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Thursday, 5 May 2022

ASX ANNOUNCEMENT

NAB releases Luxembourg Transparency Law disclosures

NAB will today lodge its "Luxembourg Transparency Law – 2022 Half Year Financial Report" (attached) with the Luxembourg *Commission de Surveillance du Secteur Financier* (CSSF), which is required as part of NAB's obligation to comply with Article 4 of the Luxembourg Law of 11 January 2008 relating to European Union reporting requirements. These reporting requirements apply to NAB as it has debt securities admitted to trading on the regulated market of the Luxembourg Stock Exchange and is subject to the supervision of the CSSF.

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The release of this announcement was authorised by Gary Lennon, Group Chief Financial Officer.

Luxembourg Transparency Law – 2022 Half Year Financial Report

This report (the Report) is provided in order to comply with the semi-annual financial reporting requirements of Article 4 of the Luxembourg Law of 11 January 2008 relating to transparency requirements, as amended. These requirements apply to National Australia Bank Limited ABN 12 004 044 937 (the Company) because it has debt securities admitted to trading on the regulated market of the Luxembourg Stock Exchange and is subject to the supervision of the *Commission de Surveillance du Secteur Financier* (the CSSF).

2022 Half Year Results

This Report must be read in conjunction with the Company's unaudited financial statements for the half year ended 31 March 2022, the notes thereto, the independent auditor review report and the report of the Company's directors, each provided in connection therewith (together, the Half Year Financial Statements), which have been published simultaneously with this Report. The Company's Half Year Financial Statements and this Report have been filed with the CSSF and are stored with the Luxembourg Stock Exchange as the Officially Appointed Mechanism (this Report and the Company's Half Year Financial Statements being collectively referred to as the 'Half Year Financial Report').

Risks specific to the Group

Set out below are the principal risks and uncertainties associated with the Company and its controlled entities (the Group). It is not possible to determine the likelihood of these risks occurring with any certainty. However, the risk in each category that the Company considers most material is listed first, based on the information available at the date of this Report and the Company's best assessment of the likelihood of each risk occurring and the potential magnitude of the negative impact to the Group should such risk materialise. In the event that one or more of these risks materialise, the Group's reputation, strategy, business, operations, financial condition and future performance could be materially and adversely impacted.

The Group's Risk Management Framework and internal controls may not be adequate or effective in accurately identifying, evaluating or addressing risks faced by the Group. There may be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known or material. These may individually, or in aggregate, adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

1. Strategic Risk

Strategic risk is the risk to earnings, capital, liquidity, funding or reputation arising from an inadequate response to changes in the external environment and risk of failing to properly consider downstream impacts and achieve effective outcomes when executing material change programs.

1.1 Strategic initiatives may fail to be executed, may not deliver all anticipated benefits, and may change the Group's risk profile.

The Group's corporate strategy sets its purpose, ambition and objectives.

The Group prioritises and invests significant resources in the execution of initiatives that are aligned to its chosen strategy, including transformation and change programs. These programs focus on technology, digital and data assets, infrastructure, business improvement, cultural transformation, and changes to associated controls. There is a risk that these programs may not realise some or all of their anticipated benefits. These programs may also increase operational, compliance and other risks, and new or existing risks may not be appropriately controlled. The Group's strategy also includes Environmental, Social or Governance (ESG) related strategies, including various commitments, targets and goals. Any failure by the Group to deliver in accordance with its strategy or to deliver strategic programs effectively, may result in material losses to the Group, reputational damage, or a failure to achieve anticipated benefits, and ultimately, may materially and adversely impact the Group's operations and financial performance and position.

1.2 The Group faces intense competition.

There is substantial competition across the markets in which the Group operates. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors such as fintechs and digital platforms, some of which have lower costs and/or operating and business models or products that differ or are more competitive than the Group's.

In addition, evolving industry trends, rapid technology changes and environmental factors may impact customer needs and preferences and the Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to meet customer expectations and keep pace with competitors. These risks are heightened in the current context where the Group must prioritise responses to new regulation, identified weaknesses and initiatives to support customers through the COVID-19 pandemic (COVID-19) and its ongoing aftereffects.

For example, the adoption and rapid growth of cryptocurrencies and other digital assets has continued over the last 12 months, driven by consumer and institutional adoption. The rate of digital asset adoption, other banks' and/or non-traditional competitors' digital asset product creation (for example, stable coins and decentralised finance) and Government responses, including the possibility of the Reserve Bank of Australia (RBA) and/or the Reserve Bank of New Zealand (RBNZ) issuing a Central Bank Digital Currency (CBDC), are expected to shape the future of the sector and its impact on the Group. The RBA and the RBNZ have each (independently) commenced proof-of-concept design work for the development of CBDCs in Australia and New Zealand (NZ) respectively. In addition, regulation of digital assets is nascent but emerging across all markets in which the Group operates, which may increase the Group's costs or require the Group to invest in resources to adapt its products or systems to new technologies.

Other trends and recent regulatory and legislative developments that may increase competition in the Group's relevant markets include, but are not limited to:

- Accelerated investment in digital, data and analytics capabilities with the objective of creating easy and seamless customer experiences.
- Competition in the banking sector is expected to remain strong as the 'Consumer Data Right (CDR),' known as 'Open Banking' continues to be implemented. The CDR seeks to increase competition between service providers by mandating and standardising the sharing of consumer data and data relating to their products and services. It also seeks to increase competition and innovation between service providers (accredited data recipients) that use data received under the CDR to provide products and services to consumers. Giving consumers greater access to, and control over, their data will improve consumers' ability to compare and switch between products and services, and increase the risk of customer attrition. Further, the mandated scope of the CDR was extended to business customers from November 2021. A statutory review on the operation of the CDR is currently being undertaken by the Australian Federal Government (Australian Government) and is due for completion in July 2022.
- In July 2021, the NZ Government similarly made the decision to implement a CDR legislative framework with the aim to introduce CDR legislation in 2022. It is expected that the adoption of Open Banking in NZ will increase competition in the NZ banking industry.
- In 2020, the Australian Government commissioned a review of the regulatory architecture of the payments system to ensure it is responsive to the rapid acceleration in payments technologies and new business models. The final report of the review was released on 30 August 2021 and called for the Australian Government Treasurer to have increased oversight of, and ability to regulate, payments systems, and for the powers of the RBA to be widened. In December 2021, the Australian Government announced that it agreed with many of the recommendations made by the review. The Australian Government is expected to have set out a strategic longer-term plan for the payments system by mid-2022.

- In 2021, the NZ Government introduced the Retail Payment System Bill to the NZ Parliament, which, among other things, will enable the NZ Commerce Commission to regulate certain aspects of the retail payment system, such as standards for participants relating to information disclosure, pricing and access to infrastructure.

