 Operating leases

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Due within one year	**397**	378	**298**	261
Due after one year but no later than five years	**1,200**	1,162	**892**	784
Due after five years	**1,185**	1,159	**883**	689
Total non-cancellable operating lease commitments	**2,782**	2,699	**2,073**	1,734

The Group leases various offices, stores and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. There are no contingent rents payable. The Group also leases data processing and other equipment under non-cancellable lease arrangements.

The total of future minimum sub-lease payments to be received under non-cancellable sub-leases at 30 September 2013 is $57 million (2012: $50 million) for the Group and $57 million (2012: $50 million) for the Company.

During the 2013 year, sub-lease payments received amounted to $21 million (2012: $16 million) for the Group and $15 million (2012: $10 million) for the Company and were netted against operating lease rental expense.

Where the Group is the lessor, the future minimum lease receipts under non-cancellable operating leases are:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Due within one year	**35**	42	**28**	35
Due after one year but no later than five years	**54**	68	**31**	43
Due after five years	**28**	38	**20**	19
Total non-cancellable operating lease receivables	**117**	148	**79**	97

45 Investment commitments

Investment commitments contracted for as at the reporting date are set out below:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Investment commitments				
Statutory funds	**1,100**	1,140	**-**	-
Total investment commitments	**1,100**	1,140	**-**	-

46 Related party disclosures

During the year, there have been dealings between the Company and its controlled entities and other related parties. The Company provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

The Company currently issues employee share compensation to Group employees on behalf of Group subsidiaries. The equity-based payments expense relating to this compensation is recharged from the Company to the employing subsidiaries in the Group. For further details, refer to *Note 37 - Shares, performance options and performance rights*.

The aggregate of material amounts receivable from or payable to controlled entities and the Company, at reporting date, is disclosed in the balance sheet of the Company. Refer to *Note 21* for details of the Company's investment in controlled entities. Refer to *Note 39* for details of controlled entities. The Company has certain guarantees and undertakings with entities in the Group. For further details, refer to *Note 40 - Contingent liabilities and credit commitments*.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The aggregate amounts receivable from controlled entities for the last two years to 30 September were:

	Company	
	2013 $m	2012 $m
Balance at beginning of year	**10,894**	7,944
Net cash flows in amounts due from/to controlled entities	**(6,347)**	3,027
Provisions for impairment of intercompany loans to securitisation conduits	**(11)**	(213)
Net foreign currency translation movements & other amounts receivables	**152**	136
Balance at end of year	**4,688**	10,894

Material transactions with controlled entities for the last two years to 30 September included:

	Company	
	2013 $m	2012 $m
Net interest (expense)/income	**(66)**	217
Net operating lease revenue	**15**	30
Net management fees	**70**	124
Dividend revenue	**981**	820

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
Payment to:	**2013 $m**	2012 $m	**2013 $m**	2012 $m
National Australia Bank Group Superannuation Fund A	**210**	210	**210**	210
Yorkshire and Clydesdale Bank Pension Scheme	**209**	372	**-**	199
National Australia Group Defined Contribution Pension Scheme (UK)	**20**	26	**-**	2
National Wealth Management Superannuation Plan	**4**	5	**-**	-
Bank of New Zealand Offices Provident Association (Division 2)	**11**	10	**-**	-
National Australia Bank Pension and Workplace Savings Scheme	**-**	-	**9**	-

Transactions between the Group and superannuation plans sponsored by the Group during the last two years were made on commercial terms and conditions.

46 Related party disclosures (continued)

Details of key management personnel (KMP) of the Group

The following persons were KMP of the Company and Group during the year ended 30 September 2013:

Name	Position
Executive directors	
CA Clyne	Executive Director, Group Chief Executive Officer
MA Joiner	Executive Director, Finance
Other senior executives	
LJ Gray	Group Executive, Enterprise Services and Transformation
AP Hagger	Group Executive, NAB Wealth
MJ Healey	Group Executive, People, Communications & Governance
JC Healy	Group Executive, Business Banking
BF Munro	Group Chief Risk Officer
RJ Sawers	Group Executive, Product & Markets
GR Slater	Group Executive, Personal Banking
AG Thorburn	Group Executive, New Zealand and the United States
SJ Tucker (1)	Group Executive, NAB Wealth
Non-executive directors	
MA Chaney	Non-executive director, Chairman
PA Cross (2)	Non-executive director
DT Gilbert	Non-executive director
KR Henry	Non-executive director
PJ Rizzo	Non-executive director
JS Segal	Non-executive director
JG Thorn	Non-executive director
GA Tomlinson	Non-executive director
JA Waller	Non-executive director
AKT Yuen	Non-executive director

(1) *Mr Tucker ceased employment with the Group on 31 March 2013.*

(2) *Mrs Cross resigned as a non-executive director of the Company and JBWere Pty Ltd on 2 August 2013.*

Details of directors of the Company who held office during the year are set out in the *Report of the Directors*.

Remuneration of KMP

Total remuneration of KMP of the Company and Group for the year ended 30 September:

	Short-term benefits			Post-employment benefits	Other long term benefits	Equity-based benefits		Termination benefits	Total
Company and Group	Cash salary fixed $	Cash STI at risk $	Non-monetary fixed $	Super-annuation fixed $	$	Shares at risk $	Options and rights at risk $	$	$
KMP									
2013	**15,436,220**	**4,633,785**	**174,810**	**413,690**	**197,453**	**5,112,285**	**9,848,221**	**1,410,128**	**37,226,592**
2012	15,729,402	5,522,400	606,064	646,760	153,090	10,610,675	6,874,054	-	40,142,445

Performance options, performance rights and shareholdings of KMP are set out in *Note 47 - Equity instrument holdings of key management personnel* and the *Remuneration report.*

Loans to KMP and their related parties

Loans made to directors of the Company are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions.

Loans to other KMP of the Company and Group may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of the Company and Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act* 2001 (Cth).

Loans to KMP of the Company and Group at year end may, in some instances, be an estimate of the 30 September statement balances. Where estimates have been used at the end of 2012, the balance at the beginning of 2013 reflects the actual opening balance and, therefore, may differ from the prior year closing balance. Additionally, the balance as at the end of 2012 does not equal the balance at the beginning of 2013 because of changes to the KMP of the Group and Company between 2012 and 2013.

