NAB Covered Bond Trust

General Purpose Financial Report

YEAR ENDED 30 SEPTEMBER 2018

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NAB COVERED BOND TRUST

Trust Information

Principal Place of Business
Level 36, 500 Bourke Street
Melbourne VIC 3000

Trustee
Perpetual Corporate Trust Limited
Level 12, 123 Pitt Street
Sydney NSW 2000

Trust Manager
National Australia Bank Limited
800 Bourke Street
Docklands VIC 3008

Bankers
National Australia Bank Limited
800 Bourke Street
Docklands VIC 3008

Auditors
Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

NAB COVERED BOND TRUST

Trustee's Report

The Trustee presents its report together with the financial statements of NAB Covered Bond Trust (the Trust) for the year ended 30 September 2018 and the auditor's report thereon.

The financial statements are prepared by National Australia Bank Limited (Trust Manager) as required by the Establishment Deed dated 10 November 2011 between Perpetual Corporate Trust Limited (Trustee of the NAB Covered Bond Trust and Covered Bond Guarantor) and National Australia Bank Limited (Issuer, Seller, Servicer and Trust Manager).

The auditors of the Trust, Ernst & Young, who have been appointed by the Trustee in accordance with clause 31 of the Trust agreement have conducted an audit of the financial statements

A review of the operations of the Trust and the results of those operations for the financial year ended 30 September 2018 is contained within the Trust Manager's Report.

Based on the Trustee's ongoing programme of monitoring and the Trustee's review of the financial statements, the Trustee believes that:
(i) the Trust has been conducted in accordance with the Establishment Deed dated 10 November 2011 and the Management Agreement dated 11 November 2011, and
(ii) the Financial Report has been prepared and contains all relevant and required disclosures in accordance with the aforementioned Establishment Deed and Management Agreement.

The Trustee is not aware of any material matter or significant change in the state of affairs of the Trust occurring up to the date of this report that requires disclosure in the financial statements and the notes thereto that has not already been disclosed.

Signed on behalf of Perpetual Corporate Trust Limited as Trustee of NAB Covered Bond Trust:

Juan Grane

Nathan Gale

NAB COVERED BOND TRUST

Trust Manager's Report

The Trust Manager presents its report on the financial statements of the NAB Covered Bond Trust (the Trust) for the year ended 30 September 2018.

Trust information
The Trustee of the Trust is Perpetual Corporate Trust Limited, which has been the Trustee since commencement date, 15 November 2011.

The Trust was established on 10 November 2011 under the NAB Covered Bond Trust Establishment Deed dated 10 November 2011 between National Australia Bank Limited (**Trust Manager**) and Perpetual Corporate Trust Limited (**Trustee**).

Principal activities
The principal activities of the Trust are the acquisition, management and sale of mortgage receivables. These mortgage receivables support a guarantee provided by the Trust to the Trustee associated with the issue of covered bonds by National Australia Bank Limited (**NAB**).

Review of Results of operations
Net gain of the Trust after distributions for the period ended 30 September 2018 amounted to $1.8 million (2017 loss: $261.2 million).

Covered Bonds have been issued by NAB in the following series during the year:
Series 30 - AUD 325,000,000 Covered Bonds @ 3.00% Fixed rate due on 16 March 2023
Series 31 - AUD 1,050,000,000 Covered Bonds @ 3M BBSW + 65 bps Floating rate due on 16 March 2023
Series 32 - AUD 125,000,000 Covered Bonds @ 3.6% Fixed rate due on 16 March 2028

Trust Distributions
The Trust has recognised distributions of residual income of $582.4 million for the year ended 30 September 2018 (2017: $699.6 million) . The distribution payable as at 30 September 2018 was $79.3 million (2017: $90.7 million).

State of affairs
There have been no significant changes in the state of affairs of the Trust during the year ended 30 September 2018.

Significant events after the reporting date
Since 30 September 2018 and as at the date of this report, the trust has undertaken transactions in the ordinary course of business. The most significant of these transactions include:
- The reduction in the Demand Note of $500 million on 29 October 2018
- Increase in the demand note of AUD $4 billion on 26 November 2018
- Series 33 USD $1.15 billion Covered Bonds @3.45% fixed rate due 4 December 2023 issued on 26 November 2018
- The reduction in the Demand Note of $450 million on 28 November 2018

There has been no other matter or circumstance that has arisen since the end of the financial year that, in the opinion of the Trust Manager, has significantly affected, or may significantly affect, the Trust's operations in future financial years, the results of those operations or the Trust's state of affairs in future financial years.

Going concern
The National Australia Bank as Trust Manager acknowledges that the Trust is in a net liability position of $124 million as at 30 September 2018 (2017: net liability position of $126 million). The net assets/(liability) position of the Trust arises from unrealised fair value adjustments recognised on hedge accounted intercompany notes (hedge accounting on notes ceased during FY18) and from the fair value position of derivative financial instruments used to hedge the interest rate and foreign currency exposures on the intercompany notes. These unrealised positions do not affect the going concern of the Trust.

Likely developments and expected results
The Trust is expected to continue its operations in accordance with the purposes outlined in the Establishment Deed.

Environmental regulation
The operations of the Trust are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Trust.

Indemnification
During or since the end of the year, the Trust has not provided any indemnification of any person who is or has been an officer of the Trustee or the Trust Manager or auditors of the Trust.

Insurance
No insurance premiums have been paid during, or since the end of the year for a person who is or has been an officer of the Trustee or the Trust Manager or auditors of the Trust.

