

Luxembourg Transparency Law – 2020 Half Year Financial Report

This report (the Report) has been 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).

2020 Half Year Results

This Report must be read in conjunction with the Company's unaudited financial statements for the half year ended 31 March 2020, the notes thereto and 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 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 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 associated with the pursuit of the Group's strategic objectives, including the risk that the Group fails to execute its chosen strategy effectively or in a timely manner.

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, infrastructure, business improvement and cultural transformation. 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. Any failure by the Group to deliver in accordance with its strategy or to deliver these strategic programs effectively, may result in material losses to the Group, or a failure to achieve anticipated benefits, and ultimately, may 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 with lower costs and new operating and business models. In addition, evolving industry trends, rapid technology changes and environmental factors (such as the COVID-19 pandemic) 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.

The Australian Federal Government (the Australian Government) passed legislation in August 2019 to establish a 'Consumer Data Right' which seeks to improve consumers' ability to compare and switch between products and services. It is scheduled to apply to the banking sector from July 2020. These reforms (referred to as 'Open Banking') are expected to reduce the barriers to new entrants into, and increase competition in, the banking industry in Australia. Progress is also being made towards Open Banking in New Zealand (NZ), which, similarly, is expected to increase competition in the NZ banking industry.

Ongoing competition for customers can lead to compression in profit margins and loss of market share, which may ultimately impact the Group's financial performance and position, profitability and returns to investors.

1.3 The Group's intended divestment of its Advice, Platform & Superannuation and Asset Management businesses may not proceed and there are risks in executing the divestment.

The Group intends to divest its Advice, Platform & Superannuation and Asset Management businesses (the MLC Wealth Divestment). The Group's decision to proceed with, and its ability to execute, the MLC Wealth Divestment, and the timeframe within which it may do so, are subject to a number of factors. These include market conditions, the impact of regulatory change and investigations (including any implications of the findings of the Final Report of the Australian Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry' (the Royal Commission)), the cost and complexity of separation, and obtaining Board and regulatory approvals.

If the Group does proceed with the MLC Wealth Divestment, it will incur costs associated with the transaction. If the Group decides not to, or is unable to, proceed with the MLC Wealth Divestment, it will still incur costs that it is unable to recover.

If it proceeds, the MLC Wealth Divestment will result in the Group exiting a financial services market and accordingly will decrease the size of the Group's operations. This will have a consequential impact on the Group's revenues and potentially its profitability and returns to investors.

In addition, the terms of the MLC Wealth Divestment, and the execution of its separation may create risks and uncertainty for the Group and its customers, aligned advisers, employees, suppliers and other counterparties.

1.4 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 over-valuation of an acquisition or investment or under-valuation of a divestment, and 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 employees, counterparties, suppliers, customers 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.

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, which may have an adverse impact on the Group's business and financial performance and position.

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In particular, specific risks exist in connection with the sale of 80% of MLC Limited to Nippon Life Insurance Company (Nippon Life) in 2016. The Company gave certain covenants, warranties and indemnities in favour of Nippon Life and MLC Limited, a breach or triggering of which may result in the Company being liable to Nippon Life or MLC Limited.

The parties also entered into long-term agreements for the distribution of life insurance products and the continued use of the MLC brand by MLC Limited. The duration and nature of these agreements give rise to certain risks, including that changes in the regulatory or commercial environment impact the commercial attractiveness of these agreements. These agreements also limit future opportunities for the Company through non-compete arrangements.

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including the provision of transitional services, as well as support for data migration activities and the development of technology systems. As this work is yet to be completed, there is a risk that implementation costs may ultimately prove higher than anticipated. The Company may also be liable to MLC Limited or Nippon Life if it fails to perform its obligations in accordance with the agreements relating to these matters. If implementation costs are higher than expected, or if the Company fails to perform its obligations in accordance with the relevant agreements, 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 its 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 The economic impact of the global COVID-19 pandemic is extremely uncertain, but it may materially increase credit risk across the Group's portfolio.

In Australia and globally, measures have already been introduced, and may be further extended, to control the spread of the COVID-19 outbreak, including travel and trade restrictions, restrictions on public gatherings and business closures. These measures have had, and are expected to continue to have, a substantial negative impact on global economic activity. Certain sectors, including discretionary retail and tourism, are already experiencing significant financial stress. Further details in relation to the credit risk impacts of the COVID-19 pandemic are set out in Section 2.6 *"The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions which pose a credit risk."*

There is a risk that the economic consequences of COVID-19 could become more severe and far reaching across the economy, leading to a more widespread downturn in business and economic activity. This would likely result in a significant loss of revenue for many businesses across a wide range of industry sectors, in turn potentially leading to further increased unemployment and customer defaults. The Group's commercial real estate portfolio would be significantly impacted in such a scenario, as would the Group's exposure to households, given the potential for higher unemployment to coincide with lower house prices.

