These unaudited financial statements for the half year ended 31 March 2021, together with the notes hereto and the independent auditor review report and the report of the directors of National Australia Bank Limited ABN 12 004 044 937 (the **Company**), each provided in connection herewith (together, the **Half Year Financial Statements**), are filed with the Commission de Surveillance du Secteur Financier (**CSSF**) and stored with the Luxembourg Stock Exchange as the Officially Appointed Mechanism in order to comply with the semi-annual financial reporting requirements of Article 4 of the Luxembourg Law of 11 January 2008 relating to transparency requirements, as amended. These requirements apply to the Company because it has debt securities admitted to trading on the regulated market of the Luxembourg Stock Exchange and is subject to the supervision of the CSSF. These Half Year Financial Statements must be read in conjunction with the Company's "Luxembourg Transparency Law – 2021 Half Year Financial Report" document, which has been published simultaneously with these Half Year Financial Statements.

Section 3

Financial Report

Report of the Directors

The Directors of National Australia Bank Limited (NAB) (ABN 12 004 044 937) present their report, together with the interim financial statements of NAB and its controlled entities (the Group) for the half year ended 31 March 2021.

Directors

Directors who held office during or since the end of the March 2021 half year are:

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

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

David Armstrong
Director since August 2014

Kathryn Fagg
Director since December 2019

Peeyush Gupta
Director since November 2014

Anne Loveridge
Director since December 2015

Geraldine McBride
Director since March 2014. Ms McBride resigned from the Board in December 2020

Douglas McKay
Director since February 2016

Simon McKeon
Director since February 2020

Ann Sherry
Director since November 2017

Rounding of Amounts

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

Significant Changes in the State of Affairs

- On 16 December 2020, the Group entered into an agreement to sell BNZ Life, its New Zealand life insurance business to Partners Life for NZ$290 million. Completion of the transaction is subject to regulatory and other approvals with completion expected to occur in the March 2022 half year.
- On 29 January 2021, the Group entered into a Scheme Implementation Agreement to acquire 100% of the shares in 86 400 Holdings Ltd, the holding company of Australian neobank, 86 400 ("86 400"). Completion of the transaction is subject to certain conditions, including approval of the scheme by the Federal Court.
- On 15 February 2021, the Group redeemed the $2,000 million of National Income Securities (NIS) issued on 29 June 1999. The NIS were redeemed for cash at their par value ($100) plus the final interest payment. The unpaid preference shares forming part of the NIS were bought back for no consideration and cancelled.

In addition to changes disclosed in the 2020 Annual Financial Report, changes to the NAB Board and Executive Leadership Team were announced during the March 2021 half year, namely:
- Ms Geraldine McBride resigned as a Director at the Annual General Meeting on 18 December 2020 and did not stand for re-election.
- Mr Les Matheson commenced as Chief Operating Officer effective 11 January 2021.

Safety and Security of the Bank

The COVID-19 pandemic had a significant impact on global and domestic capital and funding markets. The Group was well placed heading into this period and continues to have a strong balance sheet through the pandemic.

Consistent with safety being a key pillar of the Group's strategic ambition, March 2021 balance sheet settings have been maintained at prudent levels including a CET1 ratio of 12.37% (pro forma 12.75% including estimated impacts of the sale of MLC Wealth and BNZ Life, and the acquisition of 86 400). As the breadth and sustainability of the recovery becomes clearer, the Group expects to reset capital and dividends for a more normal operating environment. This is expected to see CET1 managed over time towards a target range of 10.75% to 11.25% and for future dividends to be guided by a payout ratio range of 65% to 75% of cash earnings, subject to Board determination based on circumstances at the relevant time. These ranges reflect the importance of maintaining a strong balance sheet through the cycle, but also recognise capital discipline and dividends as important drivers of shareholder returns, with a bias to reducing share count to drive sustainable return on equity benefits.

The Group maintained funding and liquidity metrics well above regulatory minimums throughout the March 2021 half year. The NSFR was 122% and the quarterly average LCR was 136%.

Accommodative central bank and government policy has provided income support, increased system liquidity and decreased the cost of funding. The Group's customer funding index remained elevated at 78%, while reduced refinancing of term wholesale funding maturities led to a reduction in the Group's stable funding index to 98%. NAB maintains access to the TFF, introduced by the RBA to reduce interest rates for customers and support the supply of credit from the banking system. Further details on the TFF are outlined in the Funding and Liquidity section on page 22.

Report of the Directors (continued)

Review of Group Operations and Results

Net profit attributable to owners of NAB increased by $1,962 million compared to the September 2020 half year. Net profit from continuing operations increased by $1,273 million or 65.0% compared to the September 2020 half year primarily due to lower credit impairment charges driven by the non-repeat of forward looking provisions, and lower operating expenses, partially offset by lower revenue.

Net interest income decreased by $149 million or 2.1%. Excluding large notable items in the September 2020 half year of $27 million, net interest income decreased by $176 million driven by competitive pressures and product mix impacting housing lending margins, a reduction in average lending volumes, and a lower earnings rate on deposits and capital due to the low interest rate environment. These movements were partially offset by the impact of repricing in the housing lending portfolio, lower wholesale funding and deposit costs and favourable deposit mix.

Other income decreased by $352 million or 19.9%. Excluding large notable items in the September 2020 half year of $22 million, other income decreased by $374 million driven by the non-repeat of mark-to-market gains on the high quality liquids portfolio, lower income from interest rate and foreign exchange risk management, and unfavourable movements in fair value and hedge ineffectiveness. These movements were partially offset by a positive derivative valuation adjustment and higher merchant acquiring and cards income.

Operating expenses decreased by $397 million or 9.3%. Excluding large notable items of $328 million in the September 2020 half year, operating expenses decreased by $69 million primarily due to lower restructuring-related costs, increased use of annual leave entitlements and productivity benefits achieved through simplification of the Group's operations. These were partially offset by provisions for higher performance-based compensation and additional resources to support customers in response to COVID-19 and additional bankers to support growth.

Credit impairment charge decreased by $1,713 million, driven primarily by a reduction in charges of $1,042 million for forward looking provisions as a result of COVID-19. Excluding forward looking provisions, underlying charges have decreased by $671 million due to lower levels of individual impaired exposures and collective provision charges across the Group’s lending portfolio.

Discontinued operations primarily relate to the net results of MLC Wealth and Wealth-related items, combined with a reassessment of customer-related remediation.

Total assets increased by $5,008 million or 0.6% compared to 30 September 2020. The increase was mainly due to an increase in loans and advances (net of other financial assets at fair value and due from customers on acceptances) of $4,986 million or 0.8% from growth in housing lending in New Zealand, combined with growth in non-housing lending reflecting the Group’s continued focus on growth segments. A net increase in cash and liquid assets, due from other banks and trading instruments of $1,291 million or 0.6% reflects the Group’s management of liquidity during the period.

Total liabilities increased by $4,724 million or 0.6% compared to 30 September 2020. The increase was mainly due to deposits and other borrowings of $26,550 million or 4.9% reflecting the impact of government and central bank stimulus measures in response to COVID-19. The increases were partially offset by a decrease in bonds, notes and subordinated debt and other financial liabilities of $18,371 million or 11.7% in line with Group funding requirements.

Total equity increased by $284 million or 0.5% compared to 30 September 2020. The increase was mainly due to an increase in retained earnings of $2,055 million or 13.1% reflecting current period statutory profits, partially offset by dividends paid. Contributed equity decreased by $1,763 million or 3.9% primarily attributable to redemption of the NIS, partially offset by shares issued through the dividend reinvestment plan.

Review of Divisional Results

Business and Private Banking results were driven by lower credit impairment charges and lower operating expenses.

Personal Banking results were largely driven by a reduction in credit impairment charges.

Corporate and Institutional Banking results were driven by a reduction in credit impairment charges and lower operating expenses, partially offset by lower revenue reflecting lower Markets income and reduced margins (ex Markets).

New Zealand Banking results were driven by higher revenue from growth in housing, lower funding costs resulting in improved net interest margin and lower credit impairment charges.

Corporate Functions and Other results reflect lower credit impairment charges mainly driven by a reduction of collective provision charges for forward looking adjustments as a result of COVID-19, partially offset by lower Treasury income.

