National Australia Bank

HALF YEAR RESULTS 2021

Incorporating the requirements of Appendix 4D

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

The half year consolidated report is to be read in conjunction with the Annual Financial Report 2020.

National Australia Bank Limited ABN 12 004 044 937

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Results for Announcement to the Market

Report for the half year ended 31 March 2021

					31 March 2021 $m
Revenue from ordinary activities[(1)(2)]	down	1.5%	*	to	8,255
Net profit after tax from ordinary activities attributable to owners of NAB	up	144.3%	*	to	3,208
Net profit attributable to owners of NAB	up	144.3%	*	to	3,208

** On prior corresponding period (six months ended 31 March 2020).*

Dividends	**Amount per share** **cents**	**Franked amount per share** **%**
Interim dividend	60	100
Ex-dividend date for interim dividend		13 May 2021
Record date for determining entitlements to the interim dividend		14 May 2021

A Glossary of Terms is included in Section 5.

A reference in this Appendix 4D to the 'Group' is a reference to NAB and its controlled entities. All currency amounts are expressed in Australian dollars unless otherwise stated. References in this document to the March 2021 half year are references to the six months ended 31 March 2021. Other six month periods are referred to in a corresponding manner. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth), are included in Section 3. See page 94 for a complete index of ASX Appendix 4D requirements.

(1) *Required to be disclosed by ASX Listing Rule Appendix 4D. Reported as the sum of the following from the Group's consolidated income statement: Net interest income $6,840 million and total other income $1,415 million. On a cash earnings basis revenue increased by 1.0%. Refer to information on cash earnings on page 2 of Section 1 of the 2021 Half Year Results Announcement.*
(2) *Information is presented on a continuing operations basis, unless otherwise stated.*

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Half Year Results
2021

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2021 HALF YEAR RESULTS SUMMARY

National Australia Bank

1H21 KEY FINANCIAL INFORMATION

$3,208M Statutory net profit	**$3,343M** Cash earnings[1] Up 94.8% v 1H20 Up 35.1% v 1H20 excluding 1H20 large notable items[2]
11.1% Cash ROE	**12.37%** Group Common Equity Tier 1 (CET1) ratio

"The rebound in the Australian and New Zealand economies from COVID-19 has been better than expected. This, along with the vaccine rollout and continued strong health outcomes, make us optimistic about the outlook.

But risks do remain. The recovery is not even, and some customers such as those in international travel and hospitality, particularly in CBD areas, still face significant challenges. Longer term outcomes for these customers depend on a number of factors expected to become clearer in coming months. These include the impact of JobKeeper ending, timing of the vaccine rollout and the reopening of international borders. Supporting customers and keeping the bank safe through this period remain our priorities.

Our 1H21 result reflects the improving conditions, with cash earnings 35.1% higher compared with 1H20 (excluding large notable items) benefitting from significantly better credit impairment outcomes. This result, and our growing confidence in the outlook, have allowed us to lift the 2021 interim dividend to 60 cents per share.

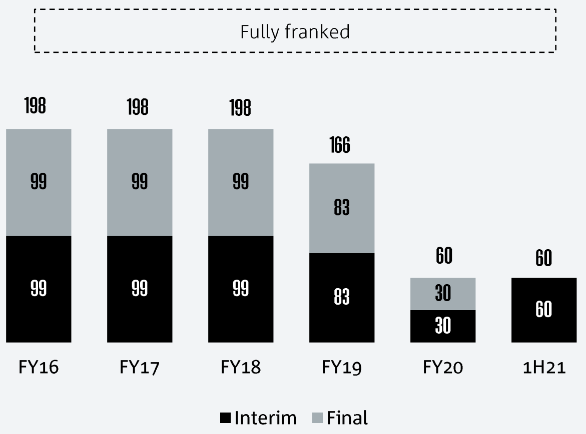
Against this improving economic backdrop, there is growing momentum across our Bank reflecting our investment in key strategic priority areas. While there is still much to do, we are progressing on our ambition to deliver better outcomes for customers and colleagues. Focus and execution remain key."

ROSS MCEWAN – NAB CEO

DIVIDENDS

CENTS PER SHARE

In respect of each financial year / period



SUPPORTING OUR CUSTOMERS & COMMUNITIES IN 1H21

- Strategic Net Promoter Score (NPS) up 11 points from -18 in March 2020 to -7 in March 2021, with NAB ranked first of the major banks[3]
- Supporting customers through the changing face of banking, with 280 remote working and regional/rural roles added into operations and to assist customers with digital and phone banking, combined with 134 new regional small business bankers
- Extending support to SME customers impacted by COVID-19 with the NAB Business Support Loan, and helping our customers impacted by flooding in NSW and the WA cyclone with emergency grants
- Bolstering our ability to work with customers on climate risk and transition pathways by building a team of highly qualified climate bankers over the next 12 months

[1] Refer cash earnings note and reconciliation on page 6.
[2] Cash earnings large notable items after tax in 1H20: customer-related remediation $91m; capitalised software policy change $668m.
[3] Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Sourced from DBM Consultants Business and Consumer Atlas, measured on 6 month rolling average. Definition has been updated to give all customers in the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer (18+) and Business segments using a 50% weighting for each. History has been restated. Ranking based on [simple/absolute] scores, not statistically significant differences.

The March 2021 half year results are compared with the March 2020 half year results for continuing operations unless otherwise stated. Operating Performance and Asset Quality are expressed on a cash earnings basis.

OPERATING PERFORMANCE 1H21 V 1H20

- Revenue increased 1.0%. Excluding large notable items in 1H20, revenue was stable reflecting improved Markets and Treasury income, offset by lower margins.
- Net Interest Margin (NIM) declined 4 basis points (bps) to 1.74%, but excluding Markets and Treasury and large notable items, NIM declined 2bps. This reflects a lower earnings rate on deposits and capital given the impact of a low interest rate environment, combined with competitive pressures, partly offset by lower funding costs and home loan repricing.
- Expenses decreased 18.6%. Excluding large notable items in 1H20[4], expenses rose 3.1% mainly reflecting provisions for higher performance-based compensation and additional customer facing and support roles, partly offset by productivity gains. However, compared with 2H20, expenses fell 1.8% (excluding large notable items in 2H20), with lower restructuring-related costs and productivity improvements, partly offset by provisions for higher performance-based compensation.

1H21 V 1H20 DRIVERS OF CASH EARNINGS CHANGE

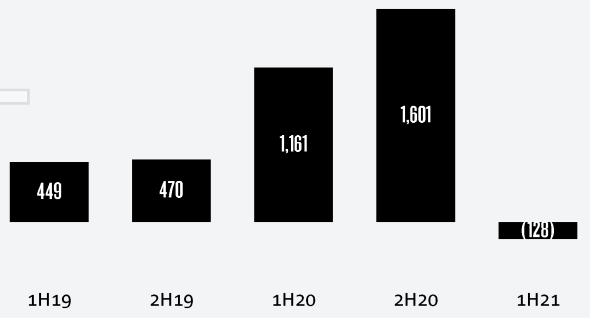
(ex large notable items[4])

"We continue to expect modest expense growth in FY21 of approximately 0-2% (excluding large notable items)[5]"

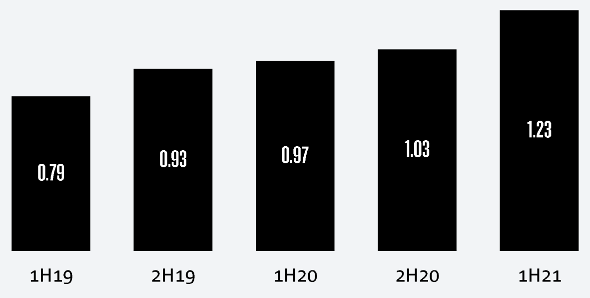
ASSET QUALITY 1H21 V 1H20

- 1H21 credit impairment charges were a write-back of $128 million, versus a 1H20 charge of $1,161 million. The significant improvement reflects partial release and non-repeat of 1H20 top-ups to forward looking collective provisions for potential COVID-19 impacts, and lower underlying charges.
- 1H21 changes to forward looking provisions include a $235 million release from the economic adjustment, partially offset by a $221 million top-up to target sector forward looking adjustments where elevated levels of risk remain.
- Excluding changes in forward looking provisions, underlying charges reduced $447 million benefitting from a lower level of individual impairments and reduced charges for Australian retail exposures.
- The ratio of 90+ days past due and gross impaired assets to gross loans and acceptances increased 26bps to 1.23%, primarily due to missed payments relating to home loan customers exiting deferrals.

CREDIT IMPAIRMENT CHARGES/(WRITEBACK) ($ MILLIONS)



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

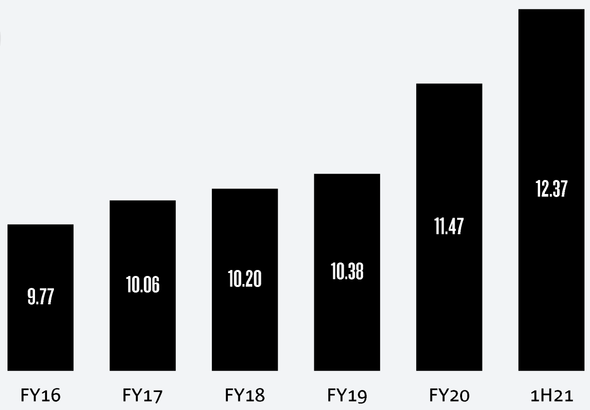


"The economic outlook has improved, but the sustainability of the recovery remains uncertain at this stage and customer impacts are uneven. To reflect this, collective provisions remain prudent at 1.50% of credit risk weighted assets."

[4] Revenue excludes customer-related remediation $80m in 1H20. Expenses excludes customer-related remediation $50m in 1H20 and capitalised software policy change $950m in 1H20. Underlying profit represents cash earnings before credit impairment charges, income tax and distributions. Refer note on cash earnings and reconciliation on page 6.
[5] Refer to key risks, qualifications and assumptions in relation to forward looking statements on page 7.

CAPITAL, FUNDING & LIQUIDITY

CET1 RATIO (%)



KEY RATIOS AS AT 31 MARCH 2021

- Group Common Equity Tier 1 (CET1) ratio of 12.37%, up 90bps from September 2020
- Proforma CET1 ratio of 12.75% reflecting estimated impacts from agreed sale of MLC Wealth (~35bps) and BNZ Life (~7bps) less acquisition of 86 400 (~4bps)[6]
- Leverage ratio (APRA basis) of 5.99%
- Liquidity coverage ratio (LCR) quarterly average of 136%
- Net Stable Funding Ratio (NSFR) of 122%

KEY DIVISIONAL PERFORMANCE – CASH EARNINGS

	1H21 ($M)	% CHANGE 1H21 V 1H20	KEY DRIVERS 1H21 V 1H20
Business & Private Banking[7]	1,216	(10.3)	Earnings reduced reflecting lower revenue mostly due to the low interest rate environment, and higher operating expenses including additional resources to support customers in response to COVID-19 and additional bankers to support growth. These impacts were partly offset by lower credit impairment charges.
Personal Banking[7]	859	14.1	Higher earnings benefitting from reduced credit impairment charges, home loan repricing, and lower funding costs, partly offset by competition and the impact of the low interest rate environment. Operating expenses were also lower with investment in additional customer facing and support resources more than offset by productivity benefits.
Corporate & Institutional Banking[7]	782	15.7	Earnings increased with improved outcomes across most key drivers. Markets income was higher with non-repeat of losses on the high quality liquids portfolio combined with a positive derivative valuation adjustment. Margins (ex Markets) also increased benefitting from risk and pricing discipline, while credit impairment charges were lower.
New Zealand Banking[7] (NZ$M)	616	9.6	Higher earnings with revenue increasing due to growth in lending and improved margins, combined with reduced credit impairment charges. This was partly offset by higher operating expenses including increased investment in additional roles to support growth and to strengthen the compliance and control environment.

[6] Sale of MLC and acquisition of 86 400 expected to complete in 2H21 and sale of BNZ Life expected to complete in 1H22, in each case subject to relevant approvals. Final capital impact will be determined following completion.
[7] Excludes large notable items and collective provision charges for forward looking economic adjustments due to the potential deterioration in broader macro-economic factors as a result of the COVID-19 pandemic, which are included in Corporate Functions and Other.

OUR STRATEGIC AMBITION

WHY WE ARE HERE

To serve customers well and help our communities prosper

WHO WE ARE HERE FOR

Colleagues
Trusted professionals that are proud to be a part of NAB

Customers
Choose NAB because we serve them well every day

WHAT WE WILL BE KNOWN FOR

Relationship-led
Relationships are our strength

1. Exceptional bankers
2. Unrivalled customer value (expertise, data and analytics)
3. Truly personalised experiences

Easy
Simple to deal with

1. Simple products and experiences
2. Seamless - everything just works
3. Fast and decisive

Safe
Responsible & secure business

1. Strong balance sheet
2. Leading, resilient technology and operations
3. Pre-empting risk and managing it responsibly

Long-term
A sustainable approach

1. Commercial responses to society's biggest challenges
2. Resilient and sustainable business practices
3. Innovating for the future

WHERE WE WILL GROW

Business & Private – Clear market leadership

Corporate & Institutional – Disciplined growth

Personal – Simple & digital

BNZ – Grow in Personal & SME

UBank – New customer acquisition

HOW WE WORK

Excellence for customers | Grow together | Be respectful | Own it

MEASURES FOR SUCCESS

Engagement | NPS growth | Cash EPS growth | ROE

ECONOMIC OUTLOOK

"Australia's economic recovery is unfolding at a brisk pace and indicators point to ongoing strength in activity and the labour market. In particular, record high levels of business conditions and forward orders combined with strong business confidence and increasing capacity utilisation should drive a pick-up in business investment and further jobs growth. This suggests that, in aggregate, the economy is well placed to absorb the winding up of JobKeeper at the end of March despite some sectors remaining challenged. Encouragingly, GDP for the March 2021 quarter is forecast to have fully recovered its pre COVID-19 level, but a large degree of spare capacity remains in the labour market. As such, wages growth and inflation will likely remain weak for some time, supporting ongoing accommodative monetary policy and potentially the need for further fiscal support in coming years.

The New Zealand economy experienced a very strong rebound in activity in the September 2020 quarter. However, there has since been a pull back in activity in part due to the absence of international tourists, although momentum is still evident in some parts of the economy including construction, and exporters will benefit from an improving global economy."

STRATEGIC OVERVIEW[8]

Last year we refreshed our long term strategy. Our ambition is to serve customers well and help our communities prosper. We will do this by supporting our customers and colleagues and being relationship-led, easy to deal with, safe and sustainable. This strategic refresh builds on the strengths of our core businesses and the sound foundations already in place, while recognising the need for a simpler, more resilient and efficient business with clearer accountabilities.

As part of this refresh, we outlined four clear measures of success and our long term ambitions for these over three to five years:

- Top quartile colleague engagement
- Strategic NPS positive and #1 of majors
- Cash EPS growth through safe market share growth in target segments and a disciplined approach to costs and investment including lower absolute costs (relative to FY20 costs)
- Double digit cash ROE

Our strategy is not unique. Its successful delivery requires that we have great clarity and execute well. Driving the cultural change necessary for these outcomes is a key priority. While it will take time and relentless focus to ingrain the discipline and cadence required, we are making progress. The implementation of a customer-centric operating model with clear accountabilities was an important early step in 2H20. Also important has been making very clear to each of our senior leaders their key deliverables over the next five years to make a meaningful difference to our customers, colleagues and the future of NAB. Regular check-ins and consistent reporting against these specific commitments is underway, alongside a more disciplined framework governing our discretionary investment.

Executing effectively requires that we stay focused on our core businesses. The announced sales of MLC Wealth and BNZ Life (expected to complete in 2H21 and 1H22 respectively, subject to relevant approvals) allow us to optimise and simplify our portfolio through the divestment of non core businesses. We also regularly assess opportunities to acquire businesses that support our growth strategy in our core banking markets, such as 86 400.

Across our business momentum is building. While the improving economic environment has been helpful, it is also clear that the decisions and investments we are making as part of our strategy are having a real impact for customers and colleagues.

Against a backdrop of strong business confidence and conditions, we are reinvigorating our leading SME franchise – Business & Private Banking – to ensure we are well placed to support a business-led recovery in the Australian economy. We have added ~490 new customer-facing and operations roles and new leadership is driving a heightened focus on performance disciplines, while getting the basics right. Our pipeline of new business is significantly higher than last year, we are growing business lending market share and our new business transaction account openings are up 16% versus last year.

In Personal Banking, a key focus has been on simplifying and improving the home lending experience for our customers and bankers. Our Simple Home Loans platform is enabling simple lending to be originated far more seamlessly through our proprietary channels with quicker turnaround times. This has been a key driver of improved performance in 1H21 including a 30% reduction in time to unconditional approval compared with 1H20, despite a significant 45% lift in the volume of home loan applications processed since 2H20. We expect to see ongoing improvements as we expand the types of home lending and channels capable of origination through this platform from about 60% of proprietary volumes currently. This, along with other improvements to our policies and processes, is expected to drive a return to market share growth in 2H21.

Our strategy is focused on delivering growth by improving the experiences and outcomes for our customers and colleagues. As we increasingly simplify, automate and digitise to achieve this, we should also be able to operate more efficiently. Our focus on cost and investment disciplines sees us targeting lower absolute costs over three to five years compared with FY20, with growth in costs limited to 0-2% in FY21 (excluding large notable items in both cases).

Critical to us achieving our strategic growth and cost ambitions is technology. Pleasingly, the significant investments in previous years mean we are now able to leverage strong technology foundations to deliver quicker, safer and better outcomes for our customers and colleagues at lower cost. Our insourcing program has been bringing key technology talent and functions back into NAB, giving us greater speed, flexibility and control with cost neutral or better outcomes. Our cloud migration is well advanced with 45% of apps now cloud-based providing more flexible and up-to-date services at lower cost with greater resilience.

Consistent with safety being a key pillar of our strategic ambition, March 2021 balance sheet settings have been maintained at prudent levels including a CET1 ratio of 12.37%. As we gain greater clarity as to the breadth and sustainability of the recovery, we expect to reset our capital and dividends for a more normal operating environment. This is expected to see us manage CET1 over time towards a target range of 10.75-11.25% and for future dividends to be guided by a payout ratio range of 65-75% 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 ROE benefits.

We are optimistic about the future. Economic and health outcomes are improving rapidly, we are making good progress implementing our refreshed strategy and momentum is building across our business. While there is still much to do, we are on the right track, creating a simpler, more accountable business. This is enabling us to more consistently get the basics right and deliver for our colleagues and customers.

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

GROUP PERFORMANCE RESULTS

Cash earnings is a key financial performance measure used by NAB, the investment community and NAB's Australian peers with a similar business portfolio. NAB also uses cash earnings for its internal management reporting, as it better reflects what NAB considers to be the underlying performance of the Group. Cash earnings is not a statutory financial measure, is not presented in accordance with Australian Accounting Standards, and is not audited or reviewed in accordance with Australian Auditing Standards. The 2021 Half Year Results Announcement provides details of how cash earnings is defined on page 2 and a discussion of non-cash earnings items and full reconciliation of statutory net profit attributable to owners of NAB on pages 91 to 93.

