National Australia Bank

ANNUAL FINANCIAL REPORT 2021

National Australia Bank Limited ABN 12 004 044 937

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This 2021 Annual Financial Report (Report) is lodged with the Australian Securities and Investments Commission and ASX Limited. National Australia Bank Limited (NAB) is publicly listed in Australia. The Report contains information prepared on the basis of the *Banking Act 1959* (Cth), *Corporations Act 2001* (Cth), Accounting Standards and interpretations issued by the Australian Accounting Standards Board and International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. NAB also produces a non-statutory Annual Review which can be viewed online at www.nab.com.au/annualreports.

To view the Report online, visit www.nab.com.au/annualreports. Alternatively, to arrange for a copy to be sent to you free of charge, call the shareholder information line on 1300 367 647 from within Australia or +61 3 9415 4299 from outside Australia.

Nothing in the Report is, or should be taken as, an offer of securities in NAB for issue or sale, or an invitation to apply for the purchase of such securities.

All figures in the Report are in Australian dollars unless otherwise stated.

ANNUAL FINANCIAL REPORT 2021

2021 AT A GLANCE

KEY FINANCIAL PERFORMANCE MEASURES

Statutory net profit

$6.36BN

Cash Earnings[1]

$6.56BN

76.8% increase from 2020

Dividend per share (for the full year)

$1.27

$0.67 higher than 2020

Cash return on equity[1]

10.7%

420 basis points increase from 2020

Common Equity Tier 1 capital ratio

13.00%

153 basis points increase from 2020

OTHER KEY PERFORMANCE MEASURES

Strategic Net Promoter Score[2]

-7

4 point increase from 2020, equal #1 among major banks

Number of customers assisted experiencing financial hardship[3]

31,047

17% increase from 2020

Colleague engagement score[4]

77

Achieving our top quartile target score of 77

Financing provided to drive positive social impact

$56.3BN

Cumulative environmental financing (towards $70BN target by 2025)[5]

$1.8BN

Cumulative affordable and specialist housing financing (towards $2BN target by 2023)[6]

Supporting communities before, during and after natural disasters

$5.6M

Provided in grants and support to customers, colleagues and communities.

1. Amounts presented are on a cash earnings and a continuing operations basis.
2. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter Systems are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Strategic NPS: Sourced from DBM Atlas, measured on a six month rolling average. The overall Strategic NPS result combines Consumer and Business segments within Australia, using a weighting of 50% for each segment. Data is presented comparing September 2020 to September 2021 Strategic NPS figures.
3. Number of unique primary customers approved with hardship assistance for home loans, credit cards and personal loans in Australia. Note this number reflects customers who have been referred to NAB Assist, and is not inclusive of customers with an active deferral as at 30 September 2021.
4. 2021 Heartbeat Survey conducted by Glint, score based on July 2021 survey. Includes Australia and New Zealand colleagues, excludes external contractors, consultants and temporary colleagues.
5. Represents total cumulative new flow of environmental financing from 1 October 2015. Refer to our 2021 Sustainability Data Pack for a further breakdown of this number and reference to how progress towards our environmental finance target is calculated.
6. Affordable and specialist housing includes affordable housing, specialist disability accommodation and sustainable housing. This includes loans made under the First Home Loan Deposit Scheme for properties under the national median house price, and for borrowers with taxable income below the national median household income. Progress is based on total lending facilities committed, where first drawdown occurred during the target period. This number does not reflect debt balance.

CHAIR'S MESSAGE

Philip Chronican
Non-Executive Director & Chair

Restoring stability and driving performance

NAB finishes 2021 as a better bank, well placed to deliver improved performance over the long-term. In a year characterised by continued challenges, NAB has demonstrated a strong focus on customers and colleagues, as well as its resilience and ability to grow safely.

While there is more to do, Ross McEwan and the Executive Leadership Team have created stability and clarity of strategy within the organisation, with stronger discipline and execution. This is enabling us to deliver against our ambition to serve customers well and help our communities prosper.

Meaningful and sustainable change has been made to the way the bank operates as a result of reforms put in place following the Financial Services Royal Commission and in response to NAB's own self-assessment into governance, accountability and culture.

The Board is observing tighter operating disciplines across the bank, including faster identification and response to issues. While remediation continues in financial crime risk, the Board recognises the focus and diligence shown by management.

Products and services have been reviewed to ensure the needs of customers are put first. Processes are in place to ensure any complaints are resolved faster.

The number of outstanding regulatory issues has been materially reduced and we are making things right for our customers where we have let them down. This year NAB has returned $575 million to customers and we are on track to have the bulk of these legacy issues behind us by the end of 2022.

The successful exit of MLC Wealth has simplified the bank and enabled greater investment in core markets where the bank can grow. NAB's acquisition of 86 400 and proposed acquisition of Citigroup's Australian consumer business will enable the bank to quickly build scale in our digital and consumer bank offerings.

Delivering results in a challenging environment

The Board is encouraged by the 2021 full year results, which reflect good momentum across all businesses, capital strength and sound credit quality.

We are pleased to have increased dividends across the full year to 127 cents per share, compared to a reduced level in 2020. This outcome is closer to the level of shareholder return the Board is targeting going forward, with future dividends to be guided by a target payout ratio range of 65-75% of sustainable cash earnings, subject to circumstances at the time.

The Board has set executive and employee remuneration outcomes for 2021 at a level which reflects the strong progress made in resolving legacy issues, the strategic repositioning of the business and major improvements to customer outcomes, evidenced by NPS and market share measures. This is in contrast to last year when the CEO and ELT did not receive any short-term incentive payments.

Importantly, remuneration outcomes reflect an assessment of performance against the targets set in the 2021 financial year plan, as well as greater colleague engagement and better outcomes for customers.

In a challenging environment, the bank provided flexibility and repayment relief to customers in need, while continuing to lend to businesses and homeowners to grow investment and support the broader recovery.

Building for the long-term

Looking ahead, I am cautiously optimistic that the worst of the economic impact of COVID-19 is behind us and that the Australian economy will rebound to pre-COVID-19 levels by the middle of 2022.

The pandemic accelerated generational shifts in technology. Today, 94 per cent of customer transaction activities are online and 48 per cent of our home lending appointments are by video, a clear shift away from face-to-face banking. We are supporting our customers as they make this change.

NAB has stronger technology foundations in place and a greater emphasis is being placed on digital, data and analytics.

This will enable NAB to deliver faster, better and more personalised experiences to customers. It will also strengthen defences against the growing, global threat of financial and cyber-crime.

More broadly, new technologies will be central to the decarbonisation of the Australian and New Zealand economies.

NAB was the first Australian member bank of the United Nations' Environment Programme Finance Initiative's (UNEPFI) Collective Commitment to Climate Action.

Aligned with this membership, NAB is working with 100 of our largest greenhouse-gas emitting customers as they develop or improve their low carbon transition plans by 2023.

NAB has capped oil and gas exposure at default at USD$2.4 billion and will reduce the Group's exposure from 2026 through to 2050, aligned to the International Energy Agency (IEA) Net Zero Emissions 2050 scenario.

However, for Australia to play its part and become a stronger and more efficient economy, we need to tackle climate change as a whole-of-economy issue. Every industry, organisation and individual will have a role to play in our decarbonisation.

NAB's role is clear. We will work with our customers to support their transition plans and we will support the investment required to realise the significant economic opportunity for Australia in a low emissions economy.

The NAB Board will continue to evolve, to reflect the skills and diversity of experience required to guide the bank through changes in our operating environment. Anne Loveridge will stand for re-election at the AGM with our full support.

On behalf of the Board, thank you for your ongoing support as shareholders. To NAB's 32,000 employees, thank you for your hard work in serving our customers well and helping our communities prosper, particularly as you navigated the impacts of COVID-19 on your own lives.

I am proud of the progress the bank has made in the past year and the tangible momentum for the future.

Philip Chronican, Chair.

OPERATING AND FINANCIAL REVIEW

The directors of National Australia Bank Limited (NAB or the Company) present their report, together with the financial statements of the Group, being NAB and its controlled entities, for the year ended 30 September 2021.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2021 is referred to as 2021 and other financial years are referred to in a corresponding manner. Reference in this document to the year ended September 2021 are references to the twelve months ended 30 September 2021. The abbreviations $m and $bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively.

Key terms used in this report are contained in the *Glossary*.

Forward looking statements

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

There are a number of other important factors that could cause actual results to differ materially from those projected in such statements, including (without limitation) a significant change in the Group's financial performance or operating environment, a material change to law or regulation or changes to regulatory policy or interpretation, and risks and uncertainties associated with the ongoing impacts of COVID-19, the Australian and global economic environment and capital market conditions. Further information is contained on page 19 under *Disclosure on risk factors*.

Financial performance summary

The following financial discussion and analysis is based on statutory information unless otherwise stated. The statutory information is presented in accordance with the *Corporations Act 2001* (Cth) and Australian Accounting Standards and is audited by the Group's auditors in accordance with Australian Auditing Standards.

Non-IFRS key financial performance measures used by the Group

Certain financial measures detailed in the Report of the Directors are not accounting measures within the scope of International Financial Reporting Standards (IFRS). Management use these financial metrics to measure the Group's overall financial performance and position and believe the presentation of these financial measures provide useful information to analysts and investors regarding the results of the Group's operations. These financial performance measures include:

- cash earnings
- cash earnings (excluding large notable items)
- statutory return on equity
- cash return on equity
- net interest margin
- average equity (adjusted)
- average interest earning assets
- total average assets.

The Group regularly reviews the non-IFRS measures included in the Report of the Directors to ensure that only relevant financial measures are incorporated. Certain other financial performance measures detailed in the Report of the Directors are derived from IFRS measures and are similarly used by analysts and investors to assess the Group's performance. These measures are defined in the *Glossary*.

Any non-IFRS measures included in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. The non-IFRS measures referred to above have not been presented in accordance with Australian Accounting Standards, nor audited or reviewed in accordance with Australian Auditing Standards unless they are included in the financial statements.

Further information in relation to these financial measures is set out below and in the *Glossary*.

Information about cash earnings

Cash earnings is a non-IFRS key financial performance measure used by the Group and the investment community.

The Group also uses cash earnings for its internal management reporting as it better reflects what is considered to be the underlying performance of the Group. Cash earnings is calculated by adjusting statutory profit from continuing operations for certain non-cash earnings items. Non-cash earnings items are those items which are considered separately when assessing performance and analysing the underlying trends in the business. These include items such as hedging and fair value volatility and gains or losses and certain other items associated with the acquisition, disposal, and closure of businesses.

Cash earnings for the year ended 30 September 2021 has been adjusted for distributions, hedging and fair value volatility, amortisation of acquired intangible assets, and acquisition, integration and transaction costs.

Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a statement of cash flows.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Information about net interest margin

Net interest margin (NIM) is a non-IFRS key financial performance measure that is calculated as net interest income (derived on a cash earnings basis) expressed as a percentage of average interest earning assets.

Information about average balances

Average balances, including average equity (adjusted), total average assets and average interest earning assets are based on daily statutory average balances.

This methodology produces numbers that NAB believes more accurately reflect seasonality, timing of accruals and restructures (including discontinued operations), which would otherwise not be reflected in a simple average.

Refer to page 7 for a five-year summary of the Group's average equity (adjusted), total average assets and average interest earning assets.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191, all amounts have been rounded to the nearest million dollars, except where indicated. Any discrepancies between total and sums of components in tables contained in this report are due to rounding.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

5 Year Financial Performance Summary

	Group[1]				
	2021	2020	2019	2018	2017
	$m	$m	$m	$m	$m
Net interest income	**13,793**	13,877	13,555	13,505	13,182
Other income[2][3]	**2,936**	3,259	3,980	5,596	4,842
Operating expenses[2][3]	**(7,863)**	(9,221)	(8,263)	(9,910)	(8,539)
Credit impairment (charge) / write-back	**202**	(2,752)	(927)	(791)	(824)
Profit before income tax	**9,068**	5,163	8,345	8,400	8,661
Income tax expense	**(2,597)**	(1,665)	(2,440)	(2,455)	(2,480)
Net profit for the year from continuing operations	**6,471**	3,498	5,905	5,945	6,181
Net loss after tax for the year from discontinued operations	**(104)**	(935)	(1,104)	(388)	(893)
Net profit for the year	**6,367**	2,563	4,801	5,557	5,288
Profit attributable to non-controlling interests	**3**	4	3	3	3
Net profit attributable to owners of NAB	**6,364**	2,559	4,798	5,554	5,285

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.
(2) Comparative information in 2020 has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation.* No other comparative periods have been restated.
(3) Comparative information in 2020 has been restated to reflect product reclassification in the Group's BNZ Life business. No other comparative periods have been restated.

5 Year Key Performance Indicators

	Group				
	2021	2020	2019	2018	2017
Key indicators					
Statutory earnings per share (cents) - basic	**193.0**	82.1	168.6	201.3	194.7
Statutory earnings per share (cents) - diluted	**185.2**	80.5	164.4	194.0	189.1
Statutory return on equity	**10.4%**	4.4%	9.1%	11.2%	10.9%
Cash return on equity[1]	**10.7%**	6.5%	11.4%	11.7%	14.0%
Profitability, performance and efficiency measures					
Dividend per share (cents)	**127**	60	166	198	198
Net interest margin[1]	**1.71%**	1.77%	1.78%	1.85%	1.85%
Total Group capital					
Common Equity Tier 1 (CET1) capital ratio	**13.00%**	11.47%	10.38%	10.20%	10.06%
Tier 1 capital ratio	**14.64%**	13.20%	12.36%	12.38%	12.41%
Total capital ratio	**18.91%**	16.62%	14.68%	14.12%	14.58%
Risk-weighted assets ($bn)	**417.2**	425.1	415.8	389.7	382.1
Volumes ($bn)					
Gross loans and acceptances[2]	**629.1**	594.1	601.4	585.6	565.1
Average interest earning assets	**805.0**	781.7	758.8	726.7	711.3
Total average assets	**889.6**	877.0	835.9	807.0	798.8
Total customer deposits	**500.3**	468.2	424.6	409.0	407.6
Average equity (adjusted) - statutory	**61.2**	56.7	51.6	48.7	47.5
Average equity (adjusted) - cash	**61.2**	56.7	51.6	48.7	47.5
Asset quality					
90+ days past due and gross impaired assets to gross loans and acceptances	**0.94%**	1.03%	0.93%	0.71%	0.70%
Full-time equivalent employees (FTE)[3]					
FTE (spot)	**33,275**	34,944	34,370	33,283	33,422
FTE (average)	**34,217**	34,841	33,950	33,747	33,746

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.
(2) Including loans and advances at fair value.
(3) Excluding discontinued operations, FTE (spot) is 32,741 (2020: 31,372) and FTE (average) is 31,897 (2020: 31,204).

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Principal activities

The principal activities of the Group during the year were banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management services, funds management and custodian, trustee and nominee services.

The Group's business

The Group is a financial services organisation with more than 32,000 colleagues, over 618,000 shareholders and serving approximately eight million customers.

The majority of the Group's financial services businesses operate in Australia and New Zealand, with branches located in Asia, the United Kingdom and the United States.

The Group operates the following divisions:

- *Business and Private Banking* focuses on NAB's priority small and medium (SME) customer segments. This includes the leading NAB Business franchise, specialised Agriculture, Health, Government, Education and Community services, along with Private Banking and JBWere, as well as the micro and small business segments.
- *Personal Banking* provides customers with products and services through proprietary networks in NAB, as well as third party and mortgage brokers. Customers are served through the Personal Banking network to secure home loans or manage personal finances through deposit, credit or personal loan facilities. The network also provides servicing support to individuals and business customers.
- *Corporate and Institutional Banking* provides a range of products and services including client coverage, corporate finance, markets, asset servicing, transactional banking and enterprise payments. The division services its customers in Australia and globally, including branches in the United Kingdom, United States and Asia, with specialised industry relationships and product teams. It includes Bank of New Zealand's Markets Trading operations.
- *New Zealand Banking* provides banking and financial services across customer segments in New Zealand. It consists of Partnership Banking, servicing retail, business and private customers; Corporate and Institutional Banking, servicing corporate and institutional customers, and includes Markets Sales operations in New Zealand. New Zealand Banking also includes the Wealth and Insurance franchises operating under the 'Bank of New Zealand' brand but excludes the Bank of New Zealand's Markets Trading operations.
- *Corporate Functions and Other* division includes UBank, 86 400 and enabling units that support all businesses including Treasury, Technology and Enterprise Operations, Strategy and Innovation, Support Units and eliminations.

Significant change in the state of affairs

- On 16 December 2020 the Group announced it had entered into an agreement to sell BNZ Life, its New Zealand life insurance business, to New Zealand life insurance provider Partners Life for NZ$290 million. The parties are continuing to progress towards completion, including separation activities required to effect the sale. Subject to the timing of regulatory approvals, completion is expected to occur in 2022.
- On 15 February 2021, the Group redeemed the $2,000 million of National Income Securities issued on 29 June 1999. The National Income Securities were redeemed for cash at their par value ($100) plus the final interest payment. The unpaid preference shares forming part of the National Income Securities were bought back for no consideration and cancelled.
- On 19 May 2021 the Group completed the acquisition of 86 400 Holdings Ltd, the holding company of Australian digital bank, 86 400 ("86 400") for a total consideration of $261 million. Refer to *Note 38 Acquisition of subsidiary*.
- On 31 May 2021 the Group completed the sale of MLC Wealth to IOOF Holdings Limited (IOOF) for a purchase price of $1,440 million. Refer to *Note 37 Discontinued operations*.
- On 30 July 2021 the Group announced its intention to buy-back up to $2.5 billion of NAB ordinary shares on-market to progress managing its CET1 capital ratio towards its target range of 10.75–11.25%. The Group commenced the buy-back in mid-August 2021 and has bought back and cancelled $486 million of ordinary shares in 2021.
- On 9 August 2021 NAB announced it had entered into an agreement with Citigroup to purchase Citigroup's Australian consumer business. The proposed acquisition, which remains subject to regulatory approvals, is structured primarily as an asset and liability transfer, with NAB to pay Citigroup cash for the net assets of Citigroup's Australian consumer business plus a premium of $250 million. Subject to the timing of regulatory approvals, completion is expected to occur by the middle of next calendar year.
- Changes to the composition of the Executive Leadership Team have occurred or were announced during 2021 and up until the date of this report, namely:
  - Mr Les Matheson commenced as Chief Operating Officer, with responsibility for digital banks UBank and 86 400, Group Marketing, Corporate Affairs, Product Improvement, Governance and other key strategic initiatives, effective 11 January 2021.
  - Ms Angela Mentis, previously Bank of New Zealand Managing Director and Chief Executive Officer, was appointed Group Chief Digital, Data & Analytics Officer. Mr Dan Huggins, previously BNZ's Executive - Customer, Products & Services, was appointed Bank of New Zealand Managing Director and Chief Executive Officer. Both appointments were effective 1 October 2021.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

There were no other significant changes in the state of affairs of the Group that occurred during the financial year under review that are not otherwise disclosed in this report.

Responding to COVID-19

COVID-19 continues to challenge the Group and its customers, with varied impacts across industries, communities and states. NAB has remained open for business, and continues to work alongside state and federal governments, regulators and the broader industry to support customers and the community.

Support for customers

With the impact of COVID-19 continuing to be felt by customers in many parts of Australia for long periods during 2021, NAB continued to work with those affected to understand their circumstances and provide them the appropriate support.

For the Group's business customers, this included:

- Access to a NAB Business Recovery Loan (the Group's SME Recovery Loan Scheme offering).
- When appropriate, repayment deferrals for up to a three month period.
- Waiver of merchant terminal fees for up to a three month period.
- Waiver of early withdrawal fees and notice periods on Cash Deposit and Farm Management Deposit accounts.

For the Group's personal customers, this included:

- Home loan repayment deferrals on a month-to-month basis, access to redraw facilities and offset accounts.
- Temporarily reduced payments or a temporary payment break on loans and credit cards.
- Waiving fees and charges to access term deposits early.

Support for colleagues

Ways of working for the Group's colleagues were also dramatically impacted by COVID-19, with lockdowns and border closures forcing many colleagues to work from home – often whilst juggling home schooling and other family commitments. The physical and psychological wellbeing of colleagues is critical. Colleagues who are safe and well can perform at their best, be resilient in times of change and focus on better customer outcomes.

In order to support the Group's colleagues manage these challenging circumstances, we have:

- Supported a hybrid model of working, with many colleagues splitting time working at a NAB location and at home.
- Provided safety measures such as personal protective equipment and social distancing protocols to protect colleagues in banking centres.
- Developed a Hybrid Handbook and a 'How to Hybrid Leaders guide' to support leaders and colleagues through this ongoing transition.
- Provided colleagues with time off work to get COVID-19 vaccines.
- Launched a pilot workplace vaccination program, in partnership with health authorities and the Group's corporate flu vaccination provider.
- Offered paid pandemic leave.
- Delivered wellbeing webinars and programs.
- Provided access to MyCoach, NAB's employee assistance program.