Corporate Governance

The Board has received the relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations jointly from the Group Chief Executive Officer and the Group Chief Financial Officer in respect to the half year financial report for the period ended 31 March 2021.

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Audit Committee and management, the processes, controls and procedures that are in place to maintain the integrity of the Group’s financial statements. Further details on the role of the Board and its Committees can be found online in the Corporate Governance section of the NAB website at *www.nab.com.au/about-us/corporate-governance*.

Report of the Directors (continued)

Auditor's Independence Declaration

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

Directors' Signatures

Signed in accordance with the resolution of the Directors:

Philip Chronican
Chair

Ross McEwan
Group Chief Executive Officer

6 May 2021

Forward looking statements

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

There are a number of other important factors that could cause actual results to differ materially from those projected in such statements, including (without limitation) a significant change in the Group's financial performance or operating environment; a material change to law or regulation or changes to regulatory policy or interpretation; and risks and uncertainties associated with the ongoing impacts of the COVID-19 pandemic, the Australian and global economic environment and capital market conditions. Further information is contained in the Group's Luxembourg Transparency Law disclosures released to the ASX on 6 May 2021 and the Group's Annual Financial Report for the 2020 financial year, which is available at www.nab.com.au.

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

As lead auditor for the review of the half-year financial report of National Australia Bank Limited for the half-year ended 31 March 2021, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Sarah Lowe
Partner
Melbourne

6 May 2021

Consolidated Financial Statements

Income Statement

	Note	Half Year to Mar 21 $m	Sep 20 $m	Mar 20 $m
Interest income				
Effective interest income		**8,363**	9,361	11,560
Fair value through profit or loss		**831**	1,015	1,175
Interest expense		**(2,354)**	(3,387)	(5,847)
Net interest income		**6,840**	6,989	6,888
Other income[(1)(2)]	3	**1,415**	1,767	1,492
Operating expenses[(1)(2)]	4	**(3,863)**	(4,260)	(4,961)
Credit impairment (charge) / write-back	8	**128**	(1,585)	(1,167)
Profit before income tax		**4,520**	2,911	2,252
Income tax expense	5	**(1,290)**	(954)	(711)
Net profit for the period from continuing operations		**3,230**	1,957	1,541
Net loss after tax for the period from discontinued operations	14	**(20)**	(709)	(226)
Net profit for the period		**3,210**	1,248	1,315
Profit attributable to non-controlling interests		**2**	2	2
Net profit attributable to owners of NAB		**3,208**	1,246	1,313

	cents	cents	cents
Basic earnings per share	**97.1**	38.2	44.2
Diluted earnings per share	**92.7**	37.6	42.6
Basic earnings per share from continuing operations	**97.8**	60.3	52.0
Diluted earnings per share from continuing operations	**93.4**	58.1	49.5

(1) *Comparative information has been restated to align to the presentation in the current period. Refer to Note 1 Basis of preparation.*
(2) *Comparative information has been updated to reflect product reclassification in the Group's BNZ Life business.*

Consolidated Financial Statements (continued)

Statement of Comprehensive Income

	Note	Half Year to Mar 21 $m	Sep 20 $m	Mar 20 $m
Net profit for the period from continuing operations		**3,230**	1,957	1,541
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Actuarial gains on defined benefit superannuation plans		**-**	1	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**(101)**	(1,337)	1,219
Revaluation of land and buildings		**-**	(1)	-
Equity instruments at fair value through other comprehensive income reserve:				
Revaluation gains / (losses)		**5**	(3)	2
Tax on items transferred directly to equity		**30**	393	(361)
Total items that will not be reclassified to profit or loss		**(66)**	(947)	860
Items that will be reclassified subsequently to profit or loss				
Cash flow hedge reserve:				
Gains / (losses) on cash flow hedging instruments		**(336)**	(413)	534
Cost of hedging reserve		**124**	(364)	130
Foreign currency translation reserve:				
Currency adjustments on translation of foreign operations, net of hedging		**(123)**	(488)	451
Transfer to the income statement on disposal of foreign operations		**(14)**	-	(22)
Debt instruments at fair value through other comprehensive income reserve:				
Revaluation gains / (losses)		**411**	322	(282)
Gains / (losses) from sale transferred to the income statement		**(36)**	7	(4)
Tax on items transferred directly to equity		**(52)**	138	(109)
Total items that will be reclassified subsequently to profit or loss		**(26)**	(798)	698
Other comprehensive income for the period, net of income tax		**(92)**	(1,745)	1,558
Total comprehensive income for the period from continuing operations		**3,138**	212	3,099
Net loss after tax for the period from discontinued operations	14	**(20)**	(709)	(226)
Other comprehensive income for the period from discontinued operations, net of income tax		**(1)**	(6)	4
Total comprehensive income for the period		**3,117**	(503)	2,877
Attributable to non-controlling interests	14	**2**	2	2
Total comprehensive income attributable to owners of NAB		**3,115**	(505)	2,875

Consolidated Financial Statements (continued)

Balance Sheet

		As at		
		31 Mar 21	30 Sep 20	31 Mar 20
	Note	$m	$m	$m
Assets				
Cash and liquid assets		**52,831**	64,388	58,338
Due from other banks		**80,889**	52,351	60,884
Trading instruments		**80,161**	95,851	124,647
Debt instruments		**40,800**	40,355	40,275
Other financial assets		**2,960**	3,860	5,974
Hedging derivatives		**2,947**	3,830	13,287
Loans and advances		**588,603**	582,485	601,798
Due from customers on acceptances		**1,245**	1,477	2,010
Current tax assets		**114**	-	-
Deferred tax assets		**3,253**	3,647	2,970
Property, plant and equipment		**2,265**	2,374	2,291
Goodwill and other intangible assets		**3,776**	3,809	4,696
Other assets		**10,275**	10,659	10,458
Assets held for sale	14	**1,454**	1,479	-
Total assets		**871,573**	866,565	927,628
Liabilities				
Due to other banks		**51,906**	50,556	53,076
Trading instruments		**25,117**	30,021	56,669
Other financial liabilities		**26,520**	29,971	35,119
Hedging derivatives		**2,190**	2,255	6,664
Deposits and other borrowings	10	**572,726**	546,176	544,498
Current tax liabilities		**30**	192	300
Provisions		**3,264**	3,820	3,446
Bonds, notes and subordinated debt		**111,464**	126,384	148,873
Other debt issues		**6,826**	6,191	5,636
Deferred tax liabilities		**30**	25	-
Other liabilities		**9,759**	9,460	14,969
Liabilities directly associated with assets held for sale	14	**164**	221	-
Total liabilities		**809,996**	805,272	869,250
Net assets		**61,577**	61,293	58,378
Equity				
Contributed equity	11	**43,713**	45,476	41,193
Reserves	11	**91**	99	870
Retained profits		**17,772**	15,717	16,314
Total equity (parent entity interest)		**61,576**	61,292	58,377
Non-controlling interest in controlled entities		**1**	1	1
Total equity		**61,577**	61,293	58,378

Consolidated Financial Statements (continued)

Condensed Cash Flow Statement[1]