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

Signed for and on behalf of National Australia Bank Limited as Trust Manager of NAB Covered Bond Trust:

Eva Zileli, Head of Group Funding, NAB	Lachlan Rose, Manager, Treasury, NAB
17 December 2018	17 December 2018

NAB COVERED BOND TRUST

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Interest income	3	1,758,809	2,020,354
Interest expense	4	(1,105,400)	(1,238,045)
Net interest income		**653,409**	782,309
(Losses) / Gains on financial instruments at fair value	13	1,794	(261,221)
Total operating income		**655,203**	521,088
Operating expenses	5	(71,054)	(82,667)
Net profit attributable to unitholders		**584,149**	438,421
Trust distribution	10	(582,361)	(699,643)
Net (losses) / profit for the year		**1,788**	(261,222)
Total comprehensive (losses) / income		**1,788**	(261,222)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

NAB COVERED BOND TRUST

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	6	596,215	580,604
Trade and other receivables	7	23,150	16,729
Derivative assets	13	2,966,404	2,493,457
Loans and advances	8	25,302,621	30,786,472
Total assets		**28,888,390**	33,877,262
Liabilities			
Trade and other payables	9	144,422	136,895
Distribution payable	10	79,296	90,686
Derivative liabilities	13	36,080	234,643
Interest bearing liabilities	11	28,752,847	33,541,081
Total liabilities		**29,012,645**	34,003,305
Net (liabilities)/assets attributable to unitholders		**(124,255)**	(126,043)

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

NAB COVERED BOND TRUST

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2018 $'000	2017 $'000
Net assets/(liabilities) attributable to unitholders at the beginning of the year	(126,043)	135,179
Units issued during the year	-	-
Units redeemed or otherwise cancelled during the year	-	-
Change in net assets attributable to unitholders	1,788	(261,222)
Closing net (liabilities)/assets attributable to unitholders	**(124,255)**	(126,043)

The above Statement of Changes in Net Assets Attributable to Unitholders should be read in conjunction with the accompanying notes.

NAB COVERED BOND TRUST

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		1,363,774	1,604,250
Net interest received / (paid) on derivatives		(186,271)	(153,810)
Interest paid on interest bearing liabilities		(560,478)	(657,271)
Distributions paid	10	(593,751)	(696,904)
Other expenses paid		(71,667)	(82,613)
Net cash flows from operating activities		**(48,393)**	13,652
Cash flows from investing activities			
Net receipts/(payments) for mortgage pool receivables	8	5,483,851	1,950,023
Net cash flows from investing activities		**5,483,851**	1,950,023
Cash flows from financing activities			
Receipts / (Payments) relating to notes		(5,419,847)	(1,958,935)
Net cash flows from financing activities		**(5,419,847)**	(1,958,935)
Net increase/(decrease) in cash and cash equivalents		15,611	4,740
Cash and cash equivalents at beginning of year		580,604	575,864
Cash and cash equivalents at end of year	6	596,215	580,604

Reconciliation of Net profit to net cash flows provided from operating activities

		2018 $'000	2017 $'000
Net Profit		1,788	(261,222)
Decrease/(Increase) in trade and other receivables		(6,421)	3,995
Increase/(Decrease) in trade and other payables		7,527	(25,812)
Increase/(Decrease) in distribution payable		(11,390)	2,739
Fair value movements on financial instruments		(39,897)	293,952
Net cash flows provided by operating activities		**(48,393)**	13,652

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Corporate information

NAB Covered Bond Trust (the Trust) was established on 10 November 2011 under the NAB Covered Bond Trust Establishment Deed dated 10 November 2011 between National Australia Bank Limited (NAB, Issuer, Seller, Servicer and Trust Manager) and Perpetual Corporate Trust Limited (Trustee of the NAB Covered Bond Trust and Covered Bond Guarantor).

The Trust is a for-profit entity and a description of the Trust operations and principal activities is included in the Trust Manager's Report on page 5.

The financial statements of NAB Covered Bond Trust for the year ended 30 September 2018 were authorised for issue by the Trust Manager on 17 December 2018.

2 Summary of significant accounting policies

(a) Basis of preparation

This General Purpose Financial Report has been prepared in accordance with the requirements of the Establishment Deed and accounting standards and interpretations issued by Australian Accounting Standards Board (AASB).

The financial report has been prepared under the historical cost convention, as modified by the application of fair value measurements required or allowed by relevant accounting standards.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand except where otherwise indicated.

(b) Statement of Compliance

The financial report of the Trust complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) New accounting standards issued but not yet effective

The following issued, but not yet effective, new Australia Accounting Standards have not been applied in preparing this financial report:

AASB 15 Revenue from Contracts with Customers introduces a single principles-based five step model for recognising revenue, and introduces the concept of recognising revenue when an obligation to a customer is satisfied. The Trust will adopt AASB 15 from 1 October 2018. No material transition adjustments were identified.

AASB 16 'Leases' significantly changes accounting for lessees requiring recognition of all leases (subject to certain exceptions) on balance sheet in a manner comparable to finance leases currently accounted under AASB 117 'Leases'. Lessor accounting remains unchanged compared to AASB 117. The potential impact of this standard is still being assessed, and is not applicable until 1 October 2019. However as of 30 September 2018, the trust is not subject to any leasing arrangements.

Other amendments to existing standards that are not yet effective are not expected to result in significant impact to the Trust's financial reporting.

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are normally recognised in the statement of comprehensive income. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

(e) Significant accounting judgements and estimates

The preparation of the Trust's financial statements requires the Trust Manager and Trustee to make use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. However, uncertainty about these estimates and assumptions could result in outcomes that would require a material adjustment to the carrying amount of the asset or liability in future.

Fair Value measurement

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

The judgements include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from observable current market transactions in the same instruments (without modification or repackaging) or based on any observable market data. Valuation techniques will be used where conditions are unobservable.

Functional currency

Items included in the financial statement are measured using the currency of the primary economic environment in which the Trust operates (functional currency). The financial report is presented in Australian dollars, which is the Trust's functional and presentation currency.

Impairment of assets

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Trust makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand, demand deposits, short term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short term investments which are not held for the purpose of meeting short-term cash commitments as well as restricted margin accounts are not considered as cash and cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2 Summary of significant accounting policies (continued)

(g) Financial Instruments

(i) Classification of financial instruments
The Trust classified its financial assets into the following measurement categories:
-- those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
-- those to be measured at amortised cost.

The classification depends on the Trust's business model for managing financial assets and the contractual terms of the financial assets cash flows.
The Trust classifies its financial liabilities as liabilities at amortised cost or derivative liabilities.

(ii) Recognition and derecognition of financial instruments
A financial asset or financial liability is recognised in the statement of financial position when the Trust becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs. The Trust derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Trust is recognised as a separate asset or liability.

A financial liability is derecognised from the statement of financial position when the Trust has discharged its obligation or the contract is cancelled or expires.

(iii) Offsetting
Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Trust has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Items at fair value through profit or loss
Items at fair value through profit or loss comprise:
• items held for trading;
• items specifically designated as fair value through profit or loss on initial recognition;
• debt instruments with contractual terms that do not represent solely payments of principal and interest are measured at fair value through profit and loss.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

Financial instruments held for trading

A financial instrument is classified as held for trading, if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship. Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition (i.e. eliminates an accounting mismatch) that would otherwise arise inconsistencies from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through profit or loss due to an 'accounting mismatch' or
• In respect of an entire contract if a host contract contains one or more embedded derivatives;
• If financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

(h) Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price, index or other variable, and typically comprise of instruments such swaps, forward rate agreements, futures and options.