46 Related party disclosures (continued)

The table below provides details of loans to the KMP and their related parties:

Company and Group	Terms and conditions	Balance at beginning of year (1) $	Interest charged $	Interest not charged $	Write-off $	Balance at end of year (1) $	KMP in Group during year (2) No.
KMP							
2013	**Normal**	**12,314,593**	**537,939**	**-**	**-**	**14,883,700**	**12**
	Employee	**2,199,621**	**52,008**	**-**	**-**	**480,190**	**6**
2012	Normal	12,107,708	590,016	-	-	12,314,593	11
	Employee	5,339,431	198,243	-	-	2,977,416	7
Other related parties (3)							
2013	**Normal**	**33,561,125**	**1,370,525**	**-**	**-**	**31,408,771**	**7**
	Employee	**-**	**-**	**-**	**-**	**-**	**-**
2012	Normal	37,779,069	1,729,032	-	-	33,561,125	7
	Employee	-	-	-	-	-	-

(1) *Balance relates to KMP who held office during the year ending 30 September 2013.*

(2) *This number represents the KMP's included in the balance at the end of the year.*

(3) *Includes related parties of the Company and the Group or the KMP's related parties which includes their close family members or any entity they or their close family members control, jointly control or significantly influence.*

Details regarding KMP (and their related parties) aggregate loans above $100,000 at any time during the year ended 30 September were:

Company and Group	**Terms and conditions**	**Balance at beginning of year** $	**Interest charged (1)** $	**Interest not charged** $	**Write-off** $	**Balance at end of year** $	**KMP highest indebtedness during year (2)** $
KMP for the year ended 30 September 2013							
Executive directors							
CA Clyne	Normal	3,558,041	48,582	-	-	3,297,604	3,558,041
MA Joiner	Normal	385,531	29,660	-	-	3,065,772	3,152,752
Other senior executives							
LJ Gray	Employee	4,184	561	-	-	3,187	-
	Normal	1,490,390	78,332	-	-	796,335	3,392,481
MJ Healey	Employee	1,396	8,980	-	-	461,000	461,000
	Normal	462,830	15,147	-	-	-	-
JC Healy	Normal	4,296,142	204,960	-	-	3,228,572	9,355,241
BF Munro	Employee	388,600	10,503	-	-	71	486,153
RJ Sawers	Employee	2,033	5	-	-	3,104	-
	Normal	558,004	23,768	-	-	384,302	757,065
GR Slater	Employee	3,264	-	-	-	-	-
	Normal	850,052	45,294	-	-	1,350,000	1,350,000
AG Thorburn	Employee	-	31,959	-	-	8,515	618,000
	Normal	2,237,085	97,966	-	-	1,780,196	-
SJ Tucker (3)	Employee	1,800,144	-	-	-	-	-
	Normal	-	74,084	-	-	1,108,584	1,842,350
Non-executive directors							
PA Cross (4)	Normal	19,579	7,232	-	-	1,571,423	1,571,423
DT Gilbert (5)	Normal	32,013,442	1,283,269	-	-	29,682,958	449,600

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

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

(3) *Mr Tucker ceased employment with the Group on 31 March 2013.*

(4) *Mrs Cross resigned as a non-executive director of the Company and JBWere Pty Ltd on 2 August 2013.*

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

46 Related party disclosures (continued)

Company and Group	Terms and conditions	Balance at beginning of year $	Interest charged [1] $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year [2] $
KMP for the year ended 30 September 2012							
Executive directors							
CA Clyne	Normal	3,798,120	73,050	-	-	3,558,041	3,798,120
MA Joiner	Normal	1,549,059	54,932	-	-	385,531	1,566,322
Other senior executives							
LJ Gray	Employee	932	5	-	-	4,184	566
	Normal	2,264,499	111,653	-	-	1,490,390	2,307,512
MJ Healey	Employee	-	-	-	-	1,396	1,396
	Normal	465,445	28,909	-	-	462,830	461,000
JC Healy	Normal	3,501,493	217,109	-	-	4,296,142	4,296,142
BF Munro	Employee	214,612	30,166	-	-	388,600	610,116
RJ Sawers	Employee	7,390	6	-	-	2,033	2,033
	Normal	469,361	25,362	-	-	558,004	163,053
GR Slater	Employee	1,118,756	35,465	-	-	3,264	653,472
	Normal	-	36,111	-	-	850,052	938,699
AG Thorburn	Employee	621,709	-	-	-	-	-
	Normal	1,576,676	121,469	-	-	2,237,085	641,679
DJ Thorburn	Employee	885,289	12,259	-	-	777,795	915,745
SJ Tucker	Employee	2,490,743	120,342	-	-	1,800,144	2,514,093
Non-executive director							
DT Gilbert [3]	Normal	36,244,887	1,650,010	-	-	32,013,442	450,000

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

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

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

Other financial instrument transactions

In the prior year, the KMP of the Company and Group purchased an aggregate of 3,500 subordinated medium-term notes of the Company (NAB Subordinated Notes) each with an issue price of $100. These transactions with the KMP of the Company and Group were made in the ordinary course of business and on terms equivalent to those that prevail in arm's length transactions. As at 30 September 2013, these NAB Subordinated Notes were still held by the relevant KMP.

During 2013, National Equities Limited (a controlled entity of the Group) purchased 250,000 Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd from John Waller, a director of the Company, at par value of NZ$1.00 each. This transaction was conducted on arm's length terms at the same time and on the same terms applied to all other holders of these securities.

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

47 Equity instrument holdings of key management personnel

Equity instrument disclosures relating to key management personnel (KMP)

(i) Terms and conditions of performance options and performance rights grants

Performance options and performance rights granted by the Company to KMP of the Company and Group, including executive directors of the Company, are over ordinary shares under the Company's National Australia Bank Executive Share Option Plan No.2 (option plan) and the National Australia Bank Performance Rights Plan (performance rights plan). No performance options or performance rights are granted to non-executive directors. The terms and conditions of each performance option and performance right granted to KMP during the year, including fair value, exercise period, exercise price and performance conditions, are detailed in the *Remuneration report*. The Company moved to a policy of providing performance rights as long-term incentives from 2011.

Performance options holdings

The number of performance options over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance options						
Name	Balance at beginning of year [1] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
KMP for the year ended 30 September 2013							
Executive directors							
CA Clyne	121,448	-	(79,692)	(41,756)	-	25,745	-
MA Joiner	211,344	-	(101,465)	(39,515)	70,364	55,661	-
Other senior executives							
LJ Gray	-	-	-	-	-	-	-
AP Hagger	-	-	-	-	-	-	-
MJ Healey	-	-	-	-	-	-	-
JC Healy	-	-	-	-	-	-	-
BF Munro	-	-	-	-	-	-	-
RJ Sawers	-	-	-	-	-	-	-
GR Slater	-	-	-	-	-	-	-
AG Thorburn	-	-	-	-	-	-	-
Former executives							
SJ Tucker [2]	-	-	-	-	-	-	-

[1] *Balance may include performance options granted prior to individuals becoming KMP.*

[2] *Mr Tucker ceased employment with the Group on 31 March 2013.*

	Performance options						
Name	Balance at beginning of year [1] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
KMP for the year ended 30 September 2012							
Executive directors							
CA Clyne	213,667	-	-	(92,219)	121,448	59,013	53,947
MA Joiner	352,678	-	(48,022)	(93,312)	211,344	101,165	45,804
Other senior executives							
LJ Gray	44,166	-	-	(44,166)	-	-	-
AP Hagger	-	-	-	-	-	-	-
MJ Healey	6,660	-	-	(6,660)	-	1,348	-
JC Healy	9,225	-	-	(9,225)	-	1,867	-
BF Munro	27,500	-	-	(27,500)	-	-	-
RJ Sawers	36,900	-	-	(36,900)	-	7,468	-
GR Slater	81,992	-	-	(81,992)	-	12,544	-
AG Thorburn	46,125	-	-	(46,125)	-	9,334	-
DJ Thorburn	96,992	-	-	(96,992)	-	12,544	-
SJ Tucker	89,575	-	-	(89,575)	-	13,067	-

[1] *Balance may include performance options granted prior to individuals becoming KMP.*

No performance options held by KMP were vested but not exercisable at 30 September 2013 (2012: nil).