	Half Year to		
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**
Cash flows from operating activities			
Interest received	**9,309**	10,475	12,685
Interest paid	**(2,597)**	(3,881)	(6,270)
Dividends received	**8**	4	39
Income tax paid	**(1,149)**	(1,067)	(1,513)
Other cash flows from operating activities before changes in operating assets and liabilities	**(3,287)**	(5,460)	(657)
Changes in operating assets and liabilities	**7,593**	24,671	4,866
Net cash provided by / (used in) operating activities	**9,877**	24,742	9,150
Cash flows from investing activities			
Movement in debt instruments			
Purchases	**(13,843)**	(7,762)	(13,304)
Proceeds from disposal and maturity	**11,796**	8,132	13,279
Net movement in associates and joint ventures, and other debt and equity instruments	**(243)**	(92)	(56)
Purchase of property, plant, equipment and software	**(310)**	(494)	(478)
Proceeds from sale of property, plant, equipment and software, net of costs	**-**	-	73
Net cash provided by / (used in) investing activities	**(2,600)**	(216)	(486)
Cash flows from financing activities			
Repayments of bonds, notes and subordinated debt	**(13,080)**	(15,692)	(18,832)
Proceeds from issue of bonds, notes and subordinated debt, net of costs	**3,899**	2,650	12,346
Proceeds from issue of ordinary shares, net of costs	**-**	4,204	700
Repayments of other contributed equity	**(2,000)**	-	-
Proceeds from other debt issues, net of costs	**2,365**	598	500
Repayments of other debt issues	**(1,731)**	(42)	(607)
Dividends and distributions paid (excluding dividend reinvestment plan)	**(882)**	(832)	(1,491)
Repayments of lease liabilities	**(189)**	(166)	(156)
Net cash provided by / (used in) financing activities	**(11,618)**	(9,280)	(7,540)
Net increase / (decrease) in cash and cash equivalents	**(4,341)**	15,246	1,124
Cash and cash equivalents at beginning of period	**62,041**	52,498	47,026
Effects of exchange rate changes on balance of cash held in foreign currencies	**(971)**	(5,703)	4,348
Cash and cash equivalents at end of period	**56,729**	62,041	52,498

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

Consolidated Financial Statements (continued)

Statement of Changes in Equity

	Contributed equity[1] $m	Reserves[1] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Balance at 1 October 2019	38,707	306	16,500	55,513	8	**55,521**
Net profit for the period from continuing operations	-	-	1,541	1,541	-	**1,541**
Net profit / (loss) for the period from discontinued operations	-	-	(228)	(228)	2	**(226)**
Other comprehensive income for the period from continuing operations	-	696	862	1,558	-	**1,558**
Other comprehensive income for the period from discontinued operations	-	4	-	4	-	**4**
Total comprehensive income for the period	-	700	2,175	2,875	2	**2,877**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	1,603	-	-	1,603	-	**1,603**
Conversion of convertible notes	750	-	-	750	-	**750**
Transfer from / (to) retained profits	-	(30)	30	-	-	**-**
Transfer from equity-based compensation reserve	133	(133)	-	-	-	**-**
Equity-based compensation	-	27	-	27	-	**27**
Dividends paid	-	-	(2,369)	(2,369)	(3)	**(2,372)**
Distributions on other equity instruments	-	-	(22)	(22)	-	**(22)**
Changes in ownership interests[2]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(6)	**(6)**
Balance at 31 March 2020	**41,193**	**870**	**16,314**	**58,377**	**1**	**58,378**
Net profit for the period from continuing operations	-	-	1,957	1,957	-	**1,957**
Net profit / (loss) for the period from discontinued operations	-	-	(711)	(711)	2	**(709)**
Other comprehensive income for the period from continuing operations	-	(800)	(945)	(1,745)	-	**(1,745)**
Other comprehensive income for the period from discontinued operations	-	(3)	(3)	(6)	-	**(6)**
Total comprehensive income for the period	-	(803)	298	(505)	2	**(503)**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	4,277	-	-	4,277	-	**4,277**
Transfer from / (to) retained profits	-	(9)	9	-	-	**-**
Transfer from equity-based compensation reserve	6	(6)	-	-	-	**-**
Equity-based compensation	-	47	-	47	-	**47**
Dividends paid	-	-	(887)	(887)	(1)	**(888)**
Distributions on other equity instruments	-	-	(17)	(17)	-	**(17)**
Changes in ownership interests[2]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(1)	**(1)**
Balance at 30 September 2020	**45,476**	**99**	**15,717**	**61,292**	**1**	**61,293**
Net profit for the period from continuing operations	-	-	3,230	3,230	-	**3,230**
Net profit / (loss) for the period from discontinued operations	-	-	(22)	(22)	2	**(20)**
Other comprehensive income for the period from continuing operations	-	(21)	(71)	(92)	-	**(92)**
Other comprehensive income for the period from discontinued operations	-	-	(1)	(1)	-	**(1)**
Total comprehensive income for the period	-	(21)	3,136	3,115	2	**3,117**
Transactions with owners, recorded directly in equity:						
Contributions by and distributions to owners						
Issue of ordinary shares	110	-	-	110	-	**110**
Transfer from / (to) retained profits	-	21	(21)	-	-	**-**
Transfer from equity-based compensation reserve	72	(72)	-	-	-	**-**
Equity-based compensation	-	49	-	49	-	**49**
Dividends paid	-	-	(977)	(977)	(2)	**(979)**
Distributions on other equity instruments	-	-	(13)	(13)	-	**(13)**
Redemption of National Income Securities	(1,945)	15	(70)	(2,000)	-	**(2,000)**
Balance at 31 March 2021	**43,713**	**91**	**17,772**	**61,576**	**1**	**61,577**

(1) *Refer to Note 11 Contributed equity and reserves.*
(2) *Changes in ownership interests in controlled entities that does not result in a loss of control.*

Notes to the Consolidated Financial Statements

1. Basis of Preparation

This interim financial report (the report) for the half year reporting period ended 31 March 2021 has been prepared in accordance with the Australian Securities Exchange (ASX) Listing Rules, the *Corporations Act 2001* (Cth) and AASB 134 *Interim Financial Reporting.*

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

This interim financial report does not contain all disclosures of the type normally found within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial position and financial performance of the Group as that given by the annual financial report. This report should be read in conjunction with the Group's 2020 Annual Financial Report and any public announcements made up until the date of this interim financial report.

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

Accounting policies

The accounting policies and methods of computation applied in this report are consistent with those applied in the Group's 2020 Annual Financial Report, except for as detailed below.

During the March 2021 half year, the Group updated the presentation of expenses related to its investment management businesses. A separate subtotal relating to 'Total net investment management income' is now presented within 'Other income' in the Income Statement. 'Investment management expense' is made up of expenses that are direct and incremental to earning income from the provision of investment management services and is presented together with 'Investment management income'. Previously these expenses were included within 'Operating expenses' in the income statement.

Presenting subtotals of 'Investment management income' and 'Investment management expense' together in 'Other income' better reflects the results of the Group's investment management activities.

The change has been applied retrospectively and impacted the prior period financial statements of the Group as follows:
- A decrease of $69 million in 'Other income' and 'Operating expenses' for the 31 March 2020 half year; and
- A decrease of $68 million in 'Other income' and 'Operating expenses' for the 30 September 2020 half year.

Refer to *Note 3 Other income* for the disclosure of 'Net investment management income'.

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

Critical accounting judgements and estimates

The preparation of this interim financial report requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Except as explained below, there have been no significant changes to the accounting estimates, judgements and assumptions used in preparing the interim financial report compared to those applied in the preparation of the 2020 Annual Financial Report. The COVID-19 pandemic continues to have an impact on global economies and remains a source of uncertainty. Certain sectors, including tourism, hospitality, commercial property and air travel, are not expected to return to pre-COVID-19 activity levels in the short-term. The Group has considered the impact of COVID-19 in determining the estimates, assumptions and judgements used to prepare the interim financial report. Consistent with prior periods the most significant areas impacted by COVID-19 are the measurement of credit losses and assessment of goodwill, as set out below.

Measurement of expected credit losses

While the methodologies applied in the expected credit loss (ECL) calculations remained unchanged from those applied in the 2020 Annual Financial Report, the Group has incorporated estimates, assumptions and judgements specific to the impact of COVID-19 and the associated support packages in the measurement of ECL through forward looking economic adjustments. These are explained further in *Note 8 Provision for credit impairment on loans at amortised cost*.

Notes to the Consolidated Financial Statements (continued)

1. Basis of Preparation (continued)

Goodwill

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

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

	Goodwill			Discount rate per annum	Terminal growth rate
	Mar 21	Sep 20	Mar 20	Mar 21	Mar 21
Cash generating unit	**$m**	**$m**	**$m**	**%**	**%**
Business and Private Banking	**68**	68	68	**9.2**	**4.2**
New Zealand Banking	**258**	258	258	**9.4**	**4.7**
Personal Banking	**1,512**	1,512	1,512	**9.2**	**4.2**
Total goodwill	**1,838**	1,838	1,838	**n/a**	**n/a**

Whilst there is no impairment in any of the CGUs, changes to the key assumptions would affect the recoverable amount of the CGUs. For the Personal Banking CGU, either an increase in the discount rate of 29 basis points or a decrease in the growth rate of 120 basis points would result in impairment first becoming evident. These sensitivities assume the specific assumptions move in isolation and all other assumptions are held constant.