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. Recent market declines and increased volatility could negatively impact the value of such financial instruments and cause the Group to incur losses.

The expected duration and magnitude of the COVID-19 pandemic and its potential impacts on the economy are unclear. Should the impact of COVID-19, and the actions taken to control its spread, be prolonged or increasingly widespread and severe, it is likely that the negative impact on global growth and financial markets will be amplified. These actions may lead to a significant reduction in business and consumer demand, reduce domestic and international business and trade activity, disrupt supply chains for many industries and reduce consumer confidence. In turn, this may lead to increased unemployment and customer defaults and thereby have a material adverse effect on the Group's financial performance and position.

Governments and regulatory authorities, both in Australia and globally, have announced welfare and economic support packages in response to COVID-19 with the aim of reducing the severity of social and economic impacts. The extent to which these packages mitigate

and/or defer the economic impact, including any credit losses the Group may incur, is uncertain. There is also a risk that these packages (or any reforms and measures introduced as the packages are unwound) will in themselves create longer-term risks to the economy and an increase in credit risks facing the Group. This may also negatively impact customer sentiment towards the Group and banking sector generally.

2.2 A decline in the residential property market 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. The social and economic impacts of the spread of the COVID-19 pandemic and the measures in place to control it, have the potential to drive a material decline in residential property prices due to, among other things, increased unemployment in Australia and NZ. In addition, there are a number of other potential factors in the medium term that may drive reductions in residential property prices. These factors include regulatory changes which may impact the availability of credit, reduced immigration and overseas investment, changes to taxation policy and rising unemployment. If this occurs, the declining 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 is likely to be experienced by residential mortgage customers in high loan-to-value-ratio brackets.

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

The Group has a large share of the business lending market in Australia and NZ, and so is dependent on economic conditions and customer and investor confidence in Australia, NZ and the broader region. Should adverse business conditions lead to increased defaults by business customers in these markets, including as a result of the COVID-19 pandemic, the Group may experience an adverse impact on its financial performance and position.

Specifically, the Group has a large market share among lenders to the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. Volatility in commodity prices, milk prices, foreign exchange rate movements, disease and introduction of pathogens and pests, export and quarantine restriction and supply chain constraints, and extreme weather events may negatively impact these sectors. 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.

Customers of the Group whose businesses are in consumer facing industries are also confronting challenges including the recent spike in unemployment, high levels of household debt, low wage growth, shifts in customer demand and the recent volatility in house prices weighing on consumer confidence and impacting their business' performance. These factors may give rise to an increase in customer defaults, ultimately affecting the Group's financial performance and position, profitability and returns to investors.

2.4 Climate change and extreme climate patterns may lead to increasing customer defaults and may decrease the value of collateral.

Credit risk may arise as a result of climate change, including from:

- extreme weather and climate change-related events affecting property and asset values or causing customer losses due to damage and/or interruptions to business operations and supply chains;
- the effect of new laws, regulations and government policies designed to mitigate climate change; and
- the impact on certain customer segments as the economy transitions to renewable and low-emissions technology.

This may lead to increased levels of customer default in affected business sectors. The impact of this on the Group may be exacerbated by a decline in the value and liquidity of assets held by the Group as collateral in these sectors, which may impact the Group's ability to recover its funds when loans default.

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For example, parts of Australia have recently experienced physical climate events such as severe drought conditions and bushfires. The impact has been widespread extending beyond primary producers, to customers who are suppliers to the agricultural sector, and to those who reside in and operate businesses within regional and fire-impacted communities. Extreme weather events and long-term changes in climate across Australia may have similar impacts on other business sectors. Decreasing investor appetite and customer demand for carbon intensive products and services may give rise to transition risks and negatively impact the revenue and access to capital for some companies. 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.

2.5 The Group's losses may differ materially from its provisions which may impact its financial performance and position.

The Group provides for expected losses from loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain. The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the assumptions upon which these assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

2.6 The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions which pose a credit risk.

The majority of the Group's businesses operate in Australia and NZ, with branches currently located in Asia, the United Kingdom (UK) 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 in Australia and NZ, but also in the global locations in which the Group operates.