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Net interest income[9]	6,839	7,012	6,908	(2.5)	(1.0)
Other operating income[9]	1,600	1,872	1,527	(14.5)	4.8
Large notable items[10]	-	(49)	(80)	large	large
Net operating income	8,439	8,835	8,355	(4.5)	1.0
Operating expenses[9]	(3,863)	(3,932)	(3,747)	(1.8)	3.1
Large notable items[10]	-	(328)	(1,000)	large	large
Underlying profit	4,576	4,575	3,608	-	26.8
Credit impairment (charge)/writeback	128	(1,601)	(1,161)	large	large
Cash earnings before tax and distributions	4,704	2,974	2,447	58.2	92.2
Income tax expense	(1,348)	(963)	(709)	40.0	90.1
Cash earnings before distributions	3,356	2,011	1,738	66.9	93.1
Distributions	(13)	(17)	(22)	(23.5)	(40.9)
Cash earnings	3,343	1,994	1,716	67.7	94.8
Large notable items[10]	-	(264)	(759)	large	large
Cash earnings (excluding large notable items)[10]	*3,343*	*2,258*	*2,475*	*48.1*	*35.1*
Non-cash earnings items (after tax)	(113)	(37)	(175)	large	35.4
Net profit from continuing operations	3,230	1,957	1,541	65.0	large
Net loss attributable to owners of NAB from discontinued operations[11]	(22)	(711)	(228)	(96.9)	(90.4)
Net profit attributable to owners of NAB	3,208	1,246	1,313	large	large
Represented by:[12]					
Business and Private Banking	1,216	1,116	1,356	9.0	(10.3)
Personal Banking	859	689	753	24.7	14.1
Corporate and Institutional Banking	782	740	676	5.7	15.7
New Zealand Banking	576	442	535	30.3	7.7
Corporate Functions and Other	(90)	(729)	(845)	(87.7)	(89.3)
Large notable items[10]	-	(264)	(759)	large	large
Cash earnings	3,343	1,994	1,716	67.7	94.8

SHAREHOLDER SUMMARY

	Half Year to				
	Mar 21	Sep 20	Mar 20	Mar 21 v Sep 20	Mar 21 v Mar 20
Group – including discontinued operations					
Dividend per share (cents)	60	30	30	30	30
Statutory dividend payout ratio	61.8%	78.5%	67.9%	large	(610 bps)
Statutory earnings per share (cents) – basic	97.1	38.2	44.2	58.9	52.9
Statutory earnings per share (cents) – diluted	92.7	37.6	42.6	55.1	50.1
Statutory return on equity	10.6%	4.2%	4.7%	640 bps	590 bps
Group – Continuing operations					
Cash dividend payout ratio	59.1%	48.4%	51.0%	large	810 bps
Statutory dividend payout ratio from continuing operations	61.3%	49.8%	57.7%	large	360 bps
Statutory earnings per share from continuing operations (cents) – basic	97.8	60.3	52.0	37.5	45.8
Statutory earnings per share from continuing operations (cents) – diluted	93.4	58.1	49.5	35.3	43.9
Cash earnings per share (cents) – basic	101.6	62.0	58.8	39.6	42.8
Cash earnings per share (cents) – diluted	96.9	59.7	55.5	37.2	41.4
Cash return on equity (ROE)	11.1%	6.8%	6.3%	430 bps	480 bps
Group – Continuing operations (excluding large notable items)					
Cash dividend payout ratio	59.1%	42.7%	35.4%	large	large
Statutory dividend payout ratio from continuing operations	61.3%	43.8%	38.5%	large	large
Statutory earnings per share from continuing operations (cents) – basic	97.8	68.5	78.0	29.3	19.8
Statutory earnings per share from continuing operations (cents) – diluted	93.4	65.7	72.5	27.7	20.9
Cash earnings per share (cents) – basic	101.6	70.2	84.8	31.4	16.8
Cash earnings per share (cents) – diluted	96.9	67.3	78.5	29.6	18.4
Cash return on equity (ROE)	11.1%	7.7%	9.1%	340 bps	200 bps

[9] Excludes large notable items.
[10] Refer to NAB's 2021 Half Year Results Announcement Section 4 Large notable items for further information.
[11] Refer to NAB's 2021 Half Year Announcement Note 14 Discontinued Operations for further information.
[12] 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.

FOR FURTHER INFORMATION

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DISCLAIMER – FORWARD LOOKING STATEMENTS

This Results Summary and the 2021 Half Year Results Announcement contain statements that are, or may be deemed to be, forward looking statements. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. You are cautioned not to place undue reliance on such forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

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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Section 1

Group Review

Information about Cash Earnings and other Non-IFRS Measures

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

Non-IFRS Key Financial Performance Measures used by the Group

Certain financial measures detailed in this 2021 Half Year Results Announcement are not accounting measures within the scope of IFRS. Management use these financial metrics to measure the Group's overall financial performance and position and believe the presentation of these industry standard financial measures provide useful information to analysts and investors regarding the results of the Group's operations and allows ready comparison with other industry participants. The Group regularly reviews the non-IFRS measures included in its reporting documents to ensure that only relevant financial measures are incorporated. Further information in relation to these financial measures is set out below and in the Glossary of Terms.

Explanation and Definition of Cash Earnings

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

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

Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the March 2021 half year has been adjusted for the following:

- distributions
- fair value and hedge ineffectiveness.

Reconciliation to Statutory Net Profit

Section 3 of the 2021 Half Year Results Announcement contains the Group's income statement, including statutory net profit. The statutory net profit for the period is the sum of both net profit / (loss) from continuing operations and discontinued operations. Further details on discontinued operations are set out in *Note 14 Discontinued operations* on page 73. The Group's consolidated financial statements, prepared in accordance with the *Corporations Act 2001* (Cth) and applicable Australian Accounting Standards, and reviewed by the auditors in accordance with Australian Auditing Standards, are included in the financial report section of the 2021 Half Year Results Announcement.

A reconciliation of cash earnings to statutory net profit is set out on page 3, and full reconciliations between statutory net profit and cash earnings are included in Section 4 Supplementary information on pages 92-93.

Page 91 contains a description of non-cash earnings items for the March 2021 half year.

Average Balances

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

Group Performance Results[(1)]

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Net interest income[(2)]	**6,839**	7,012	6,908	(2.5)	(1.0)
Other operating income[(2)]	**1,600**	1,872	1,527	(14.5)	4.8
Large notable items[(3)]	**-**	(49)	(80)	large	large
Net operating income	**8,439**	8,835	8,355	(4.5)	1.0
Operating expenses[(2)]	**(3,863)**	(3,932)	(3,747)	(1.8)	3.1
Large notable items[(3)]	**-**	(328)	(1,000)	large	large
Underlying profit	**4,576**	4,575	3,608	-	26.8
Credit impairment (charge) / write-back	**128**	(1,601)	(1,161)	large	large
Cash earnings before tax and distributions	**4,704**	2,974	2,447	58.2	92.2
Income tax expense	**(1,348)**	(963)	(709)	40.0	90.1
Cash earnings before distributions	**3,356**	2,011	1,738	66.9	93.1
Distributions	**(13)**	(17)	(22)	(23.5)	(40.9)
Cash earnings	**3,343**	1,994	1,716	67.7	94.8
Large notable items[(3)]	**-**	(264)	(759)	large	large
Cash earnings (*excluding large notable items*)[(3)]	**3,343**	2,258	2,475	48.1	35.1
Non-cash earnings items (after tax):					
Distributions	**13**	17	22	(23.5)	(40.9)
Fair value and hedge ineffectiveness	**(126)**	(54)	20	large	large
Amortisation and impairment of acquired intangible assets	**-**	-	(217)	-	large
Net profit from continuing operations	**3,230**	1,957	1,541	65.0	large
Net loss attributable to owners of NAB from discontinued operations	**(22)**	(711)	(228)	(96.9)	(90.4)
Net profit attributable to owners of NAB	**3,208**	1,246	1,313	large	large
Represented by:[(4)]					
Business and Private Banking	**1,216**	1,116	1,356	9.0	(10.3)
Personal Banking	**859**	689	753	24.7	14.1
Corporate and Institutional Banking	**782**	740	676	5.7	15.7
New Zealand Banking	**576**	442	535	30.3	7.7
Corporate Functions and Other	**(90)**	(729)	(845)	(87.7)	(89.3)
Large notable items[(3)]	**-**	(264)	(759)	large	large
Cash earnings	**3,343**	1,994	1,716	67.7	94.8

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Excludes large notable items. In the March 2021 half year, the Group did not recognise any amounts as large notable items.*
(3) *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.*

Group Performance Results (continued)

Review of Group Performance Results[1]

March 2021 v March 2020

Statutory net profit increased by $1,895 million. Excluding the impact of discontinued operations, statutory net profit increased by $1,689 million.[2]

Cash earnings increased by $1,627 million or 94.8% including large notable items of $759 million in the March 2020 half year. Excluding these items, cash earnings increased by $868 million or 35.1%.

Net interest income decreased by $47 million or 0.7%. Excluding large notable items of $22 million in the March 2020 half year, net interest income decreased by $69 million or 1.0%. This includes an increase of $192 million which was offset by movements in economic hedges in other operating income. Excluding these movements, the underlying decrease of $261 million or 3.8% was 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 costs and favourable deposit mix.

Other operating income increased by $131 million or 8.9%. Excluding large notable items of $58 million in the March 2020 half year, other operating income increased by $73 million or 4.8%. This includes a decrease of $192 million which was offset by movements in economic hedges in net interest income. The underlying increase of $265 million or 18.0% was driven by higher NAB risk management income in Treasury due to the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year. The derivative valuation adjustment increased income primarily due to the non-repeat of unfavourable movements in the March 2020 half year in addition to gains from credit spreads tightening in the March 2021 half year.

Operating expenses decreased by $884 million or 18.6%. Excluding $1,000 million of large notable items in the March 2020 half year, operating expenses increased by $116 million or 3.1%. The underlying increase was primarily due to higher personnel costs including provisions for higher performance-based compensation, resources to support customers in response to COVID-19, bankers to support growth and annual salary increases. These were partially offset by productivity benefits achieved through simplification of the Group's operations and a reduction in third party spend, combined with lower restructuring-related costs.

Credit impairment charge decreased by $1,289 million, driven primarily by a reduction in charges of $842 million for forward looking provisions as a result of COVID-19. Excluding forward looking provisions, underlying charges have decreased by $447 million due to lower levels of individual impaired exposures and collective provision charges for the Australian retail portfolio.

March 2021 v September 2020

Statutory net profit increased by $1,962 million. Excluding the impact of discontinued operations, statutory net profit increased by $1,273 million or 65.0%.[2]

Cash earnings increased by $1,349 million or 67.7%, including large notable items of $264 million in the September 2020 half year. Excluding these items, cash earnings increased by $1,085 million or 48.1%.

Net interest income decreased by $146 million or 2.1%. Excluding large notable items of $27 million in the September 2020 half year, net interest income decreased by $173 million or 2.5%. This includes a decrease of $13 million which was offset by movements in economic hedges in other operating income. Excluding these movements, the underlying decrease of $160 million or 2.3% was 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 operating income decreased by $250 million or 13.5%. Excluding large notable items of $22 million in the September 2020 half year, other operating income decreased by $272 million or 14.5%. This includes an increase of $13 million which was offset by movements in economic hedges in net interest income. The underlying decrease of $285 million or 15.4% was driven by lower NAB risk management income in Markets and Treasury, primarily due to the non-repeat of mark-to-market gains on the high quality liquids portfolio in the September 2020 half year, and lower income from interest rate and foreign exchange risk management, 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 $328 million of large notable items in the September 2020 half year, operating expenses decreased by $69 million or 1.8%. The underlying decrease was 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, combined with additional resources to support customers in response to COVID-19 and additional bankers to support growth.

Credit impairment charge decreased by $1,729 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 $687 million due to lower levels of individual impaired exposures and collective provision charges across the Group’s lending portfolio.

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

(2) *The results of discontinued operations primarily relate to the net results of MLC Wealth and MLC Wealth-related items, combined with a reassessment of customer-related remediation.*

Group Performance Results (continued)

Shareholder Summary

	Half Year to			Mar 21 v	Mar 21 v
	Mar 21	**Sep 20**	**Mar 20**	**Sep 20**	**Mar 20**
Group - Including discontinued operations					
Dividend per share (cents)	**60**	30	30	30	30
Statutory dividend payout ratio	**61.8%**	78.5%	67.9%	large	(610 bps)
Statutory earnings per share (cents) - basic	**97.1**	38.2	44.2	58.9	52.9
Statutory earnings per share (cents) - diluted	**92.7**	37.6	42.6	55.1	50.1
Statutory return on equity	**10.6%**	4.2%	4.7%	640 bps	590 bps
Group - Continuing operations[1]					
Cash dividend payout ratio	**59.1%**	48.4%	51.0%	large	810 bps
Statutory dividend payout ratio from continuing operations	**61.3%**	49.8%	57.7%	large	360 bps
Statutory earnings per share from continuing operations (cents) - basic	**97.8**	60.3	52.0	37.5	45.8
Statutory earnings per share from continuing operations (cents) - diluted	**93.4**	58.1	49.5	35.3	43.9
Cash earnings per share (cents) - basic	**101.6**	62.0	58.8	39.6	42.8
Cash earnings per share (cents) - diluted	**96.9**	59.7	55.5	37.2	41.4
Cash return on equity	**11.1%**	6.8%	6.3%	430 bps	480 bps
Group - Continuing operations (excluding large notable items)[1]					
Cash dividend payout ratio	**59.1%**	42.7%	35.4%	large	large
Statutory dividend payout ratio from continuing operations	**61.3%**	43.8%	38.5%	large	large
Statutory earnings per share from continuing operations (cents) - basic	**97.8**	68.5	78.0	29.3	19.8
Statutory earnings per share from continuing operations (cents) - diluted	**93.4**	65.7	72.5	27.7	20.9
Cash earnings per share (cents) - basic	**101.6**	70.2	84.8	31.4	16.8
Cash earnings per share (cents) - diluted	**96.9**	67.3	78.5	29.6	18.4
Cash return on equity	**11.1%**	7.7%	9.1%	340 bps	200 bps

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

Group Performance Results (continued)

Key Performance Indicators

	Half Year to				
	Mar 21	Sep 20	Mar 20	Mar 21 v Sep 20	Mar 21 v Mar 20
Group - Continuing operations[(1)]					
Cash earnings on average assets	**0.77%**	0.45%	0.40%	32 bps	37 bps
Cash earnings on average risk-weighted assets	**1.59%**	0.93%	0.81%	66 bps	78 bps
Cash earnings per average FTE ($'000)	**214**	127	110	68.5%	94.5%
Cost to income (CTI) ratio	**45.8%**	48.2%	56.8%	(240 bps)	large
Net interest margin	**1.74%**	1.77%	1.78%	(3 bps)	(4 bps)
Group - Continuing operations (excluding large notable items)[(1)(2)]					
Cash earnings on average assets	**0.77%**	0.51%	0.57%	26 bps	20 bps
Cash earnings on average risk-weighted assets	**1.59%**	1.05%	1.18%	54 bps	41 bps
Cash earnings per average FTE ($'000)	**214**	144	159	48.6%	34.6%
Cost to income (CTI) ratio	**45.8%**	44.3%	44.4%	150 bps	140 bps
Net interest margin	**1.74%**	1.78%	1.79%	(4 bps)	(5 bps)
Total Group capital					
Common Equity Tier 1 ratio	**12.37%**	11.47%	10.39%	90 bps	198 bps
Tier 1 capital ratio	**14.01%**	13.20%	11.96%	81 bps	205 bps
Total capital ratio	**17.90%**	16.62%	14.61%	128 bps	329 bps
Risk-weighted assets ($bn)	**417.6**	425.1	432.7	(1.8%)	(3.5%)
Volumes ($bn)					
Gross loans and acceptances	**598.7**	594.1	614.2	0.8%	(2.5%)
Average interest earning assets	**787.1**	789.9	773.5	(0.4%)	1.8%
Total average assets	**874.0**	892.1	861.9	(2.0%)	1.4%
Total customer deposits	**475.8**	468.2	447.2	1.6%	6.4%
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**1.23%**	1.03%	0.97%	20 bps	26 bps
Collective provision to credit risk-weighted assets	**1.50%**	1.56%	1.21%	(6 bps)	29 bps
Specific provision to gross impaired assets	**47.6%**	45.0%	40.6%	260 bps	700 bps
Full-time equivalent employees (FTE)					
Group - Continuing operations (spot)[(1)]	**31,696**	31,372	31,555	1.0%	0.4%
Group - Continuing operations (average)[(1)]	**31,271**	31,282	31,176	-	0.3%
Group - Including discontinued operations (spot)	**35,078**	34,944	35,245	0.4%	(0.5%)
Group - Including discontinued operations (average)	**34,704**	34,899	34,841	(0.6%)	(0.4%)

	As at		
Market share	**31 Mar 21**	**30 Sep 20**	**29 Feb 20**
Australia			
Business lending[(3)]	**21.6%**	21.5%	21.8%
Business lending[(4)]	**20.6%**	20.5%	20.6%
Business deposits[(3)]	**19.2%**	18.9%	18.6%
Housing lending[(3)]	**14.4%**	14.6%	14.9%
Household deposits[(3)]	**13.3%**	13.3%	13.5%
New Zealand[(5)]			
Housing lending	**16.2%**	16.0%	16.0%
Agribusiness	**20.8%**	21.0%	21.8%
Business lending	**22.3%**	22.5%	23.0%
Retail deposits	**17.7%**	17.6%	18.0%

	As at		
Distribution	**31 Mar 21**	**30 Sep 20**	**31 Mar 20**
Number of retail branches and business banking centres			
Australia	**646**	674	686
New Zealand	**168**	178	185

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Refer to Section 4 Large notable items for further information.*
(3) *Source: APRA Monthly Authorised Deposit-taking Institution Statistics.*
(4) *Source: RBA Financial System.*
(5) *Source: RBNZ.*

Net Interest Income

	Half Year to				
	Mar 21	Sep 20	Mar 20	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Net interest income ($m)[(1)]	6,839	7,012	6,908	(2.5)	(1.0)
Large notable items ($m)[(2)]	-	(27)	(22)	large	large
Net interest income ($m)	6,839	6,985	6,886	(2.1)	(0.7)
Average interest earning assets ($bn)	787.1	789.9	773.5	(0.4)	1.8
Net interest margin (%)[(3)]	1.74	1.77	1.78	(3 bps)	(4 bps)

March 2021 v March 2020

Net interest income decreased by $47 million or 0.7%. Excluding large notable items in the March 2020 half year, net interest income decreased by $69 million or 1.0%. This includes an increase of $192 million due to movements in economic hedges, offset in other operating income. Excluding this movement, the underlying decrease of $261 million or 3.8% was due to:

- A lower earnings rate on deposits and capital due to the low interest rate environment, partially offset by higher non-interest bearing deposit volumes and an increase in capital held.
- Competitive pressures impacting housing lending margins.
- A reduction in housing lending, business lending and unsecured lending average volumes, including growth in offset balances in the housing lending portfolio.
- The impacts of changes in customer preferences towards lower margin fixed rate and broker-originated housing loans.

The underlying decrease was partially offset by:

- The impact of repricing in the housing lending portfolio.
- Lower wholesale funding costs.
- Favourable deposit mix.
- Continued risk and pricing discipline on lending in Corporate and Institutional Banking.

March 2021 v September 2020

Net interest income decreased by $146 million or 2.1%. Excluding large notable items in the September 2020 half year, net interest income decreased by $173 million or 2.5%. This includes a decrease of $13 million due to movements in economic hedges, offset in other operating income. Excluding this movement, the underlying decrease of $160 million or 2.3% was due to:

- A reduction in housing lending and business lending average volumes, including growth in offset balances in the housing lending portfolio.
- A lower earnings rate on deposits and capital due to the low interest rate environment, partially offset by higher non-interest bearing deposit volumes and an increase in capital held.
- Competitive pressures impacting housing lending margins.
- The impacts of changes in customer preferences towards lower margin fixed rate housing loans.