Uncertainty over income tax treatments

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

Disposal group held for sale

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

Currency of presentation

All amounts are expressed in Australian dollars unless otherwise stated.

Rounding of amounts

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

Future accounting developments

The Group is exposed to a range of interbank offered rates (IBORs) through various financial instruments including loans, bonds, debt issuances and derivatives. Some IBOR quotations are likely to cease being published from 1 January 2022, others from 1 July 2023 and some will continue indefinitely as published quotations.

In this regard the Group is reviewing AASB 2020-8 *Amendment to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* to consider the financial reporting implications. AASB 2020-8 provides a practical expedient for modifications and derecognition of financial instruments, relief from discontinuing hedge accounting and additional disclosure about risk arising from IBOR transitioning. While the mandatory effective date of the amendments for the Group is 1 October 2021, the Group is assessing the impact of early adoption.

The Group continues to transition impacted financial instruments in accordance with relevant industry timelines and regulatory guidelines subject to customer preferences and contractual obligations where applicable.

Notes to the Consolidated Financial Statements (continued)

2. Segment Information[1]

Overview

For the March 2021 half year, the Group's segment information is presented based on the following reportable segments: Business and Private Banking; Personal Banking; Corporate and Institutional Banking; New Zealand Banking; Corporate Functions and Other; and MLC Wealth.

The Group has revisited the allocation of costs between reportable segments to better align with the Group's new organisational structure. These changes have not impacted the Group's net profit, but have resulted in reallocations of net profit between the reportable segments. Prior year segment information has been restated to reflect the change in cost allocation.

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

Major customers

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

Reportable segments

	Half Year ended 31 March 2021						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[2] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income	2,605	1,976	967	979	312	-	6,839
Other operating income	449	253	706	258	(66)	-	1,600
Net operating income	3,054	2,229	1,673	1,237	246	-	8,439
Operating expenses	(1,239)	(1,096)	(676)	(456)	(396)	-	(3,863)
Underlying profit / (loss)	1,815	1,133	997	781	(150)	-	4,576
Credit impairment (charge) / write-back	(70)	93	45	17	43	-	128
Cash earnings / (loss) before tax and distributions	1,745	1,226	1,042	798	(107)	-	4,704
Income tax (expense) / benefit	(529)	(367)	(260)	(222)	30	-	(1,348)
Cash earnings / (loss) before distributions	1,216	859	782	576	(77)	-	3,356
Distributions	-	-	-	-	(13)	-	(13)
Cash earnings / (loss)	1,216	859	782	576	(90)	-	3,343
Fair value and hedge ineffectiveness	(5)	(4)	16	14	(147)	-	(126)
Other non-cash earnings items	-	-	-	-	13	-	13
Net profit / (loss) for the period from continuing operations	1,211	855	798	590	(224)	-	3,230
Net profit / (loss) attributable to owners of NAB from discontinued operations	-	-	-	-	(70)	48	(22)
Net profit / (loss) attributable to the owners of NAB	1,211	855	798	590	(294)	48	3,208

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Corporate Functions and Other includes Group Eliminations.*

Notes to the Consolidated Financial Statements (continued)

2. Segment Information (continued)[1]

Reportable segments (continued)

	Half Year ended 30 September 2020						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[2] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income[3]	2,642	1,985	1,133	913	312	-	6,985
Other operating income[3]	414	248	775	248	165	-	1,850
Net operating income	3,056	2,233	1,908	1,161	477	-	8,835
Operating expenses[3][4]	(1,263)	(1,091)	(718)	(449)	(739)	-	(4,260)
Underlying profit / (loss)	1,793	1,142	1,190	712	(262)	-	4,575
Credit impairment charge	(196)	(147)	(176)	(99)	(983)	-	(1,601)
Cash earnings / (loss) before tax and distributions	1,597	995	1,014	613	(1,245)	-	2,974
Income tax (expense) / benefit	(481)	(306)	(274)	(171)	269	-	(963)
Cash earnings / (loss) before distributions	1,116	689	740	442	(976)	-	2,011
Distributions	-	-	-	-	(17)	-	(17)
Cash earnings / (loss)	1,116	689	740	442	(993)	-	1,994
Fair value and hedge ineffectiveness	(12)	(8)	(86)	(15)	67	-	(54)
Other non-cash earnings items	-	-	-	-	17	-	17
Net profit / (loss) for the period from continuing operations	1,104	681	654	427	(909)	-	1,957
Net loss attributable to owners of NAB from discontinued operations	-	-	-	-	(534)	(177)	(711)
Net profit / (loss) attributable to the owners of NAB	1,104	681	654	427	(1,443)	(177)	1,246

	Half Year ended 31 March 2020						
Segment information	**Business and Private Banking $m**	**Personal Banking $m**	**Corporate and Institutional Banking $m**	**New Zealand Banking $m**	**Corporate Functions and Other[2] $m**	**MLC Wealth $m**	**Total Group $m**
Net interest income[3]	2,758	2,032	942	959	195	-	6,886
Other operating income[3]	464	266	607	272	(140)	-	1,469
Net operating income	3,222	2,298	1,549	1,231	55	-	8,355
Operating expenses[3][4]	(1,166)	(1,113)	(670)	(445)	(1,353)	-	(4,747)
Underlying profit / (loss)	2,056	1,185	879	786	(1,298)	-	3,608
Credit impairment (charge) / write-back	(126)	(109)	6	(41)	(891)	-	(1,161)
Cash earnings / (loss) before tax and distributions	1,930	1,076	885	745	(2,189)	-	2,447
Income tax (expense) / benefit	(574)	(323)	(209)	(210)	607	-	(709)
Cash earnings / (loss) before distributions	1,356	753	676	535	(1,582)	-	1,738
Distributions	-	-	-	-	(22)	-	(22)
Cash earnings / (loss)	1,356	753	676	535	(1,604)	-	1,716
Fair value and hedge ineffectiveness	3	7	55	(5)	(40)	-	20
Other non-cash earning items	-	-	-	-	(195)	-	(195)
Net profit / (loss) for the period from continuing operations	1,359	760	731	530	(1,839)	-	1,541
Net profit / (loss) attributable to owners of NAB from discontinued operations	-	-	-	-	(254)	26	(228)
Net profit / (loss) attributable to the owners of NAB	1,359	760	731	530	(2,093)	26	1,313

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Corporate Functions and Other includes Group Eliminations.*
(3) *Includes large notable items. Refer to Section 4 Large notable items for further information.*
(4) *Comparative information has been restated to reflect a reallocation of operating expenses between business units to better align with the Group's new organisational structure.*

Notes to the Consolidated Financial Statements (continued)

3. Other Income[(1)]

	Half Year to Mar 21 $m	Sep 20 $m	Mar 20 $m
Gains less losses on financial instruments at fair value			
Trading instruments	**297**	736	543
Hedge ineffectiveness[(2)]	**(249)**	(7)	33
Financial instruments designated at fair value	**203**	(1)	(216)
Total gains less losses on financial instruments at fair value	**251**	728	360
Other operating income			
Dividend revenue	**4**	1	35
Banking fees	**519**	497	523
Money transfer fees	**256**	204	236
Fees and commissions[(3)(4)]	**241**	222	230
Other income[(5)]	**84**	67	55
Total other operating income	**1,104**	991	1,079
Net investment management income[(4)]			
Investment management income	**128**	116	122
Investment management expense	**(68)**	(68)	(69)
Total net investment management income	**60**	48	53
Total other income	**1,415**	1,767	1,492

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Represents hedge ineffectiveness of designated hedging relationships. In the March 2021 half year, operational enhancements were implemented to reduce future volatility in statutory earnings related to hedge accounting. This resulted in a $245 million charge to statutory earnings in the current period.*
(3) *Includes large notable items in comparative periods.*
(4) *Comparative information has been restated to align to the presentation in the current period. Refer to Note 1 Basis of preparation.*
(5) *Comparative information has been updated to reflect product reclassification in the Group's BNZ Life business.*