47 Equity instrument holdings of key management personnel (continued)

Performance rights holdings

The number of performance rights over ordinary shares in the Company held during the financial year by each KMP of the Company and Group are set out below:

	Performance rights						
Name	**Balance at beginning of year [(1)] No.**	**Granted during year as remuneration No.**	**Exercised during year No.**	**Lapsed or expired during year No.**	**Balance at end of year No.**	**Vested during year [(2)] No.**	**Vested and exercisable at end of year No.**
KMP for the year ended 30 September 2013							
Executive directors							
CA Clyne	183,147	324,969	-	-	508,116	-	-
MA Joiner	67,663	126,331	-	-	193,994	-	-
Other senior executives							
LJ Gray	50,749	93,859	-	-	144,608	-	-
AP Hagger	45,110	84,223	-	-	129,333	-	-
MJ Healey	30,449	57,921	-	-	88,370	-	-
JC Healy	62,027	115,806	-	-	177,833	-	-
BF Munro	39,803	72,217	-	-	112,020	-	-
RJ Sawers	50,749	107,230	-	-	157,979	-	-
GR Slater	45,110	96,118	-	-	141,228	-	-
AG Thorburn	172,453	94,538	(41,236)	(32,568)	193,187	41,236	-
Former executives							
SJ Tucker [(3)]	56,387	101,317	-	(106,539)	51,165	-	-

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

(2) *For details of performance rights that have vested during the year, refer to the Remuneration report.*

(3) *Mr Tucker ceased employment with the Group on 31 March 2013.*

	Performance rights						
Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration No.	Exercised during year No.	Lapsed or expired during year No.	Balance at end of year No.	Vested during year No.	Vested and exercisable at end of year No.
KMP for the year ended 30 September 2012							
Executive directors							
CA Clyne	115,480	179,109	(100,572)	(10,870)	183,147	100,572	-
MA Joiner	4,186	67,663	(1,051)	(3,135)	67,663	1,051	-
Other senior executives							
LJ Gray	11,042	50,749	-	(11,042)	50,749	-	-
AP Hagger	-	45,110	-	-	45,110	-	-
MJ Healey	1,666	30,449	(660)	(1,006)	30,449	337	-
JC Healy	2,306	62,027	(913)	(1,393)	62,027	467	-
BF Munro	56,698	39,803	(49,823)	(6,875)	39,803	49,823	-
RJ Sawers	9,225	50,749	(3,651)	(5,574)	50,749	1,867	-
GR Slater	17,502	45,110	(3,136)	(14,366)	45,110	3,136	-
AG Thorburn	177,652	76,235	(74,467)	(6,967)	172,453	74,467	-
DJ Thorburn	24,248	36,016	(6,132)	(18,116)	36,016	3,136	-
SJ Tucker	19,272	56,387	(3,268)	(16,004)	56,387	3,268	-

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

No performance rights held by KMP were vested but not exercisable at 30 September 2013 (2012: nil).

47 Equity instrument holdings of key management personnel (continued)

(ii) Shareholdings

The numbers of shares in the Company held (directly and nominally) by each KMP of the Company and Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration [(2)] No.	Received during year on exercise of performance options or rights No.	Other changes during year No.	Balance at end of year [(3)] No.
KMP for the year ended 30 September 2013					
Executive directors					
CA Clyne	674,345	-	79,692	(167,750)	586,287
MA Joiner	486,609	-	101,465	(123,058)	465,016
Other senior executives					
LJ Gray	181,011	-	-	(51,768)	129,243
AP Hagger	182,444	-	-	(52,890)	129,554
MJ Healey	132,903	-	-	(15,250)	117,653
JC Healy	381,295	-	-	(321,459)	59,836
BF Munro	190,384	-	-	(43,768)	146,616
RJ Sawers	164,515	-	-	(2,864)	161,651
GR Slater	107,984	-	-	(56,267)	51,717
AG Thorburn	50,261	36	41,236	(41,236)	50,297
Former executive					
SJ Tucker [(4)]	104,869	-	-	(55,690)	49,179
Non-executive directors					
MA Chaney	28,373	-	-	-	28,373
DT Gilbert	19,190	-	-	-	19,190
KR Henry	2,000	-	-	-	2,000
PJ Rizzo	5,824	-	-	-	5,824
JS Segal	16,986	-	-	-	16,986
JG Thorn	12,333	-	-	5,000	17,333
GA Tomlinson	42,591	-	-	1,149	43,740
JA Waller	4,000	-	-	-	4,000
AKT Yuen	5,059	-	-	-	5,059
Former director					
PA Cross [(5)]	18,645	-	-	-	18,645

(1) *Balance may include shares held prior to individuals becoming KMP.*

(2) *For details regarding the terms and conditions of shares granted as remuneration under employee share plans to KMP during the year, refer to the Remuneration report.*

(3) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company.*

(4) *Mr Tucker ceased employment with the Group on 31 March 2013.*

(5) *Mrs Cross resigned as a director of the Company and JBWere Pty Ltd on 2 August 2013.*

47 Equity instrument holdings of key management personnel (continued)

Name	Balance at beginning of year [(1)] No.	Granted during year as remuneration [(2)] No.	Received during year on exercise of performance options or rights No.	Other changes during year No.	Balance at end of year [(3)] No.
KMP for the year ended 30 September 2012					
Executive directors					
CA Clyne	490,097	83,676	100,572	-	674,345
MA Joiner	448,163	30,990	49,073	(41,617)	486,609
Other senior executives					
LJ Gray	158,581	22,430	-	-	181,011
AP Hagger	164,982	17,462	-	-	182,444
MJ Healey	113,978	16,150	660	2,115	132,903
JC Healy	352,968	27,414	913	-	381,295
BF Munro	120,623	19,938	49,823	-	190,384
RJ Sawers	161,775	22,430	3,651	(23,341)	164,515
GR Slater	144,856	15,950	3,136	(55,958)	107,984
AG Thorburn	50,221	40	74,467	(74,467)	50,261
DJ Thorburn	71,160	13,742	6,132	(72,549)	18,485
SJ Tucker	113,433	19,938	3,268	(31,770)	104,869
Non-executive directors					
MA Chaney	28,373	-	-	-	28,373
PA Cross	18,645	-	-	-	18,645
DT Gilbert	19,190	-	-	-	19,190
KR Henry [(4)]	-	-	-	2,000	2,000
PJ Rizzo	5,824	-	-	-	5,824
JS Segal	16,986	-	-	-	16,986
JG Thorn	12,333	-	-	-	12,333
GA Tomlinson	41,392	-	-	1,199	42,591
JA Waller	4,000	-	-	-	4,000
AKT Yuen	5,059	-	-	-	5,059
Former director					
GM Williamson [(5)]	9,407	-	-	-	9,407

(1) *Balance may include shares held prior to individuals becoming KMP.*

(2) *For details regarding the terms and conditions of shares granted as remuneration under employee share plans to KMP during the year, refer to the Remuneration report.*

(3) *In addition to the above shareholdings, KMP may have investments in retail products, such as managed funds, with underlying holdings in shares of the Company.*