Ongoing competition for customers can lead to compression in profit margins and loss of market share. Intense competition also increases the risk of a price war, especially in commoditised lines of business, where the providers with the lowest unit cost may win market share and industry profit pools may be eroded. Such factors may ultimately impact the Group's financial performance and position, profitability and returns to investors.

1.3 Risks may arise from pursuing acquisitions and divestments.

The Group regularly considers a range of corporate opportunities, including acquisitions, divestments, joint ventures and investments.

Pursuit of corporate opportunities inherently involves transaction risks, including the risk that the Group over-values an acquisition or investment or under-values a divestment, as well as exposure to reputational damage. The Group may encounter difficulties in integrating or separating businesses, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. These risks and difficulties may ultimately have an adverse impact on the Group's financial performance and position.

The Group may incur unexpected financial losses following an acquisition, joint venture or investment if the business it invests in does not perform as planned or causes unanticipated changes to the Group's risk profile. Additionally, there can be no assurance that customers, employees, suppliers, counterparties and other relevant stakeholders will remain with an acquired business following the transaction and any failure to retain such stakeholders may have an adverse impact on the Group's overall financial performance and position.

In particular, specific risks exist in connection with the Company's proposed acquisition of Citigroup's Australian consumer banking business, announced on 9 August 2021. Successful completion of the acquisition is subject to a number of conditions precedent including regulatory approvals. Timing of completion will depend on a number of factors, including receipt of regulatory approvals, satisfaction of other conditions precedent, and execution of transition activities.

Further, the Company will rely on Citigroup's regional shared technology infrastructure for transitional services from completion of the proposed acquisition, as well as Citigroup's support for data migration activities after the development of technology systems within the Group. There is a risk that completion and integration costs may be higher than anticipated, require more internal resourcing than anticipated, or that key employees, customers, suppliers or other stakeholders required for a successful transition will not be retained.

Citigroup has provided the Company with indemnities relating to certain pre-completion matters as well as covenants and warranties in favour of the Company. There is a risk that these protections may be insufficient to fully cover liabilities relating to these matters, which may have an adverse impact on the Group's financial performance and position.

The Company completed the previously announced acquisition of 86 400 on 19 May 2021 and continues to work through integration and migration activities required to integrate 86 400 with the UBank division. There is a risk that integration costs may be higher than anticipated, require more internal resourcing than anticipated, or that key employees, customers, suppliers or other stakeholders required for a successful integration will not be retained.

The Group may also have ongoing exposures to divested businesses, including through a residual shareholding, the provision of continued services and infrastructure or an agreement to retain certain liabilities of the divested businesses through warranties and indemnities. These ongoing exposures may have an adverse impact on the Group's business and financial performance and position. The Group may also enter into non-compete arrangements as part of divestments, which may limit the future operations of the Group.

As announced on 31 May 2021, the Company completed the sale of its advice, platforms, superannuation and investments and asset management businesses to IOOF Holdings, now named Insignia Financial (the MLC Wealth Transaction). As part of the MLC Wealth Transaction, the Company provided Insignia Financial with indemnities relating to certain pre-completion matters, including a remediation program relating to workplace superannuation, breaches of anti-money laundering laws and regulations, regulatory fines and penalties and certain litigation and regulatory investigations. The Company also provided covenants and warranties in favour of Insignia Financial. A breach or triggering of these contractual protections may result in the Company being liable to Insignia Financial.

As part of the MLC Wealth Transaction, the Company retained the companies that operate the advice businesses, such that the Group has retained all liabilities associated with the conduct of these businesses pre-completion. From completion, the Company agreed to provide Insignia Financial with certain transitional services and continuing access to records, as well as support for data migration activities. The Company may be liable to Insignia Financial if it fails to perform its obligations. There is a risk that costs associated with separation activities and the costs incurred by the Company in satisfying its obligations may be higher than anticipated. If so, or if the Company fails to perform its obligations, there may be an adverse impact on the Group's financial performance and position.

2. Credit Risk

Credit risk is the risk that a customer will fail to meet their obligations to the Group in accordance with agreed terms. Credit risk arises from both the Group's lending activities and markets and trading activities.

2.1 Despite elevated levels of vaccination across Organisation for Economic Co-operation and Development (OECD) countries, the full extent of the economic impact of COVID-19 on the Group's credit risk profile remains uncertain.

While the restrictions designed to stop the spread of COVID-19 have been removed in many countries, the measures taken by governments continue to have residual impacts on local economies and international markets. In Australia, certain sectors continue to recover (at varying rates) from the effects of prolonged restrictions. The long-term impacts of these measures, and whether there will be a need for such measures to be re-instated (across Australia and/or across the world), remains uncertain. The increased credit risk in affected sectors and elevated levels of household financial stress may result in an increase in losses if customers default on their loan obligations and/or higher capital requirements through an increase in the probability of default.

Vaccination rates in OECD economies, including Australia and NZ, are generally high. However, the distribution of vaccines globally is uneven and the long-term efficacy of vaccines remains uncertain (particularly against new variants of the virus). There is a risk that this could prolong COVID-19 and the associated negative economic impacts.

Globally, governments and central banks (including in Australia and NZ) introduced fiscal and monetary stimulus packages designed to counter the negative impacts of COVID-19. The unwinding of these stimulatory policies and measures over time presents downside risk to economies, with the potential to exacerbate existing negative effects on businesses and households which may lead to increased credit losses for the Group.

The duration and magnitude of COVID-19 and its potential impacts on the global economy remain unclear. Even after COVID-19 subsides, the Australian and NZ economies, as well as most other major economies, may continue to experience stress, including the risk of recessions. Such an outcome has the potential to increase customer defaults and materially adversely impact the Group's financial performance and position, and its profitability.

2.2 A decline in property market valuations may give rise to higher losses on defaulting loans.

Lending activities account for most of the Group's credit risk. The Group's lending portfolio is largely based in Australia and NZ. Residential housing loans and commercial real estate loans constitute a material component of the Group's total gross loans and acceptances.

Residential property prices in Australia and NZ increased in 2021, but growth has slowed in 2022. Further interest rate rises in NZ and rises in Australia could further slow price growth, or result in price declines, in 2022. Increases in interest rates may also add to business and household financial pressures. There is potential that customers will be underprepared for rising inflation.

A decline in the value of the residential property used as collateral (including in business lending) may give rise to greater losses to the Group resulting from customer defaults, which, in turn, may impact the Group's financial performance and position, profitability and returns to investors. The most significant impact in the event of default, is likely to come through residential mortgage customers in high loan-to-value-ratio brackets.

2.3 Adverse business conditions in Australia and NZ, particularly in the agriculture sector, may give rise to increasing customer defaults.