All derivatives are recognised in the statement of financial position at fair value and are classified as trading except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. From time to time, the Trust designates certain derivatives as:
• hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
• hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (cash flow hedges).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Trust documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, the risk being hedged and the Trust's risk management objective and strategy for undertaking these hedge transactions. The Trust also documents how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Trust documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Trust measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship. Hedge effectiveness is assessed through the application of regression and dollar offset analysis.

(i) Fair value hedges
Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the statement of comprehensive income on an effective yield basis. Where the hedged item is derecognised from the statement of financial position, the adjustment to the carrying amount of the asset or liability is immediately transferred to the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(ii) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the statement of comprehensive income in the period(s) in which the hedged item affects the statement of comprehensive income (e.g. when the forecast hedged variable cash flows are recognised in the statement of comprehensive income).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the statement of comprehensive income when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity at that time is immediately transferred to the statement of comprehensive income.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. This could occur due to:
• the derivative is held for the purpose of short-term profit taking;
• the derivative is held to economically hedge an exposure but does not meet the accounting criteria for hedge accounting.
In these cases, the derivative is classified as a trading derivative and recognised at fair value with the attributable transaction costs recognised in the income statement as incurred.

(i) Mortgage pool receivable
The Trust has purchased the rights, title and interests in a pool of residential real estate mortgages from NAB. Simultaneously, the Trust has entered into interest rate and basis swaps with NAB to economically hedge the interest rate risk arising due to the mortgage receivables at mortgage rates and its interest bearing liabilities at BBSW rates. NAB does not separately recognise the interest rate and basis swaps as it would result in duplicating the recognition of the underlying mortgage receivables. Consequently, NAB recognises the obligation to pay cash flows associated with the pool of residential mortgages sold to the Trust together with the cash flows under the interest rate and basis swaps as an imputed floating rate loan. The terms of the interest rate and basis swaps result in NAB retaining substantially all of the risks and rewards associated with the mortgage loans, and as such, NAB is unable to derecognise those loans.

The Trust adopts a consistent accounting treatment, recognising the cash flows associated with the mortgage receivables together with the cash flows under the interest rate and basis swaps as an imputed floating rate loan. Payments under the swap contracts paid to or received from NAB are recorded in the statement of comprehensive income as interest income received on the mortgage pool receivable.

(j) Impairment of financial assets carried at amortised cost
The Trust applies a three-stage approach to measuring expected credit losses (ECL) on debt instruments accounted for at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

i) Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
ii) Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
iii) Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Trust assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Trust uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset.

The Trust assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are Trusted on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Trust and all the cash flows that the Trust expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Trust considers its historical loss experience and adjusts this for current observable data. In addition, the Trust uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. Macroeconomic factors which include, but is not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(k) Goods and services tax
Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except:
• when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
• receivables and payables are stated with the amount of GST included.

Trustee's fees and other relevant expenses are recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office. Input tax credits recoverable by the Trust from the Australian Taxation Office are recognised as a receivable in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority is classified as part of operating cash flows.

The Trust is part of the NAB Consolidated Group for the purposes of GST, hence transactions between NAB and the Trust are not subject to GST.

2 Summary of significant accounting policies (continued)

(l) Trust units

Residual Capital Units
Each unit issued confers upon the unitholder an equal interest in the Trust, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Trust. The interest of Residual Capital Unitholders comprises an interest in its proportion of any assets of the Trust remaining after payment of any amount due to the Residual Income Unitholder.

Residual Income Units
Each unit issued confers upon the unitholder an equal interest in the Trust and is of equal value. A unit does not cover any interest in any particular asset or investment of the Trust. The interest of Residual Income Unitholders comprises the Net Trust Income of the Trust for each Fiscal Period.

(m) Revenue recognition
Revenue is recognised and measured at the fair value of the consideration received or receivable, to the extent it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured.

(n) Interest Revenue and Expense
Interest revenue and expense are recognised in the Statement of comprehensive income for all financial instruments not at fair value through profit or loss using the effective interest method. Interest earned on financial assets classified as at fair value through the profit or loss is recorded in 'Interest revenue' according to the terms of the contract.

(o) Fees and commissions
Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Management fees are recognised over the period the service is provided.

(p) Net gains or losses on financial instruments at fair value
Net gains or losses on financial instruments at fair value comprise fair value gains and losses from:
• trading derivatives;
• instruments designated in hedge relationships; and
• other financial assets and liabilities at fair value through profit or loss.

In cases where a trading derivative is economically offsetting movements in the fair value of a financial asset or liability designated at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative.

Net gains or losses on hedging assets, liabilities and derivatives designated in hedge relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge relationship, and hedge ineffectiveness from both fair value and cash flow hedge relationships. Realised and accrued interest on both hedging instruments and hedged items are recognised in net interest income

(q) Distributions
In accordance with the Trust Deed, the Trust distributes all its Residual Income to the Residual Income Unitholders. Residual Income includes all items that would be included or deducted for the purpose of calculating the Net Taxable Income of the Trust.

Distributions are paid regularly during the year. Such distributions are determined by reference to the Net Taxable Income of the Trust.

Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to Trust capital and are not assessable or distributable until realised. Capital losses are not distributed to unit holders but are retained to be offset against any future realised capital gains. Distributions to Residual Income Unitholders are recognised in the Statement of comprehensive income.

(r) Income tax
Under current Australian legislation, the Trust is not subject to income tax provided the unit holders are presently entitled to the income of the Trust and the Trust fully distributes its net taxable income. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the Residual Income Unitholder (NAB) only.