Domestic and international economic conditions and forecasts are influenced by a number of macro-economic factors, such as: economic growth rates; 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:

- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- 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 portfolios.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth in business revenues and earnings.
- 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 (such as the ongoing COVID-19 pandemic), war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

The following macro-economic and financial market conditions are currently of most relevance to the credit risk facing the Group and may give rise to slower revenue growth and/or increasing customer defaults:

- Global economic growth is trending downwards, and is expected to decline in 2020, due in large part to measures to address the COVID-19 pandemic. This may create credit risk for the Group, both in the short and long-term. The Group's key markets of Australia and NZ are small, open economies where national

income (and with it, the capacity for businesses and households to service debt) is impacted by global trends. The current global economic cycle peaked in early 2018 and growth has slowed since this time. Measures introduced to control the spread of the COVID-19 pandemic, in Australia, NZ and internationally, have had and will continue to have, a substantial negative impact on economic activity – introducing additional credit risk in a range of customer segments in the near term. The duration and magnitude of this downturn is highly uncertain. There is a risk that a sudden, large contraction in economies will lead to corporate bankruptcies, a rise in unemployment and an increase in household financial stress. The functioning of financial markets in many countries has also been impaired by increased volatility and negative investor sentiment, adding to the risk of a larger and longer downturn.

- Governments globally have introduced fiscal stimulus packages to attempt to minimise the negative impacts of the current downturn. The near-term effectiveness of these stimulus packages in minimising the economic impact of the current downturn, and their long-term impact on the economies in which they have been introduced, is uncertain and it is possible that longer term risks may be created by these fiscal stimulus packages.
- Central banks, including the Reserve Bank of Australia have rapidly eased monetary policy and provided liquidity to markets, with advanced economies essentially exhausting their conventional policy measures. Any further policy easing may involve additional asset purchases (quantitative easing) or other unconventional policy tools that may adversely affect the Group's cost of funds, the value of the Group's lending and investments, and margins. Policy easing would be expected to reduce short-term downside risks to growth, but risks building on existing imbalances in various asset classes and regions. Policy easing may also reduce the impetus for highly geared borrowers to deleverage thereby increasing the credit risk posed to the Group by these highly geared customers.
- As a key trading partner, China's economic growth is important to Australia and NZ, with export income and business investment exposed to any sharp slowdown in the rapid pace of Chinese economic growth. In April 2020, China's National Bureau of Statistics announced that the Chinese economy shrank by 6.8 percent in the first three months of 2020, as compared with the corresponding period in 2019, the first decline recorded since 1976. China's high and growing debt burden presents a risk to its medium-term growth prospects. Due to its export mix, Australia's economy is exposed to any sudden downturn in China's domestic investment in business, infrastructure or housing. Any such downturn could therefore 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.
- While the Phase One trade deal was reached in December 2019, trade tensions remain between the US and China which present additional uncertainty and poses risks to global economic growth. Although the two countries have agreed to a partial trade deal that should ease these tensions, the bulk of tariffs imposed by both countries remain in place and further trade measures remain possible. Although China is the primary target of US trade measures, value chain linkages mean that other emerging markets, primarily in Asia, may also be impacted. A number of East Asian economies are major trading partners with Australia and NZ, and accordingly a negative impact on their economies may increase the credit risk facing the Group.
- Geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. 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. Protests in Hong Kong during 2019 highlighted political tensions between the Hong Kong Special Administrative Region and mainland China. While the path towards Brexit has greater clarity following the January 2020 Brexit withdrawal agreement, the prospect of an economically damaging 'hard' Brexit remains a risk. In addition, there are a

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range of other geopolitical risks, particularly given the ongoing uncertainty around the Middle East, the Korean Peninsula and the South China Sea.

- Prior to the COVID-19 pandemic, Australia's economic growth slowed in 2019, which is largely a reflection of a weakness in household demand. Wage growth has been weak, and if the slowdown in growth persists, unemployment is expected to rise. NZ's economic growth has also slowed. A continued slowdown in economic growth in Australia and NZ and any resulting increase in unemployment may negatively impact debt servicing levels, increase customer defaults and negatively impact the Group's financial performance and position and its profitability. Both the Australian and NZ economies have been and will continue to be affected by the global containment efforts to stop the spread of the COVID-19 pandemic via a range of factors including reduced trade flows or lower commodity prices. Containment efforts within Australia and NZ will also have an impact depending on their duration and scope. Specific sectors of the economy are particularly exposed including travel and tourism, education, recreation and personal services, hospitality and commodity producers. Supply disruptions caused by global and domestic containment efforts also have the potential to disrupt business activity.
- 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. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. 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

Market risk is the risk of loss from the Group's trading activities. The Group may suffer losses as a result of a change in the value of the Group's positions in financial instruments 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, in particular during periods of heightened market volatility or reduced liquidity. Since March 2020, global financial markets have become more volatile due to the impact of the COVID-19 pandemic. The full economic impact of COVID-19 remains uncertain.

Credit spread risk is the risk of the Group's trading book being exposed to movements in the value of securities and derivatives as the 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 clients) in fixed income securities. The Group's trading book is also exposed to credit spread risk through credit valuation adjustments. Widening of credit spreads could negatively impact the value of the Credit Valuation Adjustment (CVA) book.