The underlying decrease was partially offset by:

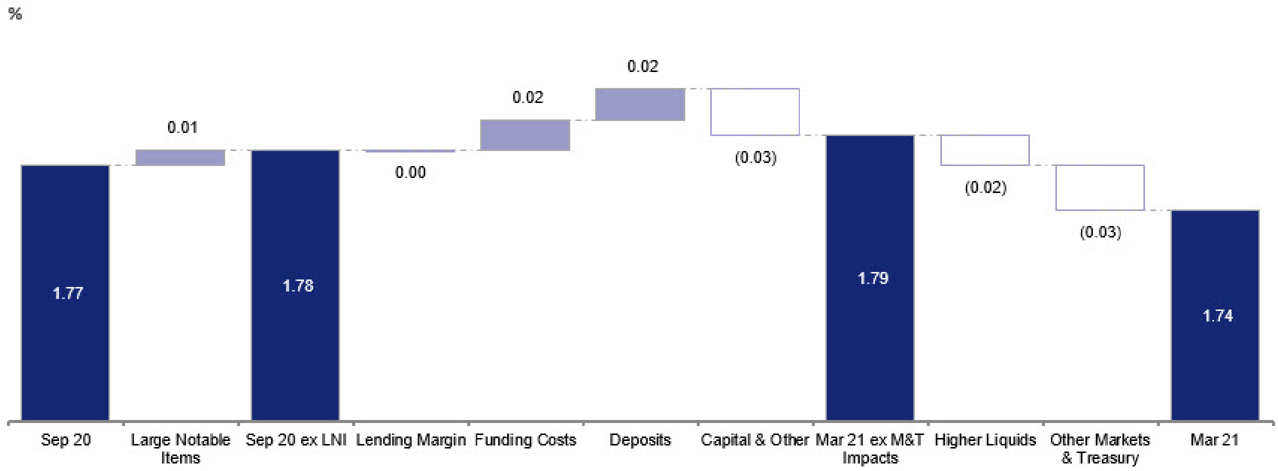
- Lower on-demand and term deposit costs.
- Favourable deposit mix.
- Continued risk and pricing discipline on lending in Corporate and Institutional Banking.
- The impact of repricing in the housing lending portfolio.
- Lower wholesale funding costs.

(1) *Excludes large notable items.*
(2) *Refer to Section 4 Large notable items for further information.*
(3) *Includes large notable items.*

Net Interest Margin[(1)]

	Half Year to				
	Mar 21 %	Sep 20 %	Mar 20 %	Mar 21 v Sep 20	Mar 21 v Mar 20
Group net interest margin	**1.74**	1.77	1.78	(3 bps)	(4 bps)
Business and Private Banking	**2.83**	2.81	2.90	2 bps	(7 bps)
Personal Banking	**2.05**	2.02	2.06	3 bps	(1 bp)
Corporate and Institutional Banking	**0.73**	0.81	0.70	(8 bps)	3 bps
New Zealand Banking	**2.29**	2.14	2.24	15 bps	5 bps

Group Net Interest Margin Movement



March 2021 v March 2020

The Group's **net interest margin** decreased by 4 basis points. Excluding a decrease of 3 basis points in Markets and Treasury and an increase of 1 basis point from large notable items in the March 2020 half year, the underlying decrease of 2 basis points was due to:

- A decrease of 4 basis points in deposits. This was driven by a lower earnings rate on deposits due to the low interest rate environment, partially offset by favourable deposit mix.
- A decrease of 5 basis points driven by capital. This was due to a lower earnings rate on capital, partially offset by an increase in the level of capital held.

These movements were partially offset by:

- An increase of 5 basis points driven by lower wholesale funding costs.
- An increase of 2 basis points in lending margin. This was largely due to housing lending repricing and continued risk and pricing discipline in Corporate and Institutional Banking, partially offset by both competitive pressures and the impacts of changes in customer preferences towards lower margin fixed rates in housing lending.

The decrease of 3 basis points in Markets and Treasury was due to:

- A decrease of 6 basis points driven by higher volumes of lower yielding high quality liquid assets (HQLA).
- An increase of 3 basis points due to higher net interest income from Treasury hedging activities offset in other operating income, partially offset by lower NAB risk management income.

March 2021 v September 2020

The Group's **net interest margin** decreased by 3 basis points. Excluding a decrease of 5 basis points in Markets and Treasury and an increase of 1 basis point from large notable items in the September 2020 half year, the underlying increase of 1 basis point was due to:

- An increase of 2 basis points in deposits. This was driven by lower costs of both on-demand and term deposits combined with favourable deposit mix, partially offset by a lower earnings rate on deposits due to the low interest rate environment.
- An increase of 2 basis points driven by lower wholesale funding costs.

These movements were partially offset by:

- A decrease of 3 basis points driven by capital. This was largely due to a lower earnings rate on capital, partially offset by an increase in the level of capital held.

Lending margin was flat with housing lending repricing and continued risk and pricing discipline in Corporate and Institutional Banking offset by both competitive pressures and the impacts of changes in customer preferences towards lower margin fixed rates in housing lending.

The decrease of 5 basis points in Markets and Treasury was due to:

- A decrease of 3 basis points due to lower NAB risk management income.
- A decrease of 2 basis points driven by higher volumes of lower yielding HQLA.

(1) *Includes large notable items.*

Other Operating Income[1]

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Fees and commissions	**1,076**	994	1,100	8.2	(2.2)
Trading income	**436**	812	332	(46.3)	31.3
Other	**88**	66	95	33.3	(7.4)
Other operating income (excluding large notable items)	**1,600**	1,872	1,527	(14.5)	4.8
Large notable items[2]	**-**	(22)	(58)	large	large
Total other operating income	**1,600**	1,850	1,469	(13.5)	8.9

March 2021 v March 2020

Other operating income increased by $131 million or 8.9%. Excluding large notable items in the March 2020 half year, other operating income increased by $73 million or 4.8%.

Fees and commissions decreased by $24 million or 2.2% primarily due to lower cards income driven by a reduction in transaction volumes, lower foreign exchange fees due to international travel restrictions as a result of COVID-19, and customer-related remediation of $19 million in the March 2021 half year. This was partially offset by higher merchant acquiring income.

Trading income increased by $104 million or 31.3%. This includes a decrease of $192 million due to movements in economic hedges, offset in net interest income. The underlying increase of $296 million was mainly due to higher NAB risk management income in Treasury due to the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year. The derivative valuation adjustment increased income primarily due to the non-repeat of unfavourable movements in the March 2020 half year in addition to gains from credit spreads tightening in the March 2021 half year.

Other income decreased by $7 million or 7.4% primarily due to lower equity accounted earnings from the investment in MLC Life.

March 2021 v September 2020

Other operating income decreased by $250 million or 13.5%. Excluding large notable items in the September 2020 half year, other operating income decreased by $272 million or 14.5%.

Fees and commissions increased by $82 million or 8.2% primarily due to higher merchant acquiring and cards income driven by an increase in transaction volumes and fees resuming as COVID-19 waivers ended, combined with higher fee income in Corporate and Institutional Banking. This was partially offset by customer-related remediation of $19 million in the March 2021 half year.

Trading income decreased by $376 million or 46.3%. This includes an increase of $13 million due to movements in economic hedges, offset in net interest income. The underlying decrease of $389 million was mainly due to lower NAB risk management income in Markets and Treasury, primarily due to the non-repeat of mark-to-market gains on the high quality liquids portfolio in the September 2020 half year and lower income from interest rate and foreign exchange risk management. These movements were partially offset by a positive derivative valuation adjustment.

Other income increased by $22 million or 33.3% primarily due to realised gain on bond sales in the high quality liquids portfolio, partially offset by lower equity accounted earnings from the investment in MLC Life.

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Refer to Section 4 Large notable items for further information.*

Markets and Treasury Income

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Net interest income	**322**	452	192	(28.8)	67.7
Other operating income	**486**	798	386	(39.1)	25.9
Total Markets and Treasury income	**808**	1,250	578	(35.4)	39.8
Customer risk management[(1)]					
FX	**217**	225	270	(3.6)	(19.6)
Rates	**128**	137	117	(6.6)	9.4
Total customer risk management income	**345**	362	387	(4.7)	(10.9)
NAB risk management[(2)]					
Markets	**171**	418	197	(59.1)	(13.2)
Treasury	**221**	470	80	(53.0)	large
Total NAB risk management income	**392**	888	277	(55.9)	41.5
Derivative valuation adjustment[(3)]	**71**	-	(86)	large	large
Total Markets and Treasury income	**808**	1,250	578	(35.4)	39.8
Average Markets traded market risk Value at Risk (VaR)[(4)]	**16.8**	15.9	11.7	5.7	43.6

March 2021 v March 2020

Markets and Treasury income increased by $230 million or 39.8%, primarily due to higher Treasury NAB risk management income and a positive derivative valuation adjustment, partially offset by lower Customer risk management income.

Customer risk management income decreased by $42 million or 10.9%, driven primarily by lower foreign exchange sales.

NAB risk management income increased by $115 million or 41.5% due to higher Treasury income, primarily due to the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year.

Derivative valuation adjustment increased income by $157 million primarily due to the non-repeat of unfavourable movements in the March 2020 half year in addition to gains from credit spreads tightening in the March 2021 half year.

March 2021 v September 2020

Markets and Treasury income decreased by $442 million or 35.4%, primarily due to lower NAB risk management income, partially offset by a positive derivative valuation adjustment.

Customer risk management income decreased by $17 million or 4.7%, driven by lower foreign exchange and interest rate sales.

NAB risk management income decreased by $496 million or 55.9% due to lower Markets and Treasury income. The decrease primarily reflects the non-repeat of mark-to-market gains on the high quality liquids portfolio in the September 2020 half year and lower income from interest rate and foreign exchange risk management.

Derivative valuation adjustment increased income by $71 million primarily reflecting a change in credit valuation adjustment methodology in the September 2020 half year resulting in a one-off negative impact in that period.

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

Operating Expenses(1)

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Personnel expenses	**2,260**	2,317	2,036	(2.5)	11.0
Occupancy and depreciation expenses	**389**	424	406	(8.3)	(4.2)
General expenses	**1,214**	1,191	1,305	1.9	(7.0)
Operating expenses (excluding large notable items)	**3,863**	3,932	3,747	(1.8)	3.1
Large notable items(2)	**-**	328	1,000	large	large
Total operating expenses	**3,863**	4,260	4,747	(9.3)	(18.6)

March 2021 v March 2020

Operating expenses decreased by $884 million or 18.6%. Excluding large notable items in the March 2020 half year, other operating expenses increased by $116 million or 3.1%.

Personnel expenses increased by $224 million or 11.0%. The increase was driven by provisions for higher performance-based compensation, resources to support customers in response to COVID-19, bankers to support growth and annual salary increases. This was partially offset by productivity benefits achieved through simplification of the Group's operations and lower restructuring-related costs.

Occupancy and depreciation expenses decreased by $17 million or 4.2%. The decrease was driven by benefits associated with branch closures and lease renegotiations, lower branch refurbishment costs, and lower depreciation as a result of the impairment of Melbourne commercial property in the September 2020 half year. This was partially offset by additional lease and facility costs associated with the new commercial building in Sydney.

General expenses decreased by $91 million or 7.0%. The decrease was driven by third party productivity savings and lower restructuring-related costs.

March 2021 v September 2020

Operating expenses decreased by $397 million or 9.3%. Excluding large notable items in the September 2020 half year, other operating expenses decreased by $69 million or 1.8%.

Personnel expenses decreased by $57 million or 2.5%. The decrease was driven by lower restructuring-related costs, productivity benefits achieved through simplification of the Group's operations and increased use of annual leave entitlements. This was partially offset by provisions for higher performance-based compensation, resources to support customers in response to COVID-19 and bankers to support growth.

Occupancy and depreciation expenses decreased by $35 million or 8.3%. The decrease was driven by benefits associated with branch closures and lease renegotiations and lower branch refurbishment costs. This was partially offset by additional lease and facility costs associated with the new commercial building in Sydney.

General expenses increased by $23 million or 1.9%. The increase was driven by higher depreciation and amortisation associated with new software assets. This was partially offset by third party productivity savings and lower restructuring-related costs.

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Refer to Section 4 Large notable items for further information.*

Investment Spend[1]

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Infrastructure	177	278	311	(36.3)	(43.1)
Compliance and risk	177	270	248	(34.4)	(28.6)
Customer experience, efficiency and sustainable revenue	156	107	137	45.8	13.9
Total investment spend	**510**	655	696	(22.1)	(26.7)

Investment spend is expenditure on initiatives designed to enhance the customer experience, comply with legal and regulatory requirements, and improve capabilities and efficiencies in the Group's business processes. Investment spend for the Group was $510 million for the March 2021 half year.

March 2021 v March 2020

Investment spend decreased by $186 million or 26.7%. There has been a focus on productivity associated with investment activity, including insourcing of resources and negotiation of lower third party costs. This has resulted in lower spend to achieve objectives and business outcomes across the portfolio.

Investment in **infrastructure** initiatives decreased by $134 million or 43.1%. The decrease is primarily driven by the timing of investment spend and the shift of spend from delivery of foundational infrastructure to customer experience and efficiency initiatives. Spend is expected to increase in the September 2021 half year, focused on continued investment in technology simplification and refresh activity, and reshaping the Group's distribution network and cyber security.

Investment in **compliance and risk** initiatives decreased by $71 million or 28.6%. The decrease is primarily driven by the timing of investment spend and the shift of spend to improving customer and banker experience. Spend is expected to increase in the September 2021 half year, continuing the focus on meeting regulatory commitments and investment in financial crime capabilities, processes and controls.

Investment in **customer experience, efficiency and sustainable revenue** initiatives increased by $19 million or 13.9%. The increase was largely driven by higher investment in ways to enhance and simplify the customer experience including continued spend on improving the home and business lending experience, digitisation and creating efficiencies within core business processes.

March 2021 v September 2020

Investment spend decreased by $145 million or 22.1%. There has been a focus on productivity associated with investment activity, including insourcing of resources and negotiation of lower third party costs. This has resulted in lower spend to achieve objectives and business outcomes across the portfolio.

Investment in **infrastructure** initiatives decreased by $101 million or 36.3%. The decrease is primarily driven by the timing of investment spend and the shift of spend from delivery of foundational infrastructure to customer experience and efficiency initiatives. Spend is expected to increase in the September 2021 half year, focused on continued investment in technology simplification and refresh activity, and reshaping the Group's distribution network and cyber security.

Investment in **compliance and risk** initiatives decreased by $93 million or 34.4%. The decrease is primarily driven by the timing of investment spend and the shift of spend to improving customer and banker experience. Spend is expected to increase in the September 2021 half year, continuing the focus on meeting regulatory commitments and investment in financial crime capabilities, processes and controls.

Investment in **customer experience, efficiency and sustainable revenue** initiatives increased by $49 million or 45.8%. The increase was largely driven by higher investment in ways to enhance and simplify the customer experience including continued spend on improving the home and business lending experience, digitisation and creating efficiencies within core business processes.

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

Taxation[(1)]

	Half Year to			Mar 21 v	Mar 21 v
	Mar 21	Sep 20	Mar 20	Sep 20	Mar 20
Income tax expense ($m)	**1,348**	963	709	40.0%	90.1%
Effective tax rate (%)	**28.7**	32.4	29.0	(370 bps)	(30 bps)

March 2021 v March 2020

Cash earnings income tax expense increased by $639 million or 90.1%. The increase is due to higher cash earnings before tax.

The **cash earnings effective tax rate** decreased by 30 basis points to 28.7%, due to a change in the mix of income from different jurisdictions and an adjustment to the deferred tax asset for UK tax losses in the March 2020 half year, partially offset by lower net earnings attributed to the concessionally taxed offshore banking unit in the March 2021 half year.

March 2021 v September 2020

Cash earnings income tax expense increased by $385 million or 40.0%. The increase is due to higher cash earnings before tax.

The **cash earnings effective tax rate** decreased by 370 basis points to 28.7%, mainly due to a change in the mix of income from different jurisdictions, higher net earnings attributed to the concessionally taxed offshore banking unit and other non-recurring items in the September 2020 half year.

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

Lending

	As at				
	31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Housing					
Business and Private Banking	**84,773**	84,189	86,118	0.7	(1.6)
Personal Banking	**206,754**	206,721	208,098	-	(0.6)
Corporate and Institutional Banking	**56**	74	87	(24.3)	(35.6)
New Zealand Banking	**45,465**	42,581	43,619	6.8	4.2
Corporate Functions and Other	**8,124**	8,164	8,122	(0.5)	-
Total housing	**345,172**	341,729	346,044	1.0	(0.3)
Non-housing					
Business and Private Banking	**112,982**	112,326	112,088	0.6	0.8
Personal Banking	**4,571**	4,565	5,509	0.1	(17.0)
Corporate and Institutional Banking	**97,507**	95,965	106,291	1.6	(8.3)
New Zealand Banking	**38,165**	38,995	43,684	(2.1)	(12.6)
Corporate Functions and Other	**313**	472	547	(33.7)	(42.8)
Total non-housing	**253,538**	252,323	268,119	0.5	(5.4)
Gross loans and advances including acceptances	**598,710**	594,052	614,163	0.8	(2.5)

March 2021 v March 2020

Lending decreased by $15.5 billion or 2.5% including a decrease of $11.7 billion driven by exchange rate movements.

Housing lending decreased by $0.9 billion or 0.3% mainly due to:

- A decrease of $1.3 billion or 1.6% in Business and Private Banking due to a decrease in investor lending.
- A decrease of $1.3 billion or 0.6% in Personal Banking, which despite strong growth in owner occupier, housing lending declined due to a decrease in investor lending.
- An increase of $1.8 billion or 4.2% in New Zealand Banking. Underlying growth of $4.6 billion reflects an increase in owner occupier and investor lending, partially offset by depreciation of the New Zealand dollar of $2.8 billion.

Non-housing lending decreased by $14.6 billion or 5.4% mainly due to:

- A decrease of $8.8 billion or 8.3% in Corporate and Institutional Banking. Excluding a decrease of $6.6 billion driven by exchange rate movements, the underlying decrease of $2.2 billion was due to repayment of additional drawdowns which occurred in March 2020 by existing customers managing the impacts of COVID-19, partially offset by continued focus on growth segments.
- A decrease of $5.5 billion or 12.6% in New Zealand Banking. Excluding $2.3 billion driven by the depreciation of the New Zealand dollar, underlying decrease of $3.2 billion is mainly due to negative business lending system growth, combined with a continued focus on risk adjusted returns.
- A decrease of $0.9 billion or 17.0% in Personal Banking driven by lower consumer demand for unsecured lending, lower spend in cards due to COVID-19 and increased customer repayments following government stimulus and support measures.
- An increase of $0.9 billion or 0.8% in Business and Private Banking driven by growth in business lending as the Group continues to leverage its deep industry specialisations and strong market position to support the business recovery.

March 2021 v September 2020

Lending increased by $4.7 billion or 0.8% including a decrease of $2.5 billion driven by exchange rate movements.

Housing lending increased by $3.4 billion or 1.0% mainly due to:

- An increase of $2.9 billion or 6.8% in New Zealand Banking. Underlying growth of $3.3 billion reflects an increase in owner occupier and investor lending, partially offset by depreciation of the New Zealand dollar of $0.4 billion.
- An increase of $0.6 billion or 0.7% in Business and Private Banking driven by growth in owner occupier lending and broker channels.
- Personal Banking is flat driven by growth in owner occupier offset by a decrease in investor lending.

Non-housing lending increased by $1.2 billion or 0.5% mainly due to:

- An increase of $1.5 billion or 1.6% in Corporate and Institutional Banking. Excluding a decrease of $1.8 billion driven by exchange rate movements, the underlying increase of $3.3 billion was largely due to continued focus on growth segments.
- An increase of $0.7 billion or 0.6% in Business and Private Banking driven by growth in business lending as the Group continues to leverage its deep industry specialisations and strong market position to support the business recovery.
- A decrease of $0.8 billion or 2.1% in New Zealand Banking. Excluding $0.3 billion driven by the depreciation of the New Zealand dollar, the underlying decrease of $0.5 billion was predominantly in business lending.

Goodwill and Other Intangible Assets

Goodwill

Goodwill was flat compared to 30 September 2020. As a result of the agreement to sell MLC Wealth to IOOF Holdings Limited, the goodwill attributable to the MLC Wealth cash generating unit was impaired by $199 million and the remaining balance was reclassified as held for sale in the September 2020 half year. This resulted in a decrease of the goodwill balance compared to 31 March 2020.

The movement in goodwill is as follows:

	Half Year ended		
	Mar 21	Sep 20	Mar 20
	$m	$m	$m
Balance at beginning of period	**1,838**	2,865	2,864
Foreign currency translation adjustments	**-**	(1)	1
Impairment and write-offs	**-**	(199)	-
Reclassified to held for sale[1]	**-**	(827)	-
Goodwill	**1,838**	1,838	2,865

Other Intangible Assets

Intangible assets are comprised of capitalised software and other intangible assets. Further details on material movements in capitalised software are outlined as follows:

- Additions - refer to *Investment spend* on page 12
- Amortisation - refer to *Operating expenses* on page 11
- Change in application of software capitalisation policy - refer to Section 4 *Large notable items* on page 84.