		2018	2017
3	**Interest Income**	**$'000**	**$'000**
	Interest income on cash and cash equivalents	11,226	11,740
	Interest income from derivatives	388,604	447,978
	Interest income from mortgage pool receivables	1,358,979	1,560,636
	Total interest income	**1,758,809**	2,020,354
4	**Interest Expense**		
	Interest expense from derivatives	536,788	583,477
	Interest expense from borrowings	568,612	654,568
	Total interest expense	**1,105,400**	1,238,045
5	**Operating expenses**		
	Management fees	70,769	82,389
	Trustee fees	255	255
	Audit fees	30	23
	Total operating expenses	**71,054**	82,667
6	**Cash and cash equivalents**		
	Cash at bank	596,215	580,604
	Total cash and cash equivalents	**596,215**	580,604
7	**Trade and other receivables**		
	Interest receivable	23,150	16,729
	Total trade and other receivables	**23,150**	16,729
8	**Loans and receivables**		
	Mortgage pool receivables	25,214,319	30,715,535
	Mortgage collections receivable	88,302	70,937
	Total loans and receivables	**25,302,621**	30,786,472

Mortgage pool receivables relate to equitable interests in mortgages over residential real estate securing loans that have been sold to the Trust. As at 30 September 2018, the mortgage pool receivable comprised of cash flows from 84,659 (2017: 99,142) mortgage loans granted to prime Australia borrowers, secured over Australian residential properties with a weighted average current loan to value ratio of 58.54% (2017: 58.95%).

Mortgage collections receivable represent payments from mortgagees that have been received by NAB but not yet paid to the Trust.

		2018	2017
9	**Trade and other payables**		
	Interest payable	141,576	133,442
	Trade creditors	2,816	3,429
	Auditor fees payable	30	24
	Total trade and other payables	**144,422**	136,895
10	**Distributions payable**		
	Reconciliation of movement in distributions to unitholders		
	Opening balance - distributions payable	90,686	87,947
	Distributions of residual income attributable to unitholders	582,361	699,643
	Distributions paid during the year	(593,751)	(696,904)
	Closing balance - distributions payable	**79,296**	90,686
11	**Interest bearing liabilities**		
	Intercompany notes	22,777,860	22,475,730
	Demand note	5,974,987	11,065,351
	Total interest bearing liabilities	**28,752,847**	33,541,081

Intercompany notes

Intercompany notes are issued by the Trust to NAB to mirror the Covered Bonds issued by NAB on market. Under the NAB covered bond program the aggregate issue amount must not exceed US$30,000 million.

Demand note

The Trust borrows funds from NAB under the Demand Note in order to acquire mortgage pool receivables. Borrowing under the Demand Note is denominated in Australian dollars and is subject to floating interest rates. The maturity of the Demand Note is linked to the maturity of the Intercompany Note issued by the Trust with the longest tenor.

Borrowings by currency

	2018	2017
AUD	8,226,001	11,894,253
CHF	304,458	287,169
EUR	11,251,147	10,574,393
GBP	1,296,912	1,232,056
NOK	553,969	534,216
NZD	345,924	350,800
USD	6,774,436	8,668,194
Total borrowings	**28,752,847**	33,541,081

12 Units on issue

	2018		2017	
	No of units	$	No of units	$
Balance as at beginning of the year	11	110	11	110
Units issued during the year	-	-	-	-
Units redeemed during the year	-	-	-	-
Balance as at end of the year	11	110	11	110

13 Trading and hedging derivative assets and liabilities held at fair value through profit or loss

The operations of the Trust are subject to risk of interest rate fluctuations to the extent of the repricing profile of the Trust's statement of financial position. Derivative financial instruments are held or issued for the purpose of managing the interest rate differential between its mortgage pool receivable assets and its borrowings. Such instruments are also held or issued for the purpose of hedging foreign exchange risk arising on borrowings in currencies other than the Australian dollar.

Derivative financial instruments held for hedging purposes
The Trust applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as liabilities subject to foreign exchange risk. Specifically, the Trust designates cross currency interest rate swaps as fair value hedges of foreign currency and interest rate risk arising on fixed rate foreign currency borrowings.

The Trust elected an accounting policy choice under AASB 9 "Financial Instruments" to apply the hedge accounting requirements under AASB 139 "Financial Instruments: Recognition and Measurement". As part of the requirements to apply hedge accounting, the Trust documents, at the inception of the hedge relationship, the relationship between hedging instruments and hedged items, the risk being hedged, the Trust's risk management objective and strategy for undertaking hedge transactions, and how effectiveness will be measured throughout the life of the hedge relationship. In addition, the Trust documents its assessment, both at inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The Trust measures hedge effectiveness on a prospective basis at inception, as well as retrospectively and prospectively over the term of the hedge relationship.

Derivatives are held for the purpose of managing existing and anticipated interest rate risk, in particular to swap the exposure from fixed rate assets and liabilities to a floating interest rate. In addition, where fixed rate assets and liabilities are denominated in a foreign currency, derivatives are used to manage the associated foreign currency risk. The Trust may designate a cross currency swap that swaps from the fixed foreign currency to floating US dollars or floating Australian dollars in a single hedge relationship of both interest rate risk and currency risk, or may use a combination of derivatives (such as an interest rate swap and cross currency swap), and apply hedge accounting to the interest rate swap, and include the cross currency swap in trading derivatives. As both interest rate risk and currency risk are hedged in a single hedge relationship in some cases, these disclosures do not distinguish between interest rate risk, and the combination of interest rate risk and currency risk as two separate risk categories. The Trust generally hedges its exposure to changes in the fair value of fixed rate assets and liabilities in respect of the benchmark interest rate.

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying amount of the hedged asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective yield basis. Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

Regression analysis and cumulative dollar offset are used to test hedge effectiveness and establish the hedge ratio. The main potential sources of hedge ineffectiveness from fair value hedges are:
• Currency basis inherent in the valuation of cross currency swaps, but not in hedged items denominated in a foreign currency. Currency basis is a liquidity premium that is charged for borrowing in one currency over another, and changes over time impacting the fair value of cross currency swaps.
• Changes in margin where the full interest rate (rather than the benchmark interest rate component) of hedged items has been included in a hedge relationship.
• Mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset.
• Early repayment of hedged housing loans.

Derivative financial instruments held or issued for trading purposes
Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting. Specifically, the Trust uses cross currency interest rate swaps as economic hedges of foreign currency and interest rate risk arising on floating rate foreign currency borrowings.