The Group has a large market share among lenders to the Australian and NZ agricultural sectors. Vulnerability to labour constraints, trade restrictions and tariffs together with volatility in commodity prices, foreign exchange rate movements, disease and introduction of pathogens and pests, export and quarantine restrictions and supply chain constraints, extreme weather events, increasing weather volatility and longer-term changes in climatic conditions, may negatively impact these sectors. For example, some customers are facing significant challenges from the recent floods in New South Wales (NSW) and Queensland due to stock, crop and plant and equipment loss and damage – in some cases for successive years. This may result in increased losses to the Group from customer defaults, and ultimately may have an adverse impact on the Group's financial performance and position. More broadly, physical and transition risks associated with climate change may also increase current levels of customer defaults in other sectors.

Adverse business conditions (including supply chain disruptions, labour constraints and higher commodity prices) may also lead to stress in certain sectors such as construction, wholesale trade and manufacturing. Rising household financial pressures also pose a risk to sectors that are reliant on household expenditure.

2.4 Market declines and increased volatility may result in the Group incurring losses.

Some of the Group's assets and liabilities comprise financial instruments that are carried at fair value, with changes in fair value recognised in the Group's income statement. Market declines and increased volatility could negatively impact the value of such financial instruments and cause the Group to incur losses.

2.5 Other macro-economic, geopolitical, climate or social risks may adversely affect the Group and pose a credit risk.

The majority of the Group's businesses operate in Australia and NZ, currently with additional operations located in Asia, the United Kingdom (UK), France and the United States (US). Levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial market conditions and forecasts most relevant for the Group's operations in Australia and NZ, but also for the Group's operations globally.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates; environmental and social issues (including emerging issues such as payroll compliance and modern slavery risk); cost and availability of capital; central bank intervention; inflation and deflation rates; level of interest rates; yield curves; market volatility; and uncertainty. Deterioration in any of these factors may lead to the following negative impacts on the Group:

- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- Environmental conditions and social issues impacting the value of customers' security or business operations.
- An increase in customer or counterparty default and credit losses.
- Higher provisions for credit impairment.
- Mark-to-market losses in equity and trading positions, including the Company's high-quality liquid asset (HQLA) portfolios.
- Lack of available or suitable derivative instruments for hedging purposes.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

Economic conditions may also be negatively impacted by climate change and major shock events, such as natural disasters, epidemics and pandemics, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults. There will also be a federal election in Australia on 21 May 2022.

The following macro-economic and financial market conditions are currently of most relevance to the credit risk facing the Group, and may affect revenue growth and/or customer balance sheets:

- In response to the conflict between Russia and Ukraine, a range of OECD economies (including Australia and NZ) have imposed wide ranging economic sanctions and export controls on individuals and firms closely connected to the Russian government. These measures have significantly impacted, and may continue to significantly impact, Russia's economy. The sanctions against Russia are also impacting the global economy, with higher energy and commodity prices. Protracted conflict could see these prices remain elevated for an extended period which would negatively impact most businesses and households and may lead to increased credit losses for the Group. The Company maintains no active country limits to Russia or Ukraine.
- Global economic growth is expected to slow significantly in calendar year 2022, reflecting the well-advanced recovery from COVID-19, weaker growth in China along with the impact of the Russia-Ukraine conflict. There is considerable uncertainty around global forecasts at present, given that the duration of the conflict and the duration of sanctions imposed against Russia are unknown. In addition, COVID-19 remains a risk, with the unequal global distribution of vaccines meaning that there may be considerable variation in recovery between different countries and within different industry segments (with international tourism likely to lag). Global growth is expected to return to its long-term trend in calendar year 2023.
- Globally, central bank monetary policy rates (including in Australia and NZ) remain at low levels by historical standards, albeit a range of these institutions have either reduced or ended their asset purchase programs (quantitative easing) and started to raise rates (including the US Federal Reserve and the Bank of England). In part this reflects inflationary pressures that have persisted in early calendar year 2022, due to the impact of accommodative monetary policy, large scale fiscal stimulus in many countries, supply disruptions and shortages in some key markets. Markets expect further rate rises from major central banks in 2022.
- Long running accommodative monetary policy may have built on existing imbalances in various asset classes across regions and there is the risk of correction in these markets as variable rates are increased. Low rates may also have reduced the impetus for highly geared borrowers to deleverage, increasing the credit risk posed to the Group. More generally, while policy rates remain historically low they may adversely affect the Group's cost of funds, trading income, margins and the value of the Group's lending and investments.
- China is a major trading partner for Australia and NZ, with export incomes and business investment exposed to changes in China's economic growth or trade policies. China's economic growth in calendar year 2021 was highly imbalanced by recent historical standards, weighted towards industrial production, with domestic consumption subdued. China's economic growth is forecast to slow in 2022, and coupled with its conservative approach to managing COVID-19 (travel restrictions and lockdowns), could pose a negative impact for the Australian economy (reduced demand for Australian exports and exacerbate existing supply chain disruptions). A range of medium to longer term risks remain, including high corporate debt levels and demographic pressures from its ageing population. Diplomatic tensions between the Chinese and Australian governments have risen over recent years, with China imposing trade restrictions on a broad range of Australian exports (including coal, barley, wine, beef, lamb and cotton among others). This may have a negative impact on the Group's

customers who are exposed to these sectors and may give rise to increasing levels of customer defaults.

- Other geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. Tensions between the US and China around issues including China's trade and technology policies persist, which could impact global economic growth and global supply chains. Similarly, geopolitical tensions in the Asia-Pacific region could increase as a result of the agreed AUKUS pact or other similar agreements. An increasing fragmentation of, and a rise in populism in, many major democratic economies have led to difficulties in policy implementation and an increase in anti-globalisation sentiment. Following the UK's departure from the European Union (EU), the legal framework underpinning cross-border provision of financial services between the UK and the EU remains subject to change. Political tensions between the Hong Kong Special Administrative Region and the People's Republic of China remain high, with China exerting greater political power over the region. In addition, there are a range of other geopolitical risks, particularly given the ongoing uncertainty around the Middle East (including Afghanistan), the Korean Peninsula and the South China Sea.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income tax receipts and exchange rates. Commodity price volatility remains substantial and given the Group's sizeable exposures to commodity producing and trading businesses, this volatility poses a significant source of credit risk to the Group.

3. Market Risk

The Group may suffer losses as a result of a change in the value of the Group's positions in financial instruments, bank assets and liabilities, or their hedges due to adverse movements in market prices. Adverse price movements impacting the Group may occur in credit spreads, interest rates, foreign exchange rates, and commodity and equity prices, particularly during periods of heightened market volatility or reduced liquidity. Market volatility has increased in response to increased geopolitical risk, rising inflation and the expectation of central banks lifting interest rates.

The occurrence of any event giving rise to material market risk losses may have a negative impact on the Group's financial performance and position.