Interest rate risk is the risk of the Group's trading book being exposed to changes in the value of securities and derivatives as the result of changes in interest rates. The Group's trading book accumulates interest rate risk when the Group provides interest rate hedging solutions for clients, holds interest rate risk in anticipation of customer requirements or undertakes market-making activity in fixed income securities or interest rate derivatives.

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

4. Balance Sheet and Liquidity Risk

Balance sheet and liquidity risk comprises key banking book structural risks of the Group, such as liquidity risk, funding risk, interest rate risk, capital risk and foreign exchange 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, strategic plans and objectives. The Group accesses domestic and global capital markets to help fund its business, in addition to using customer deposits. Dislocation in any of these capital markets, reduced investor interest in the Group's securities and/or reduced customer deposits, may adversely affect the Group's funding and liquidity position, 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 it matures, 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 with the Reserve Bank of Australia 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.

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 authorised deposit-taking institution's (ADI's) operations by providing a buffer to absorb unanticipated losses from its activities.

Compliance with prudential capital requirements in the jurisdictions in which the Group operates 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.

In response to the impacts of COVID-19, the Australian Prudential Regulation Authority (APRA) has outlined expectations for ADIs of deferrals or reductions in dividends during this period of disruption and the Reserve Bank of New Zealand (RBNZ) has imposed a restriction on the payment of dividends on ordinary shares and the redemption of non-CET1 capital instruments by NZ registered banks.

Additionally, 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, and financial performance and 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 sovereign jurisdictions where the Group conducts business. Credit ratings may be affected by operational and market factors, or changes in the credit rating agency's rating methodologies.

On 7 April 2020, Fitch Ratings (Fitch) downgraded the major Australian banks, including the Company, from "AA-" to "A+", with a negative outlook. Fitch also made a corresponding downgrade to the long-term and short-term issuer default ratings of the major NZ banks, including the Company's subsidiary Bank of New Zealand (BNZ). On 8 April 2020, S&P Global Ratings (S&P) revised its outlook for the major Australian banks, including the Company, reflecting a revision in the outlook for Australia from stable to negative. It reaffirmed the long-term and short-term issuer credit ratings of the Company at "AA-" and "A-1+" respectively. S&P also made a corresponding revision to

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the outlook of the major NZ banks, including BNZ. The Group faces the risk of further revisions or downgrades should economic and credit conditions keep deteriorating.

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's financial performance and capital position may be adversely impacted by interest rate fluctuations.

Interest rate risk is the risk to the Group's financial performance and capital position caused by changes in interest rates. Factors which may affect the level of interest rate risk include all on-balance sheet and off-balance sheet items that create an interest rate risk exposure within the Group. As interest rates and yield curves change over time, including negative interest rates in certain countries in which the Group operates, 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 as interest rates approach zero or become negative, thereby impacting net interest margin.

4.5 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.

4.6 The value of the Group's banking book may be adversely impacted by foreign exchange rates.

Foreign exchange and translation risk arise from the impact of currency movements on the value of the Group's cash flows, 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, such as 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.

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 and reputation risk.

There are reputational implications inherent in the Group operations due to the range of customers, products and services the Group provides and the multiple markets and channels these products and services are delivered through.

In response to COVID-19, the majority of the Group's workforce is now working from home. This has been a rapid implementation and significant change in the way the Group operates. This exposes the Group to additional operational risk, including increased risk of fraud, technology related risks and employee health and safety related risks.

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 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 expectation of customers for internet and mobile services on demand expose the Group to new operational challenges.

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 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 Privacy, 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 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.

A breach of the security at any of these external providers 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 adversely impact the financial performance and position of the Group.

These factors may be wholly or partially beyond the control of the Group, and may adversely affect the Group's reputation, financial performance and position. In addition, any such event may adversely affect the view of regulators or ratings agencies. Social media and responses to the relevant event may exacerbate the impact on the Group's reputation.

5.3 Deficient policies, processes, infrastructure and models give rise to a significant risk to the Group's operations.

The Group's business involves the execution of a large number of processes and transactions with varying degrees of complexity. The Group is reliant on its policies, processes 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 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. Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term and the ability to pursue new business opportunities. Reputational damage may also result in a higher risk premium being applied to the Group and impact the cost of funding the Group's operations or its financial condition. Further, reputational damage may result in regulators requiring the Group to hold additional capital, pay fines or incur additional costs,

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including costs to undertake remedial action. These impacts may affect the viability of some or all of the Group's business activities.

Models are used extensively in the conduct of the Group's business, for example, in calculating capital requirements and 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 financial performance and position.

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

The Group's business, including the internal processes and systems that assist in business decisions, relies on inputs from its employees, agents and third-party vendors. The Group is exposed to operational risk due to process or human errors 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.