13 Trading and hedging derivative assets and liabilities held at fair value through profit or loss (continued)

The tables below set out the fair value of both trading and hedging derivatives including notional principal values:

Derivative financial instruments

	2018 Notional $'000	2018 Fair value $'000	2017 Notional $'000	2017 Fair value $'000
Assets				
Cross currency swaps	16,792,642	2,908,332	5,509,769	230,969
Interest rate swaps	2,250,000	58,072	-	-
Total trading derivative assets	**19,042,642**	**2,966,404**	**5,509,769**	**230,969**
Cross currency swaps	-	-	11,435,421	2,183,029
Interest rate swaps	-	-	750,000	79,459
Total hedging derivative financial instruments	-	-	12,185,421	2,262,488
Total derivative assets	19,042,642	2,966,404	17,695,190	2,493,457
Liabilities				
Cross currency swaps	3,573,958	36,080	4,436,091	234,643
Interest rate swaps	-	-		
Total trading derivative liabilities	**3,573,958**	**36,080**	**4,436,091**	**234,643**
Cross currency swaps	-	-	-	-
Interest rate swaps	-	-		
Total hedging derivative financial instruments	-	-	-	-
Total derivative liabilities	3,573,958	36,080	4,436,091	234,643
Total derivative financial instruments	15,468,684	2,930,324	13,259,099	2,258,814

The following tables show the notional amount of derivatives designated in fair value hedge relationships in time bands based on the maturity of the derivatives. As of 30 September 2018, there are no financial instruments designated in fair value hedge relationships.

As at 30 September 2018

	0 to 3 month(s) $'000	3 to 12 month(s) $'000	1 to 5 year(s) $'000	Over 5 years $'000	Total $'000
Interest rate swaps					
Receive fixed	-	-	-	-	-
Cross currency swaps hedging exposures denominated in [1]					
USD	-	-	-	-	-
EUR	-	-	-	-	-
GBP	-	-	-	-	-
Other	-	-	-	-	-

As at 30 September 2017

	0 to 3 month(s) $'000	3 to 12 month(s) $'000	1 to 5 year(s) $'000	Over 5 years $'000	Total $'000
Interest rate swaps					
Receive fixed	-	-	-	750,000	750,000
Cross currency swaps hedging exposures denominated in [1]					
USD	-	2,231,716	3,188,165	-	5,419,881
EUR	-	-	1,126,515	3,696,472	4,822,987
GBP	-	-	-	427,592	427,592
Other	-	-	180,352	584,609	764,961

[1] *The notional amount of cross currency swaps is determined based on the currency of the hedged item translated at the spot exchange at 30 September.*

The average rate for major currencies of the final exchange of cross currency swaps designated in fair value hedge relationships is as follows:

	2018	2017
USD: AUD	-	1.04680
EUR: AUD	-	1.34325
GBP: AUD	-	1.53318

13 Trading and hedging derivative assets and liabilities held at fair value through profit or loss (continued)

The carrying amount of hedged items in fair value hedge relationships, and the accumulated amount of fair value hedge adjustments included in these carrying amounts are as follows:

As at 30 September 2018

	Carrying amount 2018 $'000	Fair value hedge adjustments 2018 $'000	Carrying amount 2017 $'000	Fair value hedge adjustments 2017 $'000
Interest bearing liabilities				
Intercompany notes [1] [2]	-	-	13,022,350	593,386

[1] *The carrying value included in interest bearing liabilities is nil (2017: $12,345,735) with accrued interest of nil (2017: $83,230).*

[2] *Unamortised values in the Fair Value Hedge Adjustment is nil (2017: $464,720)*

Fair value hedge relationships resulted in the following changes in value used as the basis for recognising hedge ineffectiveness during the period

	2018 $'000	2017 $'000
Gains/(Losses) on hedging instruments	633,407	(1,822,778)
Gains/(Losses) on hedged items attributable to the hedged risk	(631,613)	1,561,557
Hedge ineffectiveness recognised in the income statement [1]	**1,794**	**(261,221)**

[1] *Represents hedge ineffectiveness of designated hedge relationships, plus economic hedges where hedge accounting has not been applied*

14 Covered Bonds Guarantee

As at 30 September 2018, NAB has issued $18,120 million (2017: $20,439 million) of Covered Bonds. The Trustee, as Covered Bond Guarantor, has guaranteed payments of interest and principal of Covered Bonds issued by NAB, with the sole source of payments by the Covered Bond Guarantor being the assets of the Trust. The Covered Bond Guarantor's obligations under the Covered Bond Guarantee are secured by the assets of the Trust and recourse against the Covered Bond Guarantor is limited to the Trust assets.

The value of the NAB issued Covered Bonds noted above is the AUD equivalent of the face value of the bonds issued by NAB, at the exchange rates at which they were swapped into AUD. This differs from the values on the statement of financial position which is the AUD equivalent of the face value of the bonds converted at year-end spot rates.

The Covered Bond Guarantor will have no obligation to make payments under the Covered Bond Guarantee until the occurrence and continuation of an Issuer Event of Default. Issuer Events of Default include:
- failure by the Issuer to make payments of principal or interest on the Covered Bonds when due;
- insolvency of the Issuer or the appointment of a receiver or administrator over the Issuer's assets;
- failure by the Issuer to perform or observe its obligations under the terms and conditions of the Covered Bonds; or
- breach of the Asset Coverage Test (ACT), or in the case of Hard Bullet Covered Bonds only, breach of the Pre-Maturity Test (PMT) and a failure, in each case, to take the required mitigating action.

The ACT is designed to protect Covered Bondholders by ensuring that the assets of the Trust are sufficient for the Covered Bond Guarantor to meet its obligations under the Covered Bond Guarantee. The PMT is intended to ensure that the Covered Bond Guarantor has sufficient liquidity within a 12 month period prior to the maturity of Hard Bullet Covered Bonds to ensure that payments of principal and interest can be made on maturity of such Covered Bonds.

The fair value of the Covered Bond Guarantee is negligible as the liability to the Covered Bondholders on the occurrence of an Issuer Event of Default is already recognised by the Trust through the Intercompany Notes issued by the Trust to NAB.

As at 30 September 2018, Covered Bonds issued by NAB have been assigned AAA rating by Fitch Australia Pty Ltd and Aaa credit rating by Moody's Investor Services Pty Ltd.

15 Financial risk management disclosures

The key financial risks faced by the Trust are:
- credit risk;
- market risk including interest rate risk and currency risk; and
- liquidity risk.

Further details regarding the nature and extent of each key financial risk faced by the Trust, and how these are risks are managed, are outlined as part of this note.

Governance and oversight
The financial risks to which the Trust is exposed are managed and overseen as contemplated and sanctioned in the Trust Establishment Deed and other associated transaction documentation.