Notes to the Consolidated Financial Statements (continued)

4. Operating Expenses[1]

	Half Year to		
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**
Personnel expenses			
Salaries and related on-costs[2]	**1,739**	1,724	1,678
Superannuation costs-defined contribution plans	**148**	144	141
Performance-based compensation[2]	**291**	174	40
Other expenses[3]	**82**	276	176
Total personnel expenses	**2,260**	2,318	2,035
Occupancy and depreciation expenses			
Rental expense	**35**	39	53
Depreciation of property, plant and equipment[4]	**318**	466	310
Other expenses	**35**	53	42
Total occupancy and depreciation expenses	**388**	558	405
General expenses			
Fees and commission expense[2]	**22**	19	24
Amortisation of intangible assets[4]	**188**	127	1,136
Advertising and marketing	**72**	87	75
Charge to provide for operational risk event losses[4]	**60**	164	93
Communications, postage and stationery	**76**	86	85
Computer equipment and software	**351**	366	375
Data communication and processing charges	**45**	43	41
Professional fees[2]	**245**	353	310
Impairment losses recognised	**-**	10	215
Other expenses[2][3]	**156**	129	167
Total general expenses	**1,215**	1,384	2,521
Total operating expenses	**3,863**	4,260	4,961

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Comparative information has been restated to align to the presentation in the current period. Refer to Note 1 Basis of preparation.*
(3) *Comparative information has been updated to reflect product reclassification in the Group's BNZ Life business.*
(4) *Includes large notable items in comparative periods.*

Notes to the Consolidated Financial Statements (continued)

5. Income Tax Expense[(1)]

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

	Half Year to		
	Mar 21	**Sep 20**	**Mar 20**
	$m	**$m**	**$m**
Profit before income tax	**4,520**	2,911	2,252
Prima facie income tax expense at 30%	**1,356**	873	676
Tax effect of permanent differences			
Assessable foreign income	**3**	2	3
Foreign tax rate differences	**(56)**	(40)	(20)
Foreign branch income not assessable	**(22)**	(31)	(25)
Over provision in prior years	**(1)**	4	(1)
Offshore banking unit adjustment	**(15)**	60	(37)
Restatement of deferred tax balances for tax rate changes	**1**	7	3
Non-deductible interest on convertible instruments	**29**	27	34
Losses not tax effected	**(1)**	(1)	33
Impairment of investment in MLC Life	**-**	-	64
Other	**(4)**	53	(19)
Total income tax expense	**1,290**	954	711
Effective tax rate (%)	**28.5%**	32.8%	31.6%

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

Notes to the Consolidated Financial Statements (continued)

6. Dividends and Distributions

The Group has recognised the following dividends on ordinary shares:

	Half Year to					
	Mar 21		Sep 20		Mar 20	
Dividends on ordinary shares	**Amount per share cents**	**Total amount $m**	**Amount per share cents**	**Total amount $m**	**Amount per share cents**	**Total amount $m**
Dividend (in respect of prior periods)	**30**	**987**	30	895	83	2,393
Deduct: Bonus shares in lieu of dividend	**n/a**	**(10)**	n/a	(8)	n/a	(24)
Dividends paid by NAB	**n/a**	**977**	n/a	887	n/a	2,369
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**2**	n/a	1	n/a	3
Total dividend paid	**n/a**	**979**	n/a	888	n/a	2,372

Franked dividends paid during the period were fully franked at a tax rate of 30% (2020: 30%).

Interim dividend

On 6 May 2021, the Directors determined the following dividend:

	Amount per share cents	Franked amount per share %	Total amount $m
Interim dividend determined in respect of the half year ended 31 March 2021	60	100	**1,979**

The 2021 interim dividend is payable on 2 July 2021. No discount will be applied to the Dividend Reinvestment Plan (DRP), with no participation limit. The financial effect of the interim dividend has not been brought to account in the financial statements for the half year ended 31 March 2021 and will be recognised in subsequent financial reports.

	Half Year to					
	Mar 21		Sep 20		Mar 20	
Distributions on other equity instruments	**Amount per security[1] $**	**Total amount $m**	**Amount per security[1] $**	**Total amount $m**	**Amount per security[1] $**	**Total amount $m**
National Income Securities	**0.66**	**13**	0.88	17	1.09	22

On 15 February 2021, the Group redeemed the $2,000 million of National Income Securities (NIS) issued on 29 June 1999. The NIS were redeemed for cash at their par value ($100) plus the final interest payment. The unpaid preference shares forming part of the NIS were bought back for no consideration and cancelled.

Dividend and distribution plans

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

The last date for receipt of election notices for the Dividend Reinvestment Plan and the Bonus Share Plan is 17 May 2021 at 5pm (Australian Eastern Standard time).

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

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances

	As at		
	31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m
Housing loans[(1)]	**345,172**	341,729	346,044
Other term lending	**223,594**	223,206	234,320
Asset and lease financing	**12,988**	13,009	12,692
Overdrafts	**4,511**	4,347	5,516
Credit card outstandings	**5,395**	5,259	6,439
Other	**5,645**	4,780	6,839
Fair value adjustment	**160**	245	303
Gross loans and advances	**597,465**	592,575	612,153
Acceptances	**1,245**	1,477	2,010
Gross loans and advances including acceptances	**598,710**	594,052	614,163
Represented by:			
Loans and advances at fair value[(2)]	**2,958**	3,860	5,214
Loans and advances at amortised cost	**594,507**	588,715	606,939
Acceptances	**1,245**	1,477	2,010
Gross loans and advances including acceptances	**598,710**	594,052	614,163
Unearned income and deferred net fee income	**(159)**	(219)	(306)
Provision for credit impairment	**(5,745)**	(6,011)	(4,835)
Net loans and advances including acceptances	**592,806**	587,822	609,022
Securitised loans and loans supporting covered bonds[(3)]	**34,177**	36,505	33,014

By product and geographic location	Australia $m	New Zealand $m	Other International $m	Total Group $m
As at 31 March 2021				
Housing loans[(1)]	299,668	45,465	39	**345,172**
Other term lending	171,158	35,566	16,870	**223,594**
Asset and lease financing	12,603	-	385	**12,988**
Overdrafts	2,728	1,772	11	**4,511**
Credit card outstandings	4,591	804	-	**5,395**
Other	4,810	319	516	**5,645**
Fair value adjustment	182	(22)	-	**160**
Gross loans and advances	495,740	83,904	17,821	**597,465**
Acceptances	1,245	-	-	**1,245**
Gross loans and advances including acceptances	496,985	83,904	17,821	**598,710**
Represented by:				
Loans and advances at fair value[(2)]	2,095	863	-	**2,958**
Loans and advances at amortised cost	493,645	83,041	17,821	**594,507**
Acceptances	1,245	-	-	**1,245**
Gross loans and advances including acceptances	496,985	83,904	17,821	**598,710**

(1) *During March 2021, the Group provided a $150 million secured financing facility to 86 400 Holdings Ltd, of which $5 million was utilised as at 31 March 2021. Further drawdowns have occurred subsequently and the facility has been increased to $300 million. The facility was negotiated on arms-length terms as part of normal lending activities the Group provides to institutional customers.*

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

(3) *Loans supporting securitisation and covered bonds are included within the balance of net loans and advances including acceptances.*

Notes to the Consolidated Financial Statements (continued)

7. Loans and Advances including Acceptances (continued)

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

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

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

Notes to the Consolidated Financial Statements (continued)

8. Provision for Credit Impairment on Loans at Amortised Cost

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

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

Key estimates and assumptions

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

Credit impairment charge on loans at amortised cost

	Half Year to		
	Mar 21	**Sep 20**	**Mar 20**
	$m	**$m**	**$m**
New and increased provisions (net of collective provision releases)	**6**	1,713	1,277
Write-backs of specific provisions	**(98)**	(94)	(75)
Recoveries of specific provisions	**(36)**	(34)	(35)
Total charge / (write-back) to the income statement	**(128)**	1,585	1,167

Notes to the Consolidated Financial Statements (continued)