5.5 The Group may not be able to attract and retain suitable personnel.

The Group is dependent on its ability to attract and retain key executives, employees 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, discrimination 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.

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

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.

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

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

External events include global pandemics such as the recent outbreak of COVID-19, which has interrupted the usual operations of the Group, its customers and suppliers.

This disruption has resulted in the activation of the Group's Crisis Management Team and implementation of the Group's continuity plan to protect the health, safety and well-being of its customers and employees. The steps taken include alternate work locations and arrangements being implemented for Group employees, an increased reliance on mobile technology and business process changes to support customers, suppliers and staff and ensure continuity of the Group's business operations. However, no assurance can be given that the steps being taken will be adequate nor can the Group predict the level of further disruption which may occur.

The Group is monitoring the situation closely as the domestic and global business environment changes and it is unclear how this will evolve or for how long the Group will continue to operate under its continuity plan. Other epidemics or pandemics may arise in future which may again activate a crisis response leading to disruption to the Group's operations.

The Group has branches in regional areas in Australia that are prone to seasonal natural disasters, including fires and floods.

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.

6. 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.

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

Supervision, regulation and enforcement of anti-bribery and corruption, anti-money laundering, counter-terrorism financing, and international sanctions laws (collectively referred to as 'AML/CTF') has increased. In June 2018, Australia's financial intelligence agency, the Australian Transaction Reports and Analysis Centre (AUSTRAC), reached an agreement with another major Australian bank for a A\$700 million penalty relating to serious breaches of AML/CTF laws. In November 2019, AUSTRAC commenced proceedings against a different major Australian bank alleging significant breaches of AML/CTF laws.

The Group has reported, a number of AML/CTF compliance breaches to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. The Group is currently investigating and remediating a number of AML/CTF compliance issues and weaknesses and should further breaches be identified, the Group would expect to report those to regulators in accordance with its normal processes. The potential outcome and total costs associated with the investigations and remediation processes for specific issues identified to date, and for any issues identified in future, 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 implementation or remediation of compliance issues, could result in a significant number of breaches of AML/CTF obligations and significant monetary penalties for the Group.

Refer to 'Notes to the Consolidated Financial Statements', *Note 13 Contingent liabilities* on page 78 in the Group's *2020 Half Year Results Report* under the heading '*Regulatory activity, compliance investigations and associated proceedings - Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) program uplift and compliance issues*' for more information.

6.2 Matters arising during the Royal Commission may result in legal proceedings against the Group.

The Royal Commission has referred two matters to APRA regarding the conduct of the Group's superannuation trustee, NULIS Nominees (Australia) Ltd (NULIS). These concern issues related to: the maintenance of grandfathered commissions following a successor fund transfer in 2016; and the speed of the transfer of members' accrued default amounts to the MySuper product. It is possible that APRA may bring proceedings against NULIS in relation to these matters. In addition, class actions in relation to these two matters have been commenced. In October 2019, litigation funder IMF Bentham and William Roberts Lawyers commenced a class action against NULIS and MLC Nominees (MLCN) alleging breaches of NULIS's trustee duties relating to the grandfathered commissions issue. In January 2020, Maurice Blackburn commenced a class action against NULIS and MLCN alleging breaches of trustee obligations in connection with the MySuper issue. The potential outcome and total costs associated with these matters remain uncertain.

The Royal Commission also referred other instances of potential misconduct, including issues related to 'fees for no service' by unidentified institutions to the Australian Securities and Investments Commission (ASIC) for consideration.

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ASIC has commenced civil proceedings against the Group in respect of two issues that were examined by the Royal Commission. The first concerns the Company's 'Introducer Program', in respect of which ASIC has alleged that the Company engaged in credit activities with unlicensed persons in contravention of the National Consumer Credit Protection Act 2009 (NCCP Act). In November 2019, the Company filed a response to ASIC's claim, accepting liability for the majority of the NCCP Act breaches alleged by ASIC. The second relates to alleged breaches in respect of ongoing service arrangements and fee disclosure statements, with clients of NAB Financial Planning between 2013 and 2019. The potential outcome and total costs associated with these matters remain uncertain. ASIC may bring further proceedings against the Group in relation to other issues examined or commented on by the Royal Commission, which may result in the imposition of civil or criminal penalties on the Group. Class actions or other civil litigation may also be brought against the Group.

It is also possible that legal actions may be commenced against relevant individuals within the Group.

Any damages, awards or penalties may adversely impact the Group's reputation and financial performance and position. Refer to 'Notes to the Consolidated Financial Statements', *Note 13 Contingent liabilities* on page 77 to page 80 in the Group's *2020 Half Year Results* for more information.