As Trust Manager, NAB applies the risk management governance and frameworks applicable to NAB, its subsidiaries and structured entities. Risk is identified and managed as part of an enterprise Group-wide risk management framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to the businesses qualitatively (through the Group's risk postures, policies, standards and operating procedures) and quantitatively (through the Group's risk limits, settings and decision making authorities).

In addition to the above, the financial risks to which the Trust is exposed arise as a result of transactions undertaken by the Trust. These transactions are undertaken for purposes relating only to the Covered Bonds. As such, much of the required management and mitigation of risks arising on such transactions is defined within the associated transaction documentation. The impact of provisions of transaction documentation on financial risks is discussed below, in relation to each financial risk.

15 Financial risk management disclosures (continued)

Credit risk
The Trust is a special purpose entity which has been established to acquire NAB mortgage loans and the related securities and to provide a guarantee over Covered Bonds issued by NAB.

Credit risk is the potential that a counterparty will fail to meet its obligations to the Trust in accordance with agreed terms. The Trust's credit exposures are concentrated primarily to one counterparty, NAB. The transaction documents contain a number of provisions that mitigate the effect of the credit exposure to NAB. Some of these are detailed in the sections below.

Maximum exposure to credit risk
The Trust's maximum exposure to credit risk without taking account of collateral or other credit enhancements is the carrying value of cash and cash equivalents, interest receivable, derivative assets and mortgage pool receivables. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values as recorded in the statement of financial position.

For financial assets recognised on the statement of financial position, the gross exposure to credit risk equals their carrying amount.

The Trust manages credit risk arising on individual types of transactions in specific ways.

(a) Derivatives
At any one time, the maximum exposure to credit risk is limited to the current fair value of instruments that are favourable to the Trust less collateral obtained.

The Trust uses documentation including International Swaps and Derivatives Association (ISDA) Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of a counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Trust also executes Credit Support Annexes (CSA) in conjunction with ISDA Master Agreements.

In order to meet rating agencies' requirements the CSA's provide, where relevant, that in the event of adverse ratings action, NAB must post collateral to support the value of the derivatives favourable to the Trust, and in the event of continuing adverse ratings action make efforts to transfer its obligations under the derivative contracts to an alternative party of appropriate credit standing.

Collateral held by the Trust in support of derivative assets as at 30 September 2018 was nil (2017: nil).

Offsetting of financial assets and liabilities
The table below illustrates the amounts of financial instruments that have been offset on the statement of financial position and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements.

	2018						
	Amount subject to enforceable netting arrangements						
	Effect of offsetting arrangements			Related amount not offset			Amounts not subject to enforceable netting arrangements
	Gross amounts	Amount offset	Net amounts reported on statement of financial position	Financial instrument	Collateral	Net amount	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets	2,966,404	-	2,966,404	36,080	-	2,930,324	-
Total assets	**2,966,404**	**-**	**2,966,404**	**36,080**	**-**	**2,930,324**	**-**
Derivative financial liabilities	36,080	-	36,080	36,080	-	-	-
Total Liabilities	**36,080**	**-**	**36,080**	**36,080**	**-**	**-**	**-**

	2017						
	Amount subject to enforceable netting arrangements						
	Effect of offsetting arrangements			Related amount not offset			Amounts not subject to enforceable netting arrangements
	Gross amounts	Amount offset	Net amounts reported on statement of financial position	Financial instrument	Collateral	Net amount	
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets	2,493,457	-	2,493,457	234,643	-	2,258,814	-
Total assets	**2,493,457**	**-**	**2,493,457**	**234,643**	**-**	**2,258,814**	**-**
Derivative financial liabilities	234,643	-	234,643	234,643	-	-	-
Total Liabilities	**234,643**	**-**	**234,643**	**234,643**	**-**	**-**	**-**

15 Financial risk management disclosures (continued)

(b) Mortgage pool receivable
Under the transaction documents, the Trust is entitled to cashflows associated with mortgages in the mortgage pool.

The mortgage pool receivables relate to the housing loans issued by NAB that are secured against Australian residential property as collateral, and where applicable, Lenders Mortgage Insurance (LMI). Mortgage pool receivables are monitored regularly for indicators of impairment as outlined in Note (2) (j).

For the year ended 30 September 2018, there were no bad debts (2017: nil). As at that date, 306 loans representing less than 1% ($101.8m) of the outstanding balance were in arrears i.e. greater than 30 days past due (2017: 408 loans representing less than 1% ($141.4m) of the outstanding balance). Financial assets have not deteriorated significantly since origination if they are less than 30 days past due. Impaired assets are considered the loans that are contractually past due more than 90 days, including loans where the security is insufficient to cover principal and interest. No provision has been recognised by the Trust in relation to the mortgage loans in the cover pool as the Trust Manager has the discretion under clause 13 of the Mortgage Sale Agreement to sell the Trust's interests in non-performing mortgage loans to NAB as Seller.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables such as interest rates, foreign exchange rates and other prices. The Trust is exposed to interest rate risk and foreign currency risk as described below.

(i) Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Trust uses cross currency swaps and interest rate and basis swaps to economically hedge the interest rate differential between mortgage pool receivable assets and interest bearing liabilities. To date, assets and liabilities have routinely been hedged to monthly benchmark floating interest rates, however the benchmark floating rate of another tenor may be used for effective interest rate risk management.

The extent that the interest rate reset dates for the interest bearing liabilities provided by NAB (as hedged using cross currency interest rate swaps) and the mortgage pool receivable (as economically hedged to an imputed floating rate loan using interest rate and basis swaps) remain aligned, the future cash flows of the Trust are minimally affected by changes in interest rates. In addition, the sensitivity of profit or loss and net assets or liabilities attributable to unitholders to changes in interest rates is limited by the recognition of distributions to residual income unitholders which return the taxable income of the Trust to nil at each reporting date.

Residual interest rate risk arises primarily as a result of possible changes in the fair value of fixed future cash flows attributable to the margin above benchmark rates at which the intercompany notes were issued and swapped into Australian dollars using cross currency swaps. The following table shows the impact of a reasonably possible change in AUD interest rates as at 30 September assuming all other variables remain constant:

	Impact on Profit		Impact on net assets/(liabilities) attributable to unitholders	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
+25 basis points	8,391	12,050	8,391	12,050
-25 basis points	(8,391)	(12,050)	(8,391)	(12,050)

(ii) Foreign currency risk
Foreign currency risk arises from the possibility that changes in currency exchange rates will affect the future cash flows or the fair value of financial instruments.