The movement in capitalised software is as follows:

	Half Year ended		
	Mar 21	Sep 20	Mar 20
	$m	$m	$m
Balance at beginning of period	**1,955**	1,810	2,688
Additions	**197**	305	372
Disposals and write-offs	**(8)**	(14)	-
Amortisation	**(223)**	(138)	(204)
Change in application of software capitalisation policy - continuing operations	**-**	-	(950)
Change in application of software capitalisation policy - discontinued operations	**-**	-	(106)
Foreign currency translation adjustments	**1**	(8)	10
Capitalised software	**1,922**	1,955	1,810

(1) *Refer to Note 14 Discontinued operations for further information.*

Customer Deposits

	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Business and Private Banking	**161,520**	151,110	140,492	6.9	15.0
Personal Banking	**120,841**	118,906	109,485	1.6	10.4
Corporate and Institutional Banking	**110,720**	114,844	113,743	(3.6)	(2.7)
New Zealand Banking	**61,911**	60,557	62,219	2.2	(0.5)
Corporate Functions and Other	**20,822**	22,807	21,258	(8.7)	(2.1)
Total customer deposits	**475,814**	468,224	447,197	1.6	6.4

March 2021 v March 2020

Customer deposits increased by $28.6 billion or 6.4% mainly due to the impact of government and central bank stimulus measures in response to COVID-19. The growth was primarily in on-demand deposits, reflecting a change in customer preferences from term deposits to on-demand and non-interest bearing accounts, and as a means of managing liquidity requirements. This also includes a reduction of $5.6 billion driven by exchange rate movements.

- An increase of $21.0 billion or 15.0% in Business and Private Banking driven by an increase in on-demand deposits of $18.3 billion and non-interest bearing accounts of $13.7 billion, partially offset by a reduction in term deposits of $11.0 billion.
- An increase of $11.4 billion or 10.4% in Personal Banking driven by an increase in on-demand deposits of $12.1 billion, combined with $3.2 billion in non-interest bearing accounts. This was partially offset by a reduction in term deposits of $3.9 billion.
- A decrease of $3.0 billion or 2.7% in Corporate and Institutional Banking. Excluding a $1.1 billion decrease driven by exchange rate movements, the underlying decrease of $1.9 billion was primarily driven by a decrease in term deposits of $10.0 billion, partially offset by an increase of on-demand deposits of $8.1 billion.
- A decrease of $0.4 billion or 2.1% in Corporate Functions and Other. Excluding a $0.7 billion decrease driven by exchange rate movements, the underlying increase of $0.3 billion was primarily driven by higher on-demand deposits of $1.7 billion, partially offset by a $1.4 billion reduction in term deposits mainly in UBank.
- A decrease of $0.3 billion or 0.5% in New Zealand Banking. Excluding $3.8 billion driven by the depreciation of the New Zealand dollar, the underlying growth of $3.5 billion was driven by growth in on-demand deposits of $7.0 billion and non-interest bearing accounts of $3.5 billion, partially offset by a reduction in term deposits of $7.0 billion.

March 2021 v September 2020

Customer deposits increased by $7.6 billion or 1.6% mainly due to the impact of government and central bank stimulus measures in response to COVID-19. The growth was primarily in on-demand deposits, reflecting a change in customer preferences from term deposits to on-demand and non-interest bearing accounts, and as a means of managing liquidity requirements. This also includes a reduction of $1.0 billion driven by exchange rate movements.

- An increase of $10.4 billion or 6.9% in Business and Private Banking primarily driven by an increase in on-demand deposits of $11.4 billion and non-interest bearing accounts of $4.4 billion, partially offset by a reduction in term deposits of $5.4 billion.
- An increase of $1.9 billion or 1.6% in Personal Banking driven by an increase in on-demand deposits of $4.6 billion and non-interest bearing accounts of $0.5 billion. This was partially offset by a reduction in term deposits of $3.2 billion.
- An increase of $1.4 billion or 2.2% in New Zealand Banking. Excluding $0.5 billion driven by the depreciation of the New Zealand dollar, the underlying growth of $1.9 billion was mainly due to an increase in on-demand deposits of $3.4 billion and non-interest bearing accounts of $2.2 billion, partially offset by a reduction in term deposits of $3.7 billion.
- A decrease of $4.1 billion or 3.6% in Corporate and Institutional Banking. Excluding a $0.3 billion decrease driven by exchange rate movements, the underlying decrease of $3.8 billion was primarily driven by a decrease in term deposits of $5.4 billion, partially offset by an increase of on-demand deposits of $1.6 billion.
- A decrease of $2.0 billion or 8.7% in Corporate Functions and Other. Excluding a $0.2 billion decrease driven by exchange rate movements, the underlying decrease of $1.8 billion was primarily driven by lower on-demand deposits of $1.6 billion in Treasury.

Asset Quality

Credit Impairment Charge

	Half Year to				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Specific credit impairment charge - new and increased	218	517	413	(57.8)	(47.2)
Specific credit impairment charge - write-backs	(98)	(94)	(75)	4.3	30.7
Specific credit impairment charge - recoveries	(36)	(34)	(35)	5.9	2.9
Specific credit impairment charge	84	389	303	(78.4)	(72.3)
Collective credit impairment charge / (write-back)	(212)	1,212	858	large	large
Total credit impairment charge / (write-back)	(128)	1,601	1,161	large	large

	Half Year to				
	Mar 21	Sep 20	Mar 20	Mar 21 v Sep 20	Mar 21 v Mar 20
Credit impairment charge to gross loans and acceptances (annualised)	(0.04%)	0.54%	0.38%	(58 bps)	(42 bps)
Net write-offs to gross loans and acceptances (annualised)(1)	0.04%	0.12%	0.09%	(8 bps)	(5 bps)

March 2021 v March 2020

Credit impairment charge decreased by $1,289 million, driven primarily by a reduction in charges of $842 million for forward looking provisions as a result of COVID-19. Excluding forward looking provisions, underlying charges have decreased by $447 million due to lower levels of individual impaired exposures and collective provision charges for the Australian retail portfolio.

Specific credit impairment charge decreased by $219 million or 72.3%, driven by:
- Lower net charges in New Zealand Banking reflecting a lower level of impairment of a small number of larger exposures, combined with write-backs in the current period.
- Lower charges in Personal Banking mainly due to improved delinquencies in the unsecured retail portfolio, including the impacts of COVID-19 support.
- Lower charges in Business and Private Banking due to a lower level of individual impaired exposures.

Collective credit impairment charge decreased by $1,070 million, driven by:
- Partial release and non-repeat of economic adjustments raised as a result of COVID-19 in the prior period.
- Lower level of charges for the Australian unsecured retail portfolio due to lower volumes and improved delinquencies.
- Lower level of charges for the Australian mortgage portfolio due to improved macro-economic indicators.

This was partially offset by:
- Higher level of net forward looking adjustments (FLAs) raised for targeted sectors impacted by COVID-19, including higher risk mortgages and the aviation portfolio.

The Group ratio of **net write-offs to gross loans and acceptances** decreased by 5 basis points to 0.04% due to a lower level of write-off activity across the Group's lending portfolio.

March 2021 v September 2020

Credit impairment charge decreased by $1,729 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 $687 million due to lower levels of individual impaired exposures and collective provision charges across the Group’s lending portfolio.

Specific credit impairment charge decreased by $305 million or 78.4%, driven by:
- Lower charges in Business and Private Banking due to a lower level of individual impaired exposures.
- Lower net charges in New Zealand Banking and Corporate and Institutional Banking reflecting a lower level of impairment of a small number of larger exposures, combined with write-backs in the current period.
- Lower charges in Personal Banking mainly due to improved delinquencies in the unsecured retail portfolio, including the impacts of COVID-19 support.

Collective credit impairment charge decreased by $1,424 million, driven by:
- Partial release and non-repeat of economic adjustments raised as a result of COVID-19 in the prior period.
- Lower level of net FLAs raised for targeted sectors impacted by COVID-19.
- Lower level of charges for the Australian unsecured retail portfolio due to improved delinquencies.
- Non-repeat of charges for rating downgrades within the business lending portfolio in the prior period.
- Lower level of charges for the Australian mortgage portfolio due to improved macro-economic indicators.

The Group ratio of **net write-offs to gross loans and acceptances** decreased by 8 basis points to 0.04% due to a lower level of write-off activity across the Group's lending portfolio.

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

Asset Quality (continued)

Provision for Credit Impairment

	As at				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Collective provision on loans at amortised cost	**4,975**	5,191	4,008	(4.2)	24.1
Collective provision on loans at fair value	**43**	46	56	(6.5)	(23.2)
Collective provision on derivatives at fair value	**191**	299	337	(36.1)	(43.3)
Total collective provision for credit impairment	**5,209**	5,536	4,401	(5.9)	18.4
Total specific provision for credit impairment(1)	**794**	840	827	(5.5)	(4.0)
Total provision for credit impairment	**6,003**	6,376	5,228	(5.9)	14.8

	As at				
	Mar 21	**Sep 20**	**Mar 20**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
Total provision to gross loans and acceptances	**1.00%**	1.07%	0.85%	(7 bps)	15 bps
Total provision to credit risk-weighted assets	**1.72%**	1.80%	1.43%	(8 bps)	29 bps
Total provision to net write-offs (annualised)(2)	**2,357%**	1,014%	979%	large	large
Specific provision to gross impaired assets	**47.6%**	45.0%	40.6%	260 bps	700 bps
Collective provision to credit risk-weighted assets	**1.50%**	1.56%	1.21%	(6 bps)	29 bps
Collective provision to gross loans and acceptances	**0.87%**	0.93%	0.72%	(6 bps)	15 bps

March 2021 v March 2020

Provisions for credit impairment increased by $775 million or 14.8% to $6,003 million.

Specific provisions decreased by $33 million or 4.0% mainly due to work-outs for a small number of larger exposures in the business lending portfolio in Australia and New Zealand, partially offset by new and increased specific provisions raised.

Collective provisions increased by $808 million or 18.4%. This was mainly due to:
- Net collective provision FLAs of $588 million raised for targeted sectors impacted by COVID-19 including aviation, tourism, hospitality, entertainment, retail trade, commercial property and higher risk mortgages.
- Additional collective provision economic adjustments of $426 million raised as a result of COVID-19.
- Collective provision increases for rating downgrades within the business lending portfolio due to COVID-19 impacts, including customers in the aviation and tourism sectors.

This was partially offset by:
- Decrease in collective provisions held for the derivative portfolio due to market movements.
- Collective provision releases for the Australian mortgage portfolio due to improved macro-economic indicators.
- Collective provision releases for the Australian unsecured retail portfolio due to lower volumes and improved delinquencies.

The **collective provision to credit risk-weighted assets** ratio increased 29 basis points to 1.50% predominantly due to an increase in collective provisions.

March 2021 v September 2020

Provisions for credit impairment decreased by $373 million or 5.9% to $6,003 million.

Specific provisions decreased by $46 million or 5.5% mainly due to write-backs of specific provisions for a small number of larger exposures in the business lending portfolio in Australia and New Zealand.

Collective provisions decreased by $327 million or 5.9%. This was mainly due to:
- Partial release of collective provision economic adjustments of $235 million raised as a result of COVID-19 in the prior period.
- Collective provision releases for the Australian unsecured retail portfolio due to improved delinquencies.
- Decrease in collective provisions held for the derivative portfolio due to market movements.
- Collective provision releases for the Australian mortgage portfolio due to improved macro-economic indicators.

This was partially offset by:
- Net collective provision FLAs of $221 million raised for targeted sectors impacted by COVID-19 including higher risk mortgages and the aviation portfolio.

The **collective provision to credit risk-weighted assets** ratio decreased 6 basis points to 1.50% predominantly due to a decrease in collective provisions.

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(1) *Includes $24 million (September 2020: $20 million, March 2020: $nil) of specific provision on loans at fair value.*
(2) *Net write-offs include net write-offs of fair value loans.*

Asset Quality (continued)

90+ Days Past Due and Gross Impaired Assets

	As at				
	Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
90+ days past due (DPD) loans	**5,664**	4,255	3,891	33.1	45.6
Gross impaired assets	**1,669**	1,866	2,037	(10.6)	(18.1)
90+ DPD and gross impaired assets	**7,333**	6,121	5,928	19.8	23.7

	As at				
	Mar 21	Sep 20	Mar 20	Mar 21 v Sep 20	Mar 21 v Mar 20
90+ DPD loans to gross loans and acceptances	**0.95%**	0.72%	0.64%	23 bps	31 bps
Gross impaired assets to gross loans and acceptances	**0.28%**	0.31%	0.33%	(3 bps)	(5 bps)
90+ DPD and gross impaired assets to gross loans and acceptances	**1.23%**	1.03%	0.97%	20 bps	26 bps

March 2021 v March 2020

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 31 basis points to 0.95%. This was primarily driven by customers who had COVID-19 deferrals expire across the Australian mortgage portfolio and to a lesser extent the Business and Private Banking business lending portfolio.

The Group ratio of **gross impaired assets to gross loans and acceptances** decreased by 5 basis points to 0.28%. This was predominantly driven by business turnarounds for a small number of larger exposures within the Corporate and Institutional Banking and New Zealand Banking business lending portfolios, combined with a reduction in new impairments for the Australian mortgage portfolio. This was partially offset by the impairment of a small number of larger exposures in the Business and Private Banking business lending portfolio.

March 2021 v September 2020

The Group ratio of **90+ DPD loans to gross loans and acceptances** increased by 23 basis points to 0.95%. This was primarily driven by customers who had COVID-19 deferrals expire across the Australian mortgage portfolio and to a lesser extent the Business and Private Banking business lending portfolio.

The Group ratio of **gross impaired assets to gross loans and acceptances** decreased by 3 basis points to 0.28%. This was predominantly driven by business turnarounds for a small number of larger exposures within the Corporate and Institutional Banking and New Zealand Banking business lending portfolios.

Capital Management and Funding

Balance Sheet Management Overview

The Group has a strong capital and liquidity position, consistent with its commitment to balance sheet strength and proactive response to the significant economic challenges associated with the impacts of COVID-19.

Regulatory Reform

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

Revisions to the capital framework
- APRA's discussion paper on 'a more flexible and resilient capital framework for ADIs' was released in December 2020 and follows the 2017 APRA consultation for establishing 'unquestionably strong' capital ratios. Implementation of the prudential standards relating to the risk weighting framework and other capital requirements is proposed for 1 January 2023, consistent with the internationally agreed timelines for Basel III reform by the Basel Committee on Banking Supervision (BCBS). APRA is seeking to make improvements to the capital adequacy framework through improving flexibility via increasing regulatory capital buffers; implementing more risk-sensitive risk weights, particularly for residential mortgages; enhancing competition via a capital floor for internal ratings-based (IRB) ADIs; and improving transparency and comparability through the disclosure of capital ratios under the standardised approach. APRA has reiterated its view that they are not seeking to further increase the overall level of capital in the banking system.
- In October 2019, APRA proposed changes to the treatment of equity investments in subsidiaries (including BNZ) for the purpose of calculating Level 1 CET1 regulatory capital, expected to be implemented from 1 January 2022. In November 2020, APRA implemented an interim change to apply the revised treatment to any new or additional equity investments made prior to January 2022.
- APRA has also proposed a minimum leverage ratio requirement of 3.5% for IRB ADIs and a revised leverage ratio exposure measurement methodology to be implemented from 1 January 2023. The Group has a leverage ratio as at 31 March 2021 of 6.0% (under the current methodology).

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

RBNZ Capital Review
- In December 2019, the RBNZ finalised its review of the capital adequacy framework applied to registered banks incorporated in New Zealand. The RBNZ amendments to the amount of regulatory capital required of locally incorporated banks include:
  - An increase in credit risk-weighted assets for banks that use the RBNZ's IRB approach due to an increase in the scalar, prescribed use of the standardised approach for bank and sovereign exposures, and the introduction of an overall minimum standardised floor.
  - An increase in the Tier 1 capital requirement to 16% of risk-weighted assets, and an increase in the Total capital requirement to 18% of risk-weighted assets.
- Due to uncertainties arising from the impacts of COVID-19, the RBNZ has delayed the start of the new capital requirements. The required level of capital increases will commence from 1 July 2022, while increases to risk-weighted assets will commence from 1 January 2022. It is expected that the changes will be phased in over a seven year period.

Dividends
- The RBNZ has eased restrictions on dividend payments, allowing banks to pay up to 50% of their earnings as dividends to shareholders, and has noted its expectation that banks exercise prudence when determining dividend payments. The 50% restriction will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restriction, subject to economic conditions. The RBNZ has also lifted the restriction on redeeming non-CET1 capital instruments.
- In its updated December 2020 guidance, APRA removed specific restrictions on capital distributions, but advised banks to moderate dividend payout ratios and consider the use of capital management initiatives to offset the impact on capital from distributions. APRA has reiterated that Boards need to carefully consider the sustainable rate for dividends, taking into account the outlook for profitability, capital and the economic environment.

Further details on the regulatory changes impacting the Group are outlined in the March 2021 Pillar 3 Report.

Capital Management

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

The Group's capital ratio operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength.

Pillar 3 Disclosures

Further disclosures with respect to capital adequacy and risk management are included in the March 2021 Pillar 3 Report as required by APRA's Prudential Standard *APS 330 Public Disclosure*.

Capital Management and Funding (continued)

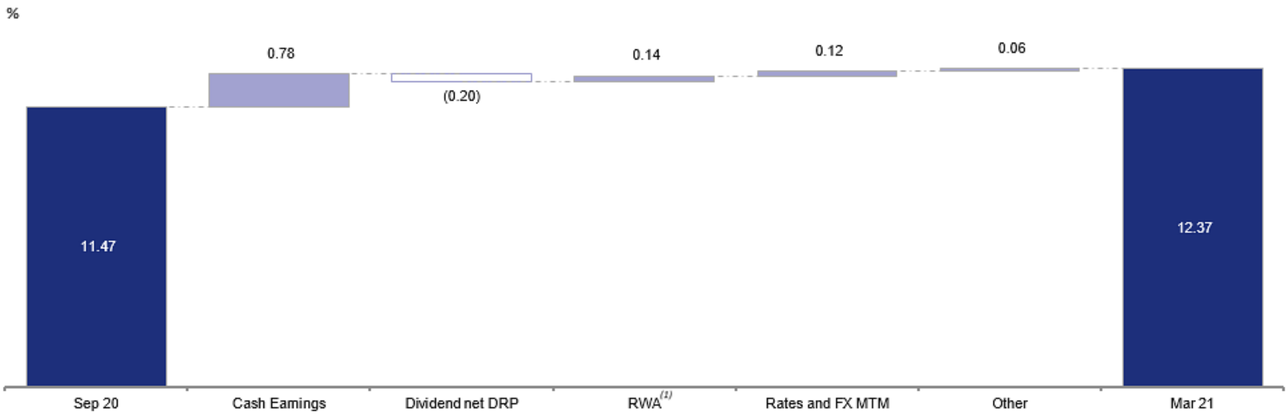
Capital Management (continued)

Capital Ratios

Capital ratios	As at 31 Mar 21 %	30 Sep 20 %	31 Mar 20 %	Mar 21 v Sep 20	Mar 21 v Mar 20
Common Equity Tier 1	**12.37**	11.47	10.39	90 bps	198 bps
Tier 1	**14.01**	13.20	11.96	81 bps	205 bps
Total capital	**17.90**	16.62	14.61	128 bps	329 bps

Risk-weighted assets	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Credit risk	**348,192**	353,991	364,550	(1.6)	(4.5)
Market risk	**12,626**	12,678	10,035	(0.4)	25.8
Operational risk	**48,627**	49,993	50,604	(2.7)	(3.9)
Interest rate risk in the banking book	**8,165**	8,485	7,477	(3.8)	9.2
Total risk-weighted assets	**417,610**	425,147	432,666	(1.8)	(3.5)

Movements in Common Equity Tier 1 Ratio



(1) Excludes FX translation.