6.3 Responsible lending obligations are evolving and may create additional operational complexity for the Group.

The responsible lending obligations applicable to the Group under the NCCP Act have evolved in recent years. In December 2019, ASIC released Regulatory Guide RG209, which sets out ASIC's views on what the responsible lending obligations in Chapter 3 of the NCCP Act require. Changes to responsible lending obligations, including their interpretation by the courts, or any increased regulatory and public scrutiny, may require the Group to change its consumer lending processes or procedures.

This, in turn, may lead to additional operational complexity for the Group, as well as increased costs, which may adversely impact the Group's financial performance and position.

6.4 Ensuring compliance with laws and regulations that apply to the Group is complex and costly.

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

In addition, there is significant cost associated with the systems, processes and personnel required to ensure compliance with applicable laws and regulations. Such costs may negatively impact the Group's financial performance and position.

6.5 Failure to comply with laws or regulatory requirements may expose the Group to class actions.

There have been a number of domestic and international firms facing high profile regulatory enforcement actions for alleged instances of non-compliance with laws or regulatory requirements. In some cases, these enforcement actions have also given rise to class actions. Plaintiff law firm Slater & Gordon filed a class action in the Federal Court of Australia, alleging that the Company and MLC Limited engaged in unconscionable conduct and misleading and deceptive conduct in connection with the issuance and sale of a particular type of consumer credit insurance (being 'NAB Credit Card Cover') and misleading and deceptive conduct in connection with the sale of a second consumer credit insurance product, NAB Personal Loan Cover. A settlement agreement in relation to this action was announced on 20 November 2019 and is awaiting approval by the Federal Court of Australia, expected in May 2020. The Company is currently in the process of implementing a customer remediation program in respect of the third and final CCI product sold by the Company. There is an ongoing ASIC investigation into the sale of

consumer credit insurance products. The outcome and total costs associated with this matter remain uncertain.

Refer to 'Notes to the Consolidated Financial Statements', *Note 13 Contingent liabilities* on page 79 in the Group's *2020 Half Year Results* under the heading '*Regulatory activity, compliance investigations and associated proceedings - Consumer Credit Insurance (CCI)*' for more information.

In addition, class actions have been commenced against NULIS and MLCN in connection with two matters that were referred to APRA by the Royal Commission, as referred to above in Section 6.2 '*Matters arising during the Royal Commission may result in legal proceedings against the Group*'. The potential outcome and total costs associated with these proceedings remains uncertain.

The Company is also involved in class action proceedings in the UK in respect of the sale of tailored business loans through its former UK subsidiary, and it has been involved in class action in the US in respect of alleged conduct relating to the Bank Bill Swap Reference Rate (alongside other major Australian and international banks). In February 2020 all claims against the Company in relation to the BBSW matter were dismissed but this decision may be appealed. Refer to 'Notes to the Consolidated Financial Statements', *Note 13 Contingent liabilities* on page 77 in the Group's *2020 Half Year Results* under the heading '*Legal proceedings*' for more information.

It is possible that class actions may arise against members of the Group in relation to allegations of which the Group is currently aware or other matters of which it is not yet aware. Any class action 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.

6.6 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 estimates used in the calculation of provisions (including for customer-related remediation and credit impairment economic and forward-looking adjustments), the valuation of goodwill and intangible assets, and the fair value of financial instruments. Changes in the methodology or assumptions on which the assessment of goodwill and intangible balances is based, together with expected changes in future cash flows (including changes flowing from current and potential regulatory reforms), could result in the potential write-off of a part or all of that goodwill or intangible balances.

If the judgements, estimates and assumptions used by the Group in preparing 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, and financial performance and position.

6.7 The Group may be exposed to litigation and contingent liabilities.

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be estimated with any certainty.

Currently, there are a number of ongoing investigations and court proceedings involving the Group. These include matters relating to: the provision of financial advice; the inappropriate charging of fees for services; selling practices and advice in relation to consumer credit insurance products and compliance with licence conditions and the NCCP Act. Where appropriate, provisions are held for litigation matters and regulatory investigations based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. As with other accounting judgements, risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. There is inherent uncertainty regarding the possible outcome of any court proceedings involving the Group. It is also possible that further class actions, regulatory investigations, civil or criminal proceedings or the imposition of new licence conditions

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could arise in relation to these matters or other matters of which the Group is not yet aware.

A negative outcome to investigations or litigation involving the Group may divert management time from operations and adversely impact the Group's reputation, and financial performance and position. Refer to 'Notes to the Consolidated Financial Statements', *Note 13 Contingent liabilities* on page 77 to page 80 in the Group's *2020 Half Year Results* for details in relation to certain legal proceedings and contingent liabilities which may impact the Group.

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:

- 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 customers' interests.
- Delays in appropriately escalating regulatory and compliance issues.
- Failure to resolve issues and remediate customers in a timely manner.
- Failure to deliver on product and service commitments.