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

Movement in provision for credit impairment on loans at amortised cost

	Stage 1	Stage 2	Stage 3		
	12-mth expected credit losses (ECL)	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Lifetime ECL credit impaired	
	Collective provision	Collective provision	Collective provision	Specific provision	Total
	$m	$m	$m	$m	$m
Balance at 1 October 2019	368	2,227	523	782	**3,900**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	252	(242)	(10)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(34)	83	(49)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(77)	78	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(27)	(86)	114	**-**
New and increased provisions (net of collective provision releases)	(206)	959	223	301	**1,277**
Write-backs of specific provisions	-	-	-	(75)	**(75)**
Write-offs from specific provisions	-	-	-	(302)	**(302)**
Foreign currency translation and other adjustments	6	19	3	7	**35**
Balance at 31 March 2020	**384**	**2,942**	**682**	**827**	**4,835**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	236	(227)	(9)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(88)	162	(74)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(65)	67	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	-	(24)	(88)	112	**-**
New and increased provisions (net of collective provision releases)	(53)	1,133	250	383	**1,713**
Write-backs of specific provisions	-	-	-	(94)	**(94)**
Write-offs from specific provisions	-	-	-	(398)	**(398)**
Foreign currency translation and other adjustments	(7)	(24)	(4)	(10)	**(45)**
Balance at 30 September 2020	**470**	**3,897**	**824**	**820**	**6,011**
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-mth ECL - collective provision	102	(95)	(7)	-	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	(29)	177	(148)	-	**-**
Transfer to Lifetime ECL credit impaired - collective provision	(1)	(55)	56	-	**-**
Transfer to Lifetime ECL credit impaired - specific provision	-	(10)	(67)	77	**-**
New and increased provisions (net of collective provision releases)	(270)	(28)	166	138	**6**
Write-backs of specific provisions	-	-	-	(98)	**(98)**
Write-offs from specific provisions	-	-	-	(163)	**(163)**
Foreign currency translation and other adjustments	-	(7)	-	(4)	**(11)**
Balance at 31 March 2021	**272**	**3,879**	**824**	**770**	**5,745**

Notes to the Consolidated Financial Statements (continued)

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

ECL scenario analysis

The following table shows the key macro-economic variables used in the base case and downside scenarios as at 31 March 2021:

	Base case			Downside		
	Financial year			Financial year		
	2021 %	2022 %	2023 %	2021 %	2022 %	2023 %
GDP change (year ended September)	5.3	2.6	2.5	(0.1)	(4.7)	2.8
Unemployment (as at 30 September)	6.2	5.5	5.0	7.5	9.5	9.0
House price change (year ended September)	7.7	6.5	3.5	(5.7)	(9.6)	(5.4)

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

	As at	
Total provisions for ECL	31 Mar 21 $m	30 Sep 20 $m
Probability weighted	5,745	6,011
100% Base case	4,904	5,611
100% Downside	7,330	7,774

The table below shows weightings applied to the Australian portfolio as at 31 March 2021 to derive the probability weighted ECL:

	As at	
Macro-economic scenario weightings	31 Mar 21 %	30 Sep 20 %
Upside	5	15
Base case	65	60
Downside	30	25

- The March 2021 total provisions for ECL in the 100% base case and 100% downside scenarios have reduced since September 2020, reflecting improvement in the macro-economic outlook.
- The March 2021 upside scenario weighting has reduced from 15% at September 2020 to 5% at March 2021 given the improvement of the base case scenario.
- To appropriately reflect significant uncertainty and potential headwinds in the outlook, the downside scenario weighting has increased from 25% at September 2020 to 30% at March 2021.

The table below provides a breakdown of the probability weighted ECL by key portfolios:

	As at	
Total provisions for ECL by key portfolios	31 Mar 21 $m	30 Sep 20 $m
Housing	1,305	1,245
Business	4,126	4,252
Other	314	514
Total Group	5,745	6,011

Notes to the Consolidated Financial Statements (continued)

9. Asset Quality

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

Customers who received COVID-19 deferrals were treated in accordance with APRA guidance in the tables below.

	As at		
Summary of total impaired assets	**31 Mar 21 $m**	**30 Sep 20 $m**	**31 Mar 20 $m**
Impaired assets	**1,668**	1,844	2,000
Restructured loans	**1**	22	37
Gross impaired assets[(1)]	**1,669**	1,866	2,037
Specific provisions for credit impairment[(2)]	**(794)**	(840)	(827)
Net impaired assets	**875**	1,026	1,210

Movement in gross impaired assets	**Australia $m**	**New Zealand $m**	**Other International $m**	**Total Group $m**
Balance at 1 October 2019	1,330	608	34	**1,972**
New	362	190	1	**553**
Written-off	(134)	(23)	-	**(157)**
Returned to performing, repaid or no longer impaired	(259)	(108)	(1)	**(368)**
Foreign currency translation adjustments	-	32	5	**37**
Balance at 31 March 2020	1,299	699	39	**2,037**
New	425	114	-	**539**
Written-off	(237)	(28)	-	**(265)**
Returned to performing, repaid or no longer impaired	(211)	(191)	(7)	**(409)**
Foreign currency translation adjustments	1	(33)	(4)	**(36)**
Balance at 30 September 2020	1,277	561	28	**1,866**
New	200	71	-	**271**
Written-off	(56)	(33)	(1)	**(90)**
Returned to performing, repaid or no longer impaired	(223)	(144)	(7)	**(374)**
Foreign currency translation adjustments	-	(2)	(2)	**(4)**
Balance at 31 March 2021	1,198	453	18	**1,669**

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

	As at		
90+ days past due loans - by geographic location	**31 Mar 21 $m**	**30 Sep 20 $m**	**31 Mar 20 $m**
Australia	**5,509**	4,082	3,705
New Zealand	**148**	163	177
Other International	**7**	10	9
90+ days past due loans	**5,664**	4,255	3,891

(1) *Gross impaired assets include $48 million (September 2020: $38 million, March 2020: $nil) of gross impaired other financial assets at fair value.*
(2) *Includes $24 million (September 2020: $20 million, March 2020: $nil) of specific provision on loans at fair value.*

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings

	As at		
	31 Mar 21 $m	**30 Sep 20 $m**	**31 Mar 20 $m**
Term deposits	**115,961**	134,743	151,596
On-demand and short-term deposits	**280,057**	261,260	236,402
Certificates of deposit	**40,439**	35,564	43,285
Deposits not bearing interest[1]	**79,796**	72,221	59,199
Borrowings	**26,594**	21,767	31,403
Repurchase agreements	**34,172**	25,127	30,459
Fair value adjustment	**3**	1	6
Total deposits and other borrowings	**577,022**	550,683	552,350
Represented by:			
Total deposits and other borrowings at fair value	**4,296**	4,507	7,852
Total deposits and other borrowings at amortised cost	**572,726**	546,176	544,498
Total deposits and other borrowings	**577,022**	550,683	552,350

By product and geographic location	**Australia $m**	**New Zealand $m**	**Other International $m**	**Total Group $m**
As at 31 March 2021				
Term deposits	88,364	23,080	4,517	**115,961**
On-demand and short-term deposits	244,716	30,105	5,236	**280,057**
Certificates of deposit	27,254	605	12,580	**40,439**
Deposits not bearing interest[1]	69,657	10,139	-	**79,796**
Borrowings	21,625	3,688	1,281	**26,594**
Repurchase agreements	1,279	-	32,893	**34,172**
Fair value adjustment	-	3	-	**3**
Total deposits and other borrowings	452,895	67,620	56,507	**577,022**
Represented by:				
Total deposits and other borrowings at fair value	-	4,296	-	**4,296**
Total deposits and other borrowings at amortised cost	452,895	63,324	56,507	**572,726**
Total deposits and other borrowings	452,895	67,620	56,507	**577,022**

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

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

Notes to the Consolidated Financial Statements (continued)

10. Deposits and Other Borrowings (continued)

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

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

Notes to the Consolidated Financial Statements (continued)