Capital Movements During the March 2021 Half Year

The Group's Common Equity Tier 1 (CET1) ratio was 12.37% as at 31 March 2021. The key movements in capital over the March 2021 half year included:

- Cash earnings less the 2020 final dividend net of Dividend Reinvestment Plan (DRP) participation resulting in an increase of 58 basis points.
- A decrease in risk-weighted assets increasing the CET1 ratio by 14 basis points, driven mainly by:
  - Asset quality improvement contributing to an increase of 17 basis points.
  - Operational risk contributing to an increase of 4 basis points.
  - Favourable movements in derivatives (excluding foreign exchange translation) contributing to an increase of 10 basis points.
  - Partially offset by volume growth of 12 basis points and credit model changes of 7 basis points.
- Foreign exchange translation, a decrease in the foreign currency translation reserve and mark-to-market movements on instruments at fair value through other comprehensive income reserve contributing to an increase of 12 basis points.
- Other miscellaneous items contributing to an increase of 6 basis points (including equity exposures, cost of hedging reserve, and deferred tax assets).

Dividend and Dividend Reinvestment Plan

The interim dividend for the half year ending 31 March 2021 has been increased to 60 cents, 100% franked, payable on 2 July 2021.

The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked is not guaranteed and will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

The Group periodically adjusts the DRP to reflect its capital position and outlook. In respect to the interim dividend for the half year ending 31 March 2021, the DRP discount is nil, with no participation limit. The Group expects to satisfy the DRP in full by an on-market purchase of shares.

Capital Management and Funding (continued)

Additional Tier 1 Capital Initiatives

On 17 December 2020, the Group redeemed the $1,717 million Convertible Preference Shares II issued on 17 December 2013, in accordance with the redemption notice issued on 5 November 2020.

On 17 December 2020, the Group issued $2,386 million of NAB Capital Notes 5, which will mandatorily convert into NAB ordinary shares on 17 December 2029, provided certain conditions are met. With written prior approval from APRA, NAB may elect to convert, redeem or resell these NAB Capital Notes 5 on 17 December 2027, or on the occurrence of particular events, provided certain conditions are met.

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.

Tier 2 Capital Initiatives

The Group's Tier 2 capital initiatives during the March 2021 half year included the following:
- On 18 November 2020, NAB issued $1.25 billion of Subordinated Notes.
- On 14 January 2021, NAB issued US$1.25 billion of Subordinated Notes.
- The Group repurchased and cancelled US$11 million of the perpetual floating rate notes issued on 9 October 1986.

Funding and Liquidity

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

Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. The NSFR is a metric that measures the extent to which assets are funded with stable sources of funding to mitigate the risk of future funding stress. At 31 March 2021, the Group's NSFR was 122%, compared to 127% at 30 September 2020, largely driven by the impact of a reduction in the Committed Liquidity Facility (CLF) from $55.1 billion to $31.0 billion. The NSFR remains well above regulatory minimums.

Another key structural measure used is the Stable Funding Index (SFI), which is comprised of the Customer Funding Index (CFI) and the Term Funding Index (TFI). The CFI represents the proportion of the Group's core assets that is funded by customer deposits. Similarly, the TFI represents the proportion of the Group's core assets that is funded by term wholesale funding with a remaining term to maturity of greater than 12 months, including Term Funding Facility (TFF), Term Lending Facility (TLF) and Funding for Lending Programme (FLP) drawdowns.

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

Over the March 2021 half year, the SFI decreased from 101% to 98% driven by a reduction in the TFI as term maturities outpaced issuances given access to the TFF.

Group Funding Metrics

	As at		
	31 Mar 21	30 Sep 20	31 Mar 20
	%	%	%
CFI	**78**	78	72
TFI	**20**	23	24
SFI	**98**	101	96
NSFR	**122**	127	116

Term Funding Facility

On 19 March 2020, the RBA announced the establishment of the TFF, a collateralised funding facility for the Australian banking system to support ADIs in providing credit into the economy at low funding cost. Changes to extend and increase the TFF were announced on 1 September 2020, with a further change to the cost of the facility announced on 3 November 2020. The TFF provides ADIs with access to three-year funding, with an Initial Allowance and Supplementary Allowance based on total domestic credit outstanding and an Additional Allowance based on credit growth. Drawdowns on or before 3 November 2020 incur a fixed cost of 0.25% per annum and drawdowns made from 4 November 2020 incur a fixed cost of 0.10% per annum.

As at 31 March 2021, NAB's total TFF allowance was $25.7 billion, with $14.3 billion of Initial Allowance, $9.6 billion of Supplementary Allowance and $1.8 billion[(1)] of Additional Allowance. NAB drew down the full Initial Allowance of the TFF during the 30 September 2020 full year. The Additional Allowance and Supplementary Allowance are available to be drawn down by 30 June 2021, and remain undrawn as at 31 March 2021.

The TFF is an efficient source of three-year term funding, providing flexibility to manage refinancing and execution risk, while also reducing funding costs.

Term Wholesale Funding

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

Global funding conditions were relatively stable and supportive for issuance in the March 2021 half year. This reflects continued central bank and government stimulus which has supported investor sentiment and global markets, resulting in credit spreads reducing to or near post Global Financial Crisis (GFC) lows. Periods of volatility did emerge over the March 2021 half year,

(1) *As at May 2021 NAB's Additional Allowance has increased to $4.9 billion.*

Capital Management and Funding (continued)

particularly in response to the implications of the improving economic outlook as the recovery from COVID-19 continues.

The Group raised $3.8 billion of term wholesale funding during the March 2021 half year. NAB raised $2.9 billion of Tier 2 subordinated debt and BNZ raised $0.9 billion of senior unsecured debt.

The weighted average maturity of term wholesale funding raised by the Group at issuance over the March 2021 half year was approximately 11.3 years to the first call date which was supported by the issuance of long-dated Tier 2 subordinated debt. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.3[(1)] years.

Term funding markets will continue to be influenced by COVID-19 and other global events which impact the economic environment, investor sentiment, monetary and fiscal policy settings.

Term Wholesale Funding Issuance by Deal Type

	As at		
	31 Mar 21	30 Sep 20	31 Mar 20
	%	%	%
Senior Public Offshore	25	31	38
Senior Public Domestic	-	18	22
Secured Public Offshore	-	13	16
Subordinated Public debt	75	31	21
Private Placements	-	2	3
Subordinated Private Placement	-	5	-
Total	**100**	100	100

Term Wholesale Funding Issuance by Currency

	As at		
	31 Mar 21	30 Sep 20	31 Mar 20
	%	%	%
USD	67	40	32
AUD	33	31	32
GBP	-	13	16
Other	-	16	20
Total	**100**	100	100

Short-term Wholesale Funding

During the March 2021 half year, the Group accessed international and domestic short-term funding through wholesale markets when required. In addition, secured short-term funding in the form of repurchase agreements have been accessed primarily to support markets and trading activities. Repurchase agreements entered into (excluding those associated with the TFF, TLF and FLP) are materially offset by reverse repurchase agreements with similar tenors.

Liquidity Coverage Ratio

The LCR metric measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario. HQLA consist of cash, central bank reserves along with highly rated government and central bank issuance. In addition to HQLA, other regulatory liquid assets include the CLF and the undrawn portion of the TFF.

The Group maintains a well-diversified liquid asset portfolio to support regulatory and internal requirements in the various regions in which it operates. The average value of regulatory liquid assets held through the March 2021 quarter was $184 billion and included $137 billion of HQLA. The Group Alternative Liquid Assets (ALA) comprise pools of internally securitised mortgages, other non-HQLA securities used to collateralise the CLF, and the undrawn portion of the TFF with the RBA or securities that are repo-eligible with the RBNZ. Quarterly average ALA for the March 2021 quarter was $47 billion and comprises unencumbered assets available to the CLF of $33 billion, undrawn TFF amounts of $12 billion and RBNZ securities of $2 billion. The CLF was reduced to $31 billion from 1 February 2021.

A detailed breakdown of quarterly average net cash outflows is provided in the March 2021 Pillar 3 Report.

	Quarterly average		
	31 Mar 21	30 Sep 20	31 Mar 20
	$bn	$bn	$bn
High quality liquid assets	137	126	98
Alternative liquid assets	47	73	54
Total LCR liquid assets	184	199	152
Net cash outflows	135	143	112
Quarterly average LCR (%)	136	139	136

Credit Ratings

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

National Australia Bank Credit Ratings

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

(1) *Weighted average maturity excludes Additional Tier 1, Residential Mortgage Backed Securities, RBA Term Funding Facility and RBNZ funding facilities.*

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Section 2

Divisional Review

Business and Private Banking

Business and Private Banking focuses on NAB's priority small and medium (SME) customer segments. This division includes the leading NAB Business franchise, specialised Agriculture, Health, Government, Education and Community services along with Private Banking and JBWere, as well as the micro and small business segments.

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Net interest income	**2,605**	2,642	2,758	(1.4)	(5.5)
Other operating income	**449**	414	464	8.5	(3.2)
Net operating income	**3,054**	3,056	3,222	(0.1)	(5.2)
Operating expenses[(1)]	**(1,239)**	(1,263)	(1,166)	(1.9)	6.3
Underlying profit	**1,815**	1,793	2,056	1.2	(11.7)
Credit impairment charge[(2)]	**(70)**	(196)	(126)	(64.3)	(44.4)
Cash earnings before tax	**1,745**	1,597	1,930	9.3	(9.6)
Income tax expense	**(529)**	(481)	(574)	10.0	(7.8)
Cash earnings	**1,216**	1,116	1,356	9.0	(10.3)

Volumes ($bn)					
Housing lending	**84.8**	84.2	86.1	0.7	(1.5)
Business lending	**109.9**	109.4	109.1	0.5	0.7
Other lending	**3.1**	2.9	3.0	6.9	3.3
Gross loans and acceptances	**197.8**	196.5	198.2	0.7	(0.2)
Average interest earning assets	**184.9**	187.9	190.2	(1.6)	(2.8)
Total assets	**197.8**	196.8	198.5	0.5	(0.4)
Customer deposits	**161.5**	151.1	140.5	6.9	14.9
Total risk-weighted assets	**122.6**	124.6	119.5	(1.6)	2.6

Performance Measures					
Cash earnings on average assets[(1)]	**1.25%**	1.13%	1.36%	12 bps	(11 bps)
Cash earnings on average risk-weighted assets[(1)]	**1.97%**	1.82%	2.27%	15 bps	(30 bps)
Net interest margin	**2.83%**	2.81%	2.90%	2 bps	(7 bps)
Cost to income ratio[(1)]	**40.6%**	41.3%	36.2%	(70 bps)	440 bps
Funds under administration (spot) ($m)	**36,432**	31,720	28,141	14.9	29.5

	Half Year to				
Asset Quality	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
90+ DPD and gross impaired assets to gross loans and acceptances	**1.53%**	1.32%	1.07%	21 bps	46 bps
Credit impairment charge to gross loans and acceptances (annualised)	**0.07%**	0.20%	0.13%	(13 bps)	(6 bps)

(1) *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.*
(2) *Excludes collective provision charges for forward looking provisions as a result of COVID-19, included in Corporate Functions and Other.*

Business and Private Banking (continued)

March 2021 v March 2020

Cash earnings decreased by $140 million or 10.3%, driven by lower revenue mainly due to the low interest rate environment, and higher operating expenses, partially offset by a reduction in credit impairment charges.

Key movements	Key drivers
Net interest income down $153m, 5.5%	• Net interest margin decreased by 7 basis points primarily driven by a lower earnings rate on deposits and capital due to the low interest rate environment. This was partially offset by lower funding costs, repricing in the housing lending portfolio and favourable deposit mix. • Average interest earning assets decreased by $5.3 billion or 2.8% primarily due to a decline in housing lending as a result of lower investor lending and growth in offset balances in the housing lending portfolio. • Customer deposits increased by $21.0 billion or 14.9% driven by growth in on-demand and non-interest bearing deposits, partially offset by a reduction in term deposits.
Other operating income down $15m, 3.2%	• Lower foreign exchange revenue driven by a decline in margins due to competitive pressure. • Lower cards income driven by lower transaction volumes. • Partially offset by higher merchant acquiring income.
Operating expenses up $73m, 6.3%	• Higher personnel costs driven primarily by additional resources to support customers in response to COVID-19 and additional bankers to support growth, combined with provisions for higher performance-based compensation. • Partially offset by productivity benefits achieved through simplification of the business and a reduction in third party spend.
Credit impairment charge down $56m, 44.4%	• Lower specific provision charges due to a lower level of individual impaired exposures. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 46 basis points to 1.53%, driven by delinquencies across the business lending and housing lending portfolios, including from customers who had COVID-19 deferrals expire.
Risk-weighted assets up $3.1bn, 2.6%	• Growth in business lending volumes, and model methodology changes, partially offset by lower operational risk.

Business and Private Banking (continued)

March 2021 v September 2020

Cash earnings increased by $100 million or 9.0%, driven by a reduction in credit impairment charges and lower operating expenses.

Key movements	Key drivers
Net interest income down $37m, 1.4%	• Net interest margin increased by 2 basis points primarily driven by lower funding costs, repricing in the housing lending portfolio and favourable deposit mix, partially offset by a lower earnings rate on deposits and capital due to the low interest rate environment. • Average interest earning assets decreased by $3.0 billion or 1.6% primarily due to a decline in housing lending as a result of competitive pressures and growth in offset balances in the housing lending portfolio. • Customer deposits increased by $10.4 billion or 6.9% driven by growth in on-demand and non-interest bearing deposits, partially offset by a reduction in term deposits.
Other operating income up $35m, 8.5%	• Increase in JBWere income as a result of an increase in funds under administration driven by market recovery and net inflows. • Higher merchant acquiring income due to increased transaction volumes, combined with fees resuming as COVID-19 waivers ended.
Operating expenses down $24m, 1.9%	• Productivity benefits achieved through simplification of the business and a reduction in third party spend, combined with lower restructuring-related costs. • Partially offset by higher personnel costs due to additional bankers to support growth and provisions for higher performance-based compensation.
Credit impairment charge down $126m, 64.3%	• Lower specific provision charges due to a lower level of individual impaired exposures. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 21 basis points to 1.53%, driven by delinquencies across the business lending and housing lending portfolios, including from customers who had COVID-19 deferrals expire.
Risk-weighted assets down $2.0bn, 1.6%	• Reduction due to lower operational risk and improved business lending asset quality, partially offset by model methodology changes and increased business lending volumes.

Personal Banking

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

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Net interest income	**1,976**	1,985	2,032	(0.5)	(2.8)
Other operating income	**253**	248	266	2.0	(4.9)
Net operating income	**2,229**	2,233	2,298	(0.2)	(3.0)
Operating expenses[1]	**(1,096)**	(1,091)	(1,113)	0.5	(1.5)
Underlying profit	**1,133**	1,142	1,185	(0.8)	(4.4)
Credit impairment (charge) / write-back[2]	**93**	(147)	(109)	large	large
Cash earnings before tax	**1,226**	995	1,076	23.2	13.9
Income tax expense	**(367)**	(306)	(323)	19.9	13.6
Cash earnings	**859**	689	753	24.7	14.1

Volumes ($bn)					
Housing lending	**206.8**	206.7	208.1	-	(0.6)
Other lending	**4.5**	4.6	5.5	(2.2)	(18.2)
Gross loans and acceptances	**211.3**	211.3	213.6	-	(1.1)
Average interest earning assets	**193.8**	196.2	197.6	(1.2)	(1.9)
Total assets	**218.8**	217.7	218.1	0.5	0.3
Customer deposits	**120.8**	118.9	109.5	1.6	10.3
Total risk-weighted assets	**80.9**	77.5	78.1	4.4	3.6

Performance Measures					
Cash earnings on average assets[1]	**0.80%**	0.63%	0.69%	17 bps	11 bps
Cash earnings on average risk-weighted assets[1]	**2.18%**	1.77%	1.94%	41 bps	24 bps
Net interest margin	**2.05%**	2.02%	2.06%	3 bps	(1 bp)
Cost to income ratio[1]	**49.2%**	48.9%	48.4%	30 bps	80 bps

	Half Year to				
Asset Quality	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
90+ DPD and gross impaired assets to gross loans and acceptances	**1.67%**	1.23%	1.19%	44 bps	48 bps
Credit impairment charge to gross loans and acceptances (annualised)	**(0.09%)**	0.14%	0.10%	(23 bps)	(19 bps)

(1) *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.*
(2) *Excludes collective provision charges for forward looking provisions as a result of COVID-19, included in Corporate Functions and Other.*

Personal Banking (continued)

March 2021 v March 2020

Cash earnings increased by $106 million or 14.1%, driven by a reduction in credit impairment charges and lower operating expenses, partially offset by lower revenue mainly due to the lower earnings rate on deposits and capital.

Key movements	Key drivers
Net interest income down $56m, 2.8%	• Net interest margin decreased by 1 basis point as a result of competitive pressures and a change in customer preferences towards lower margin loans (from variable to fixed, investor to owner occupier, interest only to principal and interest), combined with lower earnings rate on deposits and capital due to the low interest rate environment. This was partially offset by favourable deposit mix, repricing and lower funding costs in the housing lending portfolio. • Average interest earning assets decreased by $3.8 billion or 1.9%, due to a decline in housing and unsecured lending volumes. • Customer deposits increased by $11.3 billion or 10.3% driven by growth in on-demand deposits, partially offset by a reduction in term deposits.
Other operating income down $13m, 4.9%	• Lower cards income driven by lower transaction volumes and lower foreign exchange revenue due to international travel restrictions as a result of COVID-19.
Operating expenses down $17m, 1.5%	• Productivity benefits achieved through simplification of the business and a reduction in third party spend. • Partially offset by higher personnel costs driven primarily by additional resources to support customers in response to COVID-19 and additional bankers to support growth, combined with provisions for higher performance-based compensation.
Credit impairment charge down $202m	• Lower charges in the unsecured retail portfolio due to lower volumes and improved delinquencies, including the impacts of COVID-19 support. Lower charges in the mortgage portfolio due to improved macro-economic indicators. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 48 basis points to 1.67%, primarily driven by an increase in 90+ DPD assets for the housing lending portfolio, including from customers who had COVID-19 deferrals expire.
Risk-weighted assets up $2.8bn, 3.6%	• Increase in risk-weighted assets due to higher operational risk and a model methodology change, partially offset by lower unsecured lending volumes.

March 2021 v September 2020

Cash earnings increased by $170 million or 24.7%, largely driven by a reduction in credit impairment charges.

Key movements	Key drivers
Net interest income down $9m, 0.5%	• Net interest margin increased by 3 basis points driven by favourable deposit mix, lower funding costs and repricing in the housing lending portfolio, partially offset by continued competitive pressures and a change in customer preferences towards lower margin loans (from variable to fixed), combined with lower earnings rate on deposits and capital due to the low interest rate environment. • Average interest earning assets decreased by $2.4 billion or 1.2%, driven by a decline in housing and unsecured lending volumes.
Other operating income up $5m, 2.0%	• Higher cards income driven by higher net interchange revenue as a result of increased customer spend, combined with fees resuming as COVID-19 waivers ended.
Operating expenses up $5m, 0.5%	• Higher personnel costs driven primarily by additional resources to support customers in response to COVID-19, additional bankers to support growth and provisions for higher performance-based compensation. • Largely offset by productivity benefits achieved through simplification of the business and a reduction in third party spend, combined with lower restructuring-related costs.
Credit impairment charge down $240m	• Lower charges in the unsecured retail portfolio driven by improved delinquencies, including the impacts of COVID-19 support and lower charges in the mortgage portfolio due to improved macro-economic indicators. • 90+ DPD and gross impaired assets to gross loans and acceptances increased by 44 basis points to 1.67%, primarily driven by an increase in 90+ DPD assets for the housing lending portfolio, including from customers who had COVID-19 deferrals expire.
Risk-weighted assets up $3.4bn, 4.4%	• Increase in risk-weighted assets due to mortgage asset quality deterioration and a model methodology change.