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

- Increased costs of compliance, fines, additional capital requirements, public censure, loss of consumer confidence, 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.

Events such as the recent outbreak of COVID-19 can result in rapid changes to the internal and external business environment and subsequent changes to business processes to support customers. This may impact both the likelihood and the consequence of unfair outcomes to customers, including through decisions and actions where the trade-offs or tail risks may not be immediately apparent or quantifiable. The Group is making significant efforts to support its customers in an appropriate way during this pandemic including through regular customer communication and redeployment of staff into customer-facing roles. However, no assurance can be given that the steps being taken will not have unintended consequences in the future or that they will meet the future expectations of the Group's regulators. The Group cannot predict the level of further disruption which may occur.

8. Regulatory Risk

Regulatory risk is the risk of failing to identify or appropriately respond to changes to the regulatory environment or of damaging the Group's

standing with its regulators as a result of the Group not meeting regulatory expectations.

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

Globally, the financial services and banking industries are subject to a significant and increasing number 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, employees and information technology systems. This may also impact the viability of the Group's participation in certain markets or give rise to the need to divest a part of the Group's business.

The Royal Commission made a considerable number of recommendations. The Australian Government has committed to take action on all of the recommendations, has announced further commitments to address issues raised in the final report of the Royal Commission and has committed to an accelerated timeframe for introducing the legislative changes required to give effect to the recommendations. Some commitments have been enacted by the Australian Government and regulators, and others are in progress or subject to consultation. The timeframe for introducing legislative and regulatory changes may be subject to reprioritisation by the Australian Government as a result of the regulatory challenges created by the current COVID-19 pandemic. These legislative and regulatory changes, together with the accelerated timeframe, will impact the operations of the Group as considerable resources will be required to be redirected towards the timely implementation of such changes. Further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the Australian Government, which, depending on their scope, findings and recommendations, may adversely impact the Group. Other reviews and regulatory reforms currently relevant to the Group which present a potential regulatory risk include:

- APRA's various reforms in relation to loss-absorbing capacity. These include the requirement, due to be implemented by 1 January 2024, that Domestic Systemically Important Banks (D-SIBs) such as the Company, increase total capital by 3% of risk weighted assets (RWA). This is expected to be satisfied primarily through the issue of additional Tier 2 Capital. Based on the Group's RWA of A\$433bn at 31 March 2020, this requirement represents an incremental Group Total Capital requirement of approximately A\$12.5bn. In addition, APRA intends to consult on a target of additional capital amounting to a further 1-2% of RWA. The Group's funding costs are expected to increase due to the higher cost of Tier 2 Capital issuance relative to senior debt.
- APRA's final revisions to the credit risk management framework for ADIs (released in December 2019) include broadening requirements for credit risk management practices; revising credit standards; and aligning asset classification and provisioning with the Basel Committee on Banking Supervision's recent accounting standard changes and guidance; although noting that APRA has deferred the commencement date to 1 January 2022 in response to the COVID-19 pandemic.
- The RBNZ released its capital requirements for NZ banks in December 2019. The final capital requirements include: an increase to risk-weighted assets (RWA) for internal ratings based banks such as the Company's subsidiary, BNZ to approximately 90% of what would be calculated under the standardised approach; an increase in the Common Equity Tier 1 (CET1) capital requirement equal to 13.5% of RWA (including a prudential capital buffer of 9% of RWA) for banks deemed systemically important (which includes BNZ); an increase in the Tier 1 capital requirement equal to 16% of RWA for banks deemed systemically important; and an increase in the Total Capital requirement equal to 18% of RWA for banks deemed systemically important. Due to significant uncertainties arising from the impacts of COVID-19, the RBNZ has delayed the start of the new capital requirements by 12 months – to 1 July 2021 -

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after which it is expected that the changes will be phased in over a seven-year period. Some aspects of the framework (including the detailed regulatory requirements to be included in the capital standards) are still to be confirmed in consultations expected to take place in 2021. It also remains unclear the extent to which APRA will incorporate aspects of the RBNZ's capital requirements as part of its review of the Australian capital framework. The ultimate impact on the Group will depend on various factors, including BNZ's balance sheet size over the implementation period, and the potential mitigating actions undertaken.