3.1 The Group is exposed to credit spread risk.

Credit spread risk is a significant risk type in the Group's trading and banking books. Credit spread risk is the risk that the Group may suffer losses from adverse movements in credit spreads.

The Group's trading book is exposed to credit risk movements in the value of securities and derivatives as a result of changes in the perceived credit quality of the underlying company or issuer. Credit spread risk accumulates in the Group's trading book when it provides risk transfer services to customers seeking to buy or sell fixed income securities (such as corporate bonds). The Group may also be exposed to credit spread risk when holding an inventory of fixed income securities in anticipation of customer demand or undertaking market-making activity (i.e. quoting buy and sell prices to customers) in fixed income securities. The Group's trading book is also exposed to credit spread risk through credit valuation adjustments. A widening of credit spreads could negatively impact the value of the credit valuation adjustments.

The Group's banking book houses the Group's liquidity portfolio which is also subject to credit spread risk through changes in spreads on its holdings of semi-government and bank issued bonds. These positions form part of the required holdings of HQLAs used in managing the Group's liquidity risk and can give rise to material profit and loss volatility within the Group's Treasury portfolio during periods of adverse credit spread movements. Positions in Residential Mortgage Backed Securities (RMBS) that arise through the Group's warehousing, underwriting and syndication operations also form part of the banking book and are exposed to changes in credit spreads.

3.2 The Group is exposed to interest rate risk.

The Group's financial performance and capital position are impacted by changes in interest rates. The Group's trading book is exposed to changes in the value of securities and derivatives as a result of changes in interest rates. The Group's trading book accumulates interest rate risk when the Group provides interest rate hedging solutions for customers, holds interest rate risk in anticipation of customer requirements, or undertakes market-making activity in fixed income securities or interest rate derivatives.

Balance sheet and off-balance sheet items can create an interest rate risk exposure within the Group. As interest rates and yield curves change over time, including negative interest rates, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. Such exposure may arise from a mismatch between the maturity profile of the Group's lending portfolio compared to its deposit portfolio (and other funding sources), as well as the extent to which lending and deposit products can be repriced should interest rates change (including the ability to pass through negative interest rates), thereby impacting the Group's net interest margin.

3.3. The Group is exposed to foreign exchange risk.

Foreign exchange risks are evident in the Group's trading and banking books.

Foreign exchange and translation risks arise from the impact of currency movements on the value of the Group's positions in financial instruments, profits and losses, and assets and liabilities due to participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates which gives rise to foreign currency exposures, including through the repatriation of capital and dividends. The Group's businesses may therefore be affected by a change in currency exchange rates, and movements in the mark-to-market valuation of derivatives and hedging contracts.

The Group's financial statements are prepared and presented in Australian dollars, and any adverse fluctuations in the Australian dollar against other currencies in which the Group invests or transacts and generates profits (or incurs losses) may adversely impact its financial performance and position.

4. Capital, Funding and Liquidity Risk

4.1 The Group is exposed to funding and liquidity risk.

Funding risk is the risk that the Group is unable to raise short and long-term funding to support its ongoing operations, regulatory requirements, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its business, along with using customer deposits. In addition, by 30 June 2021, the Company had fully drawn its allocation of the Term Funding Facility (TFF), a three-year facility established by the RBA to provide an efficient source of funding for eligible authorised deposit-taking institutions (ADIs) within Australia. Applications for drawdowns of the TFF are now closed. Final maturity dates of drawn TFF allocations are concentrated across FY23 and FY24 for all participating ADIs. The Group relies on offshore wholesale funding to support the funding and liquidity position and periods of significant market volatility in particular may limit the Group's access to this funding source. Such dislocation in global capital markets, reduced investor interest in the Group's securities and/or reduced customer deposits, may therefore adversely affect the Group's funding and liquidity position. This may increase the cost of obtaining funds or impose unfavourable terms on the Group's access to funds, constrain the volume of new lending, or adversely affect the Group's capital position.

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operational expenses and taxes. The Group must also comply with prudential and regulatory liquidity obligations across the jurisdictions in which it operates. Any significant deterioration in the Group's liquidity position may lead to an increase in the Group's funding costs, constrain the volume of new lending, result in the Group drawing upon its Committed Liquidity Facility (CLF) with the RBA or cause the Group to breach its prudential or regulatory liquidity obligations. This may adversely impact the Group’s reputation and financial performance and position.

The Group’s reliance on the CLF will continue to decline throughout 2022, following the Australian Prudential Regulation Authority’s (APRA) announcement in September 2021 that ADIs should reduce usage of the CLF to zero by the end of December 2022. The removal of the CLF presents potential risks for the Group with the likely need to access additional funding to purchase HQLAs in place of the CLF, to ensure the Group’s liquidity position remains strong.

4.2 The Group’s capital position may be constrained by prudential requirements.

Capital risk is the risk that the Group does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital is the cornerstone of the Group’s financial strength. It supports an ADI’s operations by providing a buffer to absorb unanticipated losses from its activities.

The Group must comply with prudential requirements in relation to capital across the jurisdictions in which it operates. Compliance with these requirements and any further changes to these requirements may:

- Limit the Group’s ability to manage capital across the entities within the Group.
- Limit payment of dividends or distributions on shares and hybrid instruments.
- Require the Group to raise more capital (in an absolute sense) or raise more capital of higher quality.
- Restrict balance sheet growth.

The RBNZ has implemented a restriction limiting NZ banks to paying dividends up to a maximum of 50% of prior financial year earnings and has outlined its expectation that NZ banks will exercise prudence in determining dividends. This restriction will remain in place until 1 July 2022, subject to economic conditions at that time.

Current regulatory changes that could present a risk to the Group’s capital position include APRA’s various reforms in relation to loss-absorbing capacity and revisions to the ADI capital framework:

- Existing loss-absorbing requirements for Domestic Systemically Important Banks (D-SIBs) such as the Company, requiring an increase to total capital by 4.5% of risk weighted assets (RWA) by 1 January 2026 (with an interim increase by 3% of RWA required by 1 January 2024), are expected to be satisfied primarily through the issue of additional Tier 2 Capital. These requirements will further increase the Group’s funding costs due to the higher cost of Tier 2 Capital issuance relative to senior debt.
- The major Australian banks (including the Company) have been subject to APRA’s ‘unquestionably strong’ target benchmark capital ratios since January 2020. In December 2021 and January 2022, APRA released final prudential standards, draft prudential practice guides and draft reporting requirements in relation to the risk-weighting framework and other capital requirements. The new capital framework will come into effect from 1 January 2023. While these capital reforms do not propose an additional increase to the quantum of capital required across the system, the implementation of these reforms may require the Group to hold additional capital.

If the information or the assumptions upon which the Group’s capital requirements are assessed prove to be inaccurate, this may adversely impact the Group’s operations, financial performance and financial position.