(4) *Dr Henry was appointed a non-executive director on 1 November 2011.*

(5) *Sir Malcolm Williamson retired as a director of the Company on 7 June 2012 and as Chairman of National Australia Group Europe Limited and Clydesdale Bank PLC on 23 July 2012.*

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

		2013	
Name	**Balance at beginning of year No.**	**Changes during year No.**	**Balance at end of year No.**
National Income Securities			
DT Gilbert	1,253	-	1,253
MA Joiner	-	5,439	5,439
MJ Healey	-	700	700
JS Segal	180	-	180
GA Tomlinson	350	-	350
Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd			
JA Waller	250,000	(250,000)	-

		2012	
Name	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
National Income Securities			
DT Gilbert	1,253	-	1,253
JS Segal	180	-	180
GA Tomlinson	350	-	350
Perpetual Non-Cumulative Shares in BNZ Income Securities Ltd			
JA Waller	250,000	-	250,000

48 Remuneration of external auditor

	Group		Company	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Amounts paid or due and payable to Ernst & Young Australia: [(1)]				
Audit fees				
Audit and review of financial statements	**10,968**	10,987	**6,993**	7,118
Comfort letters	**399**	501	**399**	501
Total audit fees	**11,367**	11,488	**7,392**	7,619
Audit-related fees				
Regulatory	**3,922**	3,977	**2,306**	2,646
Non-regulatory	**673**	246	**288**	192
Total audit-related fees	**4,595**	4,223	**2,594**	2,838
All other fees	**416**	839	**376**	691
Total remuneration of Ernst & Young Australia	**16,378**	16,550	**10,362**	11,148
Amounts paid or due and payable to overseas practices of Ernst & Young: [(1)]				
Audit fees				
Audit and review of financial statements	**6,646**	6,243	**1,469**	1,043
Comfort letters	**45**	160	**-**	-
Total audit fees	**6,691**	6,403	**1,469**	1,043
Audit-related fees				
Regulatory	**533**	343	**73**	65
Non-regulatory	**88**	125	**-**	-
Total audit-related fees	**621**	468	**73**	65
All other fees	**71**	-	**11**	-
Total remuneration of overseas practices of Ernst & Young	**7,383**	6,871	**1,553**	1,108

(1) *Amounts exclude goods and services tax, value-added tax or equivalent taxes.*

Audit fees consist of fees for the audit of the annual consolidated financial statements of the Group and Company, including controlled entities that are required to prepare financial statements and the provision of comfort letters to underwriters in connection with securities offerings.

Audit-related fees have been divided into two sub-categories. Audit-related fees (regulatory) consist of fees for services required by statute or regulation that are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor. This sub-category includes engagements where the external auditor is required by statute, regulation or regulatory body to attest to the accuracy of the Group's stated capital adequacy or other financial information or to attest to the existence or operation of specified financial controls.

Audit-related fees (non-regulatory) consist of fees for assurance and related services that are not required by statute or regulation but are reasonably related to the performance of the audit or review of the Group's financial statements and which are traditionally performed by the external auditor.

A description of the Audit Committee's pre-approval policies and procedures is set out in the *Corporate governance* section. Further details of the non-audit services provided by Ernst & Young to the Group during 2013 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

49 Fiduciary activities

The Group's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts, including superannuation funds, and wholesale and retail investment trusts. The aggregate amounts of funds concerned, which are not included in the Group's balance sheet, are as follows:

	Group	
	2013 $m	2012 $m
Funds under management	**27,797**	17,981
Funds under trusteeship	**7,613**	7,309
Funds under custody and investment administration	**765,184**	722,774

Arrangements are in place to ensure that these activities are managed independently from all other activities of the Group.

50 Life insurance business disclosures

The Group conducts its life insurance business through a number of controlled entities including MLC Limited (MLC) in Australia and BNZ Life Insurance Limited in New Zealand.

This note is intended to provide detailed disclosures in relation to the life insurance business conducted through these controlled entities.

The Australian life insurance operations of the Group consist of investment-linked business and non-investment-linked business, which are conducted in separate statutory funds as required under the *Life Insurance Act* 1995 (Cth). The overseas life insurance operations of the Group consist primarily of non-investment-linked business.

Life investment contracts include investment-linked contracts where policyholders' investments are held within the statutory funds and policyholders' returns are directly linked to the investment performance of the assets in that fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets; however, the policy value is calculated by reference to the market value of the statutory fund's assets. Investment-linked business includes superannuation and allocated pension business. Fee income is derived from the administration of investment-linked policies and funds.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario that has commercial substance. Any products sold by a life insurer that do not meet the definition of a life insurance contract are classified as life investment contracts. Insurance contracts include those where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not directly referable to the market value of the fund's assets.

Non-investment-linked business includes traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholders and shareholders) and risk policies such as death, disability and income insurance (where the shareholder bears all of the financial risks).

Appropriately qualified actuaries have been appointed in respect of each life insurance business within the Group and they have reviewed and satisfied themselves as to the accuracy of the policy liabilities included in this Financial report, including compliance with the regulations of the *Life Insurance Act* 1995 (Cth) where appropriate.

(a) Risk management in life insurance business

The management of risks inherent in the life insurance business in Australia are governed by the requirements of the *Life Insurance Act* 1995 (Cth) and other Prudential Regulations, which include provisions to hold reserves against unmatched assets and liabilities. Insurance risk is generally managed through the use of claims management practices to ensure that only genuinely insured claims are admitted and paid, and ensuring premium rates and policy charges are priced at appropriate levels.

Insurance risk exposure arises in the life insurance business primarily through mortality (death) or morbidity (illness or injury) risks. Insurance concentration risk is managed through a geographically diverse portfolio of insured lives and the use of reinsurance.

(b) Details of the regulatory capital position of each life insurer in the Group

Australian life insurers

Under the *Life Insurance Act* 1995 (Cth), life insurers are required to hold reserves in excess of policy liabilities. These additional reserves are necessary to provide a cushion against adverse experience in managing risks. In Australia, the Australian Prudential Regulation Authority (APRA) has issued a set of Prudential Standards which prescribe a minimum capital requirement for each Statutory Fund and the Company as a whole.

The summarised information provided below has been extracted from the financial statements prepared by MLC Limited for the purpose of fulfilling reporting requirements prescribed by local acts and prevailing prudential rules. For detailed regulatory capital information on a statutory fund and shareholder fund basis, users of this Financial report should refer to the financial statements prepared for MLC Limited.

The regulatory capital position for MLC Limited is shown below in accordance with Prudential Standard LPS 110.

	MLC
	2013 $m
Common Equity Tier 1 Capital ($m)	**1,025**
Total Capital Base ($m)	**1,025**
Prescribed Capital Amount ($m)	**414**
Capital Adequacy Multiple	**2.5**

	MLC
	2012 $m
Solvency reserve	816
Assets available for solvency	1,542
Coverage of solvency reserve (times)	1.9

Comparative information is not disclosed in relation to the regulatory capital position since the current set of Prudential Standards became effective 1 January 2013. Disclosures for 30 September 2012 are based on LPS 2.04 Solvency Standard, the Prudential Standard in place at that time.