Corporate and Institutional Banking

Corporate and Institutional Banking provides a range of products and services including client coverage, corporate finance, markets, asset servicing, transactional banking and enterprise payments. The division services its customers in Australia and globally, including branches in the US, UK and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Net interest income	**967**	1,133	942	(14.7)	2.7
Other operating income	**706**	775	607	(8.9)	16.3
Net operating income	**1,673**	1,908	1,549	(12.3)	8.0
Operating expenses[(1)]	**(676)**	(718)	(670)	(5.8)	0.9
Underlying profit	**997**	1,190	879	(16.2)	13.4
Credit impairment (charge) / write-back[(2)]	**45**	(176)	6	large	large
Cash earnings before tax	**1,042**	1,014	885	2.8	17.7
Income tax expense	**(260)**	(274)	(209)	(5.1)	24.4
Cash earnings	**782**	740	676	5.7	15.7

Net operating income					
Lending and deposits income	**1,102**	1,154	1,098	(4.5)	0.4
Markets income (ex derivative valuation adjustments)	**330**	592	356	(44.3)	(7.3)
Derivative valuation adjustments[(3)]	**71**	-	(86)	large	large
Other income	**170**	162	181	4.9	(6.1)
Total net operating income	**1,673**	1,908	1,549	(12.3)	8.0

Volumes ($bn)					
Business lending	**97.1**	95.6	105.8	1.6	(8.2)
Other lending	**0.5**	0.4	0.6	25.0	(16.7)
Gross loans and acceptances	**97.6**	96.0	106.4	1.7	(8.3)
Average interest earning assets	**265.9**	278.6	269.8	(4.6)	(1.4)
Total assets	**281.4**	317.3	358.9	(11.3)	(21.6)
Customer deposits	**110.7**	114.8	113.7	(3.6)	(2.6)
Total risk-weighted assets	**125.7**	129.9	137.8	(3.2)	(8.8)

Performance Measures					
Cash earnings on average assets[(1)]	**0.52%**	0.46%	0.44%	6 bps	8 bps
Cash earnings on average risk-weighted assets[(1)]	**1.22%**	1.11%	1.03%	11 bps	19 bps
Net interest margin	**0.73%**	0.81%	0.70%	(8 bps)	3 bps
Net interest margin (ex Markets)	**1.68%**	1.72%	1.59%	(4 bps)	9 bps
Cost to income ratio[(1)]	**40.4%**	37.6%	43.3%	280 bps	(290 bps)

	Half Year to				
Asset Quality	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
90+ DPD and gross impaired assets to gross loans and acceptances	**0.14%**	0.19%	0.34%	(5 bps)	(20 bps)
Credit impairment charge to gross loans and acceptances (annualised)	**(0.09%)**	0.37%	(0.01%)	(46 bps)	(8 bps)

(1) *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.*
(2) *Excludes collective provision charges for forward looking provisions as a result of COVID-19, included in Corporate Functions and Other.*
(3) *Derivative valuation adjustments, which include credit valuation adjustments and funding valuation adjustments, are shown net of hedging costs or benefits.*

Corporate and Institutional Banking (continued)

March 2021 v March 2020

Cash earnings increased by $106 million or 15.7%, driven by higher revenue reflecting higher Markets income, increased margins (ex Markets) and improvements in credit quality, partially offset by higher operating expenses.

Key movements	Key drivers
Net interest income up $25m, 2.7%	• Includes an increase of $98 million due to movements in economic hedges offset in other operating income. The underlying decrease was $73 million. • Net interest margin (ex Markets) increased by 9 basis points to 1.68% reflecting continued risk and pricing discipline on lending and lower funding costs, partially offset by a lower earnings rate on capital. • Gross loans and acceptances decreased by $8.8 billion or 8.3%. Excluding a decrease of $6.6 billion driven by exchange rate movements, the underlying decrease of $2.2 billion was due to the repayment of additional drawdowns which occurred in March 2020 by existing customers managing the impacts of COVID-19, partially offset by continued focus on growth segments. • Customer deposits decreased by $3.0 billion or 2.6%. Excluding a $1.1 billion decrease driven by exchange rate movements, the underlying decrease of $1.9 billion was primarily driven by a decrease in term deposits of $10.0 billion, partially offset by an increase in on-demand deposits of $8.1 billion.
Other operating income up $99m, 16.3%	• Includes a decrease of $98 million due to movements of economic hedges, offset in net interest income. • Underlying increase of $197 million due to a positive derivative valuation adjustment of $157 million following the non-repeat of unfavourable movements in the March 2020 half year in addition to gains from credit spreads tightening in the March 2021 half year, and the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year. This was partially offset by lower sales of customer risk management products.
Operating expenses up $6m, 0.9%	• Driven by provisions for higher performance-based compensation. • Partially offset by productivity benefits achieved through simplification of the business, a reduction in third party spend and lower travel costs as a result of COVID-19.
Credit impairment charge down $39m	• Lower specific charges for the impairment of a small number of larger exposures, combined with a lower level of collective charges from improved credit quality within the business lending portfolio.
Risk-weighted assets down $12.1bn, 8.8%	• Decrease due to interest rate and exchange rate movements, improved asset quality and continued returns focused portfolio management, partially offset by model and regulatory prescribed methodology changes and focus on growth segments.

Corporate and Institutional Banking (continued)

March 2021 v September 2020

Cash earnings increased by $42 million or 5.7%, 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).

Key movements	Key drivers
Net interest income down $166m, 14.7%	• Includes a decrease of $5 million due to movements in economic hedges offset in other operating income. The underlying decrease was $161 million. • Net interest margin (ex Markets) decreased by 4 basis points to 1.68% reflecting the impacts of the low interest rate environment including a lower earnings rate on capital, partially offset by continued risk and pricing discipline on lending and lower funding costs. • Gross loans and acceptances increased by $1.6 billion or 1.7%. Excluding a decrease of $1.8 billion driven by exchange rate movements, the underlying increase of $3.4 billion was largely due to continued focus on growth segments. • Customer deposits decreased by $4.1 billion or 3.6%. Excluding a $0.3 billion decrease driven by exchange rate movements, the underlying decrease of $3.8 billion was primarily driven by a decrease in term deposits of $5.4 billion, partially offset by an increase in on-demand deposits of $1.6 billion.
Other operating income down $69m, 8.9%	• Includes an increase of $5 million due to movements of economic hedges, offset in net interest income. • Underlying decrease of $74 million due to the non-repeat of mark-to-market gains on the high quality liquids portfolio in the September 2020 half year and lower sales of customer risk management products. Partially offset by a positive derivative valuation adjustment reflecting a change in credit valuation adjustment methodology in the September 2020 half year resulting in a one-off negative impact of $71 million in that period.
Operating expenses down $42m, 5.8%	• Driven by productivity benefits achieved through simplification of the business, a reduction in third party spend and lower restructuring-related costs, partially offset by provisions for higher performance-based compensation.
Credit impairment charge down $221m	• Lower specific charges for the impairment of a small number of larger exposures, combined with the non-repeat of charges for rating downgrades within the business lending portfolio in the prior period.
Risk-weighted assets down $4.2bn, 3.2%	• Decrease due to interest rate and exchange rate movements, improved asset quality and continued returns focused portfolio management, partially offset by a focus on growth segments.

New Zealand Banking

New Zealand Banking provides banking and financial services across customer segments in New Zealand. It consists of Partnership Banking, servicing consumer and SME segments; Corporate and Institutional Banking, servicing Corporate, Institutional, Agribusiness, and Property customers, and includes Markets Sales operations in New Zealand. New Zealand Banking also includes the Wealth and Insurance franchises operating under the 'Bank of New Zealand' brand. It excludes the Bank of New Zealand's Markets Trading operations.

Results presented in New Zealand dollars. See page 36 for results in Australian dollars and page 94 for foreign exchange rates.

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Net interest income	**1,047**	979	1,006	6.9	4.1
Other operating income	**276**	267	285	3.4	(3.2)
Net operating income	**1,323**	1,246	1,291	6.2	2.5
Operating expenses	**(488)**	(481)	(467)	1.5	4.5
Underlying profit	**835**	765	824	9.2	1.3
Credit impairment (charge) / write-back[(1)]	**19**	(106)	(42)	large	large
Cash earnings before tax	**854**	659	782	29.6	9.2
Income tax expense	**(238)**	(185)	(220)	28.6	8.2
Cash earnings	**616**	474	562	30.0	9.6

Volumes ($bn)					
Housing lending	**49.5**	46.0	44.8	7.6	10.5
Business lending	**40.6**	41.1	43.6	(1.2)	(6.9)
Other lending	**1.0**	1.0	1.2	-	(16.7)
Gross loans and acceptances	**91.1**	88.1	89.6	3.4	1.7
Average interest earning assets	**91.8**	91.6	89.8	0.2	2.2
Total assets	**96.7**	93.3	94.1	3.6	2.8
Customer deposits	**67.5**	65.4	63.8	3.2	5.8
Total risk-weighted assets	**62.2**	62.8	64.3	(1.0)	(3.3)

Performance Measures					
Cash earnings on average assets	**1.30%**	1.00%	1.21%	30 bps	9 bps
Cash earnings on average risk-weighted assets	**1.96%**	1.49%	1.77%	47 bps	19 bps
Net interest margin	**2.29%**	2.14%	2.24%	15 bps	5 bps
Cost to income ratio	**36.9%**	38.6%	36.2%	(170 bps)	70 bps

	Half Year to				
Asset Quality	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
90+ DPD and gross impaired assets to gross loans and acceptances	**0.72%**	0.89%	1.00%	(17 bps)	(28 bps)
Credit impairment charge to gross loans and acceptances (annualised)	**(0.04%)**	0.24%	0.09%	(28 bps)	(13 bps)

(1) *Excludes collective provision charges for forward looking provisions as a result of COVID-19, included in Corporate Functions and Other.*

New Zealand Banking (continued)

March 2021 v March 2020

Cash earnings increased by $54 million or 9.6%, driven by higher net interest income and lower credit impairment charges, partially offset by higher operating expenses.

Key movements	Key drivers
Net interest income up $41m, 4.1%	• Net interest margin increased by 5 basis points primarily driven by increased lending margins due to continued focus on risk adjusted returns, deposit mix and lower funding costs, partially offset by lower earnings rate on deposits and capital due to the low interest rate environment. • Average interest earning assets increased by $2.0 billion or 2.2% due to growth in housing, partially offset by lower business and credit card lending. • Customer deposits increased by $3.7 billion or 5.8% driven by growth in on-demand and savings deposits, partially offset by a reduction in term deposits.
Other operating income down $9m, 3.2%	• Lower over the counter transactions and lower sales of customer risk management products, partially offset by higher merchant acquiring income due to increased transaction volumes.
Operating expenses up $21m, 4.5%	• Increased spend on additional colleagues to support growth and to strengthen the compliance and control environment, combined with provisions for higher performance-based compensation. • Partially offset by productivity benefits achieved through simplification of the business.
Credit impairment charge down $61m	• Lower credit impairment charge due to a lower number of individual impaired exposures, combined with write-backs for a small number of larger exposures. • 90+ DPD and gross impaired assets to gross loans and acceptances decreased by 28 basis points mainly due to lower impaired loans in the dairy portfolio.
Total risk-weighted assets down $2.1bn, 3.3%	• Decrease due to lower business lending, partially offset by growth in housing.

March 2021 v September 2020

Cash earnings increased by $142 million or 30.0%, driven by higher revenue and lower credit impairment charges, partially offset by higher operating expenses.

Key movements	Key drivers
Net interest income up $68m, 6.9%	• Net interest margin increased by 15 basis points primarily driven by increased lending margins due to continued focus on risk adjusted returns, deposit mix and lower funding costs, partially offset by lower earnings rate on deposits and capital due to the low interest rate environment. • Average interest earning assets increased by $0.2 billion or 0.2% due to growth in housing, partially offset by lower business and credit card lending. • Customer deposits increased by $2.1 billion or 3.2% driven by growth in on-demand and savings deposits, partially offset by a reduction in term deposits.
Other operating income up $9m, 3.4%	• Higher merchant acquiring and cards related income due to increased transaction volumes. • Partially offset by lower sales of customer risk management products and a decrease in insurance income driven by lower investment returns.
Operating expenses up $7m, 1.5%	• Increased spend on additional colleagues to support growth and to strengthen the compliance and control environment, combined with provisions for higher performance-based compensation. • Partially offset by productivity benefits achieved through simplification of the business and lower annual leave costs.
Credit impairment charge down $125m	• Lower credit impairment charge due to a lower number of individual impaired exposures, combined with write-backs for a small number of larger exposures. • 90+ DPD and gross impaired assets to gross loans and acceptances decreased by 17 basis points mainly due to lower impaired loans in the corporate and dairy portfolio.
Total risk-weighted assets down $0.6bn, 1.0%	• Decrease due to interest rate movements, lower business lending and lower operational risk allocation, partially offset by growth in housing.

New Zealand Banking (continued)

Results presented in Australian dollars. See page 34 for results in New Zealand dollars.

	Half Year to Mar 21 $m	Sep 20 $m	Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Net interest income	**979**	913	959	7.2	2.1
Other operating income	**258**	248	272	4.0	(5.1)
Net operating income	**1,237**	1,161	1,231	6.5	0.5
Operating expenses	**(456)**	(449)	(445)	1.6	2.5
Underlying profit	**781**	712	786	9.7	(0.6)
Credit impairment (charge) / write-back[(1)]	**17**	(99)	(41)	large	large
Cash earnings before tax	**798**	613	745	30.2	7.1
Income tax expense	**(222)**	(171)	(210)	29.8	5.7
Cash earnings	**576**	442	535	30.3	7.7

Impact of foreign exchange rate movements

Favourable / (unfavourable) 31 March 2021	Half Year since Sep 20 $m	Mar 21 v Sep 20 Ex FX %	Year since Mar 20 $m	Mar 21 v Mar 20 Ex FX %
Net interest income	**2**	7.0	**(19)**	4.1
Other operating income	**1**	3.6	**(5)**	(3.3)
Operating expenses	**(1)**	1.3	**9**	4.5
Credit impairment charge	**-**	large	**(1)**	large
Income tax expense	**(1)**	29.2	**5**	8.1
Cash earnings	**1**	30.1	**(11)**	9.7

(1) *Excludes collective provision charges for forward looking provisions as a result of COVID-19, included in Corporate Functions and Other.*

Corporate Functions and Other[1]

Corporate Functions and Other includes UBank and enabling units that support all businesses including Treasury, Technology and Enterprise Operations, Strategy and Innovation, Support Units and Eliminations.

	Half Year to				
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**	**Mar 21 v Sep 20 %**	**Mar 21 v Mar 20 %**
Net operating income[2]	**246**	526	135	(53.2)	82.2
Large notable items[3]	**-**	(49)	(80)	large	large
Net operating income	**246**	477	55	(48.4)	large
Operating expenses[4][2]	**(396)**	(411)	(353)	(3.6)	12.2
Large notable items[3]	**-**	(328)	(1,000)	large	large
Underlying loss	**(150)**	(262)	(1,298)	(42.7)	(88.4)
Credit impairment (charge) / write-back	**43**	(983)	(891)	large	large
Cash loss before tax and distributions	**(107)**	(1,245)	(2,189)	(91.4)	(95.1)
Income tax benefit	**30**	269	607	(88.8)	(95.1)
Cash loss before distributions	**(77)**	(976)	(1,582)	(92.1)	(95.1)
Distributions	**(13)**	(17)	(22)	(23.5)	(40.9)
Cash loss	**(90)**	(993)	(1,604)	(90.9)	(94.4)
Cash loss (excluding large notable items)[3]	**(90)**	(729)	(845)	(87.7)	(89.3)

March 2021 v March 2020

Cash loss decreased by $1,514 million including $759 million of large notable items in the March 2020 half year. Cash loss (excluding large notable items) decreased by $755 million mainly due to a reduction in credit impairment charges and higher net operating income, partially offset by higher operating expenses.

Key movements	Key drivers
Net operating income up $111m, 82.2%	• Excludes large notable items of $80 million in the March 2020 half year. • Higher NAB risk management income in Treasury due to the non-repeat of mark-to-market losses on the high quality liquids portfolio in the March 2020 half year. • Partially offset by $27 million customer-related remediation in the March 2021 half year and lower equity accounted earnings from investment in MLC Life.
Operating expenses up $43m, 12.2%	• Excludes large notable items of $1 billion in the March 2020 half year. • Increased business support costs combined with $26 million payroll remediation costs in the March 2021 half year.
Credit impairment charge down $934m	• Partial release and non-repeat of economic adjustments raised as a result of COVID-19 in the prior period. • Partially offset by higher level of net FLAs raised for targeted sectors impacted by COVID-19, including higher risk mortgages and the aviation portfolio.
Distributions are down $9m, 40.9%	• Distributions reduced in line with a decrease in distribution rate.

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Excludes large notable items.
(3) 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.

Corporate Functions and Other (continued)

March 2021 v September 2020

Cash loss decreased by $903 million including $264 million of large notable items in the September 2020 half year. Cash loss (excluding large notable items) decreased by $639 million mainly due to a reduction in credit impairment charges and operating expenses, partially offset by lower NAB risk management income in Treasury.

Key movements	Key drivers
Net operating income down $280m, 53.2%	• Excludes large notable items of $49 million in the September 2020 half year. • Lower NAB risk management income in Treasury mainly due to the non-repeat of mark-to-market gains on the high quality liquids portfolio in the September 2020 half year. • Customer-related remediation of $27 million in the March 2021 half year and lower equity accounted earnings from investment in MLC Life.
Operating expenses down $15m, 3.6%	• Excludes large notable items of $328 million in the September 2020 half year. • Lower professional fees partially offset by $26 million payroll remediation costs in the March 2021 half year.
Credit impairment charge down $1,026m	• Partial release and non-repeat of economic adjustments raised as a result of COVID-19 in the prior period. • Lower level of net FLAs raised for targeted sectors impacted by COVID-19.
Distributions are down $4m, 23.5%	• Distributions reduced in line with a decrease in distribution rate.