The pilot vaccination program provided colleagues and their adult household members in many of the most impacted areas in Sydney the opportunity to be vaccinated. The program was subsequently expanded in September 2021 to more NAB colleagues across Australia.

NAB's response to supporting customers and colleagues is further detailed in the *2021 Annual Review*.

Fighting financial crime

The Group has an important role in monitoring and reporting suspicious activity and keeping Australia's financial system, the bank and its customers safe. The Group takes its financial crime obligations seriously and therefore has made, and continues to make, significant investments in the ability to detect, deter and prevent financial crime.

As announced in June 2021, AUSTRAC has commenced an enforcement investigation of five Group entities.

In confirming the commencement of the investigation, AUSTRAC advised that it was not considering civil penalty proceedings at that stage. That position is subject to change.

Refer to *Note 30 Commitments and contingent liabilities* of the *Financial statements* for further details.

Governance and accountability

NAB's approach to corporate governance and governance practices

NAB continually strives to improve its governance, accountability and risk management practices.

As a fundamental element of NAB's culture and business practices, its Corporate Governance Framework guides effective decision making in all areas of the Group through:

- Strategic and operational planning
- Culture, purpose, values and conduct
- Risk management and compliance
- Customer outcomes
- Financial management
- External reporting
- People and remuneration.

For more information on NAB's Corporate Governance Framework please refer to NAB's *Corporate Governance Statement*.

NAB remains dedicated to building a culture that maintains the trust of its customers and community.

Implementation of APRA self-assessment actions and Royal Commission recommendations

Since the Banking & Financial Services Royal Commission and undertaking a Self-Assessment in 2018 on governance, accountability and culture, meaningful change has been made to the way NAB operates. A significant and wide-

OPERATING AND FINANCIAL REVIEW (CONTINUED)

reaching reform program has driven improvement in governance, accountability and culture, to address the root causes of past failings.

The voice of the customer is now firmly represented in NAB. Products and services have been reviewed to ensure they put the needs of the customer first. New complaint handling processes have been implemented to make it easier for customers to raise concerns and issues and as at 30 September 2021 99% of all complaints are resolved within 30 days. Improved process, controls and compliance capabilities have led to faster identification and resolution of issues, with the aim of reducing and preventing detrimental impacts to customers. NAB has refunded $575 million to 597,000 customers in 2021 through remediation programs.

Changes to NAB's operating model in early 2020 have delivered greater clarity of executive accountabilities, in conjunction with the focus on the Banking Executive Accountability Regime (BEAR) accountabilities. The operating model is supported by changes to the structure, composition and scope of risk committee governance at an executive-level. This has resulted in a greater demonstration of first line ownership and accountability for risks and issues, with clearer paths to mitigation and resolution when risks and issues arise.

The Board continues to have oversight of management's ongoing efforts to improve outcomes for customers and colleagues and get the basics right, including a strong focus on the remediation work required in financial crime risk management.

Of the 26 actions identified in NAB's 2018 Self-Assessment, all but three are now embedded and closed, with those remaining relating to reviews that are ongoing in nature. NAB will engage with APRA to determine whether related issues identified in NAB's Self-Assessment have been addressed to the satisfaction of the regulator.

NAB has actively implemented the applicable and actionable changes resulting from the 76 recommendations made by Commissioner Hayne. Of the 55 recommendations applicable to NAB, 21 are complete or well advanced, and the work to implement a further 10 is underway. The remaining 24 recommendations require no action from NAB at this time because they are related to other third-party participants including industry associations and regulators, or are due to be reviewed in the future.

Strategic highlights[1]

In April 2020, the Group announced a refresh of its long-term strategy. The strategy builds on progress achieved over previous years in reducing complexity, uplifting digital and data capability and establishing strong foundations in technology. It recognises the need to go further to create a simpler, more streamlined business with clear accountability, which is more productive, resilient and efficient.

The Group exists to serve customers well and help its communities prosper. To achieve this, the Group has narrowed its focus on a smaller number of key priorities that it believes will make a real difference to its customers and colleagues, and support over time its aim to be known for being:

- Relationship-led; building on market leading expertise, data and insights.
- Easy; a simpler, more seamless and digitally enabled bank that gets things done faster.
- Safe; protect customers and colleagues through financial and operational resilience.
- Long-term; deliver sustainable outcomes for stakeholders.

Over time, a simpler, more streamlined business with clear accountabilities is expected to deliver better customer outcomes, more engaged colleagues and improved shareholder value. The Group will measure the success of its refreshed strategy according to four key ambitions over the three to five years from the period ending 30 September 2020:

- Colleague engagement; top quartile.
- Customer net promoter score (NPS); strategic NPS[2] positive and first of major banks.
- Cash earnings per share growth; focus on market share growth in target segments while managing risk and pricing disciplines, and a disciplined approach to managing costs and investment with absolute costs (on a cash basis, excluding large notable items)[3] targeted to be lower relative to costs in the year ended September 2020 of $7.7 billion.
- Return on Equity; targeting double digit cash return on equity.

The close of 2021 marks the first full year under the Group's refreshed long-term strategy. Despite the challenges associated with COVID-19, progress has been made against strategic objectives through disciplined execution and by focusing on doing the basics well and supporting the needs of customers and colleagues. But there is more to do.

The Group's strategy provides clarity about where and how it will grow and improve returns for shareholders. Key to this are important shifts in focus and priorities across its businesses outlined below:

- Business and Private Banking will remain a key differentiator for the Group, with the objective of extending clear market leadership by investing in industry-leading bankers, enabled by data and insight capabilities, continued sector specialisation, increased focus on transactional banking and leveraging partnerships, combined with a more integrated high

(1) Amounts presented in this section are based on cash earnings.
(2) Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Sourced from DBM Consultants Business and Consumer Atlas, measured on 6 month rolling average. Net Promoter Score (NPS) is based on all customers' likelihood to recommend on a scale of 0 (not at all likely) to 10 (extremely likely). Definition has been updated to give all customers in the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer (18+) and Business segments using a 50% weighting for each. History has been restated. Ranking based on absolute scores, not statistically significant differences.
(3) Excluding large notable items, the impact of the proposed acquisition of Citigroup's Australian consumer business and any potential non-recurring AML/KYC related costs including those incurred in addressing the issues subject to investigation by AUSTRAC, such as file remediation and other associated costs.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

net worth offering. Importantly, the Group has also prioritised delivery of a simpler end-to-end business lending process.

- Personal Banking will invest in delivering simpler products and services, with digital-first propositions, flexible and professional bankers, easy customer experiences, simpler unsecured lending offers, and the delivery of simple home loans via a single mortgage factory.
- Corporate and Institutional Banking will continue its strategy of disciplined growth, with highly professional relationship managers and specialists, and leadership in infrastructure (including renewables) and investor sectors, targeting improved financial performance by further building out transactional banking and asset distribution capabilities.
- Bank of New Zealand intends to continue its portfolio shift towards SME and personal customer segments to deliver a simpler business with lower capital intensity, while also investing to create a step change increase in digital capability.
- UBank will invest in market leading digital experiences and new propositions to drive customer acquisition.

The Group took action in 2021 to reshape its portfolio consistent with the Group's strategy to simplify its business and focus on key priority areas. The sale of MLC Wealth was completed, and the Group finalised the acquisition of 86 400 and announced the proposed acquisition of Citigroup's Australian consumer business to accelerate growth in UBank and Personal Banking respectively.

Investments and actions undertaken are delivering improved outcomes for customers and colleagues. On the customer front, strategic NPS rose 4 points over the year to 30 September 2021 to -7 and is equal highest of major banks[1], but there is more to do to drive a positive NPS score and fully achieve the Group's customer ambition. Based on the latest survey in July 2021, the Group's colleague engagement score has improved to 77, up from 75 in April 2021 and 66 in 2019[2] and is now consistent with its ambition of achieving a top quartile colleague engagement score.

Improving the experiences for customers and colleagues is driving growth momentum across the Group's business.

The Group is investing in its leading SME franchise, Business and Private Banking, to grow by delivering differentiated and better banking experiences for customers and colleagues. Embedding performance disciplines and adding approximately 550 new customer facing roles have been important initiatives in 2021. Alongside this is an increasing focus on simplifying, automating and digitising to provide faster, more seamless banking experiences. This includes transforming small business lending via Quickbiz[3] with straight-through processing enabling application through to cash disbursement within 20 minutes. Leveraging opportunities in data and analytics to provide insights, more personalised experiences and faster decisioning is underway including the launch of new facility renewal and annual review processes which allow bankers to make faster assessments based on customer behavioural drivers. These investments and initiatives are driving growth. In 2021, SME business lending rose 7% compared with 2020, market share in both SME and Agri lending increased over the year[4], and business transactional account openings were 18% above 2020 levels.

In Australia, improving growth in home lending by increasingly simplifying and digitising the experience is a key focus. During 2021 the Group simplified and streamlined its home lending policies, rolled out digital application and decisioning tools and enhanced the ability for customers to self serve via the NAB App. These initiatives are delivering quicker, better outcomes for customers and colleagues. This includes a 50% reduction in the time taken for bankers to submit home loan applications in 2021 compared with 2020, and approximately 30% faster unconditional approval times, in the six months to September 2021 compared with the six months to September 2020, despite a significant increase in application volumes during the year. The Group's Simple Home Loans digital application platform has been a key driver of these outcomes, enabling simple lending to be originated far more seamlessly. Applications eligible to be submitted through the platform have risen to approximately 80% for the proprietary network over 2021, with rollout to mortgage broker and Business & Private Banking channels planned for 2022. These initiatives are making a difference with Australian home lending balances increasing 4% over 2021 and growing ahead of system over the six months ended 30 September 2021.

Digital, data and analytics are critical enablers of the Group's ability to achieve its strategic ambitions. By increasingly leveraging these enablers, the Group is able to deliver simpler, faster, safer and more personalised customer and colleague outcomes more efficiently. Good progress is underway across all divisions on this front. To ensure the Group is maximising the potential upside from these opportunities, Angela Mentis has been appointed to the newly created Executive Leadership Role of Group Chief Data, Digital & Analytics Officer. This appointment elevates the strategic importance and growth potential of the Group's data and digital strategies and aims to better position customers and colleagues for an increasingly

(1) Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Sourced from DBM Consultants Business and Consumer Atlas, measured on 6 month rolling average. Net Promoter Score (NPS) is based on all customers' likelihood to recommend on a scale of 0 (not at all likely) to 10 (extremely likely). Definition has been updated to give all customers in the Business and Consumer segments equal voice. The overall Strategic NPS result combines the Consumer (18+) and Business segments using a 50% weighting for each. History has been restated. Ranking based on absolute scores, not statistically significant differences.
(2) The 2019 score of 66 represents a restated score of the AON survey into a Glint 'Heartbeat' score methodology.
(3) Launching late calendar year 2021 initially for unsecured lending and existing customers only.
(4) Based on RBA Lending to Business – Business Finance Outstanding by Business Size and Industry data as at August 2021.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

digital and automated world, leveraging the strength of the Group's core banking businesses and strong technology foundations.

As the Group increasingly simplifies, automates and digitises, it is improving outcomes for customers and colleagues and should also be able to operate more efficiently. This, in conjunction with clearer accountabilities and performance disciplines, has seen cost growth in 2021 of 1.8%[(1)] compared with 2020 (on a cash basis, excluding large notable items in 2020) with investment at similar levels to 2020, reflecting a balanced approach to investing for sustainable growth while maintaining cost discipline. For 2022, the Group is targeting broadly flat costs[(2)] (on a cash basis) and investment spend compared with 2021. Investment underpins the Group's ability to deliver on its strategy and grow while remaining safe and resilient. Key focus areas of spend for 2022 include developing a single mortgage factory, continued cloud migration, uplifting the Group's merchant offering, enhanced use of data and analytics and further uplifting systems, processes and the control environment. The Group also plans to continue investing in cyber and financial crime prevention.

Critical to the Group's success and ambition of being safe is balance sheet strength. This is a key requirement of its ability to serve customers well and help communities prosper.

During 2021 the Group adjusted its capital and dividend settings to better support its long term strategy and reflect the importance of maintaining a strong balance sheet through the cycle while also driving improved shareholder returns. The Group plans to manage CET1 capital over time towards a target range of 10.75-11.25% and for dividends to be guided by a payout ratio range of 65-75% of cash earnings, subject to Board determination based on circumstances at the time.

Over 2021 the Group has achieved improved shareholder returns while retaining balance sheet strength. Cash earnings per share increased 44%[(3)] compared with 2020. Cash return on equity increased to 10.7% compared with 8.3% in 2020, and the final 2021 dividend has been set at 67 cents per share (cps), representing a cash earnings payout ratio of 68.6%. This brings the total dividend for the year ended 30 September 2021 to 127 cps which is 112% higher than 2020.

While September 2021 Group CET1 of 13.00% is above the top end of the Group's target range and 153 basis points higher over the year, actions underway are expected to progressively manage CET1 towards the target range, including completion of the remaining $2.0 billion on-market share buy-back. This, along with completion of the proposed acquisition of the Citigroup's Australian consumer business (less proceeds from the announced sale of BNZ Life) should result in a proforma CET1 reduction of approximately 75[(4)] basis points.

(1) On a statutory basis, expenses in 2021 decreased by 0.4% compared with 2020 (excluding large notable items in 2020).
(2) Excluding large notable items, the impact of the proposed acquisition of Citigroup's Australian consumer business and any potential non-recurring AML/KYC related costs including those incurred in addressing the issues subject to investigation by AUSTRAC, such as file remediation and other associated costs.
(3) Cash EPS on a diluted basis excluding large notable items in 2020.
(4) Both the proposed acquisition of the Citigroup's Australian consumer business and the sale of BNZ Life are expected to complete in 2022 subject to relevant approvals. The final capital impact will be determined following completion of both transactions. NAB's share buy-back commenced in August 2021, and is expected to be undertaken over approximately 12 months.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Financial performance

	Group[1]					
	2021	Large Notable Items	2021 ex Large Notable Items	2020	Large Notable Items	2020 ex Large Notable Items
	$m	$m	$m	$m	$m	$m
Net interest income	**13,793**	-	**13,793**	13,877	(49)	13,926
Other income[(2)(3)]	**2,936**	-	**2,936**	3,259	(80)	3,339
Net operating income	**16,729**	-	**16,729**	17,136	(129)	17,265
Operating expenses[(2)(3)]	**(7,863)**	-	**(7,863)**	(9,221)	(1,328)	(7,893)
Credit impairment (charge) / write-back	**202**	-	**202**	(2,752)	-	(2,752)
Profit before income tax	**9,068**	-	**9,068**	5,163	(1,457)	6,620
Income tax expense	**(2,597)**	-	**(2,597)**	(1,665)	434	(2,099)
Net profit for the year from continuing operations	**6,471**	-	**6,471**	3,498	(1,023)	4,521
Net loss after tax for the year from discontinued operations	**(104)**	-	**(104)**	(935)	(357)	(578)
Net profit for the year	**6,367**	-	**6,367**	2,563	(1,380)	3,943
Profit attributable to non-controlling interests	**3**	-	**3**	4	-	4
Net profit attributable to owners of NAB	**6,364**	-	**6,364**	2,559	(1,380)	3,939

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

September 2021 v September 2020

Net profit attributable to owners of NAB (statutory net profit) increased by $3,805 million.

Net interest income decreased by $84 million or 0.6%. Excluding large notable items of $49 million in 2020, net interest income decreased $133 million or 1.0%. This includes an increase of $192 million due to movements in economic hedges, offset in other operating income. Excluding these movements, the underlying decrease of $325 million or 2.3% was driven by lower earnings rates on deposits and capital due to the low interest rate environment, competitive pressures and product mix impacting housing lending margins, lower NAB risk management income in Markets and Treasury and lower average lending volumes. These movements were partially offset by the impact of lower term deposit costs, deposit repricing and favourable deposit mix, combined with repricing in the housing lending portfolio and lower wholesale funding costs.

Other income decreased by $323 million or 9.9%. Excluding large notable items of $80 million in 2020, other operating income decreased by $403 million or 12.0%. This includes a decrease of $192 million due to movements in economic hedges, offset in net interest income. Excluding these movements, the underlying decrease of $131 million or 4.0% was driven by lower NAB risk management income in Markets and Treasury, partially offset by a positive derivative valuation adjustment.

Operating expenses decreased by $1,358 million or 14.7%. Excluding large notable items of $1,328 million in 2020, total operating expenses decreased by $30 million or 0.4%. The decrease was driven by productivity benefits achieved through simplification of the Group's operations and third party savings, combined with lower restructuring-related costs, and the impairment loss relating to the Group's investment in MLC Limited (MLC Life) in 2020. These were partially offset by higher personnel expenses including provisions for higher performance-based compensation, additional bankers and resources to support growth and to support customers in response to COVID-19, combined with salary increases and additional costs associated with the investment in technology capabilities.

Credit impairment charge decreased by $2,954 million driven primarily by a $1,846 million reduction in charges for forward looking provisions as a result of COVID-19. Excluding forward looking provisions, underlying charges have decreased $1,108 million due to lower levels of individual impaired exposures and collective provision charges across the Group's lending portfolio.

Income tax expense increased by $932 million or 56.0% largely due to a higher profit before tax.

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Review of Group and divisional results

	Group[1][2] 2021 $m	Group[1][2] 2020 $m
Business and Private Banking	**2,480**	2,472
Personal Banking	**1,650**	1,442
Corporate and Institutional Banking	**1,207**	1,416
New Zealand Banking	**1,154**	977
Corporate Functions and Other[3]	**67**	(2,597)
Cash earnings	**6,558**	3,710
Cash earnings (excluding large notable items)	**6,558**	4,733
Non-cash earnings items	**(87)**	(212)
Net loss from discontinued operations	**(107)**	(939)
Net profit attributable to the owners of NAB	**6,364**	2,559

(1) Amounts presented in this section are based on cash earnings.
(2) Comparative information has been restated to reflect a reallocation of operating expenses between business units to better align with the Group's new organisational structure.
(3) Includes large notable items. In the 2021, the Group did not recognise any amounts as large notable items.

September 2021 v September 2020

Group

Cash earnings increased by $2,848 million or 76.8%. Excluding large notable items of $1,023 million in the September 2020 full year, cash earnings increased by $1,825 million or 38.6%.

Business and Private Banking

Cash earnings increased by $8 million or 0.3%, driven by a reduction in credit impairment charges, partially offset by higher operating expenses and lower revenue.

Personal Banking

Cash earnings increased by $208 million or 14.4%, driven by a reduction in credit impairment charges.

Corporate and Institutional Banking

Cash earnings decreased by $209 million or 14.8%, driven by lower Markets income and an increase in credit impairment charges, partially offset by lower operating expenses.

New Zealand Banking

Cash earnings increased by $177 million or 18.1% driven by higher revenue and lower credit impairment charges, partially offset by higher operating expenses.

Corporate Functions and Other

Cash earnings increased by $2,664 million including a decrease of $1,023 million in large notable items in the September 2020 full year. Cash earnings (excluding large notable items) increased by $1,641 million, driven by a reduction in credit impairment charges and distributions, partially offset by lower net operating income and higher operating expenses.

Group balance sheet review

	Group 2021 $m	Group 2020 $m
Assets		
Cash and liquid assets	**50,832**	64,388
Due from other banks[1]	**107,546**	47,333
Collateral placed[1]	**6,430**	8,579
Trading securities[1]	**50,020**	64,937
Debt instruments	**41,878**	40,355
Other financial assets	**2,794**	3,860
Derivative assets[1]	**27,474**	34,744
Loans and advances[1]	**621,156**	583,962
All other assets[1]	**17,838**	16,928
Assets held for sale	**-**	1,479
Total assets	**925,968**	866,565
Liabilities		
Due to other banks[1]	**74,160**	46,773
Collateral received[1]	**4,664**	5,327
Other financial liabilities	**27,046**	29,971
Derivative liabilities[1]	**24,031**	32,276
Deposits and other borrowings	**605,043**	546,176
Bonds, notes and subordinated debt	**109,154**	126,384
Other debt issues	**6,831**	6,191
All other liabilities[1]	**12,260**	11,953
Liabilities directly associated with assets held for sale	**-**	221
Total liabilities	**863,189**	805,272
Total equity	**62,779**	61,293
Total liabilities and equity	**925,968**	866,565

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

September 2021 v September 2020

Total assets increased by $59,403 million or 6.9%. The increase was mainly due to a net increase of $31,740 million or 18.0% in cash and liquid assets, due from other banks (including the Exchange Settlement Account with the RBA) and trading securities, reflecting the Group's management of liquidity during the period. Loans and advances increased by $37,194 million or 6.4% as a result of growth in both housing and non-housing lending. These increases were partially offset by a decrease in derivative assets of $7,270 million or 20.9% driven by exchange rate and interest rate movements.