50 Life insurance business disclosures (continued)

Non-Australian life insurers

The non-Australian life insurer in the Group is not governed by the *Life Insurance Act* 1995 (Cth) as it is a foreign-domiciled life insurance company. This company is required to meet and has met similar tests of capital adequacy and solvency based on the regulations of relevant local authorities.

(c) Actuarial methods and assumptions - Australian life insurers

(i) Policy liabilities

Policy liabilities have been calculated in accordance with Prudential Standard LPS 340 "Valuation of Policy Liabilities" issued by APRA (refer to *Note 1(aa) - Life policy liabilities)*. This measurement is consistent with the requirements of the applicable accounting standards, AASB 1038 " Life insurance contracts", and AASB 139 "Financial Instruments: Recognition and Measurement" and AASB 118 "Revenue" for life investment contracts.

(ii) Types of business and profit carriers

The methods used, and in the case of life insurance contracts, the profit carriers used in order to achieve the systematic release of profit margins are:

Product type	Actuarial method	Profit carrier
Investment-linked	Fair value	n/a
Non-investment-linked		
Traditional business - participating	Accumulation	n/a
Traditional business - non-participating	Projection	Claims
Individual term life insurance	Projection	Claims
Individual disability income insurance	Projection	Claims
Group insurance	Accumulation	n/a
Annuity business	Projection	Annuity payments
Term deposits	Accumulation	n/a
Fixed rate options	Accumulation	n/a
Investment account	Accumulation	n/a
National credit card cover	Accumulation	n/a

(iii) Discount rates

These are the rates used to discount future cash flows to determine their present value. To the extent that policy benefits are contractually linked to the performance of assets held, the rate used is based on the market returns of those assets. For other policy liabilities, the rates used are based on risk-free rates.

Discount rates	2013 %	2012 %
Traditional business - participating		
Ordinary (1)	**4.3**	3.5
Superannuation (1)	**5.2**	4.3
Traditional business - non-participating		
Ordinary (1)	**5.0**	3.9
Term life and disability income (excluding claims in payment) insurance	**2.8 - 4.9**	3.2 - 4.0
Disability claims in payment	**4.7**	3.8
Annuity business (2)	**3.4 - 4.5**	3.1 - 3.7

(1) *After tax.*

(2) *After investment expense of 0.20%.*

(iv) Future expense inflation and indexation

Future maintenance expenses have been assumed to increase by inflation of 2.6% (2012: 2.6%) per annum. Future investment management fees have been assumed to remain at current rates. Benefits and/or premiums on certain policies are automatically indexed by the assumed growth in the consumer price index. The policy liabilities assume a future take-up of these indexation options based on recent experience. The assumed annual indexation rates for policy liabilities for outstanding disability income and salary continuance claims is 2.4% (2012: 2.5%).

(v) Rates of taxation

Rates of taxation in relation to the Australian life insurance business are outlined in *Note 1(k) - Income tax*.

50 Life insurance business disclosures (continued)

(vi) Mortality and morbidity

Future mortality and morbidity assumptions are based on actuarial tables published by various bodies as indicated below, with adjustments to claim incidence and termination rates based on recent experience as follows:

Traditional business	Male: 75% of IA 95-97 (1) Female: 85% of IA 95-97 (1)
Term life insurance	Male: 65 - 85% of IA 95-97 (1) for non-smokers with adjustments for smokers Female: 65 - 85% of IA 95-97 (1) for non-smokers with adjustments for smokers
Loan cover term life insurance	Male/Female: 70 - 135% of IA 95-97 (1) for non-smokers with adjustments for smokers
Disability income insurance	Male: Rates similar to 115 - 135% of incidence and 20 - 80% of termination rates of IAD 89-93 (2) Female: Rates similar to 75% of incidence and 20 - 80% of termination rates of IAD 89-93 (2)
Loan cover disability income insurance	Male/Female: Rates similar to 110 - 180% for non-smokers and 135 - 225% for smokers of incidence and 20 - 80% of termination rates of IAD 89-93 (2)
Annuity business	Male: 65% up to age 75 + 1% for each year onwards to maximum 100% of IM 92 (3) at age 110 Female: 47.5% up to age 75 + 1.5% for each year onwards to maximum 100% of IF 92 (3) at age 110

(1) *IA 95-97 is a mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1995 to 1997.*

(2) *IAD 89-93 is a disability table developed by the Institute of Actuaries of Australia based on Australian insured lives disability income business experience from 1989 to 1993.*

(3) *IM 92 and IF 92 are mortality tables developed by the Institute of Actuaries and the Faculty of Actuaries based on UK annuitant lives experience from 1991 to 1994. The tables refer to male and female lives, respectively and incorporate factors which allow for mortality improvements since the date of the investigation (there is no standard Australian annuitant mortality table).*

(vii) Discontinuances

Assumed future annual rates of discontinuance for the major classes of business are as follows. Discontinuance rates may vary according to a range of policyholder variables. Rates shown generally reflect the weighted average within each range.

Product type	**2013 %**	2012 %
Traditional business - participating		
Ordinary	**6**	6
Superannuation	**7**	7
Traditional business - non-participating		
Ordinary	**6**	6
Term life insurance	**11 - 13**	10 - 12
Disability income insurance	**11 - 13**	11 - 12
Direct products	**17 - 35**	17 - 35

(viii) Surrender values

Surrender values are based on the terms specified in policy contracts. The surrender value basis for traditional policies typically allows for recovery of policy acquisition and maintenance costs. In all cases, the surrender values specified in the contracts exceed those required by the *Life Insurance Act* 1995 (Cth).

(ix) Future participating benefits

For participating business, bonus rates are set such that over long periods, the returns to policyholders are commensurate with the investment returns achieved on relevant assets backing the policies, together with other sources of profit arising from this business. Pre-tax profits are split between policyholders and shareholders with the valuation allowing for shareholders to share in the pre-tax profits at the maximum rate of 20% (15% for certain policies issued before 1980). In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between various classes and sizes of policies in force. Assumed future bonus rates included in policy liabilities are set such that the present value of policy liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholders' right to participate in future pre-tax profits.

Assumed future annual bonus rates for the major classes of participating business are:

	Ordinary business		Superannuation business	
	2013 %	2012 %	**2013 %**	2012 %
Bonus rate on sum assured	**0.4**	0.2	**0.3**	0.8
Bonus rate on existing bonuses	**0.4**	0.2	**0.3**	0.8

50 Life insurance business disclosures (continued)

(d) Actuarial assumptions - non-Australian life insurers

The policy liabilities for the Group's non-Australian life insurers have been determined by the respective entity's actuary in accordance with the guidelines and standards mandated by their local authorities.

(e) Effects of changes in actuarial assumptions - Australian life insurers

	2013		2012	
Assumption category	**Increase/ (decrease) in future profit margins $m**	**Increase/ (decrease) in net policy liabilities $m**	Increase/ (decrease) in future profit margins $m	Increase/ (decrease) in net policy liabilities $m
Market-related changes to discount rates	**2**	**(79)**	(11)	99
Inflation rate	**-**	**(4)**	-	(6)
Mortality and morbidity	**(472)**	**83**	27	(14)
Discontinuance rates	**(196)**	**-**	(211)	-
Maintenance expenses	**(24)**	**-**	(4)	-
Other assumptions	**48**	**-**	9	-
Total	**(642)**	**-**	(190)	79

(f) Sensitivity analyses

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables such as discount rate, mortality, morbidity, discontinuances and expenses. The valuations included in the reported results and the best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and financial position and as such represents risk. The following table illustrates how changes in key assumptions (other than interest rates) would impact the reported profit and policy liabilities of the Group in respect of life insurance business.