Foreign currency risk in the Trust arises as a result of the Trust issuing intercompany notes to NAB in currencies other than Australian dollars. All non-Australian dollar cash flows arising on the intercompany notes with NAB are hedged by the Trust using cross currency swaps to swap the foreign currency cash flows for Australian dollar cash flows. As a result, any changes in foreign exchange rates will have minimal impact on the future cash flows of the Trust, on its profit or loss or on net assets or liabilities attributable to unitholders. Any foreign exchange gain or loss arising on the intercompany notes will be offset by an equal and opposite gain or loss on the hedging cross currency swap.

15 Financial risk management disclosures (continued)

Liquidity risk
Liquidity risk is the risk that the Trust is unable to meet its financial obligations as they fall due. These obligations mostly include payment of interest and repayment of principal.

Key principles adopted in the Trust approach to managing liquidity risk include:
- continuously monitoring cash flows;
- maintaining adequate cash reserves;
- economically hedging the maturity of loans with corresponding interest rate and basis swap maturities;
- managing the margin between interest receivable and interest payable.

Contractual maturity of assets and liabilities
The following tables show an analysis of contractual maturities at balance date of assets and liabilities.

	As at 30 September 2018			As at 30 September 2017		
	Less than 12 months $'000	Greater than 12 months $'000	Total $'000	Less than 12 months $'000	Greater than 12 months $'000	Total $'000
Cash and cash equivalents	596,215	-	596,215	580,604	-	580,604
Trade and other receivables	23,150	-	23,150	16,729	-	16,729
Derivative assets	753,525	2,212,879	2,966,404	555,877	1,937,580	2,493,457
Mortgage pool receivable	4,674	25,297,947	25,302,621	74,941	30,711,531	30,786,472
Total assets	**1,377,564**	**27,510,826**	**28,888,390**	**1,228,151**	**32,649,111**	**33,877,262**
Trade and other payable	144,422	-	144,422	136,895	-	136,895
Distribution payable	79,296	-	79,296	90,686	-	90,686
Derivative liabilities	-	36,080	36,080	-	234,643	234,643
Borrowings	3,568,367	25,184,480	28,752,847	2,423,006	31,118,075	33,541,081
Total liabilities	**3,792,085**	**25,220,560**	**29,012,645**	**2,653,326**	**31,352,718**	**34,003,305**
Net assets/(liabilities)	**(2,414,521)**	**2,290,266**	**(124,255)**	**(1,425,175)**	**1,296,393**	**(126,043)**

16 Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values are based on relevant information available as at the reporting date and involve judgement.

The table below shows a comparison of the carrying amount, as reported on the statement of financial position and fair value of those assets and liabilities, using a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for identical financial assets or liabilities.
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and distributions payable approximate their fair value as they are short term in nature or are receivable on demand.

The fair value estimates are based on the following methodologies and assumptions:
- The fair value of trading and hedging derivative assets and liabilities, including interest rate swaps and cross currency swaps are obtained from discounted cash flow models. During the year the valuation of derivatives was updated to continue to align with market pricing convention including the recognition of credit and funding valuation adjustments.
- The fair value of mortgage pool receivables that reprice within six months of reporting date is assumed to equate to the carrying value. The fair value of other mortgage pool receivables are calculated using discounted cash flow models based on the maturity of the mortgage pool receivables. The discount rates applied are based on interest rates at reporting date for similar types of mortgage receivables.
- The fair value of interest bearing liabilities are calculated based on the discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads.

As at 30 September 2018

	Carrying value $'000	Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Derivative assets	2,966,404	2,966,404	-	2,966,404	-
Mortgage pool receivable	25,302,621	25,216,433	-	-	25,216,433 *
Total financial assets	28,269,025	28,182,837	-	2,966,404	25,216,433
Derivative liabilities	36,080	36,080	-	36,080	-
Interest bearing liabilities	28,752,847	27,440,931	-	-	27,440,931 *
Total financial liabilities	28,788,927	27,477,011	-	36,080	27,440,931

As at 30 September 2017

	Carrying value $'000	Fair value $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Derivative assets	2,493,457	2,493,457	-	2,493,457	-
Mortgage pool receivable	30,786,472	30,727,857	-	-	30,727,857*
Total financial assets	33,279,929	33,221,314	-	2,493,457	30,727,857
Derivative liabilities	234,643	234,643	-	234,643	-
Interest bearing liabilities	33,541,081	31,189,445	-	-	31,189,445*
Total financial liabilities	33,775,724	31,424,088	-	234,643	31,189,445

*The Mortgage pool receivable and Interest bearing liabilities are carried at amortised cost on the statement of financial position.

There were no transfers between level 1 and 2 for the years ended 30 September 2018 and 2017.

There were no transfers into or out of Level 3 for the years ended 30 September 2018 and 2017.

17 Related party transactions

National Australia Bank Limited ("NAB")
NAB is the counterparty to the Trust in relation to the Mortgage Pool Receivable, Intercompany Notes and the Demand Note. NAB is also the Issuer, Seller, Servicer, Trust Manager, Account Bank, Swap Provider (Covered Bonds Swaps and interest rate and basis swaps), Intercompany Note Provider and Demand Note Subscriber. Interest income received and interest expense received from and paid to NAB is disclosed on the face of the income statement and is also disclosed in Notes 3 and 4.

All fees are calculated at arm's length and on normal terms and conditions. The Trust Manager's fee is disclosed in Note 5.

Total balances with related entities outstanding at 30 September 2018 were:

	2018 $'000	2017 $'000
Cash and cash equivalents	596,215	580,604
Trade and other receivables	23,150	16,729
Derivative assets	2,966,404	2,493,457
Loans and advances	25,302,621	30,786,472
Trade and other payables	144,422	136,895
Distributions payable	79,296	90,686
Derivative liabilities	36,080	234,643
Interest bearing liabilities	28,752,847	33,541,081

The Trust is considered to be a special purpose entity consolidated into the NAB Group (NAB and its controlled entities) and of which NAB is the parent entity. NAB services the mortgage pool receivable with a value of $25,212 million (2017: $31,290 million).

The loans and advances balance in the above table consists of mortgage pool receivables of $25,214 million (2017: $30,716 million) and mortgage collections receivables of $88 million (2017: $71 million).

The outstanding balances arose in the ordinary course of business.