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

Ernst & Young

Sarah Lowe

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

	Note	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $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	
	Amount per share	Total amount	Amount per share	Total amount	Amount per share	Total amount
Dividends on ordinary shares	**cents**	**$m**	**cents**	**$m**	**cents**	**$m**
Dividend (in respect of prior periods)	**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	Franked amount per share	Total amount
	cents	**%**	**$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	
	Amount per security[(1)]	Total amount	Amount per security[(1)]	Total amount	Amount per security[(1)]	Total amount
Distributions on other equity instruments	**$**	**$m**	**$**	**$m**	**$**	**$m**
National Income Securities	**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		
	31 Mar 21	**30 Sep 20**	**31 Mar 20**
Summary of total impaired assets	**$m**	**$m**	**$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		
	31 Mar 21	**30 Sep 20**	**31 Mar 20**
90+ days past due loans - by geographic location	**$m**	**$m**	**$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	As at 30 Sep 20 $m	As at 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

	As at		
	31 Mar 21	30 Sep 20	31 Mar 20
Contributed equity	$m	$m	$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

	Half Year to		
	Mar 21	Sep 20	Mar 20
Movement in issued and paid-up ordinary share capital	$m	$m	$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

	As at		
	31 Mar 21	30 Sep 20	31 Mar 20
Reserves	$m	$m	$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

Section 4

Supplementary Information

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1. Average Balance Sheet and Related Interest

Average Assets and Interest Income[(1)]

	Half Year ended Mar 21			Half Year ended Sep 20			Half Year ended Mar 20		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest earning assets									
Due from other banks									
Australia	32,728	12	0.1	23,192	21	0.2	20,114	61	0.6
New Zealand	7,108	9	0.3	6,883	9	0.3	4,443	27	1.2
Other International	23,660	13	0.1	25,291	36	0.3	18,750	122	1.3
Total due from other banks	63,496	34	0.1	55,366	66	0.2	43,307	210	1.0
Marketable debt securities									
Australia	83,099	463	1.1	84,127	627	1.5	82,816	819	2.0
New Zealand	8,807	24	0.5	10,081	37	0.7	7,258	55	1.5
Other International	10,023	14	0.3	9,628	24	0.5	9,908	37	0.7
Total marketable debt securities	101,929	501	1.0	103,836	688	1.3	99,982	911	1.8
Loans and advances - housing									
Australia[(2)]	265,050	3,956	3.0	270,137	4,367	3.2	272,765	4,992	3.7
New Zealand	42,555	712	3.4	40,361	760	3.8	39,995	841	4.2
Total loans and advances - housing	307,605	4,668	3.0	310,498	5,127	3.3	312,760	5,833	3.7
Loans and advances - non-housing									
Australia	194,852	3,082	3.2	200,118	3,394	3.4	197,104	4,037	4.1
New Zealand	39,244	639	3.3	40,578	725	3.6	42,885	911	4.2
Other International	17,280	176	2.0	17,649	203	2.3	17,693	274	3.1
Total loans and advances - non-housing	251,376	3,897	3.1	258,345	4,322	3.3	257,682	5,222	4.1
Other interest earning assets									
Australia	18,240	26	n/a	12,547	26	n/a	7,410	69	n/a
New Zealand	727	26	n/a	1,264	24	n/a	1,396	23	n/a
Other International	43,752	42	n/a	48,034	123	n/a	50,929	467	n/a
Total other interest earning assets	62,719	94	n/a	61,845	173	n/a	59,735	559	n/a
Total average interest earning assets and interest income by:									
Australia[(2)]	593,969	7,539	2.5	590,121	8,435	2.9	580,209	9,978	3.4
New Zealand	98,441	1,410	2.9	99,167	1,555	3.1	95,977	1,857	3.9
Other International	94,715	245	0.5	100,602	386	0.8	97,280	900	1.9
Total average interest earning assets and interest income	787,125	9,194	2.3	789,890	10,376	2.6	773,466	12,735	3.3

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

(2) *Includes $42 million of average balance (September 2020: $49 million, March 2020: $64 million) and $nil of interest (September 2020: $1 million, March 2020: $1 million) relating to the run-down of housing loans in Asia from the sale of NAB's Asian private wealth business in November 2017.*

1. Average Balance Sheet and Related Interest (continued)

Average Assets

	Half Year ended		
	Mar 21 $m	Sep 20 $m	Mar 20 $m
Average non-interest earning assets			
Investments relating to life insurance business			
New Zealand	**93**	102	89
Total investments relating to life insurance business	**93**	102	89
Other assets	**92,782**	107,131	92,248
Total average non-interest earning assets	**92,875**	107,233	92,337
Provision for credit impairment			
Australia	**(5,112)**	(4,218)	(3,242)
New Zealand	**(786)**	(775)	(634)
Other International	**(69)**	(44)	(47)
Total provision for credit impairment	**(5,967)**	(5,037)	(3,923)
Total average assets	**874,033**	892,086	861,880

1. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Interest Expense[(1)]

	Half Year ended Mar 21			Half Year ended Sep 20			Half Year ended Mar 20		
	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %	Average balance $m	Interest $m	Average rate %
Average interest bearing liabilities									
Due to other banks									
Australia	**31,300**	**21**	**0.1**	23,439	26	0.2	21,928	84	0.8
New Zealand	**4,074**	**2**	**0.1**	3,143	1	0.1	2,547	5	0.4
Other International	**12,088**	**18**	**0.3**	18,664	32	0.3	17,166	120	1.4
Total due to other banks	**47,462**	**41**	**0.2**	45,246	59	0.3	41,641	209	1.0
On-demand and short-term deposits									
Australia	**236,234**	**304**	**0.3**	219,232	434	0.4	186,750	670	0.7
New Zealand	**29,802**	**26**	**0.2**	26,153	30	0.2	22,413	66	0.6
Other International	**4,705**	**-**	**-**	5,791	2	0.1	5,869	30	1.0
Total on-demand and short-term deposits	**270,741**	**330**	**0.2**	251,176	466	0.4	215,032	766	0.7
Certificates of deposit									
Australia	**25,312**	**12**	**0.1**	30,661	72	0.5	30,605	167	1.1
New Zealand	**789**	**1**	**0.3**	1,638	7	0.9	1,607	11	1.4
Other International	**11,353**	**13**	**0.2**	9,691	37	0.8	11,942	113	1.9
Total certificates of deposit	**37,454**	**26**	**0.1**	41,990	116	0.6	44,154	291	1.3
Term deposits									
Australia	**95,354**	**346**	**0.7**	104,388	641	1.2	116,173	1,025	1.8
New Zealand	**25,654**	**207**	**1.6**	30,083	357	2.4	32,842	481	2.9
Other International	**5,014**	**11**	**0.4**	5,813	26	0.9	5,965	55	1.8
Total term deposits	**126,022**	**564**	**0.9**	140,284	1,024	1.5	154,980	1,561	2.0
Other borrowings									
Australia	**18,927**	**64**	**0.7**	22,066	116	1.1	29,506	329	2.2
New Zealand	**3,546**	**3**	**0.2**	3,014	13	0.9	4,115	41	2.0
Other International	**30,020**	**28**	**0.2**	26,938	71	0.5	28,792	384	2.7
Total other borrowings	**52,493**	**95**	**0.4**	52,018	200	0.8	62,413	754	2.4
Bonds, notes and subordinated debt									
Australia	**106,117**	**502**	**0.9**	117,870	597	1.0	126,378	1,185	1.9
New Zealand	**18,748**	**130**	**1.4**	21,399	146	1.4	21,002	211	2.0
Other International	**14,183**	**196**	**2.8**	17,630	247	2.8	19,881	275	2.8
Total bonds, notes and subordinated debt	**139,048**	**828**	**1.2**	156,899	990	1.3	167,261	1,671	2.0
Other interest bearing liabilities									
Australia	**9,509**	**463**	**n/a**	9,218	526	n/a	9,330	587	n/a
New Zealand	**234**	**3**	**n/a**	334	3	n/a	196	3	n/a
Other International	**254**	**4**	**n/a**	198	3	n/a	383	5	n/a
Total other interest bearing liabilities	**9,997**	**470**	**n/a**	9,750	532	n/a	9,909	595	n/a
Total average interest bearing liabilities and interest expense by:									
Australia	**522,753**	**1,712**	**0.7**	526,874	2,412	0.9	520,670	4,047	1.6
New Zealand	**82,847**	**372**	**0.9**	85,764	557	1.3	84,722	818	1.9
Other International	**77,617**	**270**	**0.7**	84,725	418	1.0	89,998	982	2.2
Total average interest bearing liabilities and interest expense	**683,217**	**2,354**	**0.7**	697,363	3,387	1.0	695,390	5,847	1.7

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

1. Average Balance Sheet and Related Interest (continued)

Average Liabilities and Equity

	Half Year ended		
	Mar 21 $m	**Sep 20 $m**	**Mar 20 $m**
Average non-interest bearing liabilities			
Deposits not bearing interest			
Australia[1]	**67,597**	57,518	49,648
New Zealand	**9,063**	7,461	6,309
Other International	**-**	3	6
Total deposits not bearing interest	**76,660**	64,982	55,963
Other liabilities	**52,304**	68,918	53,948
Total average non-interest bearing liabilities	**128,964**	133,900	109,911
Total average liabilities	**812,181**	831,263	805,301
Average equity			
Total equity (parent entity interest)	**61,851**	60,821	56,577
Non-controlling interest in controlled entities	**1**	2	2
Total average equity	**61,852**	60,823	56,579
Total average liabilities and equity	**874,033**	892,086	861,880

2. Net Interest Margins and Spreads[2]

	Half Year to				
Group	**Mar 21 %**	**Sep 20 %**	**Mar 20 %**	**Mar 21 v Sep 20**	**Mar 21 v Mar 20**
Net interest spread	**1.65**	1.66	1.61	(1 bp)	4 bps
Benefit of net free liabilities, provisions and equity	**0.09**	0.11	0.17	(2 bps)	(8 bps)
Net interest margin - statutory basis	**1.74**	1.77	1.78	(3 bps)	(4 bps)

(1) *Includes $33,312 million (September 2020: $31,356 million, March 2020: $29,654 million) of mortgage offset accounts.*
(2) *Information is presented on a statutory basis, compared to Section 1 Net interest margin which is prepared on a cash earnings basis.*

3. Large Notable Items[(1)(2)]

	Half Year to		
	Mar 21 $m	Sep 20 $m	Mar 20 $m
Net interest income			
Customer-related remediation	-	(27)	(22)
Other operating income			
Customer-related remediation	-	(22)	(58)
Net operating income	-	(49)	(80)
Operating expenses			
Customer-related remediation	-	(86)	(50)
Payroll remediation	-	(108)	-
Capitalised software policy change	-	-	(950)
Impairment of property-related assets	-	(134)	-
Cash loss before tax	-	(377)	(1,080)
Income tax benefit			
Customer-related remediation	-	41	39
Payroll remediation	-	32	-
Capitalised software policy change	-	-	282
Impairment of property-related assets	-	40	-
Cash loss	-	(264)	(759)
Net loss after tax from discontinued operations			
Customer-related remediation[(3)]	-	(172)	(97)
Payroll remediation	-	(14)	-
Capitalised software policy change	-	-	(74)
Net loss attributable to owners of NAB	-	(450)	(930)

In the March 2021 half year, the Group did not recognise any amounts as large notable items.

In the September 2020 half year, the Group recognised the following charges as large notable items:
- Customer-related remediation of $266 million ($380 million before tax). The customer-related remediation matters within continuing operations comprised of banking-related matters including additional costs associated with executing the remediation programs for both existing and new matters.
- Payroll remediation of $90 million ($128 million before tax) to address potential payroll issues relating to both current and former Australian colleagues, comprising payments to colleagues and costs to execute the remediation program.
- Impairment of property-related assets of $94 million ($134 million before tax) primarily due to plans to consolidate NAB's Melbourne office space.

In the March 2020 half year, the Group recognised the following charges as large notable items:
- Accelerated amortisation of $742 million ($1,056 million before tax) as a result of a further change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million.
- Customer-related remediation charges of $188 million ($268 million before tax).

Reconciliation of Large Notable Items[(1)]

	Half Year to										
	Mar 21 $m	Large Notable Items $m	Mar 21 ex Large Notable Items $m	Sep 20 $m	Large Notable Items $m	Sep 20 ex Large Notable Items $m	Mar 20 $m	Large Notable Items $m	Mar 20 ex Large Notable Items $m	Mar 21 v Sep 20 ex Large Notable Items %	Mar 21 v Mar 20 ex Large Notable Items %
Net interest income	6,839	-	6,839	6,985	(27)	7,012	6,886	(22)	6,908	(2.5)	(1.0)
Other operating income	1,600	-	1,600	1,850	(22)	1,872	1,469	(58)	1,527	(14.5)	4.8
Net operating income	8,439	-	8,439	8,835	(49)	8,884	8,355	(80)	8,435	(5.0)	-
Operating expenses	(3,863)	-	(3,863)	(4,260)	(328)	(3,932)	(4,747)	(1,000)	(3,747)	(1.8)	3.1
Underlying profit	4,576	-	4,576	4,575	(377)	4,952	3,608	(1,080)	4,688	(7.6)	(2.4)
Credit impairment (charge) / write-back	128	-	128	(1,601)	-	(1,601)	(1,161)	-	(1,161)	large	large
Cash earnings before tax and distributions	4,704	-	4,704	2,974	(377)	3,351	2,447	(1,080)	3,527	40.4	33.4
Income tax expense	(1,348)	-	(1,348)	(963)	113	(1,076)	(709)	321	(1,030)	25.3	30.9
Cash earnings before distributions	3,356	-	3,356	2,011	(264)	2,275	1,738	(759)	2,497	47.5	34.4
Distributions	(13)	-	(13)	(17)	-	(17)	(22)	-	(22)	(23.5)	(40.9)
Cash earnings	3,343	-	3,343	1,994	(264)	2,258	1,716	(759)	2,475	48.1	35.1

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Included in Corporate Functions and Other.*
(3) *Further details on customer-related remediation matters within discontinued operations are set out in Note 14 Discontinued operations.*

4. Capital Adequacy

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

	As at		
	31 Mar 21	**30 Sep 20**	**31 Mar 20**
	$m	**$m**	**$m**
Contributed equity	**43,713**	45,476	41,193
Reserves	**91**	99	870
Retained profits	**17,772**	15,717	16,314
Non-controlling interest in controlled entities	**1**	1	1
Total equity per consolidated balance sheet	**61,577**	61,293	58,378
Additional Tier 1 capital classified as equity before application of transitional arrangements	**-**	(1,945)	(1,945)
Adjustments between the Group and Level 2 regulatory group balance sheets	**(185)**	(200)	(193)
Common Equity Tier 1 capital before regulatory adjustments	**61,392**	59,148	56,240
Goodwill and other intangible assets, net of tax	**(2,676)**	(2,676)	(2,877)
Investment in non-consolidated controlled entities	**(432)**	(417)	(417)
Deferred tax assets in excess of deferred tax liabilities	**(2,792)**	(3,164)	(2,690)
Capitalised expenses and deferred fee income	**(785)**	(776)	(745)
Software, net of tax	**(2,301)**	(2,372)	(2,324)
Defined benefit superannuation plan asset, net of tax	**(31)**	(31)	(33)
Change in own creditworthiness, net of tax	**134**	64	(881)
Cash flow hedge reserve	**(69)**	(307)	(601)
Equity exposures	**(689)**	(575)	(503)
Expected loss in excess of eligible provisions	**(58)**	(94)	(69)
Other	**(45)**	(50)	(140)
Common Equity Tier 1 capital	**51,648**	48,750	44,960
Basel III eligible Additional Tier 1 capital instruments	**6,859**	6,190	5,590
Transitional Additional Tier 1 capital instruments	**-**	1,211	1,211
Regulatory adjustments to Additional Tier 1 capital	**(20)**	(20)	-
Additional Tier 1 capital	**6,839**	7,381	6,801
Tier 1 capital	**58,487**	56,131	51,761
Basel III eligible Tier 2 capital instruments	**13,937**	11,388	9,031
Transitional Tier 2 capital instruments	**44**	788	814
Basel III eligible Tier 2 capital instruments issued by subsidiaries and held by third parties	**363**	393	437
IRB approach surplus provisions on non-defaulted exposures	**1,943**	1,983	1,199
Standardised approach general reserve for credit losses	**69**	75	61
Regulatory adjustments to Tier 2 capital	**(98)**	(93)	(100)
Tier 2 capital	**16,258**	14,534	11,442
Total capital	**74,745**	70,665	63,203
Risk-weighted assets			
Credit risk	**348,192**	353,991	364,550
Market risk	**12,626**	12,678	10,035
Operational risk	**48,627**	49,993	50,604
Interest rate risk in the banking book	**8,165**	8,485	7,477
Total risk-weighted assets	**417,610**	425,147	432,666
Risk-based regulatory capital ratios			
Common Equity Tier 1	**12.37%**	11.47%	10.39%
Tier 1	**14.01%**	13.20%	11.96%
Total capital	**17.90%**	16.62%	14.61%

4. Capital Adequacy (continued)

	Risk-weighted assets as at		
	31 Mar 21	30 Sep 20	31 Mar 20
	$m	$m	$m
Credit risk			
Subject to the internal ratings-based approach			
Corporate (including Small and Medium Enterprises (SME))	**126,791**	132,922	135,362
Sovereign	**1,720**	2,143	1,489
Bank	**8,026**	8,856	10,120
Residential mortgage	**111,366**	106,269	108,108
Qualifying revolving retail	**2,438**	2,524	3,258
Retail SME	**6,168**	5,983	6,326
Other retail	**2,178**	2,281	3,002
Total internal ratings-based approach	**258,687**	260,978	267,665
Specialised lending	**57,471**	59,465	59,632
Subject to standardised approach			
Residential mortgage	**1,255**	1,296	1,359
Corporate	**4,241**	4,355	4,720
Other	**432**	418	440
Total standardised approach	**5,928**	6,069	6,519
Other			
Securitisation exposures	**5,028**	5,237	5,197
Credit valuation adjustment	**10,189**	12,703	15,596
Central counterparty default fund contribution guarantee	**82**	83	137
Other[(1)]	**10,807**	9,456	9,804
Total other	**26,106**	27,479	30,734
Total credit risk	**348,192**	353,991	364,550
Market risk	**12,626**	12,678	10,035
Operational risk	**48,627**	49,993	50,604
Interest rate risk in the banking book	**8,165**	8,485	7,477
Total risk-weighted assets	**417,610**	425,147	432,666

(1) Other mainly consists of risk-weighted assets for other assets, claims and exposures and risk-weighted asset overlay adjustments for regulatory prescribed methodology requirements.

5. Earnings Per Share

	Half Year to					
	Basic			Diluted		
Earnings per share	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21**	**Sep 20**	**Mar 20**
Earnings ($m)						
Net profit attributable to owners of NAB	**3,208**	1,246	1,313	**3,208**	1,246	1,313
Distributions on other equity instruments	**(13)**	(17)	(22)	**(13)**	(17)	(22)
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	**-**	-	-	**90**	70	92
Interest expense on convertible preference shares	**-**	-	-	**9**	-	27
Adjusted earnings	**3,195**	1,229	1,291	**3,294**	1,299	1,410
Net loss from discontinued operations attributable to owners of NAB	**22**	711	228	**22**	711	228
Adjusted earnings from continuing operations(1)	**3,217**	1,940	1,519	**3,316**	2,010	1,638
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares (net of treasury shares)	**3,289**	3,217	2,919	**3,289**	3,217	2,919
Potential dilutive weighted average number of ordinary shares						
Convertible notes	**-**	-	-	**226**	238	279
Convertible preference shares	**-**	-	-	**32**	-	100
Share-based payments	**-**	-	-	**5**	4	8
Total weighted average number of ordinary shares	**3,289**	3,217	2,919	**3,552**	3,459	3,306
Earnings per share (cents) attributable to owners of NAB	**97.1**	38.2	44.2	**92.7**	37.6	42.6
Earnings per share (cents) from continuing operations	**97.8**	60.3	52.0	**93.4**	58.1	49.5

	Half Year to					
	Basic			Diluted		
Cash earnings per share	**Mar 21**	**Sep 20**	**Mar 20**	**Mar 21**	**Sep 20**	**Mar 20**
Earnings ($m)						
Cash earnings(2)	**3,343**	1,994	1,716	**3,343**	1,994	1,716
Potential dilutive adjustments (after tax)						
Interest expense on convertible notes	**-**	-	-	**90**	70	92
Interest expense on convertible preference shares	**-**	-	-	**9**	-	27
Adjusted cash earnings	**3,343**	1,994	1,716	**3,442**	2,064	1,835
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares (net of treasury shares)	**3,289**	3,217	2,919	**3,289**	3,217	2,919
Potential dilutive weighted average number of ordinary shares						
Convertible notes	**-**	-	-	**226**	238	279
Convertible preference shares	**-**	-	-	**32**	-	100
Share-based payments	**-**	-	-	**5**	4	8
Total weighted average number of ordinary shares	**3,289**	3,217	2,919	**3,552**	3,459	3,306
Earnings per share (cents) attributable to owners of NAB	**101.6**	62.0	58.8	**96.9**	59.7	55.5

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Refer to Section 4 Reconciliation between statutory net profit (after tax) from continuing operations and cash earnings for further information.*

6. Return on Equity

Statutory return on equity	Half Year to Mar 21	Sep 20	Mar 20
Earnings ($m)			
Net profit attributable to owners of NAB	**3,208**	1,246	1,313
Distributions on other equity instruments	**(13)**	(17)	(22)
Adjusted earnings	**3,195**	1,229	1,291
Average equity ($m)			
Average equity	**61,852**	60,823	56,579
Less: Average non-controlling interest in controlled entities	**(1)**	(2)	(2)
Less: Average National Income Securities	**(1,470)**	(1,945)	(1,945)
Average equity (adjusted)	**60,381**	58,876	54,632
Statutory return on equity	**10.6%**	4.2%	4.7%

Cash return on equity	Half Year to Mar 21	Sep 20	Mar 20
Earnings ($m)			
Cash earnings	**3,343**	1,994	1,716
Cash earnings (excluding large notable items)[1]	**3,343**	2,258	2,475
Average equity (adjusted) ($m)	**60,381**	58,876	54,632
Cash return on equity	**11.1%**	6.8%	6.3%
Cash return on equity (excluding large notable items)[1]	**11.1%**	7.7%	9.1%