		2013			
		Gross (before reinsurance)		**Net (of reinsurance)**	
Variable	**Change in variable**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**	**Profit/ (loss) and share-holder's equity $m**	**Policy liabilities $m**
Discount rate	1% increase in discount rate	**3**	**(76)**	**(12)**	**(54)**
Inflation rate	0.5% increase in inflation rate	**-**	**22**	**8**	**10**
Annuitant mortality	50% increase in rate of mortality improvements	**(11)**	**15**	**(11)**	**15**
Mortality	10% increase in mortality rates	**-**	**-**	**-**	**-**
Morbidity	10% increase in disability incidence rates	**(44)**	**62**	**(49)**	**70**
Morbidity	10% decrease in disability termination rates	**(134)**	**191**	**(126)**	**180**
Discontinuance rates	10% increase in discontinuance rates	**-**	**-**	**(1)**	**1**
Maintenance expenses	10% increase in maintenance expenses	**(3)**	**4**	**(8)**	**11**

		2012			
		Gross (before reinsurance)		Net (of reinsurance)	
Variable	Change in variable	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m	Profit/ (loss) and share-holder's equity $m	Policy liabilities $m
Discount rate	1% increase in discount rate	(20)	(84)	(32)	(67)
Inflation rate	0.5% increase in inflation rate	(9)	43	(3)	33
Annuitant mortality	50% increase in rate of mortality improvements	(12)	17	(12)	17
Mortality	10% increase in mortality rates	-	1	-	1
Morbidity	10% increase in disability incidence rates	-	-	-	-
Morbidity	10% decrease in disability termination rates	(36)	51	(26)	37
Discontinuance rates	10% increase in discontinuance rates	-	1	-	1
Maintenance expenses	10% increase in maintenance expenses	(1)	3	(1)	3

50 Life insurance business disclosures (continued)

(g) Terms and conditions of insurance contracts

The key terms and conditions of the life insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows are outlined below:

Type of contract	Nature of product	Key variables affecting future cash flows
Term life and disability	Payment of specified benefits on death or ill health of policyholder	Mortality, morbidity, lapse rates
Life annuity contracts	Regular income for the life of the insured in exchange for initial single premium	Mortality
Conventional with discretionary participating benefits	Combination of life insurance and savings. Sum assured is specified and is augmented by annual reversionary bonuses	Mortality, lapse rates, investment earnings

(h) Other life insurance disclosures

	Group	
Sources of operating profit	**2013 $m**	2012 $m
Life insurance contracts		
Emergence of shareholder planned margins	**191**	189
Experience profit/(loss)	**(143)**	28
Reversal of capitalised losses/(losses recognised)	**(9)**	7
Life investment contracts		
Fees earned	**146**	140
Investment earnings on shareholder retained profits and capital	**78**	109

	Group	
Schedule of expenses	**2013 $m**	2012 $m
Outward reinsurance expense	**149**	205
Claims expense	**909**	800
Policy acquisition expense (1)		
Commission	**240**	227
Other	**117**	184
Policy maintenance expense (2)		
Commission	**246**	272
Other	**325**	225
Investment management expense	**4**	5

(1) *The Group policy acquisition expense includes $156 million (2012: $218 million) relating to life insurance contracts, of which $72 million (2012: $79 million) relates to commissions.*

(2) *The Group policy maintenance expense includes $328 million (2012: $250 million) relating to life insurance contracts.*

51 Capital adequacy

As an authorised deposit-taking institution (ADI), the Company is subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act* 1959 (Cth). APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel III Framework.

The Group's capital structure comprises various forms of capital. Common Equity Tier 1 (CET1) capital comprises paid-up ordinary share capital, retained earnings plus certain other items recognised as capital. The ratio of such capital to risk weighted assets is called the CET1 ratio. Additional Tier 1 capital comprises certain securities with required loss absorbing characteristics. Together these components of capital make up Tier 1 capital and the ratio of such capital to risk weighted assets is called the Tier 1 capital ratio.

Tier 2 capital mainly comprises of subordinated debt instruments, and contributes to the overall capital framework.

CET1 capital contains the highest quality and most loss absorbent component of capital, followed by Additional Tier 1 capital and then followed by Tier 2 capital. The sum of Tier 1 capital and Tier 2 capital is called Total Capital. The ratio of Total Capital to risk-weighted assets is called the Total Capital ratio. From 1 January 2013, the minimum CET1 ratio, Tier 1 capital ratio and Total Capital ratio under APRA's Basel III Prudential Standards are 4.5%, 6.0% and 8.0% respectively.

In addition to the minimum total capital base ratio described above, APRA sets a Prudential Capital Ratio at a level proportional to an ADI's overall risk profile. A breach of the required ratios under the prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

Under APRA's Prudential Standards, life insurance and funds management entities activities are deconsolidated for the purposes of calculating capital adequacy and excluded from the risk based capital adequacy framework. The investment in these controlled entities is deducted 100% from CET1 capital. Additionally, any profits from these activities included in the Group's results are excluded from the determination of CET1 capital to the extent they have not been remitted to the Company.

Capital ratios are monitored against internal capital targets that are set over and above minimum capital requirements set by the Board of Directors. The Group's CET1 ratio of 8.43% at September 2013 is consistent with the Group objective of maintaining a strong capital position. From 1 January 2013, the Group moved to a CET1 ratio target of above 7.5% and will look to continue to operate at a buffer to this target.

52 Events subsequent to reporting date

No matter, item, transaction or event of a material or unusual nature has arisen in the interval between the end of the reporting period (30 September 2013) and the date of this report, that in the opinion of the directors, has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future periods.

Directors' declaration

The directors of National Australia Bank Limited declare that:

1 (a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 65 to 174 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1(b)* to the financial statements, and the *Corporations Act* 2001 (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of the Company and the Group as at 30 September 2013, and of the performance of the Company and the Group for the year ended 30 September 2013;

(c) in the opinion of the directors, at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act* 2001 (Cth); and

2 there are reasonable grounds to believe that the Company and certain controlled entities will, as a group, be able to meet any obligations or liabilities to which they are or may become subject by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to Australian Securities and Investments Commission Class Order 98/1418 dated 13 August 1998 (refer to *Notes 39* and *40* to the financial statements for further details).

Dated this 18th day of November 2013 and signed in accordance with a resolution of the directors:

Michael A Chaney
Chairman

Cameron A Clyne
Group Chief Executive Officer

Building a better working world

Ernst & Young
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Independent auditor's report to the members of National Australia Bank Limited

Report on the financial report

We have audited the accompanying financial report of National Australia Bank Limited (the "Company"), which comprises the balance sheet as at 30 September 2013, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the Company and the entities it controlled (the "Group") at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the Report of the Directors.