Total liabilities increased by $57,917 million or 7.2%. The increase was mainly due to an increase in deposits and other borrowings of $58,867 million or 10.8% reflecting the impact of government and central bank stimulus measures in response to COVID-19. Amounts due to other banks increased by $27,387 million or 58.6% predominantly as a result of further drawdowns of the RBA Term Funding Facility. These increases were partially offset by a decrease in bonds, notes and subordinated debt and other financial liabilities of $20,155 million or 12.9% in line with Group funding requirements and a decrease in derivative liabilities

OPERATING AND FINANCIAL REVIEW (CONTINUED)

of $8,245 million or 25.5% driven by exchange rate and interest rate movements.

Total equity increased by $1,486 million or 2.4%. The increase was mainly due to an increase in retained earnings of $3,265 million or 20.8% reflecting current period statutory profits after the payment of dividends. This increase was partially offset by a decrease in contributed equity of $2,229 million or 4.9% predominantly attributable to the redemption of National Income Securities and payments for share buy-back.

Capital management and funding review

Balance sheet management overview

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

Regulatory reform

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

Revisions to the capital framework

- APRA is in the final stages of its consultations on the revised Authorised Deposit-taking Institution (ADI) capital framework with final prudential standards expected in November 2021. Implementation of the prudential standards relating to the risk-weighting framework and other capital requirements is proposed for 1 January 2023, consistent with the internationally agreed timelines for Basel III reforms by the Basel Committee on Banking Supervision. APRA is seeking to make improvements to the capital adequacy framework through:
  - Improving flexibility via increasing regulatory capital buffers.
  - Implementing more risk-sensitive risk-weights.
  - Enhancing competition via a capital floor for internal ratings-based (IRB) ADIs.
  - Improving transparency and comparability through the disclosure of capital ratios under the standardised approach.

  APRA has reiterated its view that it is not seeking to further increase the overall level of capital in the banking system.
- In August 2021, APRA released its revised Prudential Standard APS 111 *Capital Adequacy: Measurement of Capital*, including changes to the treatment of equity investments in subsidiaries for the purpose of calculating Level 1 regulatory capital. The revised standard will be implemented from 1 January 2022. In line with APRA's announcement in November 2020, the changes apply to any new or additional equity investments in subsidiaries in the interim period prior to 1 January 2022. The revisions to the standard are expected to increase the Group's Level 1 CET1 capital ratio by approximately 20-25 basis points.
- APRA has also proposed a minimum leverage ratio requirement of 3.5% for IRB ADIs and a revised leverage ratio exposure measurement methodology to be implemented from 1 January 2023. The Level 2 Group's leverage ratio as at 30 September 2021 is 5.83% (under the current methodology).

Increased loss-absorbing capacity for ADIs

- In July 2019, APRA released its framework for the implementation of an Australian loss-absorbing capacity regime, requiring an increase in Total capital of 3% of risk-weighted assets for domestic systemically important banks (D-SIBs) by 1 January 2024. APRA has maintained its overall target calibration of 4% to 5% of risk-weighted assets and will consult on alternative methods for raising the additional loss-absorbing capacity equal to 1% to 2% of risk-weighted assets over the next two years, including consideration of how Reserve Bank of New Zealand (RBNZ) capital instruments could be used in supporting overall loss-absorbing capacity.

RBNZ capital review

- In December 2019, the RBNZ finalised its review of the capital adequacy framework applied to registered banks incorporated in New Zealand. The RBNZ amendments to the amount of regulatory capital required of locally incorporated banks include:
  - An increase in credit risk-weighted assets for banks that use the RBNZ's internal ratings-based approach due to an increase in the scalar, prescribed use of the standardised approach for bank and sovereign exposures, and the introduction of an overall minimum standardised floor.
  - An increase in the Tier 1 capital requirement to 16% of risk-weighted assets, and an increase in the Total capital requirement to 18% of risk-weighted assets.
- Due to uncertainties arising from the impacts of COVID-19, the RBNZ delayed the start of the new capital requirements. The increases to risk-weighted assets will commence from 1 January 2022, while the required level of capital increases will commence from 1 July 2022 and be phased in through to July 2028.

Dividends

- In its updated December 2020 guidance, APRA removed specific restrictions on capital distributions that were introduced in response to COVID-19, but advised banks to moderate dividend payout ratios and consider the use of capital management initiatives to offset the impact on capital from distributions. APRA has reiterated that Boards need to carefully consider the sustainable rate for dividends, taking into account the outlook for profitability, capital and the economic environment.
- The RBNZ has eased restrictions on dividend payments, allowing banks to pay up to 50% of their earnings as dividends to shareholders, and has noted its expectation that banks exercise prudence when determining dividend payments. The 50% restriction will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restriction, subject to economic conditions.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Term Funding Facility (TFF)

- On 19 March 2020, the RBA announced the establishment of the TFF, a collateralised funding facility for the Australian banking system to support ADIs in providing credit into the economy at a low funding cost. The TFF was available to be drawn down until 30 June 2021. As at 30 September 2021, NAB's total TFF allowance was $31.9 billion, comprising $14.3 billion of Initial Allowance, $9.6 billion of Supplementary Allowance and $8.0 billion of Additional Allowance. NAB drew down the full Initial Allowance of the TFF during the year ended 30 September 2020, and the full Additional Allowance and Supplementary Allowance of the TFF during the year ended 30 September 2021. The TFF is an efficient source of three-year term funding, providing flexibility to manage refinancing and execution risk, while also reducing funding costs.

Contingent liquidity consultation

- On 14 July 2021, APRA released a consultation letter on contingent liquidity to locally incorporated ADIs subject to Liquidity Coverage Ratio (LCR) requirements. APRA considers that it would be prudent for an ADI subject to LCR requirements to maintain surplus self-securitised assets as contingent liquidity equal to at least 30% of its LCR net cash outflows.

Committed Liquidity Facility (CLF) reduction

- On 10 September 2021, APRA announced that the CLF will be reduced to zero by the end of 2022 subject to financial market conditions. The CLF reduction is expected to be offset by ADIs increasing holdings of high-quality liquid assets (HQLA).

Further detail on the regulatory changes impacting the Group is outlined in the September 2021 Pillar 3 Report.

Capital management

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

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

On 30 July 2021, the Group announced its intention to buy back up to $2.5 billion of NAB ordinary shares on-market to progressively manage its CET1 capital ratio towards its target range of 10.75–11.25%. NAB commenced the buy-back in mid-August 2021 and has bought back and cancelled $486 million of ordinary shares in the full year ended 30 September 2021.

Additional Tier 1 capital initiatives

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

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

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

Tier 2 capital initiatives

The Group's Tier 2 capital initiatives during the September 2021 full year included the following:

- On 18 November 2020, NAB issued $1.25 billion of Subordinated Notes.
- On 14 January 2021, NAB issued US$1.25 billion of Subordinated Notes.
- On 17 May 2021, NAB redeemed HK$1,137 million of Subordinated Notes.
- On 21 May 2021, NAB issued US$1.25 billion of Subordinated Notes.
- On 17 June 2021, BNZ redeemed NZ$550 million of BNZ Subordinated Notes.
- On 15 September 2021, NAB issued £600 million of Subordinated Notes.
- On 16 September 2021, NAB redeemed JPY10 billion of Subordinated Notes.
- On 21 September 2021, NAB redeemed $800 million of Subordinated Notes.
- The Group repurchased and cancelled US$11 million of the perpetual floating rate notes issued on 9 October 1986.

Funding and liquidity

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

Funding

The Group employs a range of metrics to set its risk appetite and measure balance sheet strength. The NSFR measures the extent to which assets are funded with stable sources of funding to mitigate the risk of future funding stress. At 30 September 2021, the Group's NSFR was 123%, compared to 127% at 30 September 2020, largely driven by the reduction in the CLF from $55.1 billion to $31.0 billion. The NSFR remains well above regulatory minimums.

Another key structural measure for balance sheet strength is the Stable Funding Index (SFI), which is comprised of the

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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

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

Over the year ended 30 September 2021, the SFI remained at 101% as the increase in CFI was largely offset by a reduction in the TFI, mainly due to deposits inflows outpacing lending growth.

Term wholesale funding

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

Through the financial year, global term funding conditions were generally supportive for issuance with the limited periods of volatility in the March 2021 half year largely absent in the September 2021 half year. This reflects continued central bank and government stimulus which has underpinned investor sentiment, resulting in credit spreads in most major markets being at or near post-Global Financial Crisis lows.

The Group raised $12.5 billion of term wholesale funding during the year ended 30 September 2021. NAB raised $9.7 billion of term wholesale funding, including $5.6 billion of Tier 2 subordinated debt, and BNZ raised $2.8 billion of senior unsecured debt.

The weighted average maturity of term wholesale funding issued by the Group in the September 2021 full year was approximately 8.1(1) years to the maturity date, supported by the issuance of long-dated Tier 2 subordinated debt. The weighted average remaining maturity of the Group's term wholesale funding portfolio is 3.5(1) years.

Term funding markets continue to be influenced by the economic environment, investor sentiment, and monetary and fiscal policy settings.

Short-term wholesale funding

During the year ended 30 September 2021, the Group accessed international and domestic short-term funding through wholesale markets when required. In addition, secured short-term funding in the form of repurchase agreements has been accessed primarily to support markets and trading activities. Repurchase agreements entered into, excluding those associated with the TFF, TLF and FLP, are materially offset by reverse repurchase agreements with similar tenors.

Liquidity Coverage Ratio

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

The Group maintains a well-diversified liquid asset portfolio to support regulatory and internal requirements in the regions in which it operates. The average value of regulatory liquid assets held through the September 2021 quarter was $191 billion and included $163 billion of HQLA. The increase in HQLA during 2021 was a result of deposit inflows and TFF drawdowns which were partially offset by a reduction in the Group Alternative Liquid Assets (ALA). ALA comprise pools of internally securitised mortgages, and other non-HQLA securities used to collateralise the reduced CLF or are securities that are repo-eligible with the RBNZ. Quarterly average ALA for September 2021 were $28 billion and comprise unencumbered assets available to the CLF of $27 billion, and RBNZ securities of $1 billion.

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

Dividends

Dividend and Dividend Reinvestment Plan (DRP)

The final dividend in respect of the year ended 30 September 2021 has been increased to 67 cents, 100% franked, payable on 15 December 2021.

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

The Group periodically adjusts its DRP to reflect its capital position and outlook. In respect of the final dividend for the year ending 30 September 2021, the DRP discount is nil, with no participation limit. The Group expects to satisfy the DRP in full by an on-market purchase of shares.

Review of, and outlook for, the Group operating environment

Global business environment

The global economy has rebounded strongly in calendar year 2021, following the steep downturn in 2020 associated with restrictions to control the spread of COVID-19 ("lockdowns").

The recovery has been disrupted by further COVID-19 outbreaks in a wide range of countries, as well as delays in the rollout of vaccines. Therefore the recovery is likely to continue into 2022, with global economic growth expected to remain above its long-term trend.

To this point, the recovery has been uneven. Some sectors, such as international transport and tourism, are still struggling, while access to vaccines varies considerably between countries.

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

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Various central banks loosened monetary policy at the start of the pandemic, implementing a range of measures including policy rate cuts, asset purchases, funding programs and loan guarantees. With the recovery underway, central banks are starting (or have announced that they may start) to unwind unconventional monetary policy. Policy rates for major central banks are expected to remain historically low for some time.

Governments have implemented a broad range of fiscal programs to support businesses and households. Some governments have started to unwind support, and fiscal spending is likely to contract significantly in 2022.

COVID-19 remains the main risk to the global economic outlook, with emerging market economies more exposed to the risk of outbreaks due to their typically lower vaccination rates than advanced economies.

Other near term risks include geopolitical tensions between China and other countries including Australia, and uncertainty in the Middle East, the South China Sea and the Korean Peninsula.

Australian economy

The Australian economy staged a strong recovery from the recession in the first half of calendar year 2020, before the introduction, around the middle of calendar year 2021, of lockdowns in some jurisdictions to control the spread of COVID-19.

GDP declined by 7.3% between the December 2019 and June 2020 quarters. By the June quarter 2021, GDP had recovered to 1.6% above its pre-COVID-19 level, but with progress mixed across industries and locations. Compared to December quarter 2019, in the June quarter 2021:

- Household consumption was marginally down but with some sectors, such as furnishings and household equipment and car purchases, having experienced large gains while other segments, including hospitality and transport services, were still depressed.
- Private business investment was broadly the same but dwelling investment was almost 10% higher.
- Public consumption and investment were higher (8% and 13% respectively).
- State final demand was higher in all states and territories, with the strongest recoveries occurring in the Northern Territory and Western Australia, and the weakest in NSW and, in particular, Victoria.

The recovery has been set-back by extended lockdowns in NSW, Victoria and the ACT. Retail sales for Australia declined by 4.8% between May and September 2021, and GDP in the September quarter 2021 is expected to record a large fall. With restrictions easing in October 2021, and given the considerable Government policy support in place, a bounce back in domestic activity is expected, which should lead to solid GDP growth over calendar year 2022 before it moderates towards a more trend like pace in calendar year 2023.

Strict controls on international border movements have continued to weigh on the education and tourism sectors.

While activity in the sectors most affected by COVID-19 may normalise as vaccine targets are met, lockdowns become less frequent and international borders start to re-open, how quickly this occurs is uncertain. There may also be longer lasting impacts on some sectors due to more permanent changes in behaviour arising from the pandemic, such as greater working from home.

The agriculture sector has benefited from generally high prices and seasonal conditions have also been good. A strong national 2021–22 winter crop is expected.

Lockdowns have significant impacts on the labour market, but the experience has been that it can recover quickly once restrictions ease:

- Between February and May 2020 employment declined 6.6% but in May 2021 it was 1.1% above its February 2020 level.
- The most recent lockdowns saw employment, and total hours worked decline by 1.9% and 4.8% respectively between May and September 2021.

Dwelling prices have been growing strongly. Between September 2020 and September 2021:

- The eight capital city CoreLogic Hedonic Home Value Index rose by 19.5%, with broad based growth across capital cities, and with houses seeing stronger gains than units.
- Growth in regional dwelling prices was even stronger.
- Concerned about rising home lending risks, in October 2021 APRA increased the minimum interest rate buffer for banks to use in assessing home loan applications.

Annual total system credit growth has strengthened. After increasing by 1.9% over the year to September 2020, between September 2020 and September 2021 system credit increased by 5.3%. Over this period:

- Housing credit strengthened to 6.5%, driven by owner-occupied credit, and business credit to 4.6% year on year.
- Other personal credit continued to fall (-5.3%).

Monetary policy remains very supportive of the economy. The cash rate target is only 0.10%. At its November 2021 meeting the RBA indicated that it will likely take some time before the conditions needed for there to be an increase in the cash rate are met. NAB's expectation is that there will be an increase in the cash rate in mid-calendar year 2023. While the RBA continues to purchase government bonds, it tapered the amount of its monthly asset purchases in September 2021 and the asset purchase program is likely to end by February 2022.

New Zealand economy

New Zealand's recovery from the COVID-19 induced recession in the first half of calendar 2020 was rapid. By the June quarter 2021, GDP was 4.3% higher that its pre-COVID-19 (December quarter 2019) level. This reflected:

- Strong growth in household consumption and, in particular, residential investment and central government spending. However, business investment has struggled and remains below its pre-COVID-19 level.

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- An uneven recovery by industry. There was an above average recovery in sectors such as accommodation and food services, wholesale and retail trade, construction and health care, while mining, administrative and support services, arts and recreation, transport and education and training are yet to return to their pre-COVID-19 level.

New Zealand entered lockdown on 17 August 2021. Restrictions began to ease, effectively starting in September 2021, in a series of steps but with differences by region (with the easing of restrictions in Auckland lagging the rest of the country).

The domestic restrictions put in place, as well as the suspension of the Australia-New Zealand travel bubble in July 2021, are likely to lead to a large fall in GDP in the September quarter. The value of electronic card transactions (a consumption indicator) declined by 21.9% between July and August 2021 but recovered slightly in September 2021, rising 1.6%, as restrictions eased. An easing in restrictions should see a rebound in GDP over the December 2021 and March 2022 quarters. Beyond this, growth is likely to be constrained by capacity limits, arising from difficulties in obtaining staff and supply bottlenecks.

Annual inflation, as measured by the CPI was 4.9% in the September quarter 2021, its highest level in over a decade.

Indicators are pointing to a tight labour market. In the September quarter 2021:

- The unemployment rate was 3.4%, well below its pre-COVID 19 level and its lowest level in almost 14 years.
- There was a large (6.6%) fall in hours worked reflecting the lockdown that started in the middle of the quarter.

The RBNZ ended the Large Scale Asset Purchase Program of Government bonds in July 2021. In October 2021, it increased the Official Cash Rate from 0.25% to 0.50%. It also noted that a further tightening in monetary policy over time was expected.

Commodity prices have strengthened, boosting income and providing support to the economy. In September 2021, commodity export prices were 23.6% higher than in September 2020 in world price terms.

Starting in the June quarter 2020, there has also been a substantial decline in population growth. This reflects restrictions on international movement and a large fall in net migration to New Zealand.

Overall system credit growth has accelerated and grew by 7.3% over the year to September 2021, with housing credit growth particularly strong at 11.6%, reflecting the strength of the property market.

Outlook

The outlook for the Group's financial performance and outcomes is closely linked to the levels of economic activity in each of the Group's key markets that are outlined above.

Disclosure on risk factors

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.

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.

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. 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 materially and adversely impact the Group's operations and financial performance and position.

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

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competitors such as FinTech's 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. Intense competition also increases the risk of a price war, especially in commoditised lines of business, where the players with the lowest unit cost may win share and industry profit pools may erode. 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 COVID-19.

Competition in the banking sector is expected to increase as the 'Consumer Data Right (CDR),' known as 'Open Banking' continues to be implemented. The CDR seeks to increase competition between banks by mandating and standardising the sharing of data relating to their products and services. It will also 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.

In September 2021, the Company became an accredited data recipient and, accordingly, will now also be able to receive data from other participants under the CDR. Currently, the CDR requires the Company to share data on individuals and sole traders, allowing these customers to direct the Company to share their data with accredited data recipients (applicable products include credit and debit cards, deposit accounts, and transaction 'current' accounts, mortgages, personal loans, asset finance, and business finance). The mandated scope of the CDR will be extended to business customers from November 2021. In July 2021, the New Zealand 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 New Zealand will increase competition in the New Zealand banking industry.

In 2020, the Australian Government also 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 review called for the Australian Government Treasurer to have increased oversight of, and ability to regulate, payments systems, and for the powers of the Reserve Bank of Australia (RBA) to be widened. It is currently not certain whether, or to what extent, the Australian Government will adopt the recommendations of the review.

Cryptocurrencies, and other digital assets, have become increasingly popular over the last 12 months. Regulation of digital assets is nascent but emerging, and is expected to shape the future of the sector and its impact on the Group, including the possibility of the RBA issuing a Central Bank Digital Currency.

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.

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. The successful completion of this transaction 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

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an adverse impact on the Group's financial performance and position.

In addition to the proposed acquisition of Citigroup's Australian consumer banking business, NAB completed the previously announced acquisition of 86 400 on 19 May 2021. The Company continues to work through integration and migration activities required to be undertaken to integrate the 86 400 business with the UBank division. This includes revoking 86 400's ADI authorisation which remains subject to APRA approval. 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, which 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 (the MLC Wealth Transaction). As part of the MLC Wealth Transaction, the Company provided IOOF 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 IOOF. A breach or triggering of these contractual protections may result in the Company being liable to IOOF.

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 IOOF with certain transitional services and continuing access to records, as well as support for data migration activities. The Company may be liable to IOOF 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 these costs are higher than expected, or if the Company fails to perform its obligations, there may be an adverse impact on the Group's financial performance and position.

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.

Despite vaccination programs globally gaining traction, the full extent of the economic impact of COVID-19 on the Group's credit risk profile remains uncertain.

COVID-19 has created economic and financial disruptions that have adversely affected, and will continue to adversely affect, the Group's business, financial conditions, liquidity and results of operations. The extent and duration of these continuing negative effects will depend on future developments, which remain highly uncertain. Increased credit risk can result in both an increase in losses when customers default on their loan obligations and/or higher capital requirements through an increase in the probability of default.

Although vaccination programs are underway globally, the distribution of vaccines 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.

In Australia and globally, measures to control the spread of COVID-19, including restrictions on public gatherings, business closures (particularly impacting small businesses) and travel and trade restrictions have had, and continue to have, a substantial negative impact on economic and business activity. Certain sectors, including tourism and transport, hospitality, education, retail, personal services and commercial property, have experienced, and may continue to experience significant financial stress. This includes a heightened risk of corporate and business bankruptcies, and an increase in household financial stress.

Globally, governments and central banks (including in Australia and New Zealand) 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 (including higher unemployment) 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 New Zealand 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.