Guarantees over Covered Bonds have been given and are detailed in Note 14. The following are the Covered Bond issues which the Trust has provided a guarantee over:

Issue Currency	Series	Coupon rate %	Coupon Frequency	Maturity Date	Face value Issue Currency in millions
NOK	Series 1	5.000%	Annual	20-Dec-21	3,125
EUR	Series 3	4.080%	Annual	20-Jan-27	200
GBP	Series 6	3.000%	Annual	4-Sep-26	250
EUR	Series 7	2.646%	Annual	21-Jan-28	200
EUR	Series 8	2.350%	Quarterly	4-Oct-24	136
EUR	Series 10	1.88%	Annual	13-Jan-23	1,000
EUR	Series 13	2.25%	Annual	6-Jun-25	750
NZD	Series 14	5.59%	Semi Annual	25-Jul-23	350
EUR	Series 16	2.58%	Annual	23-Sep-25	100
USD	Series 17	2.000%	Semi Annual	22-Feb-19	1,250
CHF	Series 18	1.500%	Annual	7-Feb-24	200
AUD	Series 19	5.000%	Semi Annual	11-Mar-24	750
EUR	Series 20	2.288%	Annual	4-Apr-26	75
EUR	Series 21	3 month EUR LIBOR+0.18%	Quarterly	22-May-19	65
EUR	Series 22	1.375%	Annual	28-May-21	1,250
USD	Series 23	2.125%	Semi Annual	9-Sep-19	1,250
EUR	Series 24	0.875%	Annual	19-Feb-27	1,000
EUR	Series 25	0.875%	Annual	16-Nov-22	750
USD	Series 26	2.25%	Semi Annual	16-Mar-21	1,400
GBP	Series 27	1.13%	Annual	10-Nov-21	450
USD	Series 28	2.40%	Semi Annual	7-Dec-21	1,000
EUR	Series 29	0.25%	Annual	28-Mar-22	1,250
AUD	Series 30	3.00%	Semi Annual	16-Mar-23	325
AUD	Series 31	3 month AUD BBSW+0.65%	Quarterly	16-Mar-23	1,050
AUD	Series 32	3.60%	Semi Annual	16-Mar-28	125

Demand note
The Trust borrows funds from NAB under the Demand Note Subscription Agreement in order to acquire mortgage pool receivables. Borrowing under the Demand Note is denominated in Australian dollars and is subject to floating interest rates. Amounts owed by the Covered Bond Guarantor under the Demand Note Subscription Agreement will be subordinated to amounts owed by the Covered Bond Guarantor under the Covered Bond Guarantee in accordance with the applicable priority of payments.

Intercompany notes
Fixed rate intercompany notes
Interest on fixed rate intercompany notes are payable in arrears according to their payment frequency.

The fixed rate intercompany notes are provided by NAB under the terms and conditions of the Intercompany Note Subscription Agreement. NAB will have recourse and claim only in respect of the assets of the Trust. Any advances owed by the Covered Bond Guarantor and Trustee will be made in accordance with the applicable priority of payments. The fixed rate intercompany notes are measured at amortised cost and were previously hedge accounted (During FY18 hedge accounting ceased for the intercompany notes).

In consideration for the Covered Bond Guarantor agreeing to give the Covered Bond Guarantee, the Intercompany Loan provider has agreed to make advances to enable the Trust to acquire mortgage loans and other assets to support the Covered Bonds Guarantors obligations under the Covered Bond Guarantee. In accordance with the Intercompany Note Subscription Agreement, the amount and term of each fixed rate intercompany note equals the amount and term of the corresponding tranche of Covered Bonds issued by NAB.

Floating rate intercompany notes
The floating rate intercompany notes' interest rates reset on quarterly basis and are measured at amortised cost. Interest on floating rate intercompany notes are payable quarterly in arrears.

18 Auditors' remuneration

The auditors remuneration for the Trust for the period is $30,450 (2017: $23,644).

19 Events Subsequent to reporting date

Since 30 September 2018 and as at the date of this report, the trust has undertaken transactions in the ordinary course of business. The most significant of these transactions include:

- The reduction in the Demand Note of $500 million on 29 October 2018
- Increase in the demand note of AUD $4 billion on 26 November 2018
- Series 33 USD $1.15 billion Covered Bonds @3.45% fixed rate due 4 December 2023 issued on 26 November 2018
- The reduction in the Demand Note of $450 million on 28 November 2018

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

20 Commitments, contingent assets and contingent liabilities

There are no commitments, contingent assets or contingent liabilities outstanding as at 30 September 2018 (2017: nil), other than those already disclosed in this report.

21 Going concern

National Australia Bank Limited as Trust Manager acknowledges that the Trust is in a net liability position of $124 million as at 30 September 2018 (2017: net liability position of $126 million). The net liability position of the Trust arises from unrealised fair value adjustments recognised on hedge accounted intercompany notes and from the fair value position of cross currency swaps used to hedge the interest rate and foreign currency exposures on the intercompany notes. These unrealised positions do not affect the going concern of the Trust.

NAB COVERED BOND TRUST

TRUST MANAGER'S DECLARATION

In the opinion of NAB, the Trust Manager of the NAB Covered Bond Trust:

1. The financial statements and notes set out on pages 6 to 23:
   (a) give a true and fair view of the financial position of the Trust as at 30 September 2018 and its performance for the year ended on that date; and

   (b) comply with the provisions of the Establishment Deed and Australian Accounting Standards (including the Australian Accounting Interpretations) and International Financial Reporting Standards.

2. There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

3. The Trust has been conducted in accordance with the Establishment Deed dated 10 November 2011 and the Management Agreement dated 11 November 2011.

Signed for and on behalf of National Australia Bank Limited as Trust Manager of NAB Covered Bond Trust:

Eva Zileli, Head of Group Funding, NAB

17 December 2018

Lachlan Rose, Manager, Treasury, NAB

17 December 2018

EY
Building a better working world

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

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

Independent Auditor's Report to the unitholders of NAB Covered Bond Trust

Opinion

We have audited the financial report of NAB Covered Bond Trust (the Trust), which comprises the statement of financial position as at 30 September 2018, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and explanatory notes and the Trust Manager's report.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Company as at 30 September 2018 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The Trust Manager is responsible for the other information. The other information is the Trust Managers' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The Trust Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the Trust Managers determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Trust Manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Trust Manager either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trust Manager.

- Conclude on the appropriateness of the Trust Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trust Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young
Melbourne
17 December 2018