4.3 A significant downgrade in the Group’s credit ratings may adversely impact its cost of funds and capital market access.

Credit ratings are an assessment of a borrower’s creditworthiness and may be used by market participants in evaluating the Group and its products, services and securities. Credit rating agencies conduct ongoing review activities, which can result in changes to credit rating settings and outlooks for the Group, or credit ratings of sovereign jurisdictions where the Group conducts business. Credit ratings may be affected by operational, ESG-related and market factors, or changes in the credit rating agency’s rating methodologies.

A downgrade in the credit ratings or outlook of the Group, the Group’s securities, or the sovereign rating of one or more of the countries in which the Group operates may increase the Group’s cost of funds or limit access to capital markets. This may also cause a deterioration of the Group’s liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group’s credit ratings relative to peers may also adversely impact the Group’s competitive position and financial performance and position.

4.4 The Group may fail to, or be unable to, sell down its underwriting risk.

As financial intermediaries, members of the Group underwrite or guarantee different types of transactions, risks and outcomes, including the placement of listed and unlisted debt, equity-linked and equity securities. The underwriting obligation or guarantee may be over the pricing and placement of these securities, and the Group may therefore be exposed to potential losses, which may be significant, if it fails to sell down some or all of this risk to other market participants.

5. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic risk.

5.1 Disruption to technology may adversely impact the Group’s reputation and operations.

Most of the Group’s operations depend on technology and therefore the reliability, resilience and security of the Group’s (and its third-party vendors’) information technology systems and infrastructure are essential to the effective operation of its business and consequently to its financial performance and position. The reliability and resilience of the Group’s technology may be impacted by the complex technology environment, failure to keep technology systems up-to-date, an inability to restore or recover systems and data in acceptable timeframes, or a physical or cyber-attack.

The rapid evolution of technology in the financial services industry and the increased expectations of customers for internet and mobile services on demand expose the Group to changing operational scenarios.

Any disruption to the Group’s technology (including disruption to the technology systems of the Group’s external providers) may be wholly or partially beyond the Group’s control and may result in operational disruption, regulatory enforcement actions, customer redress, litigation, financial losses, theft or loss of customer data, loss of market share, loss of property or information, or may adversely impact the Group’s speed and agility in the delivery of change and innovation.

In addition, any such disruption may adversely affect the Group’s reputation, including the view of regulators or ratings agencies, which may result in loss of customers, a reduction in share price, ratings downgrades and regulatory censure or penalties. Social media commentary may further exacerbate such adverse outcomes for the Group and negatively impact the Group’s reputation.

5.2 The Group’s colleagues and customers have been and may continue to be impacted by COVID-19.

The continuing disruption of COVID-19 has impacted, and continues to impact, the usual operations of the Group, its customers and suppliers. Steps taken by the Group have included alternate work locations and arrangements implemented for Group colleagues, a decreased reliance on property infrastructure, and an increased reliance on mobile technology and business process changes to support customers, colleagues and suppliers and ensure continuity of the Group’s business operations. These operational changes could lead to direct financial loss or impact the Group’s ability to operate effectively and efficiently.

It is difficult to predict the extent to which each colleague’s ability to provide customer support and service and maintain their own health will be affected over an extended period. No assurance can be given that the precautions being taken by the Group to protect its colleagues and customers will be adequate, nor can the Group predict the level of further disruption which may occur. Staff shortages as a result of COVID-19 related absence (whether through illness, close contact isolation requirements or otherwise) remain a risk in the current environment.

The Group continues to monitor the situation closely as the domestic and global business environments change, including the development of sub-variants and progress of vaccination programs. It is unclear how this will further evolve or if the Group will need to re-activate COVID-19 related crisis management response teams and plans. Other epidemics or pandemics may arise in future which may again activate a crisis response causing disruption to the Group's operations.

5.3 Privacy, information security and data breaches may adversely impact the Group's reputation and operations.

The Group processes, stores and transmits large amounts of personal and confidential information through its technology systems and networks. Threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated.

Although the Group invests in protecting the confidentiality and integrity of this information, the Group may not always be able to anticipate a security threat, or be able to implement effective information security policies, procedures and controls to prevent or minimise the resulting damage. The Group uses select external providers (in Australia and overseas) to process and store confidential data and to develop and provide its technology services, including the increasing use of cloud infrastructure. The Group may also submit confidential information to its key regulators under a legal obligation and as part of regulatory reporting.

A breach of security at any of these external providers, regulators or within the Group may result in operational disruption, theft or loss of customer data, a breach of privacy laws, regulatory enforcement actions, customer redress, litigation, financial losses, or loss of market share, property or information. This may be wholly or partially beyond the control of the Group and may adversely impact its financial performance and position.

In addition, any such event may give rise to increased regulatory scrutiny or adversely affect the view of ratings agencies. Social media commentary and the Group's responses to the relevant event may exacerbate the impact on the Group's reputation.

5.4 Complexity of infrastructure, processes and models, gives rise to a significant risk to the Group's operations.

The Group's business involves the execution of many processes and transactions with varying degrees of complexity. The Group is reliant on its policies, processes, controls and supporting infrastructure functioning as designed, along with third parties appropriately managing their own operational risk and delivering services to the Group as required. A failure in the design or operation of these policies, processes, controls and infrastructure, failure of the Group to manage external service providers, or the disablement of a supporting system all pose a significant risk to the Group's operations and consequently its financial performance and reputation.

Models are used extensively in the conduct of the Group's business, for example, in calculating capital requirements or customer compensation payments and in measuring and stressing exposures. If the models used prove to be inadequate or are based on incorrect or invalid assumptions, judgements or inputs, this may adversely affect the Group's customers and the Group's financial performance and position.

5.5 The Group is exposed to the risk of human error.

The Group's business, including the internal processes and systems that support business decisions, relies on inputs from its employees, agents and external providers. The Group is exposed to operational risk due to process or human error, including incorrect or incomplete data capture and records maintenance, incorrect or incomplete documentation to support activities, or inadequate design of processes or controls. The Group uses select external providers (in Australia and overseas) to provide services to the Group and is exposed to similar risks arising from such failures in the operating environment of its external providers. The materialisation of any of these risks could lead to direct financial loss, loss of customer, employee or commercially sensitive data, regulatory penalties and reputational damage.

5.6 The Group may not be able to attract and retain suitable talent.

The Group is dependent on its ability to attract and retain key executives, colleagues and Board members with a deep understanding of banking and technology, who are qualified to execute the Group's strategy, as well as the technology transformation the Group is undertaking to meet the changing needs of its customers. Weaknesses in employment practices, including diversity, anti-discrimination, workplace flexibility, payroll compliance and workplace health and safety, are sources of operational risk that can impact the Group's ability to attract and retain qualified personnel with the requisite knowledge, skills and capability. These risks may be heightened as a result of the upcoming re-negotiation of the Company's Enterprise Agreement, and emerging risks related to concerns raised by the Finance Sector Union in relation to work hours.