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 New Zealand. 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 COVID-19 and the measures in place to control it, have the potential to drive a material change in residential property prices. The full

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impact of COVID-19 on the residential and commercial property markets may be delayed, in part, by governmental support measures and other actions that the Group and other financial institutions have taken, for example permitting loan payment deferrals in certain cases.

Residential property prices in Australia and New Zealand have continued to increase recently. There is a possibility that regulatory authorities may introduce further macroprudential controls in the future if house prices continue to increase. These changes have the potential to increase volatility in house price movements. 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 is likely to come through residential mortgage customers in high loan-to-value-ratio brackets.

Adverse business conditions in Australia and New Zealand, 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 New Zealand agricultural sectors. 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. 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.

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.

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

The majority of the Group's businesses operate in Australia and New Zealand, with branches currently located in Asia, the United Kingdom and the United States. 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 New Zealand, 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; 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 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.

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:

- Global economic growth has rebounded in calendar year 2021 and is expected to record above trend growth in calendar year 2022, as activity in major economies gradually returns to normal. However, the unequal distribution of vaccines and uncertainty relating to COVID-19 means 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. There is uncertainty around these forecasts given ongoing concerns related to COVID-19.
- Globally, central bank monetary policy rates (including in Australia and New Zealand) are at extremely low levels by historical standards, with a broad range of these institutions implementing unconventional monetary policy (such as quantitative easing) to provide additional stimulus during COVID-19. Reducing (and eventually ending) asset purchases is expected to be part of the first stages in normalising monetary policy – with Canada and New Zealand already starting this process, while the US Federal Reserve is expected to start tapering purchases early in calendar year 2022. Although prolonged accommodative monetary policy is providing support to the economic recovery post COVID-19, it risks building on existing imbalances in various asset classes across regions which could correct as policy support is unwound. Low rates may also reduce the impetus for highly geared borrowers to deleverage, increasing the

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credit risk posed to the Group. More generally, low policy rates may adversely affect the Group's cost of funds, trading income, margins and the value of the Group's lending and investments.

- Inflationary pressures have increased since the start of calendar year 2021, reflecting the impact of loose monetary policy, large scale fiscal stimulus in many countries, supply disruptions and shortages in some key markets. This is despite unemployment generally remaining above pre-COVID-19 levels. Major central bank commentary indicates that some of this pressure is transitory, however persistent above target inflation could lead to abrupt increases in policy rates, which could slow economic growth and affect borrowers' ability to service their debts.
- China is a major trading partner for Australia and New Zealand, with export incomes and business investment exposed to changes in China's economic growth or trade policies. China's economic growth in the first half of calendar year 2021 was highly imbalanced by historical standards, weighted towards industrial production, with domestic consumption subdued. 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 the past year, 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.
- 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 China's trade and technology policies (among other areas) persist, which could impact global economic growth and global 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 United Kingdom's departure from the European Union, the legal framework underpinning cross-border provision of financial services between the United Kingdom and EU remains subject to change. Political tensions between the Hong Kong Special Administrative Region and the People's Republic of China remain high. China is exerting greater political power over the region – by reducing the number of directly elected members of Hong Kong's Legislative Council and vetting candidates – following the 2019-20 protests. 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 New Zealand 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.

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, commodity and equity prices, particularly during periods of heightened market volatility or reduced liquidity. While the initial market volatility due to the impact of COVID-19 has subsided, there is potential for further market volatility as the global economy recovers.

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

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 Adjustment.

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 HQLA's used in managing the Group's liquidity risk and can give rise to material profit and loss volatility within Group Treasury 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.

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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 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 should interest rates change, thereby impacting the Group's net interest margin.

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 risk 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.

Capital, funding and liquidity risk

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 TFF, a three-year facility established by the RBA to provide an efficient source of funding for eligible ADI's within Australia. Final maturity dates of drawn TFF allocations are concentrated across all participating ADIs. Dislocation in 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 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 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 is expected to continue to decline throughout 2022, following the APRA announcement that ADI's 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 HQLA in place of the CLF, ensuring the Group's liquidity position remains strong.

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.

In response to the impacts of COVID-19, APRA outlined expectations for ADIs, limiting dividend payments to 50% of earnings in 2020. While specific restrictions were removed in its updated December 2020 guidance, APRA could reintroduce similar requirements in the future.

The RBNZ has implemented a restriction limiting banks to pay dividends up to a maximum of 50% of prior financial year earnings and has outlined its expectation that New Zealand banks will exercise prudence in determining

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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 D-SIBs such as the Company, to increase total capital by 3% of risk weighted assets (RWA) by 1 January 2024 are expected to be satisfied primarily through the issue of additional Tier 2 Capital. APRA will consider "feasible alternative methods" for raising an additional 1% to 2% of RWA in loss-absorbing capacity, in consultation with industry and other interested stakeholders. This potential incremental requirement could 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. APRA has recommenced its consultations on the revised ADI capital framework. Final prudential standards, draft prudential practice guides and initial details of reporting requirements in relation to the risk-weighting framework and other capital requirements are expected to be released by the end of 2021, with implementation of revised prudential standards in relation to the risk-weighting framework and other capital requirements from 1 January 2023. While the 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.

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 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.

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.

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.

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 expectation 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.

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's Crisis Management Team have included alternate work locations

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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.

The Group continues to monitor the situation closely as the domestic and global business environment changes, including progress of vaccination programs, and it is unclear how this will further evolve or if the Group will need to continue to re-activate the 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.

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.

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 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.

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 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.

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, 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.

COVID-19 has resulted in international border closures limiting access to international talent markets. In countries where COVID-19 restrictions are eased or removed, academic research indicates an increased level of voluntary attrition. These factors may impact the Group's capacity to attract and retain key talent.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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 investor and 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.

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 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 New Zealand, 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, New Zealand 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.

Sustainability risk

Sustainability risk is the risk that events or conditions (which includes Environmental, Social or Governance (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.

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 record-breaking floods in Eastern Australia in early 2021. The impact of these extreme weather events can be widespread, extending beyond primary producers to customers of the Group who are suppliers to the agricultural sector, and to those who reside in, and operate businesses within, impacted communities. 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.

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.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Failure by the Group to comply with ESG-related standards or meet community and stakeholder expectations, or the failure to apply appropriate 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, or may increase the risk of ESG-related litigation against the Group.

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 can 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.

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.

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 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.

In addition, events such as 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 continuing to support its customers in an appropriate way during COVID-19 including through regular customer communications. 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. COVID-19 has led to increased risk of scams and fraud against the Group's customers. The Group cannot predict the level of further disruption which may occur.

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 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.

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.

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 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 AUSTRAC alleging significant breaches of Anti-Money Laundering (AML) /Counter-Terrorism Financing (CTF) laws.

In June 2021, AUSTRAC notified the Company that it had commenced an enforcement investigation into potential non-compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and the Anti-Money Laundering Counter-Terrorism Financing Rules 2007 by five Group entities, including the Company. While the regulator indicated by letter to the Company dated 4 June 2021 that it was not (at that time) considering civil penalty proceedings, AUSTRAC's investigation is ongoing. AUSTRAC's enforcement powers include infringement notices, remedial directions, enforceable undertakings and civil penalty orders.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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. 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 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 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 Company also faces risks relating to compliance with financial sanctions laws across multiple jurisdictions. Should the Company'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.

Refer to *Note 30 Commitments and contingent liabilities* on page 170 'Regulatory activity, compliance investigations and associated proceedings - Anti-Money Laundering and Counter-Terrorism Financing program uplift and compliance issues' for more information.

The Group may fail to comply with applicable laws and regulations, or may incur significant compliance costs.

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.

In addition, 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 and regulatory enforcement, which may in turn, result in the imposition of civil or criminal penalties on the Group.

Extensive regulatory change poses a significant risk to the Group.

Globally, the financial services and banking industries are subject to a significant and increasing level of regulatory reviews and political scrutiny, including in Australia, New Zealand 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 made a considerable number of recommendations. 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. Whilst extensive work is done to assess proposed design solutions and to test design effectiveness of controls for each regulatory change before the effective date, 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.

Further inquiries and regulatory reviews impacting the financial services industry may be commissioned by the Australian and New Zealand Governments, 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 has a number of in-flight regulatory changes, including both the introduction of new prudential

OPERATING AND FINANCIAL REVIEW (CONTINUED)

standards and amendments to existing prudential standards. The changes cover a range of themes including risk management, governance, remuneration and recovery and resolution planning.
- In 2018 and 2019, the New Zealand Financial Markets Authority and the RBNZ undertook a review that led to the New Zealand Government introducing the Financial Markets (Conduct of Institutions) Amendment Bill to the New Zealand Parliament in December 2019 to create an oversight and licensing regime for regulating conduct in the banking, non-bank deposit taking and insurance sectors. The bill is expected to pass in early 2022.
- The Australian BEAR applies to the Group. On 16 July 2021, the Australian Government Treasury released exposure draft legislation for the 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. 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 from as early as 1 July 2022.
- The regulatory timeframes for the implementation of the CDR require significant changes to the Group's operations and technology. There is a risk that the Group may not achieve compliance with set milestones for the complete implementation of Open Banking. Furthermore, in September 2021 the Group became accredited to receive data (that is, as an 'accredited data recipient') from other participants under the Open Banking regime. This means that the Group is now subject to further obligations under the CDR legal framework. Open Banking may also lead to 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 will be shared with, and received from, a broader range of stakeholders. The significant resources and management time required to implement Open Banking may also have a flow-on effect, impacting other regulatory reforms across the Group.
- There are a number of other ongoing or proposed regulatory changes and inquiries relevant to the Group, such as 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, ASX CHESS replacement, LIBOR cessation, changes to the Group entities eligible for inclusion in the Level 1 group for prudential supervisory purposes, operational resilience, market abuse or conduct related regulations, changes to financial benchmarks, derivatives reform, replacement of the Reserve Bank of New Zealand Act 1989 (New Zealand), payments, data protection and privacy laws, data quality, competition inquiries, financial crime legislation, increasing modern slavery, climate and other sustainability risk related regulatory and reporting requirements, accounting and financial reporting requirements, and tax reform.
- Additionally, continued focus on COVID-19 related impacts (such as loan deferrals) has led to an increase in regulatory reporting requirements and data collection and publication by regulators.

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 COVID-19 and the associated focus on economic recovery 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 ongoing impact of COVID-19 on the Group's operations may result in delays in its ability to implement regulatory change. 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.

Failure to comply with laws or regulatory requirements may expose the Group to remediation costs, regulatory enforcement action or litigation, including class actions.

There have been several domestic and international institutions facing high profile regulatory enforcement actions for alleged instances of non-compliance with laws or regulatory requirements. In some cases, class actions have been brought in respect of the matters to which these enforcement actions relate.

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 *Note 30 Commitments and contingent liabilities* on pages 167 to 172 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.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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. Changes in the methodology or assumptions on which the assessment of goodwill and intangible balances is based, together with changes in expected 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 the intangible balances.

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.

DIRECTORS' INFORMATION

Directors

Details of NAB directors in office at the date of this report (or holding office during the year), and each director's qualifications, experience and other directorships and interests are below.

The Board acknowledges that directors benefit from being involved in a broad range of governance roles provided directors have the capacity to devote sufficient time and effort to fulfil their NAB responsibilities. The Chair, with the assistance of the Nomination & Governance Committee, has determined each director meets this requirement.

Mr Philip Chronican
BCom (Hons), MBA (Dist),GAICD, SF Fin
Age: 65

Term of office: Non-executive director since May 2016. Chair of the Board and Chair of the Board's Nomination & Governance Committee since 15 November 2019.

Independent: Yes

Skills & experience: Mr Chronican has more than 39 years of experience in banking and finance in Australia and New Zealand, including as NAB's interim Group CEO from 1 March 2019 to 14 November 2019. Mr Chronican was responsible for the Retail and Commercial business of the Australia and New Zealand Banking Group Limited (ANZ) in Australia. Prior to joining ANZ, Mr Chronican had a long career at Westpac Banking Corporation, where he established his role in Australian banking as Group Executive Westpac Institutional Bank and Chief Financial Officer.

Mr Chronican has broad experience in M&A activity and post-merger integration, and has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity.

Directorships of other listed entities:

Woolworths Group Limited (since October 2021)

Mr Chronican's other directorships and interests include The Westmead Institute for Medical Research (Chair) and the National Foundation for Australia-China Relations Advisory Board (Member).

Mr Ross McEwan CBE
BBus
Age: 64

Term of office: Group Chief Executive Officer and Managing Director since December 2019.

Independent: No

Skills & experience Mr McEwan has more than 30 years of experience in the finance, insurance and investment industries. Mr McEwan is a senior global financial services executive with deep experience in international markets and long-standing knowledge of the Australian banking environment. Mr McEwan also has extensive experience in leading organisations through significant change and recovery. Prior to joining NAB, Mr McEwan held executive roles at the Royal Bank of Scotland as CEO UK Retail from 2012 to 2013 and Group CEO from 2013 to 2019. Mr McEwan's experience includes executive roles at Commonwealth Bank of Australia, First NZ Capital Securities and National Mutual Life Association of Australasia / AXA New Zealand.

Mr McEwan's other directorships include Australian Banking Association and the Financial Markets Foundation for Children.

Mr David Armstrong
BBus, FCA, MAICD
Age: 63

Term of office: Non-executive director since August 2014. He is Chair of the Board's Audit Committee and a member of the Board's Risk & Compliance Committee.

Independent: Yes

Skills & experience: Mr Armstrong has more than 30 years of experience in professional services, including as a partner at PricewaterhouseCoopers (PwC). Mr Armstrong has significant knowledge and understanding of banking and capital markets, real estate and infrastructure and is well-versed in the reporting, regulatory and risk challenges faced by the industry.

Directorships of other listed entities:

IAG Limited (since September 2021)

Mr Armstrong's other directorships and interests include The George Institute for Global Health (Chair), Opera Australia Capital Fund Limited, Australian Museum (President) and Lizard Island Reef Research Foundation.

Ms Kathryn Fagg AO
FTSE, BE(Hons), MCom(Hons)
Age: 60

Term of office: Non-executive director since December 2019. Member of the Board's Audit and Risk & Compliance Committees.

Independent: Yes

Skills & experience: Ms Fagg has more than 25 years of senior commercial and operational experience and is a respected and experienced director and Chair, with extensive leadership experience across a range of industries, including banking. Ms Fagg was previously Chair of Boral, non-executive director of Incitec Pivot Limited, a board member of the Reserve Bank of Australia and has held

DIRECTORS' INFORMATION (CONTINUED)

executive roles with Linfox Logistics, Bluescope Steel and ANZ. Ms Fagg has a deep understanding of strategy, leadership, governance and risk, operations, investments, decision- making and corporate development.

Directorships of other listed entities:

Djerriwarrh Investments Limited (since May 2014)

Ms Fagg's other directorships include Breast Cancer Network Australia (Chair), CSIRO (Chair), Watertrust Australia Limited (Chair), The Grattan Institute, The Myer Foundation, Champions of Change Coalition and a member of the Independent Panel for the Australian Public Service Commission's 'Hierarchy and Classification' Review.

Mr Peeyush Gupta AM
BA, MBA, AMP (Harvard)
Age: 62

***Term of office*:** Non-executive director since November 2014. Member of the Board's Risk & Compliance and People & Remuneration Committees. Director of BNZ Insurance Services Limited and BNZ Life Insurance Limited, subsidiaries of NAB.

Independent: Yes

Skills & experience: Mr Gupta has more than 30 years of experience in wealth management. Mr Gupta was a co-founder and the inaugural CEO of IPAC Securities, a pre-eminent wealth management firm spanning financial advice and institutional portfolio management, which was acquired by AXA.

Mr Gupta has extensive corporate governance experience, having served as a director on many corporate, government, not-for-profit, trustee and responsible entity boards since the 1990s, including experience on audit, risk, and remuneration committees.

Directorships of other listed entities:

Link Administration Holdings Limited (Link Group) (since November 2016)
Charter Hall WALE Limited (since May 2016)

Mr Gupta's other directorships include Charter Hall Direct Property Management Limited (Chair), Insurance & Care NSW (iCare) and Special Broadcasting Service Corporation.

Ms Anne Loveridge
BA (Hons), FCA, GAICD
Age: 60

Term of office: Non-executive director since December 2015. Chair of the Board's People & Remuneration Committee and a member of the Board's Nomination & Governance and Customer Committees.

Independent: Yes

***Skills & experience*:** Ms Loveridge has more than 30 years of experience in professional services, providing advice and other services to the financial services sector and ASX-listed companies. Up to her retirement in 2015, Ms Loveridge held senior leadership roles as Partner and Deputy Chair at PwC where, in addition to client advisory and audit roles, she had responsibilities within the firm for governance, leadership development, mentoring and remuneration of senior executives and Partners.

Directorships of other listed entities:

nib Holdings Limited (since February 2017)
Platinum Asset Management Limited (since September 2016)

Ms Loveridge's other directorships and interests include The Bell Shakespeare Company Limited (Chair), Destination NSW and member of Chief Executive Women (CEW).

Mr Douglas McKay ONZM
BA, AMP (Harvard) CMinstD (NZ)
Age: 66

***Term of office*:** Non-executive director since February 2016. Member of the Board's Audit and Customer Committees. Chair of Bank of New Zealand (a subsidiary of NAB).

***Independent*:** Yes

***Skills & experience*:** Mr McKay has more than 30 years of senior commercial and operational experience, together with marketing and private equity experience. Mr McKay has a deep understanding of New Zealand and Australian markets having held CEO and Managing Director positions within major trans-Tasman companies and organisations including Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord and Independent Liquor.

Directorships of other listed entities:

Genesis Energy Limited* (since June 2014)
Fletcher Building Limited* (since September 2018)

**Dual-listed on the New Zealand and Australian stock exchanges*

Mr McKay's other directorships include Eden Park Trust (Chair) and IAG (NZ) Holdings Limited.

Mr Simon McKeon AO
BCom, LLB, FAICD
Age: 65

Term of office: Non-executive director since February 2020. Chair of the Board's Risk & Compliance Committee and a member of the Board's Nomination & Governance Committee.

Independent: Yes

***Skills & experience*:** Mr McKeon has more than 40 years of experience in financial services, law, government and the

DIRECTORS' INFORMATION (CONTINUED)

not for profit sector. He held a range of senior executive roles with Macquarie Group, including as Executive Chair of its business in the State of Victoria. He previously served as Chairman of AMP Limited, MYOB Limited and CSIRO and was Founding President of the Federal Government's Australian Takeovers Panel.

Mr McKeon also served as Founding Chair of MS Research Australia and as Chair of the Federal Government's Panel that completed a strategic review of health and medical research in 2013. Mr McKeon is an active philanthropist and has been a significant contributor over many years to charitable, educational, public health and other community-based organisations and causes. Mr McKeon was Australian of the Year in 2011.

Directorships of other listed entities:

Rio Tinto Group (since January 2019)

Mr McKeon's other directorships and interests include Summer Housing (Chair), South East Melbourne (Chair), Monash University (Chancellor), The Big Issue (Member of the Advisory Board) and GFG Alliance Australia (Member of the Advisory Board).

Ms Ann Sherry AO
BA, Grad Dip IR, FAICD, FIPAA
Age: 67

Term of office: Non-executive director since November 2017. Chair of the Board's Customer Committee and a member of the Board's People & Remuneration Committee. Ms Sherry is Co-Chair of NAB's Indigenous Advisory Group.

Independent: Yes

Skills & experience: Ms Sherry has more than 20 years of experience in executive roles within the banking, tourism and transport industries in Australia and New Zealand, together with significant experience in government and public service. She was Chairman of Carnival Australia, having previously served as CEO and as Executive Chairman.

Prior to joining Carnival Australia, Ms Sherry had 12 years experience with Westpac Banking Corporation (Westpac) where she held executive roles including CEO, Westpac New Zealand, CEO, Bank of Melbourne and Group Executive, People & Performance.

Directorships of other listed entities:

Sydney Airport (since May 2014)
Enero Group Limited (Chairman since January 2020)

Ms Sherry's other directorships and interests include UNICEF Australia (Chair), Port of Townsville (Chair), Cape York Partnership, Museum of Contemporary Art and Infrastructure Victoria.

Former director

Ms McBride resigned from the Board effective 18 December 2020.

Ms Geraldine McBride BSc

Age: 60

Term of office: Non-executive director from March 2014 to December 2020. Member of the Board's Audit and Customer Committees.

Independent: Yes

Skills & experience: Ms McBride has more than 30 years of experience in the technology industry and international business. Ms McBride is a former President of global software company SAP for North America, as well as roles with Dell and IBM. Ms McBride is CEO and Director of MyWave.

Directorships of listed entities:

Sky Network Television Limited (since August 2013)
Fisher and Paykel Healthcare Corporation Limited (since July 2013)

Company secretaries

Details of company secretaries of NAB in office at the date of this report (or holding office during the year) and each company secretary's qualifications and experience are below.

Mrs Louise Thomson BBus (Dist), FGIA joined the Group in 2000 and was appointed Group Company Secretary in May 2013. She has experience in a wide range of finance, risk, regulatory and governance matters. The Group Company Secretary supports the Board to enable the Board to fulfil its role.