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Opinion

In our opinion:

a. the financial report of National Australia Bank Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the financial position of the Company and the Group as at 30 September 2013 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the Remuneration Report included in pages 29 to 50 of the Report of the Directors for the year ended 30 September 2013. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Andrew Price
Partner
Melbourne

18 November 2013

Shareholder information

Twenty largest registered fully paid ordinary shareholders of the company as at 31 October 2013

	Number of shares	%
HSBC Custody Nominees (Australia) Limited	395,426,934	16.83
JP Morgan Nominees Australia Limited	282,656,116	12.03
National Nominees Limited	238,162,583	10.14
Citicorp Nominees Pty Limited	93,886,261	4.00
BNP Paribas Nominees Pty Limited	57,821,713	2.46
Citicorp Nominees Pty Limited, Colonial First State Inv A/C	39,025,987	1.66
JP Morgan Nominees Australia Limited, Cash Income A/C	25,160,647	1.07
National Australia Trustees Limited	22,224,148	0.95
AMP Group	20,138,479	0.86
RBC Investor Services Australia Nominees Pty Limited, PI POOLED A/C	17,881,304	0.76
HSBC Custody Nominees (Australia) Limited, NT COMNWLTH Super Corp A/C	10,140,047	0.43
UBS Wealth Management Australia Nominees Pty Ltd	9,635,635	0.41
Australian Foundation Investment Company Limited	9,342,065	0.40
BNP Paribas Nominees Pty Ltd, Agency Lending DRP A/C	8,453,693	0.36
Navigator Australia Limited, MLC Investment Sett A/C	5,787,584	0.25
Argo Investments Limited	5,606,609	0.24
Milton Corporation Limited	4,386,788	0.19
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	3,997,591	0.17
RBC Investor Services Australia Nominees Pty Limited, BKCUST A/C	3,579,543	0.15
QIC Limited	3,345,799	0.14
Total	1,256,659,526	53.50

Substantial shareholders

As at 31 October 2013 there were no persons with a substantial shareholding in the Company.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	300,482	58.94	120,708,484	5.14
1,001 – 5,000	170,184	33.38	375,732,646	16.00
5,001 – 10,000	24,865	4.88	173,230,181	7.37
10,001 – 100,000	13,897	2.72	283,192,927	12.06
100,001 and over	421	0.08	1,396,039,036	59.43
Total	509,849	100.0	2,348,903,274	100.0
Less than marketable parcel of $500	11,712		70,362	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

Twenty largest registered National Income Securities (NIS) holders as at 31 October 2013

	Number of securities	%
National Nominees Limited	888,041	4.44
JP Morgan Nominees Australia Limited	712,752	3.56
HSBC Custody Nominees (Australia) Limited	519,620	2.60
Nulis Nominees (Australia) Limited, Navigator Mast Plan Sett A/C	274,750	1.37
Navigator Australia Limited, MLC Investment Sett A/C	274,305	1.37
UBS Wealth Management Australia Nominees Pty Limited	271,089	1.36
Lava Corporation Pty Limited, Lava Unit A/C	241,533	1.21
Questor Financial Services Limited, TPS RF A/C	177,488	0.89
UBS Nominees Pty Limited	127,215	0.64
HSBC Custody Nominees (Australia) Limited A/C 2	120,816	0.60
Citicorp Nominees Pty Limited	115,122	0.58
UBS Nominees Pty Limited, TP00014 10 A/C	96,574	0.48
BNP Paribas Nominees Pty Limited, DRP	93,726	0.47
Sandhurst Trustees Limited, Harper Bernays Limited A/C	81,510	0.41
Mutual Trust Pty Limited	74,933	0.37
Kingsby Pty Limited, Bialystock & Bloom S/F A/C	74,260	0.37
Peninsula Harbour Pty Ltd, Peninsula Harbour Unit A/C	73,000	0.37
Australian Executor Trustees Limited, No 1 A/C	72,706	0.36
RBC Investor Services Australia Nominees Pty Limited, GSENIP A/C	59,986	0.30
Sandhurst Trustees Limited, LMA A/C	58,945	0.29
Total	4,408,371	22.04

Shareholder information

Distribution of NIS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	32,839	92.46	7,887,797	39.45
1,001 – 5,000	2,415	6.80	4,760,649	23.80
5,001 – 10,000	143	0.40	1,008,205	5.04
10,001 – 100,000	109	0.31	2,620,618	13.10
100,001 and over	11	0.03	3,722,731	18.61
Total	35,517	100.0	20,000,000	100.0
Less than marketable parcel of $500	56		239	

Voting rights

Holders of the NIS preference shares are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NIS preference share on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NIS preference shares.

Twenty largest registered NAB Convertible Preference Shares (NAB CPS) holders as at 31 October 2013

	Number of securities	%
UBS Wealth Management Australia Nominees Pty Limited	623,482	4.12
Navigator Australia Limited, MLC Investment Sett A/C	303,989	2.01
HSBC Custody Nominees (Australia) Limited	239,114	1.58
National Nominees Limited	229,781	1.52
JP Morgan Nominees Australia Limited	189,663	1.25
UCA Cash Management Fund Limited	188,075	1.24
NulisNominees (Australia) Limited, Navigator Mast Plan Sett A/C	167,626	1.11
Netwealth Investments Limited, Wrap Services A/C	124,844	0.82
Dimbulu Pty Limited	100,000	0.66
Questor Financial Services Limited, TPS RF A/C	77,200	0.51
Australian Executor Trustees Limited, No 1 A/C	66,570	0.44
Vesade Pty Limited	65,850	0.43
Citicorp Nominees Pty Limited	63,470	0.42
Bond Street Custodians Limited, MPPMIM - V16636 A/C	58,919	0.39
Sneath & King Pty Limited, Bridget King Exec B/P A/C	52,330	0.35
Netwealth Investments Limited, Super Services A/C	50,149	0.33
Randazzo C & G Developments Pty Limited	50,000	0.33
The Walter and Eliza Hall Institute of Medical Research	50,000	0.33
Zashvin Pty Limited	50,000	0.33
RBC Investor Services Australia Nominees Pty Limited, NMSMT A/C	44,778	0.30
Total	2,795,840	18.47

Distribution of NAB CPS holdings

	Number of holders	% of holders	Number of securities	% of securities
Range (number)				
1 – 1,000	19,030	91.13	6,576,168	43.42
1,001 – 5,000	1,673	8.01	3,786,206	25.00
5,001 – 10,000	108	0.52	876,451	5.79
10,001 – 100,000	62	0.30	1,837,875	12.14
100,001 and over	8	0.04	2,066,574	13.65
Total	20,881	100.0	15,143,274	100.0
Less than marketable parcel of $500	3		5	

Voting rights

Holders of the NAB CPS are entitled to vote together with the holders of ordinary shares in the Company (to the extent that these shareholders are entitled to vote) on the basis of one vote per NAB CPS on a limited number of matters including any proposal to wind up the Company or any proposal to affect the rights attaching to the NAB CPS.

Shareholder information

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

Group Chief Executive Officer
Mr Cameron A Clyne
BA

Executive Director, Finance
Mr Mark A Joiner
ACA, MBA

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Company Secretary
Mrs Louise Thomson
BBus (Distinction), CA

Shareholders' centre website
The Group's website at www.nabgroup.com/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholders' centre information line
There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your ordinary shareholding and relevant dividend payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

Contact details
These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your security holder reference number (SRN), or in case of broker sponsored shareholders, your holder identification number (HIN).