COVID-19 resulted in international border closures limiting access to international talent markets. Australian border restrictions have recently been lifted and the Australian Government has put in place a number of visa programs to allow the fast-tracking of key talent. This is helping to stimulate talent migration from overseas, however, suitably filling specialist roles such as technology, data analytics and financial crime continues to be a challenge. It is anticipated that this will be the case for the remainder of 2022 whilst global migration recovers.

In countries where COVID-19 restrictions have eased or been removed, academic research indicates an increased level of voluntary attrition. These factors may impact the Group's capacity to attract and retain key talent.

The Group's capacity to attract and retain key talent is also dependent on its ability to design and implement effective remuneration structures. This may be constrained by regulatory requirements (particularly in the highly regulated financial services sector), as well as by investor community expectations.

The unexpected loss of key resources or the inability to attract personnel with suitable experience may adversely impact the Group's ability to operate effectively and efficiently, or to meet the Group's strategic objectives. This risk may also impact third party vendors (including offshore vendors) engaged by NAB, who may also be experiencing similar personnel related challenges.

5.7 External events may adversely impact the Group's operations.

Operational risk can arise from external events such as biological hazards, climate change, natural disasters, widespread disease or pandemics, or acts of terrorism.

The Group has branches across Australia that are prone to seasonal natural disasters, including fires and floods, such as the bushfires over the 2019/2020 summer period in NSW and Victoria, followed by severe floods in Eastern Australia in early 2021, and again in Queensland and NSW in 2022.

In addition, the Group has branches and office buildings in NZ, which have experienced significant earthquakes and aftershocks in recent years, and which may be exposed to the risk of future earthquakes.

Given the Group's physical presence in major cities in Australia, NZ and other countries where it has, or is intending to establish, offshore operations, it may also be exposed to the risk of a terrorist attack.

External events such as extreme weather, natural disasters, biological hazards and acts of terrorism may cause property damage and business disruption, which may adversely impact the Group's financial performance. In addition, if the Group is unable to manage the impacts of such external events, it may lead to reputational damage and compromise the Group's ability to provide a safe workplace for its personnel.

The environment the Group is operating in has become more complex and more uncertain and could create operational risks that are yet to be identified.

6. Sustainability Risk

Sustainability risk is the risk that events or conditions (which includes ESG issues) arise that could negatively impact the sustainability, resilience, risk and return profile, value or reputation of the Group or its customers and suppliers. Inadequate management of ESG risk by NAB or its customers may expose NAB to other potential risks across risk categories such as credit, market, compliance and operational risk.

6.1 Physical and transition risks arising from climate change and other environmental impacts may lead to increasing customer defaults and decrease the value of collateral.

Extreme weather, increasing weather volatility and longer-term changes in climatic conditions, as well as other environmental impacts such as biodiversity loss and ecosystem degradation, may affect property and asset values or cause customer losses due to damage, crop losses, existing land use ceasing to be viable, and/or interruptions to, or impacts on, business operations and supply chains.

Parts of Australia are prone to, and have recently experienced, physical climate events such as severe drought conditions and bushfires over the 2019/2020 summer period, followed by severe floods in Eastern Australia in early 2021 and again in Queensland and NSW in 2022. The impact of these extreme weather events can be widespread, extending beyond residents, businesses and primary producers in highly impacted areas, to supply chains in other cities and towns relying on agricultural and other products from within these areas. The impact of these losses on the Group may be exacerbated by a decline in the value and liquidity of assets held as collateral, which may impact the Group's ability to recover its funds when loans default.

Climate-related transition risks are also increasing as economies, governments and companies seek to transition to low-carbon alternatives and adapt to climate change. Certain customer segments may be adversely impacted as the economy transitions to renewable and low-emissions technology. Decreasing investor appetite and customer demand for carbon intensive products and services, increasing climate-related litigation, and changing regulations and government policies designed to mitigate climate change, may negatively impact revenue and access to capital for some businesses.

These physical and transition risk impacts may increase current levels of customer defaults, thereby increasing the credit risk facing the Group and adversely impacting the Group's financial performance and position, profitability and returns to investors.

6.2 The Group, its customers, or its suppliers may fail to comply with legal, regulatory or voluntary standards or broader shareholder, community and stakeholder expectations concerning ESG risk performance.

ESG issues have been subject to increasing legal, regulatory, voluntary and prudential standards and increasing (and sometimes conflicting) community and stakeholder expectations. These include:

- Environmental issues – such as climate change, biodiversity loss, ecosystem degradation and pollution. There have been recent changes in supervisory and regulatory guidance and requirements for banks where regulators seek to understand and manage system-wide climate-related risks. This focus is evolving to broader environmental issues over time as the links between nature and economic prosperity and societal wellbeing are becoming better understood.
- Social issues – such as human rights (including modern slavery), compliance with recognised labour standards and fair working conditions, unfair and inequitable treatment of people including discrimination, product responsibility, appropriate remuneration and the impact of projects on local and Indigenous communities.
- Governance issues – such as bribery and corruption, tax avoidance, poor governance, lack of transparency and diminishing of accountabilities.

As certain issues become better understood and the associated risks can be more accurately quantified, corporate ESG commitments, and performance against those commitments, may be more closely monitored by external stakeholders.

Failure by the Group to:

- comply with ESG-related regulatory requirements or standards;
- meet ESG-related commitments, goals and targets set by the Group, or Group ESG-related policies;
- meet community and stakeholder expectations in relation to ESG; or
- apply appropriate ESG standards to its customers, or to entities in the Group's supply chain,

may adversely impact the Group's reputation, and shareholder, customer and employee sentiment towards the Group, may increase the risk of ESG-related litigation against the Group, or may result in regulatory fines or penalties.

Certain products, services or industries may become subject to heightened public scrutiny, either generally or following a specific adverse event, or as a result of activism by shareholders, investors or special interest groups. This could result in a sudden and significant decrease in demand for these products or services and a negative impact on revenue and access to capital for some businesses, and increasing litigation risk. Reputational damage to impacted suppliers, customers or customer sectors may give rise to associated reputational damage to the Group. In addition, levels of customer defaults in an impacted sector may increase, adversely impacting the Group's financial performance and position, profitability and returns to investors.

7. Conduct Risk

Conduct risk is the risk that any action of the Group, or those acting on behalf of the Group, will result in unfair outcomes for any of the Group's customers.

7.1 The Group is heavily reliant on its employees, contractors and external suppliers acting in an appropriate and ethical way.