Ms Penelope MacRae BA (Hons), LLB (Hons) joined the Group in 2011 as a Senior Corporate Lawyer and was appointed Company Secretary in December 2016. She is the Secretary of the Board's Risk & Compliance Committee, manages the Group's Risk Management Committees and has experience in a wide range of corporate, legal, governance, risk and regulatory matters.

Ms Tricia Conte BCom, LLB (Hons) joined the Group in 2006 and was appointed Company Secretary in November 2018. She is the Secretary to the Board Audit Committee and a Senior Legal Counsel who advises the Group on a wide range of legal, corporate, governance and regulatory matters.

Mr Ricardo Vasquez BSc, LLB, ACIS joined the Group in 2020 and was appointed Company Secretary in March 2021. He is the Secretary to the Board's People & Remuneration Committee and has extensive experience in legal and governance matters having worked in various industries, including large banking groups both domestic and international.

DIRECTORS' INFORMATION (CONTINUED)

Directors' and officers' indemnity

NAB's constitution

Article 20.1 of NAB's constitution provides that, to the maximum extent permitted by law, NAB may indemnify any current or former officer out of the property of NAB against:

- Any liability incurred by the person in the capacity as an officer (except a liability for legal costs).
- Legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the officer becomes involved because of that capacity.
- Legal costs incurred in connection with any investigation or inquiry of any nature (including, without limitation, a royal commission) in which the officer becomes involved (including, without limitation, appearing as a witness or producing documents) because of that capacity.
- Legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer, if that expenditure has been approved in accordance with the Board's charter, except to the extent that:
  - NAB is forbidden by law to indemnify the person against the liability or legal costs, or
  - An indemnity by NAB of the person against the liability or legal costs, if given, would be made void by law.

Under Article 20.2, NAB may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer against liability incurred by the person in that capacity, including a liability for legal costs, unless:

- NAB is forbidden by law to pay or agree to pay the premium, or
- The contract would, if NAB paid the premium, be made void by law.

NAB may enter into an agreement with a person referred to in Articles 20.1 and 20.2 with respect to the subject matter of those Articles. Such an agreement may include provisions relating to rights of access to the books of NAB. In the context of Article 20, 'officer' means a director, secretary or senior manager of NAB or of a related body corporate of NAB.

NAB has executed deeds of indemnity in favour of each director of NAB and certain directors of related bodies corporate of NAB. Some companies within the Group have extended equivalent deeds of indemnity in favour of directors of those companies.

Directors' and officers' insurance

During the year, NAB, pursuant to Article 20, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of NAB and of each related body corporate of NAB. The contract does not provide cover for the independent auditors of NAB or of a related body corporate of NAB. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered.

DIRECTORS' INFORMATION (CONTINUED)

Directors and directors meeting

The NAB Board met 19 times during the year ended 30 September 2021.

The following table includes:

- The names of the directors holding office at any time during the financial year.
- The number of Board and Committee meetings held during the financial year and the number of meetings actually attended by each director. Where a director joined or left the Board or a Committee during the reporting period, only the number of meetings they were eligible to attend is shown.

All directors may attend Committee meetings even if they are not a member of a relevant Committee. The table below excludes the attendance of those directors at Committee meetings where they were not a Committee member.

Some directors also attended special purpose ad hoc committee meetings during the year, which is not included in the table below:

	Board meetings				Committee meetings									
	Scheduled[1]		Unscheduled[2]		Audit[3]		Risk & Compliance[3]		People & Remuneration[3]		Customer[3]		Nomination & Governance	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Current directors														
Phil Chronican	9	9	10	10	-	-	-	-	-	-	-	-	5	5
Ross McEwan	9	9	10	10	-	-	-	-	-	-	-	-	-	-
David Armstrong	9	9	10	10	8	8	6	6	-	-	-	-	-	-
Kathryn Fagg	9	9	10	10	8	8	6	6	-	-	-	-	-	-
Peeyush Gupta	9	9	10	10	-	-	6	6	12	12	-	-	-	-
Anne Loveridge	9	9	10	9	-	-	-	-	12	12	6	5	5	5
Doug McKay	9	9	10	10	8	8	-	-	-	-	6	6	-	-
Simon McKeon	9	9	10	10	-	-	6	6	-	-	-	-	5	5
Ann Sherry	9	9	10	9	-	-	-	-	12	12	6	6	-	-
Former directors														
Geraldine McBride (resigned December 2020)	4	4	2	2	4	4	-	-	-	-	2	2	-	-

(1) The number of meetings scheduled in the Board's approved annual calendar. When workshops form part of a scheduled Board program, they are not additive to the Board meeting count.
(2) The number of out-of-cycle Board meetings convened during the year for a special purpose that do not form part of the Board's approved annual calendar. Out-of-cycle meetings were held for the Board to receive updates on time sensitive matters, including mergers and acquisitions and capital transactions.
(3) The number of Committee meetings both scheduled in the Board's approved annual calendar and any convened out-of-cycle for time sensitive matters or due to members' availability. When a Committee workshop forms part of a scheduled Board program, it is not additive to that Committee meeting count. The Board Audit Committee held two out-of-cycle meetings. The People & Remuneration Committee held five out-of-cycle meetings. The Customer Committee held two out-of-cycle meetings.

OTHER INFORMATION

Directors' and executives' interests

Particulars of shares, rights and other relevant interests held directly and indirectly by directors and executives are set out in the Remuneration report.

Rights

As at the date of this report, there are 1,866,363 rights outstanding in relation to NAB fully paid ordinary shares. No exercise price is payable for rights. The latest dates for exercise of the rights range between 15 February 2022 and 15 February 2029. Persons holding rights are not entitled to participate in capital actions by NAB (such as rights issues or bonus issues).

For the period from 1 October 2021 to the date of this report, no fully paid NAB ordinary shares were issued as a result of the exercise of a right.

For further details on rights refer to *Note 34 Equity-based plans* of the financial statements and Section 5.4 of the Remuneration report.

OTHER MATTERS

Litigation and disputes

From time to time entities within the Group may be involved in disputes or legal proceedings arising from the conduct of their business. The outcomes and total costs associated with such disputes and proceedings are typically uncertain. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to *Note 30 Commitments and contingent liabilities* of the financial statements for details of the Group's material legal proceedings and contingent liabilities.

Future developments

In the opinion of the directors, discussion or disclosure of any further future developments including the Group's business strategies and its prospects for future financial years would be likely to result in unreasonable prejudice to the interests of the Group.

Proceedings on behalf of NAB

There are no proceedings brought or intervened in, or applications to bring or intervene in proceedings, on behalf of NAB by a member or other person entitled to do so under section 237 of the *Corporations Act 2001* (Cth).

Events subsequent to reporting date

There are no items, transactions or events of a material or unusual nature that have arisen in the period between 30 September 2021 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

Integrity of reporting

The directors of NAB have a responsibility with respect to the integrity of external reporting. This involves reviewing and monitoring, with the assistance of the Board Audit Committee and management, the processes, controls and procedures which are in place to maintain the integrity of the Group's financial statements.

Further details on the role of the Board and its committees can be found in NAB's 2021 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance.

Environmental and social regulation, risk and opportunities

Regulatory Disclosures

The Group's operations are not subject to any site-specific environmental licences or permits which would be considered particular or significant environmental regulation under the laws of the Australian Commonwealth Government or of an Australian state or territory.

As a lender, the Group may incur environmental liabilities in circumstances where it takes possession of a borrower's assets and those assets have associated environmental risks. The Group has developed and implemented credit policies that aim to ensure that these risks are minimised and managed appropriately.

The Group's operations are subject to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act) and the Streamlined Energy & Carbon Reporting (SECR) requirements which are implemented through the *Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* (United Kingdom) as part of the legislative response to climate change in Australia and the United Kingdom respectively. While this legislation is not particular to the Group or significant in its impact, the Group complied with its requirements. The NGER Act requires the Group to report on the period from 1 July to 30 June (the environmental reporting year), therefore, all of the Group's energy and greenhouse gas (GHG) emissions reporting is aligned to this reporting period.

The Group's Australian vehicle fleet and building-related net energy use reported under the NGER Act for the 2021 environmental reporting year was 407,670 gigajoules (GJ) (2020: 517,446 GJ), which is approximately 83% of the Group's measured total net energy use. The associated total GHG emissions from fuel combustion (Scope 1) and from electricity use (Scope 2) were 79,651 tCO_2-e (2020: 89,402 tCO_2-e).

The Group's United Kingdom-based (London Branch) energy use[(1)] reported under the SECR for the 2021 environmental reporting year was 419,667 Kilowatt hours (KWh) (2020: 1,248,735 KWh). The associated total GHG emissions from fuel combustion (Scope 1) and from electricity use[(2)] (Scope 2) were 87 tCO_2-e (2020: 273 tCO_2-e). This equates to 144 KWh and 0.03 tCO_2-e per metre squared of property space occupied by the Group's London Branch. Further London Branch and Group energy and GHG emissions data is provided in Table 1 to satisfy SECR requirements.

During the 2021 environmental reporting year, the Group's total market-based GHG emissions (Scope 1, 2 and 3[(3)]) were

(1) The Group's energy use and GHG emissions reported for SECR purposes are associated with building-related gas and electricity use only. The Group does not have a vehicle fleet associated with its United Kingdom operations.
(2) 100% of the Group's United Kingdom-based (London Branch) electricity is renewable electricity.
(3) Scope 1 GHG emissions are direct emissions from sources that are owned or controlled by an organisation including on-site fossil fuel combustion and vehicle fleet fuel consumption. Scope 2 emissions are indirect emissions from purchased electricity. Scope 3 emissions relate to all other indirect emissions that occur outside the boundary of the organisation as a result of the activities of the organisation. However, the Group's Scope 3 emissions reported here are operationally-related and do not include Scope 3 emissions associated with the Group's financing activities. The Group commenced reporting on Scope 3 attributable financed emissions in 2021. Attributable financed emissions are not included in the Group's carbon neutral position.

OTHER MATTERS (CONTINUED)

110,934 tCO_2-e (2020: 149,479[1] tCO_2-e), after accounting for use of certified renewable energy in Australia and the United Kingdom.

The Group continues to implement an energy efficiency program, including energy efficiency opportunity assessments and sustainable building design. This helps to produce GHG emissions savings and contributes to the Group's carbon neutral status and delivery of the Group's climate change strategy and targets. From 1 July 2006 to 30 June 2021, the Group identified a total of 1,323 energy efficiency and renewable energy opportunities in Australia alone. A further seven efficiency energy opportunities have been completed or commenced in environmental reporting year 2021. These additional opportunities are estimated to save an additional 3,623 GJ of energy, reduce 51,859 tCO_2-e of GHG emissions and a cost saving of $776,507 per annum. Significantly fewer energy saving initiatives were implemented this year due to re-focusing activities towards bringing three new major commercial buildings online and as a result of COVID-19 related property shutdowns.

Additional detail on the Group's environmental and climate-related performance is provided in the *2021 Annual Review* and *2021 Sustainability Data Pack* available at https://www.nab.com.au/about-us/social-impact/shareholders/performance-and-reporting. Further information on the methodologies used to calculate the emissions in Table 1 is also available on the Group website[2].

The Group's main Melbourne-based data centre is subject to *National Environment Protection Measure* (National Pollutant Inventory) (NPI) reporting requirements in Australia. The NPI provides a public database of emissions and transfers of specified NPI substances from various facilities. The Group is required to report on these emissions because the volume of natural gas used to run the tri-generation plant at this facility triggers the NPI threshold. The Group has complied with this requirement.

In 2014, the Group's United Kingdom-based operations became subject to the Energy Savings Opportunities Scheme (ESOS), introduced by the United Kingdom ESOS Regulations 2014 which came into force in July 2014. The ESOS requires mandatory energy assessments (audits) of organisations buildings and transport to be conducted every four years. The Group fulfilled its most recent ESOS obligation in December 2019 and will resubmit as required in December 2023, if it continues to meet the ESOS qualification requirements at 31 December 2022.

(1) This amount has been restated to account for additional electricty charges received in 2021 for BNZ that related to 2020.
(2) Refer to 'How we calculate our carbon emissions' on https://www.nab.com.au/about-us/social-impact/environment/climate-change.

OTHER MATTERS (CONTINUED)

Table 1: Key GHG emissions and energy use (1 July - 30 June)[(1)]

	London Branch		Group (excluding London Branch)	
	2021	2020	2021	2020[(2)]
Energy from gas consumption (KWh)	64,131	377,813	16,773,264	41,484,826
Energy from vehicle fleet fuel use (KWh)	0	0	23,261,807	27,568,578
Energy from electricity consumption (KWh)	355,536	870,922	96,216,129	100,977,908
Total energy for SECR reporting (KWh) (tCO_2-e)[(3)]	419,667	1,248,735	136,251,200	170,031,312
GHG emissions from energy use (Scope 1 – Gas) (tCO_2-e)	12	70	3,118	7,701
GHG emissions from vehicle fleet (Scope 1) (tCO_2-e)	0	0	5,818	6,885
GHG emissions from energy use (Scope 2, location-based – electricity) (tCO_2-e)	75	203	74,774	79,508
Total gross Scope 1 & 2 GHG emissions for SECR reporting (tCO_2-e)[(3)]	87	273	83,710	94,094
Total gross Scope 3 emissions (tCO_2-e)	477	1,975	45,438	59,676
Intensity ratio: Energy (KWh)/$ Financial metric[(4)]	0.0014	0.004	0.016	0.022
Intensity ratio: Gross Scope 1 & 2 GHG (tCO_2-e)/ $ Financial Metric[(4)]	0.0000003	0.000001	0.00001	0.000012
Intensity ratio: Energy (KWh)/ m^2	144	236	195	246
Intensity ratio: GHG (tCO_2-e)/ m^2	0.03	0.05	0.12	0.14
Intensity ratio: Energy (KWh)/ FTE	1,506	4,024	3,906	4,919
Intensity ratio: GHG (tCO_2-e)/ FTE	0.31	0.88	2.40	2.72
Emissions from electricity use (Scope 2, market-based – electricity) (tCO_2-e)	0	0	57,287	71,938
Total net Scope 1,2 and 3 GHG emissions (after accounting for UK and Australian renewable energy)[(3)]	339	2,253	110,595	147,226
Carbon Offsets Retired	339	2,253	110,595	147,226
Net carbon emissions (carbon neutral)	0	0	0	0

Methodology

- Refer to *'How we calculate our carbon emissions'* on www.nab.com.au/about-us/social- impact/environment/climate-change.
- The Group reports its energy and GHG data based on operational control.
- Energy consumption data is captured through utility billing; meter reads or estimates.
- The Group has applied the latest emission factors available at the time of reporting to the current year. Refer to methodology documents on the Group website at www.nab.com.au/about-us/social-impact/environment/climate-change for a full list of the emissions factor sources. Prior year figures reflect the emissions reported in that year, unless otherwise stated. United Kingdom-based emissions were calculated using factors provided by the United Kingdom Department for Business, Energy & Industrial Strategy.
- Intensity ratio calculations have been calculated using location-based emission factors.
- The financial intensity metrics in Table 1 use an activity data numerator which is reported for the Group's environmental reporting year (1 July – 30 June) and a financial metric denominator which is reported for the Group's financial year (1 October– 30 September). This is to ensure that the Group uses metrics which are publicly available as much as possible and because of the difference in the Group's environmental reporting and financial years.

(1) This data is an extract of the Group's full energy and GHG emissions inventory data to satisfy SECR requirements. A full set of the Group's assured energy use and emissions data is available in the Group's *2021 Sustainability Data Pack*.
(2) Amounts have been restated to account for additional electricty charges received in 2021 for BNZ that related to 2020.
(3) London Branch operations consume no Scope 1 diesel for stationary energy purposes (backup generators). The Group (excluding London Branch) figures include diesel used for backup generators (2020: KWh – 159,167 and tCO_2-e – 40; 2021: KWh – 273,925 and tCO_2-e – 69). The Total net Scope 1, 2 and 3 GHG emissions (after accounting for UK and Australian renewable energy) figures also includes Scope 1 refrigerant gases from our Australian and New Zealand vehicle fleets and heating, ventilation, and air conditioning systems and domestic refrigeration in offices and branches.
(4) The Group has used 'Underlying profit' as a financial metric (rather than other financial measures of profit or economic activity) for normalisation of its environmental performance as this allows for meaningful comparison to prior years' data and to financial intensity measures used in the Group's Sustainability Data Pack and CDP disclosures due to the nature of its underlying business activities.

Climate change

The Group recognises that climate change is one of the most significant challenges to society and the economy, and that it is a source of significant risk and opportunity for the Group. Therefore, the Group is aligning its business to help achieve the temperature goals of the Paris Agreement[(1)] and supporting a just transition to a net zero emissions economy by 2050. This includes working with the Group's customers to achieve the Group's goal of aligning its lending portfolio to net zero emissions by 2050.

The Group considers the response to climate change requires collective action and that the Group needs to be part of the solution and support its customers as they take action too. This is aligned with the Group's

(1) The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

OTHER MATTERS (CONTINUED)

strategic ambition – to serve customers well and help our communities prosper.

Financial regulators have identified that climate-related risks are a potential source of systemic financial risk that needs to be addressed to ensure the future stability and resilience of the financial system. This is leading to changing supervisory expectations of banks and to regulatory change.

In addition to responding to regulatory requirements and change, the Group is actively working to decarbonise its own operations and seeking to play a key role in supporting the low-carbon transition and green growth[1]. In doing so, the Group aims to make a real and positive contribution to the environmental sustainability of the communities in which it operates.

In working to achieve the Group's goal of aligning its lending portfolio to net zero emissions by 2050, the Group acknowledges the limitations of current data and the need to regularly review, and update work, targets and methodologies used. The Group continues to work on understanding its total Scope 3 attributable emissions exposure so customers who reduce carbon emissions faster can be recognised and rewarded. Similar to other international and Australian banks, NAB continues work to develop its emissions-based modelling to better monitor progress against its goal to align its lending portfolio to net zero emissions by 2050.

The following is a summary of the Group's approach to climate change governance, strategy, risk management, and metrics and targets consistent with the Financial Stability Board's Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations.

Governance

The Board retains ultimate oversight for ESG risks and issues, including climate change.

The Board receives regular reports on a range of climate change-related issues, including progress against the Group's climate change strategy, ESG-related credit policy and risk settings, commitments, goals, targets and initiatives, environmental operational performance, carbon neutral status, and concerns raised by stakeholders. It also receives updates on regulatory change and greenhouse and energy reporting returns that require noting by the Board before submission to regulators. The Board Risk & Compliance Committee (BRCC) receives periodic reports on climate risk, regulatory developments and other related matters that fall under its charter, particularly matters such as emerging risk, risk appetite, scenarios and stress testing.

In 2021, the Group established a Sustainability Council to formalise and facilitate work across the enterprise on sustainability and to align activity to support key focus areas of the Group's climate change strategy, and to oversee and report progress. The Sustainability Council, chaired by the Chief Operating Officer, is comprised of Executive Leadership Group members from key business areas.

The Sustainability Council oversees the implementation of the Group's Sustainability Action Plan (SAP). Development of the SAP in 2021 was supported by a number of action groups which focused on: (1) sustainable business practices; (2) climate change; and (3) commercial responses to society's biggest challenges. The Climate Change Action Group (CCAG) is on-going and replaces the Group's Climate Change Working Group. The CCAG drives implementation of the Group's climate strategy, particularly work in progress to meet the Group's CCCA obligations, net zero by 2050 goal and development of climate-related product and service offerings.

Updates on implementation of the Group's climate change strategy are reported periodically to management and the Sustainability Council and as required to the Executive Leadership Team, relevant risk committees, BRCC and the Board.

Climate change strategy

A key pillar of the Group's business strategy is a long-term sustainable approach consisting of:

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

The Group's action to address climate change sits within this context.

In 2021, the Group refreshed its climate change strategy. The Group's main role in climate action is through the provision of financing. While the Group recognises the impact it can make by reducing its own GHG emissions, a far greater impact will be achieved by financing the actions needed by others.

The Group's updated climate strategy therefore covers:

- A goal of aligning our lending portfolio to net zero emissions by 2050
- Working with customers to decarbonise and build climate-related resilience
- Managing climate risk.

Supported by:

- Actively reducing the Group's own emissions
- Developing the climate capability of colleagues
- Research, partnerships and engagement.

The Group identifies and prioritises current and future business opportunities, including those related to climate change (for example, financing low-carbon technology like renewable power generation or water security projects which help deliver resilience to drought). This occurs through strategic planning processes both at a Group and business line level.

The Group's climate change strategy has been integrated into the Group's business strategy. The Group is using its experience in clean energy financing and natural value to provide innovative, low-carbon solutions for customers across the Group's key sectors and markets.

(1) Green growth describes a path of economic growth that uses natural resources in a sustainable manner.