11. Contributed Equity and Reserves

Contributed equity	As at 31 Mar 21 $m	 30 Sep 20 $m	 31 Mar 20 $m
Issued and paid-up ordinary share capital			
Ordinary shares, fully paid	**43,713**	43,531	39,248
Other contributed equity			
National Income Securities	**-**	1,945	1,945
Total contributed equity	**43,713**	45,476	41,193

Movement in issued and paid-up ordinary share capital	Half Year to Mar 21 $m	 Sep 20 $m	 Mar 20 $m
Balance at beginning of period	**43,531**	39,248	36,762
Shares issued:			
Institutional share placement	**-**	2,954	-
Retail share purchase plan	**-**	1,250	-
Dividend reinvestment plan	**110**	73	903
Dividend reinvestment plan underwritten allotments	**-**	-	700
Conversion of convertible preference shares and convertible notes	**-**	-	750
Transfer from equity-based compensation reserve	**72**	6	133
Balance at end of period	**43,713**	43,531	39,248

Reserves	As at 31 Mar 21 $m	 30 Sep 20 $m	 31 Mar 20 $m
Foreign currency translation reserve	**(137)**	(38)	453
Asset revaluation reserve	**25**	26	30
Cash flow hedge reserve	**69**	307	601
Cost of hedging reserve	**(309)**	(396)	(141)
Equity-based compensation reserve	**92**	115	73
Debt instruments at fair value through other comprehensive income reserve	**338**	77	(157)
Equity instruments at fair value through other comprehensive income reserve	**13**	8	11
Total reserves	**91**	99	870

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments

(a) Fair value hierarchy

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

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

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, discounted cash flow analysis, option pricing models, rates of estimated credit losses and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period in which the transfer occurs.

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

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 31 March 2021 attributable to reasonably possible alternatives would not have a material impact on the Group.

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

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

	As at 31 March 2021		As at 30 September 2020		As at 31 March 2020	
	Carrying Value $m	Fair Value $m	Carrying Value $m	Fair Value $m	Carrying Value $m	Fair Value $m
Financial assets						
Loans and advances	**588,603**	**589,027**	582,485	583,553	601,798	603,857
Financial liabilities						
Deposits and other borrowings	**572,726**	**572,811**	546,176	546,530	544,498	544,799
Bonds, notes and subordinated debt	**111,464**	**114,305**	126,384	128,811	148,873	147,395
Other debt issues	**6,826**	**7,156**	6,191	6,364	5,636	5,518

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments (continued)

(c) Fair value measurements recognised on the balance sheet

	Fair value measurement as at 31 March 2021			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading instruments	**34,285**	**45,720**	**156**	**80,161**
Debt instruments	**3,378**	**36,756**	**666**	**40,800**
Other financial assets	**-**	**2,960**	**-**	**2,960**
Hedging derivatives	**-**	**2,947**	**-**	**2,947**
Investments relating to life insurance business	**-**	**93**	**-**	**93**
Equity instruments[(1)]	**-**	**29**	**125**	**154**
Total financial assets measured at fair value	**37,663**	**88,505**	**947**	**127,115**
Financial liabilities				
Trading instruments	**-**	**25,011**	**106**	**25,117**
Other financial liabilities	**1,635**	**24,885**	**-**	**26,520**
Hedging derivatives	**-**	**2,190**	**-**	**2,190**
Total financial liabilities measured at fair value	**1,635**	**52,086**	**106**	**53,827**

	Fair value measurement as at 30 September 2020			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Trading instruments	42,075	53,668	108	95,851
Debt instruments	3,209	36,427	719	40,355
Other financial assets	-	3,860	-	3,860
Hedging derivatives	-	3,830	-	3,830
Investments relating to life insurance business	-	100	-	100
Equity instruments[(1)]	-	-	116	116
Total financial assets measured at fair value	**45,284**	**97,885**	**943**	**144,112**
Financial liabilities				
Trading instruments	-	29,933	88	30,021
Other financial liabilities	1,371	28,600	-	29,971
Hedging derivatives	-	2,255	-	2,255
Total financial liabilities measured at fair value	**1,371**	**60,788**	**88**	**62,247**

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

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

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

Notes to the Consolidated Financial Statements (continued)

12. Fair Value of Financial Instruments (continued)

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

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

	Half Year to 31 March 2021			
	Assets			Liabilities
	Trading instruments	Debt instruments	Equity instruments[1]	Trading instruments
	$m	$m	$m	$m
Balance at the beginning of period	108	719	116	88
Gains / (losses) on assets and (gains) / losses on liabilities recognised:				
In profit or loss	11	-	1	(1)
In other comprehensive income	-	(3)	3	-
Purchases and issues	13	50	9	6
Sales and settlements	-	(146)	(4)	-
Transfers into Level 3	23	284	-	13
Transfers out of Level 3	-	(238)	-	-
Foreign currency translation adjustments	1	-	-	-
Balance at the end of period	156	666	125	106
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:				
- In profit or loss	11	-	1	(1)
- In other comprehensive income	-	(3)	3	-

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

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities

General

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

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

Some of these matters have related customer remediation programs which are expected to continue beyond the 2021 financial year. Additionally, some of these matters may result in enforcement proceedings.

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

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

Legal proceedings

Bank Bill Swap Reference Rate US class action

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

In February 2020, the Court dismissed all claims against NAB on the basis of jurisdiction. The decision regarding jurisdiction could potentially be reversed.

NULIS and MLCN – class actions

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

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

On 26 March 2021, Maurice Blackburn commenced a class action in the Federal Court against NULIS and MLCN alleging breaches of NULIS's trustee obligations which mirror those made in the Supreme Court Class Action referred to above. The action is to be stayed pending the determination of an appeal in the Supreme Court Class Action regarding the Court’s jurisdiction to hear the action.

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

UK issues

Four separate claims focused on Tailored Business Loans (TBLs) have been commenced against NAB and CYBG by RGL Management Limited (a claims management company) (RGL) on behalf of customers of CYBG in the English Courts.

The claims concern TBLs which customers entered into with CYBG and in respect of which NAB employees performed various functions. The claimants allege they were misled about: (1) the cost of breaking fixed interest rate periods; and (2) the composition of fixed interest rates offered under the TBLs. The alleged misconduct is said to give rise to several causes of action, including negligent misstatement, misrepresentation and deceit.

The claims were before the court for a procedural hearing in December 2020 and a timetable was agreed for the first and fourth claims moving forward (the second and third claims are currently paused by agreement). The next step is for NAB to file and serve its defences in respect of the first and fourth claims.

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

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Regulatory activity, compliance investigations and associated proceedings

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

In 2015, ASIC commenced an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including entities within the Group. Under the service arrangements, customers paid an adviser service fee to receive ongoing financial review services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided or that customers were adequately informed of their ability to terminate the service fee. NAB is undertaking a remediation program in relation to this matter for the Wealth business, including MLC Advice (formerly known as NAB Financial Planning), NAB Advice Partnerships and JBWere.

MLC Advice has made payments to most impacted customers, with only some complex cases still being assessed. NAB Advice Partnerships has commenced making accelerated remediation payments to potentially impacted customers for remediation. JBWere has identified its potentially impacted customers and is currently assessing whether there is evidence to demonstrate that agreed financial review services were provided. Provisions for customer compensation have been taken based on current best estimates.

Key variables contributing to uncertainty about customer remediation amounts include 'no evidence' rates and recovery rates from advisers. The total ongoing advice fees received within the period 2009-2018 are estimated to be approximately $1.3 billion for NAB Advice Partnerships, approximately $650 million for MLC Advice and approximately $90 million for JBWere.

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

NAB ceased charging ongoing fees for customers of MLC Wealth employed advisers resulting from concerns about the accuracy of the FDSs. NAB has refunded fees paid by MLC Wealth customers from 1 June 2018 up until they entered a new advice arrangement or the fees were switched off. MLC Wealth no longer offers ongoing services arrangements to its customers. NAB Advice Partnerships is also phasing out ongoing fee arrangements. JBWere continues to maintain ongoing fee arrangements for customers.

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

While the Group has taken provisions in relation to these matters based on current information, there remains the potential for further developments and the potential outcomes and total costs associated with these matters remain uncertain.