Organisational culture can greatly influence individual and group behaviours which can expose an organisation and lead to unfair customer outcomes. The behaviours that could expose the Group to conduct risk include:

- Failure to design products and services that are transparent and easy for our customers to understand.
- Unmanaged conflicts that could influence behaviour that is not in the customer's best interest.
- Non-adherence to applicable learning and competency training requirements.
- Selling, providing or unduly influencing customers to purchase or receive products or services that may not meet their existing needs or that place the customer at risk of future hardship.
- Being a party to fraud.
- Non-adherence to applicable requirements or providing financial advice which is not appropriate or in the customer's interests.
- Delays in appropriately escalating regulatory and compliance issues.
- Failure to resolve issues and remediate customers in a timely manner and in accordance with community expectations.
- Failure to deliver on product and service commitments.
- Failure to remediate business processes and stop re-occurrence of issues in a timely manner.
- Failure to act in accordance with its Code of Conduct

If the Group's conduct related controls were to fail significantly, be set inappropriately, or not meet legal or regulatory requirements or community expectations, then the Group may be exposed to:

- Increased costs of compliance, fines, additional capital requirements, public censure, loss of customer confidence, class actions and other litigation, settlements and restitution to customers or communities.
- Increased supervision, oversight or enforcement by regulators or other stakeholders.
- Unenforceability of contracts such as loans, guarantees and other security documents.

- Enforced suspension of operations, amendments to licence conditions or loss of licence to operate all or part of the Group's businesses.
- Other enforcement or administrative action or agreements, including legal proceedings.

A failure of the Group's conduct controls to accurately reflect relevant legal, regulatory or community expectations may adversely impact the Group's reputation, financial performance and position, profitability, operations and returns to investors.

8. Compliance Risk

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives as well as the internal policies, standards, procedures and frameworks that support sustainable compliance.

8.1 The Group may be involved in a breach or alleged breach of laws governing bribery, corruption and financial crime.

Supervision and regulation of financial crime and enforcement of anti-bribery and corruption, anti-money laundering and counter-terrorism financing (AML/CTF) laws has increased. In September 2020, the Federal Court of Australia ordered another major Australian bank to pay a civil penalty of A$1.3 billion in relation to proceedings brought by Australian Transaction Reports and Analysis Centre (AUSTRAC) alleging significant breaches of AML/CTF laws.

In June 2021, NAB announced that AUSTRAC had identified concerns with the NAB Group's compliance with certain AML/CTF requirements and that AUSTRAC had initiated a formal enforcement investigation. In May 2022, NAB announced that it had entered into an enforceable undertaking (EU) with AUSTRAC to address the concerns. In accepting the EU, AUSTRAC stated that it had "formed the view at the start of the investigation that a civil penalty proceeding was not appropriate at that time" and that it had "not identified any information during the investigation to change that view". Under the terms of the EU, NAB and the relevant members of the Group are required to:

- Complete a Remedial Action Plan (RAP) approved by AUSTRAC by 31 December 2024;
- Address to AUSTRAC's satisfaction any deficiencies or concerns with activities in the RAP identified by AUSTRAC; and
- Appoint an external auditor who will provide a final report by 31 March 2025.

The Group has reported a number of AML/CTF compliance issues to relevant regulators. The Group continues to investigate and remediate a number of known AML/CTF compliance issues and weaknesses, including in accordance with the EU. As this work progresses, further compliance issues may be identified and reported to AUSTRAC or equivalent foreign regulators, and additional uplifting and strengthening of the Group's systems and processes may be required. The potential outcomes and total costs associated with these contingent matters remain uncertain. A negative outcome to any investigation or remediation process may adversely impact the Group's reputation, business operations, financial position and results. Further, given the large volume of transactions that the Group processes, the undetected failure of internal AML/CTF controls, or the ineffective remediation of compliance issues, could result in a significant number of breaches of AML/CTF obligations and significant civil penalties for the Group.

As a bank engaged in global finance and trade, the Group also faces risks relating to compliance with financial sanctions laws across multiple jurisdictions. Should the Group's sanctions controls fail, this could lead to sanctions violations, resulting in potentially significant monetary and regulatory penalties. This, in turn, may adversely impact the Group's reputation, financial performance and position. These risks are increased in the context of additional, wide ranging economic sanctions and export controls imposed in 2022 on individuals and firms closely connected to the Russian government, as a result of the escalation in the Russia and Ukraine conflict.

Refer to Note 13 *Contingent liabilities and other commitments,* on page 73 in the Group's 2022 Half Year Financial Report, 'Regulatory activity, compliance investigations and associated proceedings – AML and CTF program uplift and compliance issues' for more information.

8.2 The Group may fail to comply with applicable laws and regulations which may expose the Group to significant compliance and remediation costs, regulatory enforcement action or litigation, including class actions.

The Group is highly regulated and subject to various regulatory regimes which differ across the jurisdictions in which it operates, trades and raises funds.

Ensuring compliance with all applicable laws is complex. There is a risk the Group will be unable to implement the processes and controls required by relevant laws and regulations in a timely manner, or that the Group's internal controls will prove to be inadequate or ineffective in ensuring compliance. There is also a potential risk of misinterpreting new or existing regulations.

There is significant cost associated with the systems, processes, controls and personnel required to ensure compliance with applicable laws and regulations. Such costs may negatively impact the Group's financial performance and position. Any failure to comply with relevant laws and regulations may have a negative impact on the Group's reputation and financial performance and position and may give rise to class actions, litigation or regulatory enforcement, which may in turn result in the imposition of civil or criminal penalties on the Group.

Entities within the Group have been and may continue to be involved from time to time in regulatory enforcement and other legal proceedings arising from the conduct of their business. There is inherent uncertainty regarding the possible outcome of any legal or regulatory proceedings involving the Group. It is also possible that further class actions, regulatory investigations, compliance reviews, civil or criminal proceedings or the imposition of new licence conditions could arise in relation to known matters or other matters of which the Group is not yet aware. The aggregate potential liability and costs associated with legal proceedings cannot be estimated with any certainty.

A negative outcome to regulatory investigations or litigation involving the Group may impact the Group's reputation, divert management time from operations and affect the Group's financial performance and position, profitability and returns to investors. Refer to 'Notes to the Consolidated Financial Statements' Note 13 *Contingent liabilities and other commitments* on pages 72-75 in the Group's 2022 Half Year Financial Report for details in relation to certain current legal and regulatory proceedings, compliance reviews and associated remediation, and other contingent liabilities which may impact the Group.

8.3 Extensive regulatory change poses a significant risk to the Group.

Globally, the financial services and banking industries are subject to significant and increasing levels of regulatory reviews and political scrutiny, including in Australia, NZ and other countries where the Group has, or is intending to establish, offshore operations. Changes to laws and regulations or their interpretation and application can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates.