OTHER MATTERS (CONTINUED)

Highlights from delivering on opportunities within the Group's climate change strategy in 2021 included:

- Providing a further $1,085 million in financing for renewable energy projects, taking the cumulative value of financing provided for renewable energy projects since 2003 to $11.5 billion. This included financing the Group's 150th renewable energy financing transaction.
- Progressing the Group's work with 100 of its largest greenhouse gas emitting customers to support them as they develop or improve their low-carbon transition plans by 30 September 2023. To support this target, the Group developed a transition framework to assess the transition maturity of in scope customers. In 2021, the Group evaluated 34 customers using this framework.
- Joining together with a group of international peers – British bank NatWest Group, Canadian Imperial Bank of Commerce and Brazil's Itaú Unibanco to develop a global carbon platform using distributed ledger technology known as 'Project Carbon'. Its purpose is to create a transparent and liquid marketplace for voluntary carbon credits. Since the project was publicly announced in July 2021, it has completed a successful pilot trade; with further pilot trades to be executed over the coming months.
- Working with researchers from the Food Agility Cooperative Research Centre to develop a tool that catalogues and reviews investment opportunities for Australian farmers that support them to mitigate emissions and to adapt to the physical risks of climate change.
- Supporting ClimateWorks Australia's development of a natural capital catalogue which defines what natural capital metrics can be measured across Australian farms and how they can be measured. The next phase of this work in 2022 will involve piloting the metrics on participating farms.
- Continuing to provide environmental finance (refer Metrics and targets (see page 47)) to support customers' low-carbon transition.

Building climate-related capability

To support better understanding and implementation of climate risk management and identification and execution of climate-related opportunities, the Group has developed and rolled out a series of climate-related training opportunities for colleagues.

In 2021, the Board incorporated two climate change sessions into its development agenda. Session one covered: (1) best practice climate risk management in banking; and (2) the changing regulatory and supervisory response to climate change risk. Session two covered: (1) evolving international practice by peer banks in implementing climate commitments and the recommendations of the TFCD; (2) key findings from IEA's *Net Zero by 2050: A Roadmap for the Global Energy Sector* Report; (3) climate and environment-related litigation risks ; and (4) the Group's Corporate and Institutional Bank's 'Bank for Transition' initiative and the Group's Project Carbon partnership.

The Group's 2021 annual Risk Awareness training included a refreshed climate risk module to help colleagues understand:

- Highlights from the latest climate science.
- The goals of the Paris Agreement.
- The key elements of the TCFD's framework for managing climate risk.
- Actions being taken by the Group to address climate change.

The training also provided examples of climate-related physical and transition risks to help colleagues understand the impacts of climate change on our business, customers and the communities in which the Group operates.

Additionally, in 2021, the Group engaged Melbourne Business School (MBS) to help develop and deliver targeted climate training for colleagues supporting the low-carbon transition plans of the Group's biggest greenhouse-gas emitting customers. The training is expected to help bankers to identify climate-related risks and understand transition planning so they can better work with and support customers. During 2021, 75 relationship management bankers completed or commenced this training.

Following its release in May 2021, the Group also arranged for a specific session to be conducted by the International Energy Agency (IEA) with the Group's Executive Leadership Team to discuss the IEA's *Net Zero by 2050: A Roadmap for the Global Energy Sector* Report.

Risk management

ESG risks, including climate change, are identified, measured, monitored, reported and overseen in accordance with the Group's Risk Management Framework (as described in the Group's Risk Management Strategy).

During 2021, Sustainability Risk[(1)], which includes consideration of climate risk, was added as a material risk category within the Risk Management Framework. This change became effective on 1 October 2021. Additionally, consideration of climate risk is incorporated within the Group Risk Appetite Statement (RAS). This was reviewed and updated in 2021 as part of the development of the Group's 2022 RAS. Credit risk tolerances within the RAS include a decreasing cap on thermal coal lending to ensure the Group is on track to reduce thermal coal mining exposures by 50% by 30 September 2026, intended to be effectively zero by 30 September 2030, apart from residual performance guarantees to rehabilitate existing coal assets. The oil and gas review, discussed in the section below, has resulted in an additional cap which has been included in the RAS for 2022.

Two key risk committees are involved in the oversight of climate-related risk:

(1) Sustainability Risk is defined as "the risk that Environmental, Social or Governance (ESG) events or conditions negatively impact the risk and return profile, value or reputation of the Group or its customers and suppliers.".

OTHER MATTERS (CONTINUED)

- The Group Non-Financial Risk Committee – which has oversight of non-financial risks, including climate-related risks, and the Group's environmental performance
- The Group Credit and Market Risk Committee – which has oversight of financial risk and ESG risks, including climate-related risks, in the context of the credit risk portfolio. This includes ESG-related credit policy and risk settings for climate intensive, low-carbon and climate sensitive sectors.

Matters are escalated to the Executive Risk & Compliance Committee, BRCC and the Board as required.

Phased review of carbon intensive, climate sensitive and low-carbon sectors

The Group's phased review of carbon intensive, climate sensitive and low-carbon sectors commenced in 2017 and is ongoing. These reviews consider a range of factors including: (i) various climate change scenarios for both transition[1] and physical risk[2]; (ii) customer strategies and plans and their alignment to the Paris Agreement temperature goals; (iii) industry trends; and (iv) trends in Group exposures to these sectors. To date, this review process has led to implementation of the following ESG-related credit policy and risk settings. The Group will not finance:

- New thermal coal mining projects or new-to-bank thermal coal mining customers.
- Oil / tar sands extraction projects.
- Oil and gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge.
- New, or material expansions of, coal-fired power generation facilities.

In 2021, the Group completed its risk review of the oil and gas sector[3]. The International Energy Agency's Net Zero Emissions (IEA NZE 2050) scenario was used as a key reference point to guide the Group's oil and gas decarbonisation pathway. This scenario outlines a path to limit temperature rise from pre-industrial levels to 1.5 degrees Celsius by 2050. The Group is using the IEA NZE 2050 scenario because this modelling has international credibility, is regularly updated and is familiar to customers.

While oil and gas lending represents about 0.3% of the Group's Exposure at Default (EAD) at 30 September 2021, it (along with coal) attracts significant attention from stakeholders focused on climate action because these fossil fuels make up around 80%[4] of Australia's current greenhouse gas emissions. Australia's current reliance on fossil fuels needs to be reduced to achieve net zero emissions by 2050, whilst having regard to national energy security, Australian jobs and communities. These considerations are important to the Group, as it supports customers' low-carbon transition. Orderly transition is critical to limit the disruption to the global economy and the people and communities who depend on jobs in transitioning industries. The Group fully appreciates community needs and expectations in this way and is particularly mindful of the role that gas will play as a transition fuel in the medium term.

The oil and gas review resulted in an oil and gas exposure cap (refer Metrics and targets (see page 47)) and the following changes to the Group's ESG-related credit policy and risk settings – the Group:

- Will only consider directly financing greenfield gas extraction in Australia where it plays a role in underpinning national energy security.
- Will not directly finance greenfield gas extraction projects outside Australia.
- Will continue to support integrated liquefied natural gas (LNG) in Australia, New Zealand, Papua New Guinea and selected LNG infrastructure in other regions, with such exposures to be included within the oil and gas exposure cap.
- Will not directly finance greenfield oil extraction projects or onboard new customers with a predominant focus on oil extraction.
- Will not directly finance ultra-deep water oil and gas extraction projects.

Additionally, the Group updated its ESG-related credit risk policy setting related to oil and gas projects within or impacting the Arctic and Antarctic refuge areas to the following: the Group will not finance *oil and gas extraction, production or pipeline projects* within or impacting the Arctic National Wildlife Refuge area or any similar Antarctic Refuge.

Participation in industry climate risk initiatives

Recognising that climate change as an issue cannot be addressed by the Group alone, in 2021, the Group continued to collaborate and participate in climate-related risk industry activities and projects to better understand, and implement, methodologies to assess, and manage, climate risk. This included the following:

- ***Participating in the Australian Prudential Regulatory Authority (APRA)-led Climate Vulnerability Assessment* –** In 2021, the Group commenced work on a Climate Vulnerability Assessment (CVA), a Council of Financial Regulators (CFR) initiative led by APRA. The CVA is taking a scenario analysis approach to assessing the nature and extent of the financial risks that large banks in Australia, like NAB, may face due to climate change. Refer Climate vulnerability assessment (see page 44) for further details.

(1) For the purpose of this work, transition risk was defined as the impact of low-carbon policy and transition to low-carbon technology on markets and industries.
(2) For the purpose of this work, physical risk was defined as the risk resulting from climate variability, extreme weather events and longer-term changes in climate patterns.
(3) For the purposes of this review oil and gas included: oil and gas extraction (upstream); liquefied natural gas (LNG) production (not at refineries – downstream LNG); and LNG production at wellhead (integrated LNG).
(4) Source: National Greenhouse Gas Inventory Quarterly Update: March 2021, Department of Industry, Science, Energy and Resources chart - Annual emissions data by sector. Sum of electricity, stationary energy, transport, and fugitive emissions.

OTHER MATTERS (CONTINUED)

- ***Principles for Responsible Banking Collective Commitment to Climate Action (CCCA)*** – During 2021, the Group participated in CCCA working groups and contributed to the development of the CCCA's Guidelines for Climate Target Setting for Banks, which were published in April 2021[1]. The CCCA requires the Group to align its lending portfolio to "reflect and finance the low-carbon, climate-resilient economy required to limit global warming to well-below two degrees Celsius, striving for 1.5 degrees Celsius", from pre-industrial levels. The Group has submitted its second annual report on progress to United Nations Environment Programme Finance Initiative (UNEP FI) as part of meeting its CCCA obligations. Further detail on how the Group is meeting its CCCA obligations is available on page 24 of the Group's *2021 Annual Review*.
- ***Completing work on physical risk assessment with the Energy Transitions Hub*** – In 2021, the Group completed work commenced in 2020 on physical climate risk, with the Energy Transitions Hub at the University of Melbourne. The aim of this work was to better understand the impacts of physical climate risk on key parts of the Group's lending portfolio. The work examined the potential impact of cyclones and extreme temperatures under three different future warming scenarios (1.5°C, 2°C, and 3°C). This work has helped inform the Group's approach to physical risk assessments for its lending portfolio and individual customers, as part of the CVA.
- ***Participating in UNEP FI's TCFD Phase 3 pilot project*** – In 2021, the Group continued its involvement, with more than 40 other UNEP FI member banks, in UNEP FI's TCFD phase 3 pilot. This pilot aims to help banks understand and test methodologies and approaches to climate risk assessment, data selection and to support implementation of the TCFD recommendations. The Phase 3 work included a review of climate scenarios, including Phase 2 scenarios provided by the Network for Greening the Financial System[2] (NGFS), and testing of new tools and frameworks produced by UNEP FI and its partners to help banks better understand climate risks and prepare TCFD disclosures. Work also included:
  - Exploring banks' climate-risk management practices.
  - Reviewing current industry approaches to portfolio alignment and their application to bank portfolios.
  - A piloting exercise for the evaluation of transition risks and alignment to the goals of the Paris Agreement for real estate (refer UNEP FI TCFD Phase 3 – Evaluating real estate transition risks (see page 45) for further details).
  - Understanding the key assumptions and limitations of current climate models for assessing sectoral and regional risks and perspectives on the major risk drivers.
  - Understanding the universe of data and tool providers to help banks identify where key gaps exist in the landscape. Further details of the Phase 1, 2 and 3 project outputs can be found at: https://www.unepfi.org/banking/tcfd/.
- ***Climate Measurement Standards Initiative (CMSI)*** – In 2021, the CMSI Secretariat engaged with member financial organisations and other participants to develop a program of work for CMSI Phase 2, which will commence late in the 2021 calendar year. The Group has supported this cross-sector industry initiative since it formed in 2020. The CMSI includes representatives from across the banking, insurance and investment sectors alongside pre-eminent Australian climate scientists working together under the auspices of the National Environmental Science Program's Earth Systems and Climate Change (ESCC) Hub, professional services firms and finance sector industry bodies. The objective of the CMSI is to provide opensource voluntary guidance[3] on climate risk.
- ***Resilience Investment Vehicle (RIV)*** – In 2021, the Group continued working with Insurance Australia Group, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and a number of other government agencies, industry groups and not-for-profit organisations on a RIV[4]. The focus of 2021 was supporting the development of the Bushfire Building Council of Australia's Bushfire Resilience Star Rating tool.
- ***The Australian Industry Energy Transitions Initiative* (Australian Industry ETI)** – The Australian Industry ETI aims to accelerate action towards achieving net zero emissions in hard-to-abate supply chains by 2050 while managing the transition to thrive in a decarbonised global economy. The Group continued to support this collaborative industry initiative led by ClimateWorks Australia and Climate-KIC Australia. The Australian Industry ETI released a technical report[5] in 2021 outlining the energy transition needs to help heavy industry (Steel; Aluminium; LNG; Other metals (copper, lithium, nickel); and Chemicals (fertilisers and explosives) to reach net zero by 2050.

Climate vulnerability assessment

The Group is currently participating in an APRA-led CVA. The three key objectives of the CVA are to assess potential financial exposure to climate risk, to understand how banks may adjust business models and implement management actions in response to different scenarios, and to foster improvement in climate risk management capabilities. The CVA is consistent with similar exercises being undertaken by regulators and banks in a number of other jurisdictions.

The CVA uses two climate scenarios as the foundation for assessing potential climate risk impacts described below.

(1) A copy of the Guidelines for Climate Target setting for Banks is available here: unepfi.org/wordpress/wp-content/uploads/2021/04/UNEP-FI-Guidelines-for-Climate-Change-Target-Setting.pdf
(2) https://www.ngfs.net/
(3) Two key reports were published in 2020 – a finance report and a science report – both provide technical guidance on how to assess and understand physical climate risk. These reports are available at: https://www.cmsi.org.au/reports
(4) A RIV is a fund to direct capital (public and private) to finance new and/or adapt existing infrastructure to build resilience, reduce disaster risk and derive a financial return for investors.
(5) australian-industry-energy-transitions-initiative-technical-report.pdf (arena.gov.au)

OTHER MATTERS (CONTINUED)

These scenarios set out different potential pathways for decarbonisation of the economy and changes in the physical climate between 2020 and 2050. They are aligned to the internationally accepted scenarios developed by the NGFS.

Scenario 1 – a Disorderly Transition – involves a delayed but rapid reduction in emissions by 2050. This scenario explores a future with higher transition risks, arising from a delayed transition to a lower emissions global economy. This NGFS scenario assumes:

- Current climate policies apply until 2030; and
- Rapid reduction in global GHG emissions after 2030, consistent with limiting global warming to less than 2°C.

Scenario 2 – a Hot House World – is largely based on a continuation of current global policies and forecasts which result in increasing global emissions and temperatures. This scenario explores a future with higher physical risks, arising from a continued increase in global GHG emissions. The NGFS scenario assumes that only currently implemented policies are preserved.

Global net GHG emissions from selected NGFS scenarios

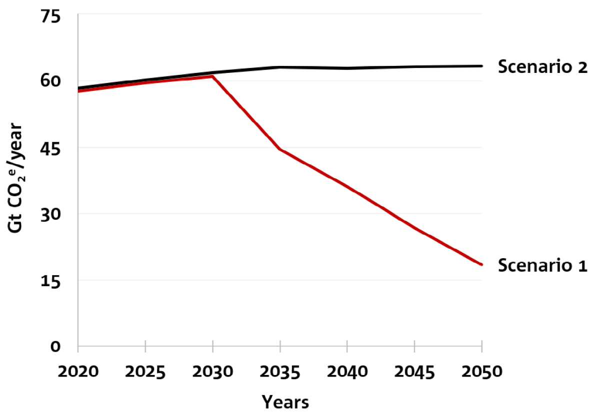


Figure 1: Emissions trajectories to 2050 for the two NGFS scenarios[1]

Scenario 1 uses Representative Concentration Pathway[2] (RCP) 2.6 and Shared Socioeconomic Pathway 2[3](SSP2).

Scenario 2 uses RCP 4.5 for Transition risk and RCP 8.5 for Physical risk, alongside SSP2.

The CVA involves two key activities – (i) counterparty assessment for a small group of 25 current and material non-finance sector customers; and (ii) climate stress testing at a portfolio level for mortgages and business lending. It also involves a data quality assessment of the data used in these activities. The scenarios are being used to examine climate-related physical and transition impacts over a 30-year period from 2020 through to 2050 at 5-year intervals.

APRA has selected credit risk as the primary lens through which the quantitative outputs of the CVA are to be viewed as credit risk is considered to be the most readily measured and observed transmission channel of climate risk to the financial risk of banks.

The counterparty assessments involve undertaking an analysis of customer level impacts (qualitative and quantitative) of climate risks from the two key scenarios, particularly using key scenario variables that can be translated into financial analysis of counterparties. The key sectors covered by the counterparty analysis include customers from both emissions intensive (e.g. power generation, mining, heavy industry, transport) and climate sensitive (e.g. agriculture) sectors. APRA's objective for these assessments is to "provide insights into current bank approaches to understanding the financial risks of climate change in their counterparties, the data available (or otherwise) to support this understanding, the viability of carrying out multi-sector counterparty analysis, as well as providing a more specific assessment of a select number of counterparties' exposure to climate risks"[4].

The portfolio-level climate stress testing is examining the physical and transitions risks impacts on: (i) Australian-based residential mortgage exposures; and (ii) Australian-based business exposures. The analysis for business exposures is separated into two classifications, agriculture-focused lending, and non-agriculture focused lending and will involve different physical risk assessment approaches reflecting the differing risk profiles and impacts.

The data quality assessment is required to capture learnings which will help better understand how to manage the challenge of limited availability of current data to support this type of analysis. This is a recognised issue both here in Australia and globally.

The Group will submit its results from the CVA to APRA in 2022. APRA has stated that it intends to publish aggregated results. Individual banks results, including counterparty assessments, will not be published. APRA also intends to compare and contrast findings from the CVA with international peers that have similar timelines for climate-related stress testing and assessments.

To date, the Group's work on the CVA, including client engagement to assist the counterparty analysis, has been insightful. It is challenging to undertake financial modelling 30 years into the future given the uncertainties in the climate modelling.

The CVA exercise is involving collaboration across multiple teams (including representatives from stress testing, credit and credit modelling, client facing teams and ESG and industry subject matter experts).

UNEP FI TCFD Phase 3 – Evaluating real estate transition risks

The Group requires access to industry-specific tools that are science-based, regionally relevant and user-friendly to monitor the decarbonisation of the Group's commercial real

(1) Net GHG emissions trajectories from NGFS Phase II GCAM 5.3 model, Delayed Transition Scenario and Current Policies Scenario.
(2) Representative Concentration Pathways (RCP) describe different trajectories for future greenhouse gas concentrations as a result of human activities.
(3) Shared Socioeconomic Pathways (SSPs) describe potential future socioeconomic changes.
(4) Description is taken from APRA's Climate Vulnerability Assessment Information Paper: 3 September 2021. See: https://www.apra.gov.au/climate-vulnerability-assessment.

OTHER MATTERS (CONTINUED)

estate (CRE) portfolio towards its goal of net zero emissions by 2050.

In collaboration with the Carbon Risk Real Estate Monitor[1] (CRREM) project, the Group piloted the use of the CRREM tool which models and evaluates transition risks and alignment with the goals of the Paris Agreement[2] for specific real estate assets and portfolios.

The Group selected 38 office properties from its CRE customers' portfolios where GHG emissions data was publicly available through NABERS[3]. Properties were selected from five states to provide geographic diversity in the data set.

The tool outputs provided a view of the degree to which the overall CRE sample portfolio and each building within the portfolio had energy and GHG emissions performance aligned to a 1.5-degree decarbonisation pathway through to 2050. It also models the impacts of potential building retrofits that might be undertaken by customers to improve the performance of each asset. The Group tested the use of the tool to help deliver on the Group's CCCA obligations. The tool also provides a range of resources to help align portfolio reporting and target setting for commercial real estate portfolios to the TCFD requirements.

The pilot highlighted a key challenge of data capture across the CRE portfolio – both in terms of quality and coverage. Additional data granularity for each building would also improve the accuracy of future modelling. This additional data includes a breakdown of energy consumption by energy type, emissions from additional sources such as refrigerant leakage and information on percentage building occupancy.

Understanding financed emissions

The Group is connected to all parts of the economy through its lending and other banking activities and considers it has an important role to play in financing the low-carbon transition. In order to understand the low-carbon transition there is a need to calculate a baseline estimate of attributable financed emissions at a portfolio and sectoral level as this forms the basis of monitoring.