7. Net Tangible Assets

Net tangible assets per ordinary share	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m
Net assets	**61,577**	61,293	58,378
Less:			
Goodwill and other intangible assets	**(3,776)**	(3,809)	(4,696)
National Income Securities	**-**	(1,945)	(1,945)
Non-controlling interest in controlled entities	**(1)**	(1)	(1)
Net tangible assets	**57,800**	55,538	51,736
Total ordinary shares (including treasury shares) (no. '000)	**3,298,615**	3,290,112	2,984,168
Net tangible assets per ordinary share ($)	**17.52**	16.88	17.34

(1) *Refer to Section 4 Large notable items for further information.*

8. Asset Funding

Core assets	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Loans and advances at amortised cost	**594,507**	588,715	606,939	1.0	(2.0)
Loans and advances at fair value	**2,958**	3,860	5,214	(23.4)	(43.3)
Acceptances	**1,245**	1,477	2,010	(15.7)	(38.1)
Other debt instruments at amortised cost	**463**	345	367	34.2	26.2
Total core assets	**599,173**	594,397	614,530	0.8	(2.5)
Funding and equity					
Customer deposits	**475,814**	468,224	447,197	1.6	6.4
Term wholesale funding	**137,840**	156,778	181,341	(12.1)	(24.0)
Certificates of deposit	**40,439**	35,564	43,285	13.7	(6.6)
Securities sold under agreements to repurchase	**34,172**	25,127	30,459	36.0	12.2
Due to other banks[(1)]	**51,906**	50,556	53,076	2.7	(2.2)
Other short-term liabilities	**29,275**	24,967	33,884	17.3	(13.6)
Total equity excluding preference shares and other contributed equity	**61,577**	59,347	56,433	3.8	9.1
Total funding liabilities and equity	**831,023**	820,563	845,675	1.3	(1.7)
Other liabilities					
Trading instruments	**25,117**	30,021	56,669	(16.3)	(55.7)
Hedging derivatives	**2,190**	2,255	6,664	(2.9)	(67.1)
Other liabilities	**13,243**	13,726	18,620	(3.5)	(28.9)
Total liabilities and equity	**871,573**	866,565	927,628	0.6	(6.0)

Funded Balance Sheet

Funding sources[(2)]	As at 31 Mar 21 $m	30 Sep 20 $m	31 Mar 20 $m	Mar 21 v Sep 20 %	Mar 21 v Mar 20 %
Stable customer deposits[(3)]	**436,633**	425,188	410,498	2.7	6.4
Term wholesale funding with greater than 12 months to maturity	**102,202**	120,209	143,905	(15.0)	(29.0)
Central bank funding facilities[(4)]	**15,998**	14,270	-	12.1	large
Equity	**61,577**	59,347	56,433	3.8	9.1
Total stable funding	**616,410**	619,014	610,836	(0.4)	0.9
Short-term wholesale funding	**91,168**	83,572	106,494	9.1	(14.4)
Term wholesale funding with less than 12 months to maturity	**35,638**	36,569	37,436	(2.5)	(4.8)
Other deposits[(5)]	**39,181**	43,036	36,699	(9.0)	6.8
Total funding	**782,397**	782,191	791,465	-	(1.1)
Funded assets					
Liquid assets[(6)]	**170,176**	170,141	154,118	-	10.4
Other short-term assets[(7)]	**12,672**	16,478	21,086	(23.1)	(39.9)
Total short-term assets	**182,848**	186,619	175,204	(2.0)	4.4
Business and other lending[(7)]	**249,275**	248,851	263,188	0.2	(5.3)
Housing lending	**345,172**	341,729	346,044	1.0	(0.3)
Other assets[(8)]	**5,102**	4,992	7,029	2.2	(27.4)
Total long-term assets	**599,549**	595,572	616,261	0.7	(2.7)
Total funded assets	**782,397**	782,191	791,465	-	(1.1)

(1) *Includes repurchase agreements due to other banks.*
(2) *Excludes repurchase agreements, trading and hedging derivatives, and any accruals, receivables and payables that do not provide net funding.*
(3) *Includes operational deposits, non-financial corporate deposits and retail / SME deposits. Excludes certain offshore deposits.*
(4) *Includes the Term Funding Facility provided by the Reserve Bank of Australia of $14,270 million, and the Term Lending Facility and Funding for Lending Programme provided by the Reserve Bank of New Zealand of $1,728 million.*
(5) *Includes non-operational financial institution deposits and certain offshore deposits.*
(6) *Market value of marketable securities including HQLA, non-HQLA securities and commodities.*
(7) *Trade finance loans are included in other short-term assets, instead of business and other lending.*
(8) *Includes net derivatives, goodwill, property, plant and equipment and net of accruals, receivables and payables.*

9. Bonds, Notes and Subordinated Debt

	As at		
	31 Mar 21	**30 Sep 20**	**31 Mar 20**
Bonds, notes and subordinated debt	**$m**	**$m**	**$m**
Medium-term notes	**72,284**	85,274	107,114
Securitisation notes	**2,739**	3,126	3,775
Covered bonds	**22,317**	25,659	27,959
Subordinated medium-term notes	**13,620**	11,817	9,492
Other subordinated notes	**504**	508	533
Total bonds, notes and subordinated debt	**111,464**	126,384	148,873

10. Number of Ordinary Shares

	Half Year to		
	Mar 21	**Sep 20**	**Mar 20**
	No. '000	**No. '000**	**No. '000**
Ordinary shares, fully paid			
Balance at beginning of period	**3,290,093**	2,984,149	2,883,019
Shares issued:			
Institutional shares placement	**-**	212,014	-
Retail share purchase plan	**-**	88,337	-
Conversion of convertible preference shares and convertible notes	**-**	-	35,141
Dividend reinvestment plan	**4,776**	4,738	35,007
Dividend reinvestment plan underwritten allotments	**-**	-	26,898
Bonus share plan	**450**	516	929
Share-based payments	**3,277**	339	3,155
Paying up of partly paid shares	**6**	-	-
Total ordinary shares, fully paid	**3,298,602**	3,290,093	2,984,149
Ordinary shares, partly paid to 25 cents			
Balance at beginning of period	**19**	19	19
Paying up of partly paid shares	**(6)**	-	-
Total ordinary shares, partly paid to 25 cents	**13**	19	19
Total ordinary shares (including treasury shares)	**3,298,615**	3,290,112	2,984,168
Less: Treasury shares	**(6,229)**	(5,572)	(5,584)
Total ordinary shares (excluding treasury shares)	**3,292,386**	3,284,540	2,978,584

11. Non-Cash Earnings Items

Distributions

Distributions relating to hybrid equity instruments are treated as an expense for cash earnings purposes and as a reduction in equity (dividend) for statutory reporting purposes. The distributions on other equity instruments are set out in Section 3, *Note 6 Dividends and distributions*. The effect of this in the March 2021 half year is to reduce cash earnings by $13 million.

Fair Value and Hedge Ineffectiveness

Fair value and hedge ineffectiveness causes volatility in statutory profit, which is excluded from cash earnings as it is income neutral over the full term of the transactions. This arises from fair value movements relating to trading derivatives held for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.

In the March 2021 half year, there was a decrease in statutory profit of $184 million ($126 million after tax) from fair value and hedge ineffectiveness. The decrease in the current period includes a $245 million charge from the implementation of operational enhancements to reduce future volatility in earnings related to hedge accounting offset by mark-to-market gains on derivatives used to hedge the Group's long-term funding issuances.

Amortisation and Impairment of Acquired Intangible Assets

The amortisation and impairment of acquired intangibles represents the amortisation and impairment of intangible assets arising from the acquisition of controlled entities and associates such as management agreements and contracts in force. The impact was nil in the March 2021 and September 2020 half years. In the March 2020 half year, there was a decrease in statutory profit of $219 million ($217 million after tax) due to the amortisation and impairment of acquired intangible assets.

12. Reconciliation between Statutory Net Profit (after Tax) from Continuing Operations and Cash Earnings[(1)]

Half Year ended 31 March 2021	Statutory net profit from continuing operations $m	Distri-butions $m	Fair value and hedge ineffect. $m	Cash earnings $m
Net interest income	6,840	-	(1)	**6,839**
Other operating income	1,415	-	185	**1,600**
Net operating income	8,255	-	184	**8,439**
Operating expenses	(3,863)	-	-	**(3,863)**
Profit before credit impairment charge	4,392	-	184	**4,576**
Credit impairment write-back	128	-	-	**128**
Profit before tax	4,520	-	184	**4,704**
Income tax expense	(1,290)	-	(58)	**(1,348)**
Net profit on continuing operations before distributions	3,230	-	126	**3,356**
Distributions	-	(13)	-	**(13)**
Net profit / (loss) attributable to owners of NAB from continuing operations	**3,230**	**(13)**	**126**	**3,343**

Half Year ended 30 September 2020	Statutory net profit from continuing operations $m	Distri-butions $m	Fair value and hedge ineffect. $m	Cash earnings $m
Net interest income[(2)]	6,989	-	(4)	**6,985**
Other operating income[(2)(3)]	1,767	-	83	**1,850**
Net operating income	8,756	-	79	**8,835**
Operating expenses[(2)(3)]	(4,260)	-	-	**(4,260)**
Profit before credit impairment charge	4,496	-	79	**4,575**
Credit impairment charge	(1,585)	-	(16)	**(1,601)**
Profit before tax	2,911	-	63	**2,974**
Income tax expense	(954)	-	(9)	**(963)**
Net profit on continuing operations before distributions	1,957	-	54	**2,011**
Distributions	-	(17)	-	**(17)**
Net profit / (loss) attributable to owners of NAB from continuing operations	**1,957**	**(17)**	**54**	**1,994**

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Includes large notable items. Refer to Section 4 Large notable items for further information.*
(3) *Comparative information has been restated to align to the presentation in the current period. Refer to Note 1 Basis of preparation.*

12. Reconciliation between Statutory Net Profit (after Tax) from Continuing Operations and Cash Earnings (continued)[(1)]

Half Year ended 31 March 2020	Statutory net profit from continuing operations $m	Distri-butions $m	Fair value and hedge ineffect. $m	Amortisation and impairment of acquired intangible assets $m	Cash earnings $m
Net interest income[(2)]	6,888	-	(2)	-	**6,886**
Other operating income[(2)(3)]	1,492	-	(28)	5	**1,469**
Net operating income	8,380	-	(30)	5	**8,355**
Operating expenses[(2)(3)]	(4,961)	-	-	214	**(4,747)**
Profit / (loss) before credit impairment charge	3,419	-	(30)	219	**3,608**
Credit impairment (charge) / write-back	(1,167)	-	6	-	**(1,161)**
Profit / (loss) before tax	2,252	-	(24)	219	**2,447**
Income tax (expense) / benefit	(711)	-	4	(2)	**(709)**
Net profit / (loss) on continuing operations before distributions	1,541	-	(20)	217	**1,738**
Distributions	-	(22)	-	-	**(22)**
Net profit / (loss) attributable to owners of NAB from continuing operations	**1,541**	**(22)**	**(20)**	**217**	**1,716**

(1) *Information is presented on a continuing operations basis, unless otherwise stated.*
(2) *Includes large notable items. Refer to Section 4 Large notable items for further information.*
(3) *Comparative information has been restated to align to the presentation in the current period. Refer to Note 1 Basis of preparation.*

13. Impact of Exchange Rate Movements on Group Results[1]

The table below represents the foreign exchange rate differences arising on translation of the Group's foreign operations. The foreign exchange rate differences are calculated by translating into Australian dollars the cash earnings of Group entities that have a functional currency other than Australian dollars. The half year ended 31 March 2021 is translated at average foreign exchange rates for the half year ended 30 September 2020 and 31 March 2020.

	Half Year to					
Cash Earnings	**Mar 21 v Sep 20 %**	**FX $m**	**Mar 21 v Sep 20 Ex FX %**	**Mar 21 v Mar 20 %**	**FX $m**	**Mar 21 v Mar 20 Ex FX %**
Net interest income	(2.1)	(10)	**(1.9)**	(0.7)	(37)	**(0.1)**
Other operating income	(13.5)	(12)	**(12.9)**	8.9	(26)	**10.7**
Net operating income	(4.5)	(22)	**(4.2)**	1.0	(63)	**1.8**
Operating expenses	(9.3)	5	**(9.2)**	(18.6)	17	**(18.3)**
Underlying profit	-	(17)	**0.4**	26.8	(46)	**28.1**
Credit impairment charge	(108.0)	-	**(108.0)**	(111.0)	(1)	**(111.1)**
Cash earnings before tax and distributions	58.2	(17)	**58.7**	92.2	(47)	**94.2**
Income tax expense	40.0	-	**40.0**	90.1	7	**91.1**
Cash earnings before distributions	66.9	(17)	**67.7**	93.1	(40)	**95.4**
Distributions	(23.5)	2	**(11.8)**	(40.9)	2	**(31.8)**
Cash earnings	67.7	(15)	**68.4**	94.8	(38)	**97.0**

14. Exchange Rates

	Income statement - average Half Year to			Balance sheet - spot As at		
One Australian dollar equals	**Mar 21**	**Sep 20**	**Mar 20**	**31 Mar 21**	**30 Sep 20**	**31 Mar 20**
British pounds	**0.5569**	0.5413	0.5228	**0.5538**	0.5540	0.5011
Euros	**0.6268**	0.6041	0.6071	**0.6491**	0.6061	0.5613
United States dollars	**0.7515**	0.6861	0.6711	**0.7601**	0.7107	0.6183
New Zealand dollars	**1.0698**	1.0720	1.0493	**1.0897**	1.0801	1.0260

15. ASX Appendix 4D

Cross reference index	**Page**
Results for Announcement to the Market (4D Item 2)	Inside front cover
Dividends (4D Item 5)	56
Dividend dates (4D Item 5)	Inside front cover
Dividend Reinvestment Plan (4D Item 6)	56
Net tangible assets per ordinary share (4D Item 3)	88
Details of entities over which control has been gained or lost (4D Item 4)	n/a
The Group has not gained or lost control over any material entities during the half year ended 31 March 2021.	
Details of associates and joint venture entities (4D item 7)	n/a
The Group held no material investments in associates or joint venture entities as at 31 March 2021.	

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

Section 5

Glossary of Terms

Glossary of Terms

Terms	Description
12-month expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
90+ days past due (DPD) and gross impaired assets to GLAs	Loans and advances 90+ DPD but not impaired and impaired assets expressed as a percentage of gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (past due over 90 days)' and 'Gross impaired assets' divided by gross loans and acceptances.
90+ DPD assets	90+ DPD assets consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
AASB	Australian Accounting Standards Board.
ADI	Authorised Deposit-taking Institution.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited (or the market operated by it).
Available stable funding (ASF)	The portion of an ADI's capital and liabilities expected to be reliably provided over a one-year time horizon.
Average equity (adjusted)	Average equity (adjusted) is adjusted to exclude non-controlling interests and other equity instruments.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and was effective for ADIs from 1 January 2013.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the March 2021 half year has been adjusted for the following: - Distributions - Fair value and hedge ineffectiveness.
Cash earnings on average risk-weighted assets	Calculated as cash earnings (annualised) divided by average risk-weighted assets. Average risk-weighted assets are calculated as the average of the current and previous two quarters' risk-weighted assets.
Cash return on equity	Cash earnings after tax expressed as a percentage of average equity (adjusted), calculated on a cash earnings basis.
Committed liquidity facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	CET1 capital ranks behind the claims of depositors and other creditors in the event of winding-up of the issuer, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 ratio	CET1 capital divided by risk-weighted assets.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Cost to income ratio (CTI)	Represents operating expenses as a percentage of operating revenue.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer funding index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
Customer risk management	Activities to support customers to manage their financial risks (predominantly foreign exchange and interest rate risks).
CYBG	Virgin Money UK PLC (formerly CYBG PLC).
Dilutive potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares and which would have the effect of decreasing earnings per share. For the Group, these include convertible preference shares, convertible notes and shares issued under employee incentive schemes.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single coordinated plan for disposal.
Distributions	Payments to holders of equity instruments other than ordinary shares, including National Income Securities.
Dividend payout ratio	Dividends paid on ordinary shares divided by cash earnings per share.
Economic adjustments (EA)	The economic adjustment forms part of the provision for credit impairment derived from reasonable and supportable forecasts of potential future conditions (forward looking information) that is not captured within the underlying credit provision. It incorporates general macro-economic forward looking information (for example, GDP, unemployment and interest rates).
Earnings per share (EPS) - basic	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares.
Earnings per share (EPS) - diluted	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis) divided by the weighted average number of ordinary shares, after adjusting both earnings and the weighted average number of ordinary shares for the impact of dilutive potential ordinary shares.
Effective tax rate	Income tax expense divided by profit before income tax expense.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value and hedge ineffectiveness	Represents volatility from the Group's assets and liabilities designated at fair value, hedge accounting ineffectiveness from designated accounting hedge relationships, or from economic hedges where hedge accounting has not been applied.
Forward looking adjustment (FLA)	Forward looking adjustments reflect part of the provision for credit impairment derived from reasonable and supportable forecasts of potential future conditions (forward looking information) that are not otherwise captured within the underlying credit provision or the EA. They incorporate more targeted sector-specific forward looking information.
Full-time equivalent employees (FTEs)	Includes all full-time, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: This excludes consultants, IT professional services, outsourced service providers and non-executive directors.
General reserve for credit losses (GRCL)	An estimate of the reasonable and prudent ECL over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 *Credit Quality*. The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provisions classified as regulatory specific provisions. Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.

Glossary of Terms (continued)

Terms	Description
Gross loans and acceptances (GLAs)	The total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans and advances at fair value' and 'Loans and advances at amortised cost'.
Group	NAB and its controlled entities.
High quality liquid assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards.
Impaired assets	Consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest. - Non-retail loans which are contractually past due and / or there is sufficient doubt exists about the ability to collect principal and interest in a timely manner. - Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. - Unsecured portfolio managed facilities that are 180 days past due (if not written off).
Internal ratings-based (IRB)	The processes employed by the Group to estimate credit risk through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Lifetime expected credit losses (ECL)	The ECL that result from all possible default events over the expected life of a financial instrument.
Liquidity coverage ratio (LCR)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Marketable debt securities	Comprises trading securities and debt instruments.
MLC Life	MLC Limited.
MLC Wealth	MLC Wealth is the Group's Wealth division which provides superannuation, investments, asset management and financial advice to retail, corporate and institutional clients, supported by several brands including MLC, Plum and investment brands under MLC Asset Management.
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB risk management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net stable funding ratio (NSFR)	A ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF).
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Regulatory specific provisions	In line with APRA's July 2017 guidance "*Provisions for regulatory purposes and AASB 9 Financial Instruments*", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as GRCL.
Required stable funding (RSF)	The amount of stable funding an ADI is required to hold measured as a function of the liquidity characteristics and residual maturities of the various assets held by an ADI, including off-balance sheet exposures.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Securitisation	Structured finance technique which involves pooling, packaging cash flows and converting financial assets into securities that can be sold to investors.
Stable funding index (SFI)	Term funding index (TFI) plus Customer funding index (CFI).
Standardised approach	An alternative approach to the assessment of credit, operational and traded market risk whereby an ADI uses external rating agencies to assist in assessing credit risk and / or the application of specific values provided by regulators to determine risk-weighted assets.
Statutory net profit	Net profit attributable to owners of NAB.
Statutory return on equity	Statutory earnings after tax expressed as a percentage of Average equity (adjusted), calculated on a statutory basis.
Term funding index (TFI)	Term wholesale funding (with remaining maturity to first call date greater than 12 months, including Term Funding Facility (TFF) drawdowns divided by core assets.
Tier 1 capital	CET1 capital plus Additional tier 1 capital. Additional tier 1 capital comprises high quality components of capital that satisfy the following essential characteristics: - provide a permanent and unrestricted commitment of funds - are freely available to absorb losses - rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer - provide for fully discretionary capital distributions.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total average assets	The average balance of assets held by the Group over the period, adjusted for discontinued operations.
Total capital	Tier 1 capital plus Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit / loss	Underlying profit / loss is a performance measure used by NAB. It represents cash earnings / loss before various items, including income tax expense and the credit impairment charge as presented in the table on page 3. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.