Regulatory change may result in significant capital and compliance costs, changes to the Group's corporate structure and increasing demands on management, colleagues and information technology systems. This may also impact the viability of the Group's participation in certain markets or require the divestment of a part of the Group's business.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), made a considerable number of recommendations in its final report on 4 February 2019. The Australian Government has committed to take action on all of the recommendations and has announced further commitments to address issues raised in the final report of the Royal Commission. Some commitments have been actioned by the Australian Government and regulators, with a number of legislative changes being passed by the Australian Parliament in December 2020 relating to anti-hawking, enforceable codes of conduct, deferred sales of add-on insurance, reference checking and breach reporting. Many of these reforms came into effect in October 2021. These legislative and regulatory changes have resulted in significant policy, system and operational changes across the Group. Considerable resources were redirected to deliver compliant solutions within the required timeframes and maintain compliance.

The volume of changes and implementation timeframes combined with the complexities created by COVID-19 may increase the risk associated with the implementation of these changes.

Operationalising large volumes of regulatory change presents ongoing risks for the Group. Extensive work is done to assess proposed design solutions and to test design effectiveness of controls for each regulatory change before the effective date, however, the operating effectiveness of some controls cannot be tested until the go-live date for the regulatory change has occurred. There are also inherent risks associated with the dependency on third parties for the effectiveness of some controls.

There are a number of ongoing or proposed regulatory changes and inquiries relevant to the Group. This includes new requirements for the design and distribution of financial products, responsible lending reforms, uplift to the complaints management framework, consumer and small business protection enhancements, the Australian Securities Exchange CHESS replacement, LIBOR cessation, changes to the Group entities eligible for inclusion in the Level 1 group for prudential supervisory purposes, operational resilience, capital reforms, new remuneration related prudential requirements, market abuse or conduct related regulations, changes to financial benchmarks, derivatives reform, replacement of the Reserve Bank of New Zealand Act 1989 (NZ), payments, data protection and privacy laws, data quality, competition inquiries, financial crime legislation, recovery and resolution planning requirements, accounting and financial reporting requirements, and tax reform.

Further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the Australian and NZ Governments, which, depending on their scope, findings and recommendations, may adversely impact the Group.

Examples of specific reviews and regulatory reforms currently relevant to the Group, and which present a potential material regulatory risk include:

- In 2018 and 2019, the NZ Financial Markets Authority and the RBNZ undertook a review that led to the NZ Government introducing the Financial Markets (Conduct of Institutions) Amendment Bill to the NZ Parliament in December 2019 to create an oversight and licensing regime for regulating conduct in the banking, non-bank deposit taking (NBDT) and insurance sectors. The bill is expected to pass in 2022.
- The Australian Banking Executive Accountability Regime (BEAR) applies to the Group. On 28 October 2021, a Bill for the introduction of the new Financial Accountability Regime (FAR) was introduced to the Australian Parliament. On 15 February 2022, the Senate Economics Legislation Committee issued a report which recommended that the FAR Bill be passed by the Australian Parliament, however, the Bill has not yet been passed. The FAR regime has been developed in response to a number of Royal Commission recommendations and is intended to extend and replace BEAR. Once implemented, the FAR legislation is likely to include new prescribed responsibilities, additional accountability obligations, and increased maximum civil penalties for the Group. The regime is expected to apply to the Group six months after the commencement of the legislation. The RBNZ has also proposed the introduction of a broad executive accountability regime for directors and senior employees of banks, NBDT institutions and insurers.
- In September 2021 the Company became accredited to receive CDR data (that is, as an ‘accredited data recipient’) from other participants under the Open Banking regime. This means that the Company is now subject to further obligations under the CDR legal framework. Open Banking may also lead to additional cyber and fraud risks in the CDR ecosystem. Governance mechanisms including accountabilities, controls and frameworks are still evolving and, under the Open Banking regime, customer data may be shared with, and received from, a broader range of stakeholders. Significant Group resources and management time have been utilised and will continue to be utilised to implement Open Banking. This may have a flow-on effect, impacting other regulatory reforms across the Group.
- Globally, regulators increasingly expect that the financial services industry, including banks, will play a more substantive role in protecting customers from scams and other fraudulent activity. While recognising the potential for regulatory change due to scams, the Group is proactively seeking to protect its customers from scams in strategic planning and by enhancing its systems and processes. Although no Government policy or position in relation to a contingent reimbursement scheme of this nature has been promulgated in Australia, the Group’s strategic planning and enhancement of systems and processes will also prepare for expected regulatory change in this regard. Given the considerable growth in industry and customer losses from fraud, the potential costs associated with control failures and transferal of risk from the customer may be significant.
- ESG-related proposed regulatory changes, including increasing obligations relating to modern slavery, climate and other sustainability risk related prudential guidance, and regulatory and reporting requirements (such as the mandating of the Task Force on Climate-related Financial Disclosures in New Zealand from financial year 2023, and the developing recommendations of the Taskforce on Nature-related Financial Disclosures).

The full scope, timeline and impact of current and potential inquiries and regulatory reforms such as those mentioned above, or how they will be implemented (if at all in some cases), is not known.

Depending on the specific nature of the regulatory change requirements and how and when they are implemented or enforced, they may have an adverse impact on the Group’s business, operations, structure, compliance costs or capital requirements, and ultimately its reputation, financial performance or financial position.

8.4 The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect.

Preparation of the Group’s financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. A higher degree of judgement is required for the recognition and estimates used in the measurement of provisions (including for customer-related remediation and other regulatory matters), the determination of income tax, the valuation of financial assets and liabilities (including fair value and credit impairment of loans and advances), and the valuation of goodwill and intangible assets.

If the judgements, estimates and assumptions used by the Group in preparing the financial statements are subsequently found to be incorrect, there could be a significant loss to the Group beyond that anticipated or provided for, which may adversely impact the Group’s reputation, financial performance and financial position.

Luxembourg Transparency Law – 2022 Half Year Financial Report

9. Responsibility statement of the persons responsible for the Company in relation to the Group financial statements made in accordance with Article 4(2)(c) of the Luxembourg Law of 11 January 2008 relating to transparency requirements, as amended

The Group Chief Executive Officer and the Group Chief Financial Officer of the Company confirm that, to the best of their knowledge:

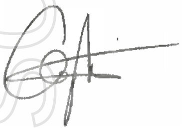
(a) The Company's unaudited financial statements and the notes thereto for the half year ended 31 March 2022 as contained in the Company's Half Year Financial Statements, which have been prepared in accordance with the requirements of the *Corporations Act* 2001 (Cth), Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and

(b) The Company's Half Year Financial Statements and this Report include:

- (i) a fair review of the development and performance of the business and position of the Group; and
- (ii) a description of the principal risks and uncertainties faced by the Group.

Dated this 5th day of May 2022:

Ross McEwan
Group Chief Executive Officer



Gary Lennon
Group Chief Financial Officer