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

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

When AML or CTF compliance issues are identified, they are notified to the Australian Transaction Reports and Analysis Centre (AUSTRAC) or equivalent foreign regulators. The Group has reported compliance issues to relevant regulators, including over the March 2021 half year, and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the Group's implementation of 'Know Your Customer' (KYC) requirements, other financial crime risks, as well as systems and process issues that impacted transaction monitoring and reporting in some specific areas. In particular, the Group has identified issues with collection and verification of identity information and enhanced customer due diligence for non-individual customers. This is the subject of a dedicated remediation program that is underway.

The Group continues to keep AUSTRAC (and where applicable, relevant foreign regulators) informed of its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, such regulators. As this work progresses, further compliance issues may be identified and reported to AUSTRAC or equivalent foreign regulators, and additional uplifting and strengthening may be required. The potential outcome and total costs associated with these investigations and remediation processes for specific issues identified to date, and for any issues identified in the future, remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Banking matters

A number of investigations into banking-related matters are being carried on across the Group, both internally and in some cases by regulatory authorities, including matters where:
- incorrect fees were applied in connection with certain products
- customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code
- incorrect interest rates were applied in relation to certain products, including home lending products on conversion from interest only to principal and interest
- there were issues in delivering electronic statements, and other notices enclosed with those statements, capturing customer consent to receive electronic statements and inconsistencies with recording statement preferences
- business term lending facilities were not amortising in accordance with approved facilities; and
- various responsible lending matters.

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

Consumer Credit Insurance (CCI)

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

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

NAB has completed making remediation payments to NAB Mortgage Protect (NMP) customers (the third and final CCI product sold by NAB).

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

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

Contingent tax risk

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

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

Deceased estates

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

Incorrect charging of periodical payment fees (PP Fees)

On 24 February 2021, ASIC commenced Federal Court proceedings against NAB alleging that NAB failed to comply with a number of provisions of the ASIC Act and the Corporations Act in relation to the incorrect charging of periodical payment fees including misleading or deceptive conduct and unconscionable conduct. NAB is yet to file its response to ASIC's claim.

The potential outcomes and total costs associated with the matter remain uncertain.

NZ Ministry of Business, Innovation and Employment compliance audit

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

Other wealth matters

A number of investigations into wealth advice and product related matters are being carried out across the Group. These include reviews of the implementation of financial advice provided by MLC Advice (formerly known as NAB Financial Planning) relating to reinvestment decisions and the disclosure of a customer's cost base in MLC Wealth products. The potential outcome and total costs associated with these matters remain uncertain.

Notes to the Consolidated Financial Statements (continued)

13. Contingent Liabilities (continued)

Payroll review

In December 2019, NAB announced an investigation into payments of both current and former Australian employees. The review has identified a range of potential payroll under and over payment issues and a remediation program has been established. Provisions have been taken and some payments have been made but the final outcome and total costs associated with this matter remain uncertain.

Wealth advice review

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

Workplace super

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

Contractual commitments

Financial Planning Subsidiaries

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

MLC Life insurance transaction

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

MLC Wealth transaction

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

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

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

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

The final financial impact associated with this transaction remains uncertain.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations

Sale of MLC Wealth

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

The transaction is subject to certain conditions, including certain regulatory approvals. Subject to the timing of regulatory approvals, completion is expected to occur before 30 June 2021.

For the 30 September 2020 half year the Group recognised, within discontinued operations, an impairment loss of $199 million and a provision for separation costs of $284 million ($200 million after tax). The final loss on the sale will be determined at completion and will be impacted by separation and transaction costs, net assets at completion and other adjustments.

MLC Life discontinued operation

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

Customer-related remediation

The customer-related remediation matters within discontinued operations in the September 2020 half year which were disclosed as large notable items relate to:

- non-compliant advice provided to Wealth customers and costs associated with executing the program
- adviser service fees charged by NAB Financial Planning (salaried advisers)
- reassessment of provisions associated with MLC Life resulting in a release
- other matters, including a higher allowance for ongoing liabilities associated with the existing Wealth remediation program.

Notes to the Consolidated Financial Statements (continued)

14. Discontinued Operations (continued)

Analysis of net loss from discontinued operations[(1)]

	Half Year to		
	Mar 21	Sep 20	Mar 20
MLC Wealth discontinued operation	$m	$m	$m
Net operating income	**562**	606	652
Operating expenses	**(496)**	(574)	(620)
MLC reportable segment profit before tax	**66**	32	32
MLC Wealth-related items[(2)]	**(120)**	(812)	(496)
Income tax benefit	**20**	207	133
Net loss related to MLC Wealth	**(34)**	(573)	(331)
Impairment of goodwill	**-**	(199)	-
Net loss from MLC Wealth discontinued operation	**(34)**	(772)	(331)
MLC Life discontinued operation			
Net profit / (loss) from MLC Life discontinued operation	**14**	63	105
Net loss from discontinued operations	**(20)**	(709)	(226)
Attributable to owners of NAB	**(22)**	(711)	(228)
Attributable to non-controlling interests	**2**	2	2

Non-current assets and disposal group held for sale

The major classes of assets and liabilities included in the MLC Wealth disposal group are summarised below:

	As at	
	Mar 21	Sep 20
MLC Wealth disposal group[(3)]	$m	$m
Assets		
Cash and liquid assets	**171**	**172**
Other financial assets	**233**	**226**
Deferred tax assets	**70**	**91**
Property, plant and equipment	**1**	**1**
Goodwill and other intangibles	**831**	**827**
Other assets	**148**	**162**
Assets held for sale	**1,454**	**1,479**
Liabilities		
Provisions	**74**	**96**
Deferred tax liabilities	**7**	**6**
Other liabilities	**83**	**119**
Liabilities directly associated with assets held for sale	**164**	**221**

As at 31 March 2021, the fair value of total assets in the disposal group held for sale is $1,454 million (2020: $1,479 million) and the fair value of total liabilities in the disposal group held for sale is $164 million (2020: $221 million). These fair values are categorised within Level 2 of the fair value hierarchy.

	Half Year to				
Funds under administration (FUA) and assets under management (AUM)[(4)]	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Funds under administration (spot)	**120,472**	111,759	105,169	7.8	14.6
Funds under administration (average)	**116,516**	110,578	119,900	5.4	(2.8)
Assets under management (spot)	**169,293**	157,590	153,669	7.4	10.2
Assets under management (average)	**163,556**	153,935	167,124	6.3	(2.1)

(1) *MLC Wealth divisional cash earnings in the March 2021 half year is $76 million before tax (September 2020: $26 million, March 2020: $58 million) and $56 million after tax (September 2020: $20 million, March 2020: $42 million).*
(2) *Primarily relates to customer-related and payroll remediation, and amortisation of software. Prior period amounts included MLC Wealth separation costs and the impact of the change in the application of the software capitalisation policy.*
(3) *Amounts are shown net of inter-company balances.*
(4) *FUA and AUM are presented in two separate disclosures that represent all managed funds and assets from which the Group derives revenue. Certain items will be represented in both FUA and AUM meaning the two should not be summed.*

Notes to the Consolidated Financial Statements (continued)

15. Events Subsequent to Reporting Date

There are no items, transactions or events of a material or unusual nature that have arisen in the interval between 31 March 2021 and the date of this report that, in the opinion of the Directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Directors' Declaration

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

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

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

i. section 304, which requires that the half year financial report comply with Accounting Standards made by the Australian Accounting Standards Board for the purposes of the *Corporations Act 2001* (Cth) and any further requirements in the *Corporations Regulations 2001* (Cth); and
ii. section 305, which requires that the financial statements and notes give a true and fair view of the financial position of the Group as at 31 March 2021, and of the performance of the Group for the six months ended 31 March 2021.

Dated this 6th day of May 2021 and signed in accordance with a resolution of the Directors.

Philip Chronican

Chair

Ross McEwan

Group Chief Executive Officer

Independent Review Report

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 31 March 2021, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated condensed cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

a. giving a true and fair view of the consolidated financial position of the Group as at 31 March 2021 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 March 2021 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independent Review Report (continued)

Building a better working world

Independence

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

Ernst & Young

Sarah Lowe
Partner
Melbourne

6 May 2021