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Website: www.bnymellon.com/shareowner

Shareholder information

Official quotation
Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:

- National Income Securities, convertible preference shares, medium-term notes and mortgage backed securities which are quoted on the ASX;
- subordinated bonds and perpetual shares through BNZ Income Securities 2 Limited which are quoted on the NZDX of the New Zealand Exchange;
- Trust Preferred Securities, National Capital Instruments, Perpetual Capital Notes, medium-term notes, mortgage backed securities, subordinated bonds and covered bonds which are quoted on the Luxembourg Stock Exchange;
- Trust Preferred Securities, medium-term notes and subordinated notes which are quoted on the Channel Islands Stock Exchange;
- undated subordinated floating rate notes, mortgage backed securities and covered bonds which are quoted on the London Stock Exchange; and
- medium-term notes which are quoted on the Swiss Stock Exchange.

Glossary

Term Used	Description
AASB	Australian Accounting Standards Board.
ADR	American depositary receipt.
AGM	Annual General Meeting.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to Authorised Deposit-taking Institutions.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange.
ATO	Australian Taxation Office.
Banking	Banking operations include the Group's: - Retail and Non-Retail deposit, lending and other banking services in Business Banking, Personal Banking, UK Banking, NAB UK Commercial Real Estate, NZ Banking, NAB Wealth and Great Western Bank; - Global Capital Markets and Treasury, Specialised Finance, Financial Institutions business within Wholesale Banking; and - Specialised Group Assets (SGA) operations and Group Funding within Corporate Functions and Other.
Banking Cost to Income Ratio	Represents banking operating expenses (before inter-segment eliminations) as a percentage of banking operating revenue (before inter-segment eliminations).
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and is effective for Australian Banks from 1 January 2013.
BBSW	Bank bill swap rate.
BNZ	Bank of New Zealand.
Cash earnings	Cash earnings is defined as net profit attributable to owners of the Company, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. In September 2013 cash earnings has been adjusted for the following: - Distributions - Treasury shares - Fair value and hedge ineffectiveness - IoRE discount rate variation - Litigation expenses and recovery - Amortisation of acquired intangible assets - Payment Protection Insurance (PPI) and Customer redress provisions.
Cash return on equity (Cash ROE)	Calculated as cash earnings divided by average shareholders' equity, excluding non-controlling interests and other equity instruments and adjusted for treasury shares.
CGU	Cash generating unit.
Common Equity Tier 1 (CET1) Capital	Common Equity Tier 1 (CET1) Capital is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - Capital Adequacy: Measurement of Capital.
Common Equity Tier 1 Ratio	Common Equity Tier 1 as defined by APRA divided by risk-weighted assets.
Company	National Australia Bank Limited.
Conduit	Special Purpose Entity (SPE) used to fund assets through the issuance of asset-backed commercial paper or medium-term notes.
Core Assets	Represents gross loans and advances including acceptances, financial assets at fair value, and investments held to maturity.
Customer Deposits	Deposits (Interest Bearing, Non-Interest Bearing and Term Deposits).
Distributions	Payments to holders of other equity instrument issues such as National Income Securities, Trust Preferred Securities, Trust Preferred Securities II and National Capital Instruments.
EaR	Earnings at risk.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Fair value and hedge ineffectiveness	Represents volatility attributable to the Group's application of the fair value option, ineffectiveness from designated accounting and economic hedge relationships and economic hedges of significant approved funding activities where hedge accounting has not been applied.
FCA	United Kingdom Financial Conduct Authority.
FSA	United Kingdom Financial Services Authority. Effective from 1 April 2013, the FSA has been abolished and replaced with two successor organisations. The Prudential Regulation Authority (PRA) will ensure the stability of financial services firms and the Financial Conduct Authority (FCA) will provide oversight and regulate conduct in the financial services industry.
GDP	Gross Domestic Product (GDP) is the market value of the finished goods and services produced within a country in a given period of time.
Group	The Company and its controlled entities.
GWB	Great Western Bank.
IFRS	International Financial Reporting Standards.

Glossary

Impaired Assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
Investment earnings on Retained Earnings (IoRE)	Investment earnings (net of tax) on shareholders' retained profits and capital from life businesses, net of capital funding costs, (IoRE) is comprised of three items: - Investment earnings on surplus assets which are held in the Statutory Funds to meet capital adequacy requirements under the Life Insurance Act 1995 (Cth); - Interest on deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from the unwind of discounting; and - Less the borrowing costs of any capital funding initiatives.
IoRE discount rate variation	The profit impact of a change in value of deferred acquisition costs (net of reinsurance) included in insurance policy liabilities resulting from a movement in the inflation adjusted risk-free discount rate.
Investments - AFS	Investments - available for sale.
Investments - HTM	Investments - held to maturity.
LPS	Prudential Standards issued by APRA applicable to life companies.
NAB	The Company and its controlled entities.
NAB UK Commercial Real Estate (NAB UK CRE)	NAB UK CRE was created on 5 October 2012 following the transfer of certain commercial real estate loan assets from Clydesdale Bank PLC to the Company. These loan assets are managed by the NAB London Branch.
Net interest margin (NIM)	Net interest income as a percentage of average interest earning assets.
Net profit attributable to non-controlling interest	Reflects the allocation of profit to non-controlling interests in the Group.
Net profit attributable to owners of the Company	Represents the Group's statutory profit after tax and reflects the amount of net profit that is attributable to owners.
Non-impaired assets 90+ days past due	Non-impaired assets 90+ days past due consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
NZDX	New Zealand Debt Market.
PRA	United Kingdom Prudential Regulation Authority.
Property revaluation	Represents revaluation decrements of land and buildings based on directors' valuations to reflect fair value.
RBA	Reserve Bank of Australia.
Risk-weighted assets (RWA)	A quantitative measure of the Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
SCDO	Synthetic Collateralised Debt Obligation.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs are often created with legal arrangements that impose strict limits on the activities of the SPE.
SPS	Prudential Standards issued by APRA applicable to all registerable superannuation entity licensees.
Statutory Funds	A Statutory Fund is a fund that: - is established in the records of a life company; and - relates solely to the life insurance business of the Company or a particular part of that business.
Tier 1 Capital	Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the characteristics outlined under APRA's prudential framework. It provides a permanent and unrestricted commitment of funds, are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
Total Shareholder Return (TSR)	Total Shareholder Return (TSR) is a concept used to compare the performance of different companies' securities over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The absolute size of the TSR will vary with stock markets, but the relative position reflects the market perception of overall performance relative to a reference group.
Treasury shares	Shares in the Company held by the Group's life insurance business and in trust by a controlled entity of the Group to meet the requirements of employee incentive schemes. The unrealised mark-to-market movements arising from changes in the share price, dividend income and realised profit and losses arising from the sale of shares held by the Group's life insurance business are eliminated for statutory reporting purposes.
VaR	Value at risk.
Weighted Average Number of Shares	Calculated in accordance with the requirements of AASB 133 'Earnings per Share'.

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