In 2020, the Group undertook an initial estimate of attributable financed emissions which included five key sectors of the Group's Australian lending portfolio (residential mortgages, agriculture, commercial real estate (office and retail)[4], power generation (covers power generation, gentailers, electricity transmission and distribution) and resources (including coal, oil & gas) which resulted in estimated attributable financed emissions of 18,437,681 tCO$_2$-e. In 2021, the Group expanded this estimate of baseline attributable financed emissions to include an additional three portfolio sectors – transport (covers road freight, air, rail and international sea transport); heavy manufacturing (covers cement, lime, plaster, concrete, bricks, iron and steel and aluminium) and SME (Commercial and Services) which resulted in total estimated attributable financed emissions of 10,885,840 tCO$_2$-e. The reduction in estimated attributable financed emissions between 2020 and 2021, is primarily due to methodological change in the calculation of attributable financed emissions for residential mortgages to align to the residential mortgages methodology published by the Partnership for Carbon Accounting Financials.

The portfolio and sectoral level estimated attributable emissions baselines will be used to develop decarbonisation pathways and targets against which the Group can monitor: (i) alignment of its portfolio over time to its net zero emissions goal; and, (ii) at a sectoral level – to assist monitoring sectoral decarbonisation in line with CCCA obligations.

This quantitative estimate of attributable financed emissions is currently limited to the Group's Australian customers and is based on:
(i) *reported emissions data* – Corporate & Institutional exposures to commercial real estate (office and retail), power generation (covers power generation, gentailers, electricity transmission and distribution), transport (covers road freight, air, rail and international sea transport), heavy manufacturing (covers cement, lime, plaster, concrete, bricks, iron and steel and aluminium), resources (including coal, oil & gas). Emissions estimates for these sectors have been calculated based on bottom up reported and verified emissions data from customers where available. This means coverage across these sectors varies and is less than 100%; and
(ii) *estimated emissions data* – residential mortgages, SME (Commercial and Services) and agriculture. Emissions estimates for these sectors have 100% coverage because they are based on a sector-wide intensity methodology. Therefore, these sectors currently make up a disproportionate amount of the total estimated attributable emissions shown in Table 2.

A more detailed description of the methodology and data quality assessment used for this estimate is available on our website at: https://www.nab.com.au/about-us/social-impact/environment/climate-change.

Calculating estimated attributable Scope 3 emissions associated with the Group's financing activities has helped build the Group's understanding of the relative carbon intensity of key sectors in its Australian lending portfolio. The aggregated estimate of attributable emissions for the eight selected sectors of the Group's Australian lending portfolio was 10,885,840 tCO$_2$-e and represents a coverage of 50.7% of Group EAD[5] as at 30 June 2021[6]. This represents

(1) http://www.crrem.org
(2) The CRREM tool uses a Friends of the Earth 1.5°C pathway and International Energy Agency 2°C Scenario pathway for alignment purposes.
(3) NABERS (the National Australian Built Environment Rating System) provides a comparable sustainability measurement for building performance, including energy and GHG emissions, across a range of building types in the building sector. NABERS is a national initiative managed by the NSW Department of Planning, Industry and Environment on behalf of the Federal, State and Territory governments of Australia.
(4) Corporate & Institutional exposures to commercial real estate (office and retail).
(5) An estimate of the credit exposure amount outstanding if an obligor defaults. EAD is presented net of eligible financial collateral.
(6) The attributable emissions data was calculated as at 30 June 2021 to align to the end of the Australian financial year to match company valuations.

OTHER MATTERS (CONTINUED)

an average intensity of 24.1 tonnes of GHG emissions emitted for every $1 million AUD financed across the eight portfolio sectors included. The data in Table 2 provides the percentage coverage, estimated attributable absolute emissions and intensities for each of the eight sectors.

Table 2: Estimated percentage coverage, attributable absolute emissions and intensities per sector

Sector	% of Sector EAD covered	Absolute emissions (tCO_2-e)	Emissions intensity (tCO_2-e / AUD$M EAD)
Power generation(1)	22%	2,036,484	1,018
Heavy manufacturing(2)	69%	185,727	267
Resources(3)	22%	536,921	261
Transport(4)	9%	101,347	135
Agriculture	100%	3,929,316	115
SME (Commercial and Services)(5)	100%	990,005	24
Residential mortgages	100%	3,072,195	8
Commercial real estate (office and retail)	19%	33,844	6

(1) Power generation (covers power generation, gentailers, electricity transmission and distribution).
(2) Heavy manufacturing (covers cement, lime, plaster, concrete, bricks, iron and steel and aluminium).
(3) Resources (including coal, oil & gas).
(4) Transport (covers road freight, air, rail, and international sea transport).
(5) Based on Australian Energy Statistics data for Commercial and Services sectors and aligned to 1993 ANZSIC classifications F, G, H, J, K, L, M, N, O, P and Q.

Importantly, the Group recognises that each individual portfolio sector is likely to follow a different low-carbon transition pathway, as they are each dependent on the different technology opportunities, to both reduce and remove or capture carbon emissions. To complement this attributable financed emissions and low-carbon scenario work, the Group has developed a transition framework and built internal capability. In developing the Group's transition framework, the Group conducted a review of a range of frameworks, including the United Nations Principles for Responsible Investment Transition Pathways Initiative and the Cambridge Institute for Sustainable Leadership's ClimateWise Transition Risk framework. The Group's transition framework is being used to evaluate the transition maturity of companies. The Group's next step is to publish sector-specific trajectories and targets in its 2022 annual reporting suite for the Australian portfolio sectors covered.

Metrics and targets

Supporting the low-carbon transition
The Group's assessment of climate change-related risks and opportunities has led to two key targets associated with: (1) decarbonisation of the Group's operations; and (2) supporting customers through the low-carbon transition.

The Group's progress on these targets includes:

- *Decarbonising operations* - Delivering on the Group's RE100[1] target to source 100% of its electricity consumption from renewable sources by 30 June 2025, using on-site solar generation at the Group's main data centre, power purchase agreements for Victorian and South Australian retail sites and contracts for renewable energy certificates. These renewable energy purchasing arrangements are expected to increase the Group's proportion of renewable electricity consumed to ~65% by 30 June 2023. The proportion of electricity sourced which was renewable electricity increased from 7% in the 2020 environmental reporting year to 31.4% in the 2021 environmental reporting year.
- *Supporting customers* - Reaching a total[2] of: (i) $31.7 billion against the Group's target to provide $35 billion in finance to support green infrastructure, capital markets and asset finance by 30 September 2025; and (ii) $24.6 billion against the Group's target to provide $35 billion in new mortgage lending flow for 6-Star residential housing in Australia (new dwellings and significant renovations) by 30 September 2025. This represents combined progress of $56.3 billion towards the Group's $70 billion environmental financing target by 30 September 2025.

Tracking the Group's portfolio alignment
The Group is monitoring its exposure to carbon intensive, climate sensitive and low-carbon sectors to track decarbonisation in its lending portfolio in line with its goal to align its lending portfolio to net zero emissions by 2050. Some of this data is reported to investors in half year and full year financial results presentations, as well as in the Group's *2021 Annual Review*.

The Group has two coal-related portfolio transition commitments:

- Supporting current coal-fired power generation customers implementing their transition pathways to be aligned with the Paris Agreement goal of 45% reduction in emissions by 2030 and net zero emissions by 2050.
- Thermal coal mining exposures capped at 30 September 2019 levels and reducing by 50% by 30 September 2026, intended to be effectively zero by 30 September 2030, apart from residual performance guarantees to rehabilitate existing coal assets.

In 2021, the Group decreased its thermal coal mining exposure by 23.7%.

In 2021, the Group completed its risk review of the oil and gas sector, as part of its ongoing, phased review of carbon-intensive, climate sensitive and low-carbon sectors. An outcome of this review was a decision to align to the IEA

(1) RE100 is a global corporate leadership initiative bringing together businesses committed to 100% renewable electricity.
(2) Represented as a cumulative amount of new environmental finance since 1 October 2015. Refer to the Group's *2021 Sustainability Data Pack* for a further breakdown of this number and reference to how the environmental financing commitment is calculated.

OTHER MATTERS (CONTINUED)

NZE 2050 scenario by capping the Group's oil and gas EAD at USD2.4 billion[(1)], and to reducing the Group's exposure from 2026 through to 2050. This measured re-orientation of client activity will ensure the Group can continue to support clients actively working on their transition strategies and plans.

As at 30 September 2021, the Group's exposures (as EAD) to key low-carbon and carbon intensive sub-sectors were as follows:

- Renewable energy represented 71.4% of the Group's power generation portfolio (down marginally from 71.5% at 30 September 2020)
- Coal-fired power generation represented 1.2% of the Group's power generation portfolio (up marginally from 1.1% at 30 September 2020)
- Thermal coal mining exposure decreased from $0.67 billion at 30 September 2020 to $0.52 billion at 30 September 2021[(2)]
- Oil and gas exposure increased from $2.74 billion at 30 September 2020 to $2.9 billion at 30 September 2021.

In 2022, the Group will separately report rehabilitation performance guarantees within its thermal coal exposures.

Operational decarbonisation

In the 2021 environmental reporting year, the Group's performance against its energy and science-based emissions reduction targets was as follows:

- A 32% reduction in energy use against a 30 June 2019 baseline (against a target of a 30% reduction in energy use by 30 June 2025).
- A 55% reduction in the Scope 1 and 2 GHG emissions included in its science-based target as at 30 June 2021 against a 30 June 2015 baseline (against a target of a 51% reduction by 30 June 2025).

The GHG emissions reductions in environmental reporting year 2021 have been greater than expected partly due to the impacts of COVID-19 which have restricted business activities. This was despite the Group taking into account the emissions generated by employees working from home. It is expected that some of these emission reductions will not be permanent when the Group's normal business activities resume. However, the Group's energy efficiency initiatives, including the move into new more energy efficient buildings and the inclusion of electric vehicles in our car fleets, are expected to result in permanent GHG emissions reductions.

Further information about the Group's environmental performance, climate change governance, strategy, risk management and metrics, commitments, goals, operational greenhouse reduction and resource efficiency targets and management approach can be found in the Group's *2021 Annual Review* available online at www.nab.com.au/annualreports. Detailed GHG and environmental performance data is also available in the Group's *2021 Sustainability Data Pack*.

Modern slavery

The Group is subject to modern slavery Acts in Australia and the United Kingdom. The Group has prepared a Modern Slavery Act statement which sets out actions taken by the Group during 2021 to ensure that its business operations, and its supply chain, are free from slavery and human trafficking. This statement is available online at www.nab.com.au/modernslaverystatement in accordance with both the *UK Modern Slavery Act* and the *Modern Slavery Act 2018* (Cth).

(1) The cap of USD2.4 billion was determined giving consideration to the three year average exposure up to 30 September 2021 due to COVID-19 impacts. Use of USD for the purposes of this cap is to account for currency movement because the majority of the portfolio is USD denominated. From 2022, oil and gas Exposure at Default will be reported in USD.
(2) ~20% of thermal coal exposures is exposure to rehabilitation guarantees.

OTHER MATTERS (CONTINUED)

External auditor

Ernst & Young (EY) were appointed as the Group external auditor on 31 January 2005 and have provided the audit opinion on the Financial Report for 17 years. Ms Sarah Lowe was appointed on 15 December 2017 and as at 30 September 2021 has completed four years as the Group's lead auditor. There is no person who has acted as an officer of the Group during the 2021 financial year who has previously been a partner at EY when that firm conducted the Group's audit.

Audit-related and taxation-related services

EY provided audit-related and taxation-related services to the Group during 2021. The fees paid or due and payable to EY for these services during the year to 30 September 2021 are as follows:

	Group 2021 $'000
Total Audit services	**15,648**
Comfort letters	516
Regulatory	5,145
Non-regulatory	261
Total Audit-related services	**5,922**
Taxation-related services	169
Non-audit services	-
Total audit services, audit-related, taxation-related and non-audit services	**21,739**
Services to non-consolidated trusts of which a Group entity is a trustee, manager or responsible entity and non-consolidated Group superannuation funds	1,134
Total remuneration paid to the external auditor	**22,873**

ASIC disclosures

The Joint Parliamentary Committee inquiry into the Regulation of Auditing in Australia highlighted the disparity and lack of comparability of the external auditor fee remuneration disclosure for ASX Listed Corporates. ASIC are proposing four categories to define external auditor services as the basis of the proposed future disclosure requirements as set out below:

Consolidated and non-consolidated entities	Group 2021 $'000
Audit services for the statutory financial report of the parent and any of its' controlled entities	15,648
Assurance services that are required by legislation to be provided by the external auditor	213
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	
Comfort letters	516
Regulatory	4,932
Non-regulatory	261
Other services	169
Total consolidated remuneration paid to the external auditor	**21,739**
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	
Non-consolidated	1,134
Total remuneration paid to the external auditor	**22,873**

In accordance with advice received from the Board Audit Committee, the directors are satisfied that the provision of audit-related and taxation-related services during the year to 30 September 2021 by EY is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are satisfied because the Board Audit Committee or its delegate has assessed each service, having regard to auditor independence requirements of applicable laws, rules and regulations, and concluded that the provision of each service or type of service would not impair the independence of EY.

A description of the Board Audit Committee's pre-approval policies and procedures is set out in the NAB 2021 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Details of the services provided by EY to the Group during 2021 and the fees paid or due and payable for those services are set out in *Note 33 Remuneration of external auditor* of the financial statements. A copy of EY's independence declaration is set out on the following page.

AUDITOR'S INDEPENDENCE DECLARATION

EY
Building a better working world

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

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

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

As lead auditor for the audit of the financial report of National Australia Bank Limited for the financial year ended 30 September 2021, I declare to the best of my knowledge and belief, there have been:

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

b) no contraventions of any applicable code of professional conduct in relation to the audit; and

c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

Sarah Lowe

Sarah Lowe
Partner
9 November 2021

DIRECTORS' SIGNATURES

This report of directors is signed in accordance with a resolution of the directors:

Philip Chronican
Chair
9 November 2021

Ross McEwan
Group Chief Executive Officer
9 November 2021

REMUNERATION REPORT

Letter from the People & Remuneration Committee Chair, Anne Loveridge

Dear Fellow Shareholders,

On behalf of the Board, I am pleased to present the Remuneration report for 2021.

This year has seen the disciplined execution of the Group's strategy, to serve customers well and help our communities prosper. The Group CEO and Group Executives have maintained their strong leadership addressing the challenges arising from the ongoing impacts of COVID-19. As a major Australian bank, the economic impact of COVID-19 to customers and communities has been at the forefront of the Group's actions. NAB has remained open for business, serving customers as they navigated those impacts.

Colleagues have worked tirelessly for customers, including those in the Group's more than 740 branches and business banking centres, and extended customer support network. The Group CEO and Group Executives led the focus on the wellbeing of our colleagues, providing support and flexibility through remote and flexible work arrangements, safe return to office and active mental health support. The Board is pleased to report colleague engagement increased by one point to 77 from July 2020 to July 2021[1]. For 2021, this outcome was in the top quartile.

Performance in 2021

Progress on strategic objectives

The refreshed Group strategy and operating model established in 2020 is delivering results for customers and shareholders. Progress has been made against strategic objectives through disciplined execution, focusing on doing the basics well and supporting the needs of customers and colleagues.

The Group CEO and Group Executives have established momentum in simplifying and digitising the business, delivering faster, more seamless banking experiences. In 2021, the team took decisive action to reshape the business portfolio, completing the sales of MLC Wealth and broker aggregation businesses, acquiring the digital bank 86 400 and entering into an agreement to acquire Citigroup’s Australian consumer business (subject to regulatory approvals).

Momentum has been established to remove customer pain points, introduce new ways of working and strengthen the Group's position in digital and data services. In 2021, the Group has prioritised investment into strategic initiatives while maintaining cost discipline to deliver a simpler, more streamlined bank that benefits customers and colleagues.

While there is more to be achieved in 2022 and beyond, the Board is pleased with the results and momentum delivered through 2021 which have translated into improved shareholder returns. The Strategic Highlights section in the Remuneration report provides further information.

Delivery against our business plan

The Board established 2021 Group Performance Indicators (GPI) to drive the refreshed strategy and support sustainable returns for shareholders and positive customer outcomes. The GPI are a key input to performance and reward processes that recognise the importance of both financial and non-financial performance.

Financial performance was pleasing in what we expected would be a difficult year with low interest rates and the uncertainty of COVID-19. This was led by overall system credit growth accelerating in BNZ, and annual total system growth strengthening in Australia.

The results reflect business momentum, strong credit quality, balance sheet strength, and disciplined investment in strategic initiatives while maintaining cost discipline. The Group exceeded plan for both cash earnings and Return on Total Allocated Equity (ROTAE). This business performance has enabled the Group to support the economy and communities through COVID-19 and deliver improving returns to our shareholders through a total dividend for the year ended 30 September 2021 of 127 cents per share, fully franked.

Improving customer experience

Strategic NPS[2] improved by 5 points maintaining our position as #1 of the major domestic banks (as at August 2021). While below target, progress is being made including the digitisation of products, improved self-service, a reduction in system outages, improved resolution of complaints and easier and faster approval processes. The Group has added capacity and flexibility through the addition of 2,800 frontline bankers this year to help them serve our customers and providing an accredited qualification for all colleagues.

Enhanced control environment

The Group CEO and Group Executives continued to drive sustainable change by addressing the underlying issues from the Royal Commission and NAB's self-assessment into governance, accountability and culture. Improvements in processes to remediate customers fairly, consistently, and more quickly have been implemented. A significant uplift has been achieved in management of the Group's obligations, risk and the controls environment. Compliance and Operational Risk profiles have improved due to better obligation management practices and improved business ownership of the control environment achieving NAB’s Intelligent Control Score (ICS) target.

(1) 2021 Heartbeat Survey conducted by Glint, score based on July 2021 survey. Includes Australia and New Zealand colleagues, excludes external contractors, consultants and temporary colleagues.

(2) Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter Systems are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Strategic NPS: Sourced from DBM Atlas, measured on a six month rolling average. The overall Strategic NPS result combines Consumer and Business segment within Australia, using a weighting of 50% for each segment.

REMUNERATION REPORT (CONTINUED)

The Group will continue to invest in cyber and financial crime prevention, including progressing the AUSTRAC enforcement investigation where the outcome is not yet known. No adjustment to 2021 remuneration outcomes were made specifically in connection with the AUSTRAC matter. Section 3.2 of the Remuneration report provides further information on our approach to risk and remuneration consequence.

Remuneration in 2021

The executive remuneration framework delivers an appropriate portion of remuneration linked to performance outcomes. Under the Annual Variable Reward (VR) plan, performance is assessed by the People & Remuneration Committee and the Board, informed by the measures in the GPI, together with a qualitative assessment of other relevant factors, and individual performance.

The Board spent a significant amount of time balancing customer, community, and shareholder interests, while at the same time appropriately recognising the achievements of the Group CEO and Group Executives.

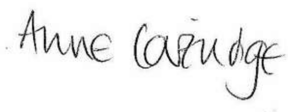
The Board considered performance in 2021 demonstrated a momentum shift in delivery against the Group's strategy and business plan. The Board is confident the Group is well positioned to support economic recovery in Australia and New Zealand in 2022.

Based on the performance over 2021, the Group CEO's Annual VR outcome is 121% of fixed remuneration (81% of the maximum opportunity). Annual VR outcomes for Group Executives ranged between 105% to 149% of Annual VR target (70% and 99% of the maximum opportunity). Details of all remuneration matters for the Group CEO and Group Executives are provided in the Remuneration report.

Remuneration in 2022

The Board is confident that our remuneration framework is effective in rewarding sustainable performance and the execution of the Group's strategy. The Board will consider enhancements over the coming year to ensure the remuneration framework continues to support the delivery of the Group's strategy and meet regulatory requirements. We will continue to balance these requirements with an effective remuneration framework that is competitive and appropriately rewards our Group CEO and Group Executives.

On behalf of your Board's People & Remuneration Committee I would like to invite you to read the full Remuneration report in detail which will be presented for adoption at NAB's 2021 Annual General Meeting.



Anne Loveridge
People & Remuneration Committee Chair
9 November 2021

Contents

REMUNERATION REPORT (CONTINUED)

Section 1 - Summary

1.1 Strategic context for remuneration at NAB

Our Group and colleague strategies

Our Group strategy focuses on the 'Twin Peaks' of customers and colleagues.

WHY WE ARE HERE

To serve customers well and help our communities prosper.