- APRA's ongoing consultation on revisions to the capital framework reaffirms its intention to strengthen banking system resilience by establishing 'unquestionably strong' capital ratios. The major Australian banks (including the Company) have been subject to APRA's 'unquestionably strong' target benchmark capital ratios since January 2020, although noting the temporary suspension of these requirements in response to COVID-19. Final revised prudential standards in relation to the risk-weighting framework and other capital requirements have been suspended until 1 January 2023. Implementation of these requirements may require additional capital to be held by the Group. In addition, regulators in a number of countries in which the Company operates are recommending limits on, or restrictions to, capital distributions as a result of COVID-19.
- In 2018 and 2019, the NZ Financial Markets Authority and RBNZ undertook a review of conduct and culture in the financial services industry. Alongside industry-wide recommendations that were released as a result of the review, further specific findings were provided to individual NZ banks (including BNZ) in November 2018. The review led to the NZ Government introducing the Financial Markets (Conduct of Institutions) Amendment Bill in the NZ Parliament in December 2019 to create an oversight and licensing regime for regulating conduct in the banking and insurance sectors. The bill was initially expected to be passed by the end of 2020, but this timeframe may be delayed as a result of the COVID-19 pandemic.
- The Australian Banking Executive Accountability Regime (BEAR) applies to the Group. On 22 January 2020, the Australian Federal Government Treasury released its proposal paper on a new Financial Accountability Regime (FAR). This regime has been developed in response to a number of Royal Commission recommendations and is intended to extend and replace BEAR. The FAR legislation was initially expected to be introduced by the end of 2020 (although implementation may be phased), and is likely to include new prescribed responsibilities, additional accountability obligations, and increased maximum civil penalties for the Group and its accountable persons. The timeframe for implementation of FAR may be delayed as a result of the COVID-19 pandemic.
- The Australian Government has directed the Australian Competition and Consumer Commission (ACCC) to commence an inquiry into home loan pricing. The ACCC is investigating a wide range of issues, including the rates paid by new and existing customers, impediments to customer switching, how the cost of financing for banks has affected interest rate decisions and the interaction between home loan pricing and rate-setting by the Reserve Bank of Australia. A final report on this topic is due to the Australian Federal Government on 30 September 2020.
- Other material regulatory changes include new requirements for the design and distribution of financial products, responsible lending reforms, including the Credit Contracts Legislation Amendment Act 2019 (NZ), and the implementation of Open Banking. Open Banking may lead to cyber and fraud risks in the Consumer Data Right ecosystem. Governance mechanisms including accountabilities, controls and frameworks are still evolving and, under the Open Banking regime, customer data will be shared with a broader range of stakeholders.
- There are a number of other ongoing or proposed regulatory changes and inquiries relevant to the Group such as: changes to the Group entities eligible for inclusion in the Level 1 group for prudential purposes; 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; increasing modern slavery and climate-related reporting requirements, accounting and reporting requirements; and tax reform.

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. The challenges raised by the COVID-19 pandemic have caused a number of regulators to postpone or suspend planned policy and supervision initiatives, public consultations and the implementation dates of a number of regulatory reforms.

The impact of COVID-19 on the Group's operations may result in delays in its ability to implement regulatory change, or take the steps required to address commitments made to regulators. The extent of any delays will be dependent on how regulators choose to adjust the prioritisation, timing and deployment of their supervisory mandate or legislative change.

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, and financial performance and position.

8.2 There is a risk of the Group failing to deliver on commitments made to its regulators and to the public or otherwise damaging its relationship with regulators.

In response to the Royal Commission, the Group has made certain commitments to regulators and the public to change the way it operates. In November 2019, the Group published an update to the market on progress against actions related to self-assessment on governance, accountability and culture and recommendations arising from the Royal Commission. The impact of the COVID-19 pandemic may result in delays to the Group's delivery on commitments. Any further delays will be dependent on how regulators choose to adjust the prioritisation, timing and deployment of their supervisory mandate or legislative change. Ongoing engagement with regulators is in place to ensure alignment in prioritisation of efforts during the COVID-19 pandemic.

If the Group does not deliver on the matters identified in its self-assessment, fails to deliver on its public commitments following the Royal Commission, or otherwise fails to comply with the representations it makes to the public or to its regulators, this may negatively impact the Group's reputation. Such reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short and long-term. It may also result in a higher risk premium being applied to the Group, and impact the cost of funding the Group's operations, or its financial performance and position.

8.3 The enforcement approach of the Group's principal regulators has changed, resulting in a greater risk of enforcement actions.

A number of measures were recommended by the Royal Commission to improve the effectiveness and oversight of ASIC and APRA in deterring, and imposing appropriate penalties for, misconduct. These included a recommendation for ASIC to change its approach to enforcement, with a focus on instigating court actions in relation to conduct matters where a breach of law is more likely than not, and the matter is in the public interest. Accordingly, the Group may be exposed to greater risk of enforcement action by its primary regulators ASIC and APRA, which may result in the imposition of civil or criminal penalties on the Group. The issuing of any such enforcement action, and any subsequent imposition of penalties, may negatively impact on the Group's reputation and financial performance and position.

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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 2020 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 27th day of April 2020:



Ross McEwan
Group Chief Executive Officer



Gary Lennon
Group Chief Financial Officer