WHO ARE WE HERE FOR

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

Customers
Choose NAB because we serve them well every day

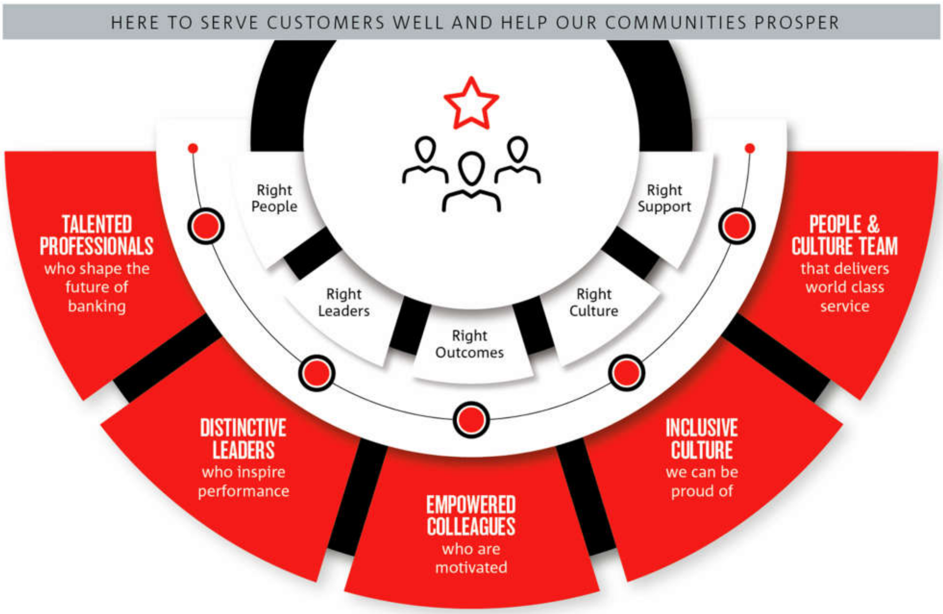
WHAT WE WILL BE KNOWN FOR

Relationship-led	Easy	Safe	Long-term
Relationships are our strength	Simple to deal with	Responsible & secure business	A sustainable approach

Our Colleague strategy supports the ambition in the Group Strategy colleague twin peak.

COLLEAGUE STRATEGY

Trusted professionals who are proud to be a part of NAB



Our colleagues care deeply about our customers and are passionate about exceptional service. They focus on our top priorities, work with flexibility and pace, and are rewarded fairly for performance.

REMUNERATION REPORT (CONTINUED)

Our remuneration principles and 2021 executive remuneration framework

Our remuneration principles have been created to deliver on this ambition.

REMUNERATION PRINCIPLES

Customers	Colleagues	Shareholders	Transparent	Safe	Long-term
Reinforce our commitment to customers	Fair and appropriate reward to attract and retain the best people	Align reward with sustainable shareholder value	Simple and easy to understand	Reflect risk, reputation, conduct and values outcomes	Drive delivery of long-term performance

These principles have been used to develop our executive remuneration framework. Its purpose is to motivate and reward our most senior executives for delivery of our strategy.

OUR EXECUTIVE REMUNERATION FRAMEWORK

	Fixed remuneration	Annual variable reward	Long term variable reward
WHY	**Set to attract and retain**	**Earned for delivery of annual goals that drive the Group's strategy**	**Align remuneration with long term shareholder outcomes**
WHAT	• FR is comprised of base salary and superannuation • Paid regularly during the financial year	• 50% cash • 50% deferred rights (12.5% scheduled to vest at the end of year 1, year 2, year 3 and year 4) • Dividend equivalent payment for any vested deferred rights at the end of each deferral period	• 100% performance rights • Subject to four year performance hurdle • No dividend equivalent payment for any vested performance rights
HOW	• Set at a market competitive level for role and experience • Reviewed annually against the ASX20, the other major Australian banks and other financial services companies	• Quantum ranges (% of FR): 0% – 150% for Group CEO 0% – 105% for Control Roles[1] 0% – 150% for all other Group Executives • Outcomes vary depending on Group[2] and individual performance (balanced scorecard including risk goals), values and behaviours	• Maximum award value (% of FR)[3]: 130% for Group CEO and Group Executives • Eligibility and award value determined by the Board each year • Subject to NAB's TSR result against a financial services peer group[4]
	Fixed remuneration	Annual VR (cash) / Annual VR (deferred rights)	Long Term Variable Reward
	PERFORMANCE YEAR (YEAR 0)	YEARS 1-4	YEAR 4

Board discretion applies for qualitative matters including risk, reputation, conduct and values to ensure sustainable performance (including for malus and clawback)

AT RISK

1 Control Roles are the Group Executive Legal and Commercial Services, Group Chief Risk Officer, Group Executive People & Culture and Group Executive Strategy & Innovation.

2 The outcome for the Managing Director and CEO BNZ will vary depending on overall BNZ performance.

3 The actual value delivered to the Group CEO or a Group Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting.

4 For the 2021 LTVR the financial services peer group is AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Macquarie Group Limited, Suncorp Group Limited, Westpac Banking Corporation.

REMUNERATION REPORT (CONTINUED)

1.2 Key remuneration outcomes for 2021

Fixed remuneration

From 1 October 2020, the Group CEO returned to receiving his full Fixed Remuneration (FR), as determined on appointment in December 2019. The Group CEO volunteered to reduce his FR by 20% for the period 1 April 2020 to 30 September 2020 to align with shareholder and customer impacts of COVID-19. No increase in FR was provided in 2021.

The Board determined a FR increase from $1,000,000 to $1,100,000 during 2021 for Shaun Dooley, Group Chief Risk Officer. The increase reflects the responsibilities of the position and appropriate external peer parity.

2021 performance and Annual Variable Reward outcomes

Individual Annual Variable Reward (VR) outcomes were determined by the Board based upon the individual's target Annual VR opportunity, assessment of the GPI, qualitative performance factors and individual performance.

The Board determined a GPI outcome of 105% with performance above expectations across many of the financial and non-financial measures. The qualitative and individual executive performance assessment reflected the execution of strategic initiatives and the business momentum achieved in a challenging environment. Further details on the Annual VR outcomes are provided in Section 4.

The 2021 Annual VR outcomes were:

	Individual Annual VR outcomes	
Position	**% of FR**	**% of Maximum Opportunity**
Group CEO	121%	81%
Group Executives	105% - 149%	70% - 99%

The four year overview of reward outcomes under the Annual VR is:

	% of Annual VR maximum opportunity[(1)]			
Position	**2021**	**2020**	**2019**	**2018**
Group CEO	81%	0%	0%	12%
Group Executives	70% - 99%	0%	0%	0% - 70%

(1) The maximum opportunity was reduced in 2019 for the Group CEO and Group Executives when the current Annual VR and LTVR replaced the single VR plan in place for 2018.

For colleagues who participate in the Group VR Plan, the Board determined annual variable reward funding of 105% of target (see Section 4.1).

Long-Term Variable Reward outcomes

The Board approves Long-Term Variable Reward (LTVR) awards annually to encourage long-term decision making critical to creating long-term value for shareholders. The quantum of the award and eligibility to participate is determined by the Board independently from Annual VR decisions.

2021 LTVR award

- For the Group CEO, a 2021 LTVR award of 118,010 performance rights having a face value of 130% of his FR is proposed to be granted in February 2022. The grant of this award is subject to shareholder approval at NAB's 2021 Annual General Meeting.
- The Board assessed all Group Executives as meeting the individual performance and conduct requirements for 2021 and determined that each be awarded a 2021 LTVR with a face value of 130% of their FR. LTVR awards will be granted in February 2022 (see Section 2.2).

2020 LTVR eligibility and award

Prior to granting the 2020 LTVR, the Board determined that all Group Executives who commenced in their Group Executive role prior to the LTVR allocation date would participate in the award, supporting the long-term aspect of the award with performance measured over four years to 15 November 2024.

The Board noted that in the previous period, Susan Ferrier, Group Executive, People & Culture commenced in her current role on 1 October 2019, but did not participate in the 2019 LTVR granted after her commencement. Consistent with our remuneration principles of being focused on driving long-term performance and the approach taken for the 2020 LTVR award, the Board approved a long-term share award for Susan, in the absence of her being awarded the 2019 LTVR grant. The award of 11,150 shares granted in February 2021, is restricted until November 2023 (aligned with the equivalent 2019 LTVR performance period) and subject to minimum performance and service conditions.

The Board also confirmed that the quantum of the 2020 LTVR would be set at 130% of FR for the Group CEO and Group Executives. A standardised level of participation better reflects the responsibilities of the Group Executives for delivering the business plan and Group strategy over the 2020 LTVR performance periods and appropriate pay relativities.

REMUNERATION REPORT (CONTINUED)

Long-Term Variable Reward outcomes *(Continued)*

2016 Long-Term Incentive plan outcome

The performance conditions for the Long-Term Incentive (LTI) award granted in December 2016 were tested in November 2020. The 2016 LTI award was granted subject to two performance hurdles (1) Return on Equity and (2) Relative TSR, each measured over a four-year performance period. The Board also assessed qualitative performance factors and individual performance prior to determining that 55.8% of the total performance rights should vest. The following table provides a four-year overview of Executive vesting outcomes from LTI awards. Further details on LTI awards are provided in Section 4.4.

Plan Terms	2016	2015	2014	2013
Performance period	4 years	4 years	5 years	5 years
Date of testing	November 2020	November 2019	November 2019	November 2018
Number of current Group Executives who held the award	3	2	4	4
% of award vested	55.8%	37.6%	34.5%	0%
% of award lapsed	44.2%	62.4%	65.5%	100%

Non-executive directors

- From 1 October 2020, the Board Chair and non-executive directors returned to receiving full base fees. This followed the 20% reduction in base fees applied for the period 1 April 2020 to 30 September 2020 to align with shareholder and customer impacts of COVID-19.
- No increase to Board fees were applied during 2021 (see Section 6.1).

1.3 Group Executive appointment

The following table outlines the remuneration arrangements related to the Group Executive who commenced as KMP during 2021.

Group Executive	Remuneration arrangement
Les Matheson, Group Chief Operating Officer	• Commenced employment on 11 January 2021. • Annual FR of $1.05 million with Annual VR target of 100% of FR (maximum of 150% of FR) and an LTVR maximum opportunity of 130% of FR. • A 2020 LTVR award of 75,875 performance rights, having a face value equivalent to 130% of his FR, was granted in February 2021. • Relocation benefits provided to support moving to Australia.

REMUNERATION REPORT (CONTINUED)

1.4 Looking ahead to 2022

The Board continues to monitor the effectiveness of the executive remuneration framework and policy. The Board will determine any changes to the framework required to address regulatory requirements while remaining competitive to attract and retain the calibre of executives required to deliver on the Group's strategy during 2022.

The Board has considered current remuneration requirements based upon our existing executive remuneration framework and determined a number of changes for 2022 as summarised below.

Feature	Description
Fixed Remuneration	The Board considers increases to FR upon appointment or promotion to a new role, where there is a significant increase in accountabilities or where it is required as a result of regulatory expectations for the composition of reward. The Board determined FR increases for 2022 for: • Shaun Dooley, Group Chief Risk Officer from $1,100,000 to $1,200,000. The increase sets an appropriate balance between FR and variable remuneration (see Annual Variable Reward Opportunity below) for this role aligned with regulatory expectations and internal and external pay relativities. • Sharon Cook, Group Executive Legal and Commercial Services from $900,000 to $950,000. The increase reflects Sharon's increased accountabilities for customer remediation across the Group.
Annual Variable Reward opportunity	The Board considered the Annual VR opportunity for Control Roles in the context of delivering on our strategy, performance, regulatory requirements and providing appropriately competitive reward. The Board determined a standardised approach for all Group Executives, except for the Group Chief Risk Officer, was appropriate and consistent with our remuneration principles. For 2022 the Board determined: • The Annual variable reward opportunity for Shaun Dooley, Group Chief Risk Officer would increase from the 2021 range of 0% to 105% of FR, to 0% to 112.5% of FR. • The Annual variable reward opportunity for the Group Executive Legal and Commercial Services, Group Executive People and Culture and Group Executive Strategy and Innovation would increase from the 2021 range of 0% to 105% of FR, to 0% to 150% of FR. • No change has been made to the Annual VR opportunity for the Group CEO or any other Group Executives.
Non- executive directors	On an annual basis, the Board conducts a review of the quantum of Board fees. The Board noted that base fees had not been adjusted since 1 January 2016 despite increased regulatory requirements and performance monitoring. From 1 October 2021, the Board has determined to: • Increase the Board Chair fee from $790,000 to $825,000 and non-executive director Board fee from $230,000 to $240,000 to continue to attract and retain high quality non-executive directors. • Increase the Risk and Compliance Committee Chair fee from $60,000 to $65,000 and the fee for being a member of that Committee from $30,000 to $32,500 due to the increased workload for this Committee over recent years. • Increase the minimum shareholding requirement for the Chair to one times the annual chair base fee to more closely align with shareholder interests.
Other colleagues	The Board has approved changes to the Group's remuneration framework for other colleagues to create simplicity and more consistency and fairness in our remuneration framework. The changes: • Remove or reduce variable reward for many employees, placing more emphasis on fortnightly pay to give colleagues more certainty and encourage more focus on customers. • Standardise target variable reward participation to create more consistency and fairness. These changes set an appropriate balance between FR and VR and will allow colleagues to focus on serving customers well. Implementation will be a phased approach over the next 12 to 18 months starting on 1 October 2021 with customer-facing businesses. The Board considers that the changes support the Group's purpose, strategic objectives and risk appetite, and reflect the expectations of customers, regulators and shareholders.

REMUNERATION REPORT (CONTINUED)

1.5 Key Management Personnel

The list of NAB's Key Management Personnel (KMP) is assessed each year and comprises the non-executive directors of NAB, the Group CEO (an executive director of NAB) and those employees of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. KMP during 2021 were:

Name	Position	Term as KMP
Non-executive directors		
Philip Chronican	Chair	Full year
David Armstrong	Director	Full year
Kathryn Fagg	Director	Full year
Peeyush Gupta	Director	Full year
Anne Loveridge	Director	Full year
Douglas McKay	Director	Full year
Simon McKeon	Director	Full year
Ann Sherry	Director	Full year
Former non-executive director		
Geraldine McBride	Director (to 18 December 2020)	Part year
Group CEO		
Ross McEwan	Group Chief Executive Officer and Managing Director	Full year
Group Executives		
Sharon Cook	Group Executive, Legal and Commercial Services	Full year
Shaun Dooley	Group Chief Risk Officer	Full year
Susan Ferrier	Group Executive, People and Culture	Full year
David Gall	Group Executive, Corporate and Institutional Banking	Full year
Nathan Goonan	Group Executive, Strategy and Innovation	Full year
Andrew Irvine	Group Executive, Business and Private Banking	Full year
Gary Lennon	Group Chief Financial Officer	Full year
Les Matheson	Chief Operating Officer (from 11 January 2021)	Part year
Angela Mentis[(1)(2)]	Managing Director and CEO of Bank of New Zealand	Full year
Rachel Slade	Group Executive, Personal Banking	Full year
Patrick Wright	Group Executive, Technology and Enterprise Operations	Full year

(1) All matters relating to the remuneration of Angela Mentis including variable reward, have been approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand.
(2) As announced on 25 August 2021, Angela Mentis ceased as the Managing Director and CEO of Bank of New Zealand on 30 September 2021 and commenced as Group Chief Digital, Data & Analytics Officer. Dan Huggins commenced as Managing Director and CEO of Bank of New Zealand from 1 October 2021.

REMUNERATION REPORT (CONTINUED)

Section 2 - Our 2021 executive variable remuneration plans

2.1 Annual Variable Reward for 2021

This section outlines the key features of the 2021 Annual VR plan for the Group CEO and Group Executives.

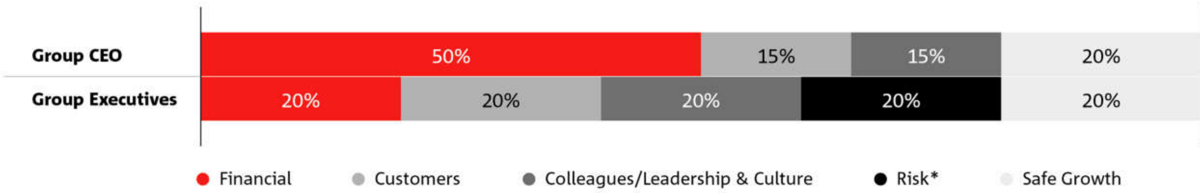
Purpose

Annual VR aims to reward the Group CEO and Group Executives for delivery of annual goals that drive long-term sustainable performance. It provides an appropriate level of remuneration that varies based on the Board's determination of Group and individual performance over the financial year measured against agreed targets for financial and non-financial measures that are set to drive delivery of the Group's strategy. The plan is not wholly formulaic. Judgement is applied through qualitative assessment as determined by the Board.

Feature	Description
Annual VR opportunity	Annual VR opportunity is expressed as a percentage of FR. It is set by the Board following the recommendation of the People & Remuneration Committee, which considers a range of factors including the scope and accountabilities of the Group CEO's or Group Executive's role, and market competitiveness.

Position	2021 Annual VR opportunity (% of FR)
Group CEO & Group Executives (excluding Control Roles)	0% to 150%
Control Roles	0% to 105%

Feature	Description
Group performance	Group performance is assessed on achievement of financial and non-financial measures (GPI) linked to the Group's key strategic priorities, overlaid by a qualitative assessment to support any adjustments to the outcome. The qualitative assessment is integral to the outcome and may result in the outcome being adjusted upwards or downwards (including to zero), for risk, quality of performance (including consideration of financial, sustainability, environmental and social impact matters, and progress made against strategy) and any other matters as determined by the Board. Further information on the 2021 GPI and outcome are provided in Section 4.1.
Individual performance and measures	Individual performance is assessed against a scorecard. The scorecard for each individual is comprised of key financial and non-financial goals. The weighting of measures was set to reflect the responsibilities for their role. The Group CEO's 2021 scorecard is aligned to the GPI.



*The Board's assessment of the Group CEO's risk outcome is applied as an Individual Modifier.

Individual modifiers: The Board considers the individual's conduct and the extent to which they demonstrated NAB's values (How We Work). The Board also considers the Group CEO's risk management performance.

Annual VR calculation

Individual Annual VR awards for the Group CEO and Group Executives[1] are calculated as:

Discretionary adjustments: Annual VR is discretionary and will vary in line with Group and individual performance and available funding. The Board may determine any amount be awarded from zero up to the maximum VR opportunity.

The Group CEO's 2021 scorecard, assessment and outcomes are provided in Section 4.2.

(1) All matters relating to the remuneration of Angela Mentis, Managing Director and CEO of BNZ, including scorecard measures and performance assessment, have been approved by the BNZ Board as required under BNZ's Conditions of Registration which are set by the Reserve Bank of New Zealand. Angela Mentis' Annual VR is calculated as: (50% Group performance + 50% BNZ performance) x Individual Score x VR Target Opportunity. BNZ performance is assessed based on Customer 25%; Colleagues 12.5%; Safe Growth 12.5% and Financial 50%. The assessed overall BNZ performance for 2021 was 107.7%.

REMUNERATION REPORT (CONTINUED)

Feature	Description
Award delivery and deferral	Annual VR is delivered as a combination of cash and deferred rights. Cash components of any Annual VR are paid following the performance year to which they relate. Any deferred rights granted are scheduled to vest pro-rata over four years from grant. The proportion of deferral and vesting periods are structured so that, in combination with any LTVR award, the proportion of variable pay that is deferred, and the period for which it is deferred, is no less than that required by regulation. Deferred rights are granted and vested by the Board at its discretion, subject to the relevant plan rules including malus and clawback provisions. A dividend equivalent payment for any vested deferred rights is paid at the end of each deferral period.
Board discretion	The Board has extensive discretion in respect to the Annual VR. Further information on governance of Annual VR is outlined in Sections 3.1.

REMUNERATION REPORT (CONTINUED)

2.2 Long-Term Variable Reward for 2021

This section outlines the key features of the LTVR award in respect of 2021 for the Group CEO and Group Executives.

Purpose

LTVR awards are granted by the Board to encourage long-term decision making critical to creating long-term value for shareholders. They are determined and awarded independently from Annual VR decisions.

<table>
<tr><th>Feature</th><th>Description</th></tr>
<tr><td>Participants</td><td>Group CEO and Group Executives as determined by the Board.</td></tr>
<tr><td>Award value</td><td>The maximum face value of the LTVR award is 130% of FR for the Group CEO and Group Executives.

The value of the LTVR granted is determined by the Board annually. The Board considered the Group's and the relevant participant's performance during 2021 when determining the LTVR to be granted to the participant.

The actual value delivered to the Group CEO or a Group Executive is subject to the level of achievement against the performance hurdle and NAB's share price at the time of vesting. This may be zero if the performance hurdle is not achieved.</td></tr>
<tr><td>Instrument</td><td>The LTVR award is provided as performance rights.

Each performance right entitles its holder to receive one NAB share at the end of the four-year performance period, subject to the performance hurdle being satisfied.</td></tr>
<tr><td>Allocation approach</td><td>The number of performance rights to be granted is calculated by dividing the LTVR award face value by NAB's weighted average share price over the last five trading days of the financial year. The weighted average share price used for 2021 is $27.54.</td></tr>
<tr><td>Grant date</td><td>The award is scheduled to be granted in February 2022.</td></tr>
<tr><td>Performance period</td><td>Four years from 15 November 2021 to 15 November 2025.</td></tr>
<tr><td>Performance hurdle</td><td>TSR measures the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. For the purposes of calculating TSR over the performance period, the value of the relevant shares on the start date and the end date of the performance period are based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date.

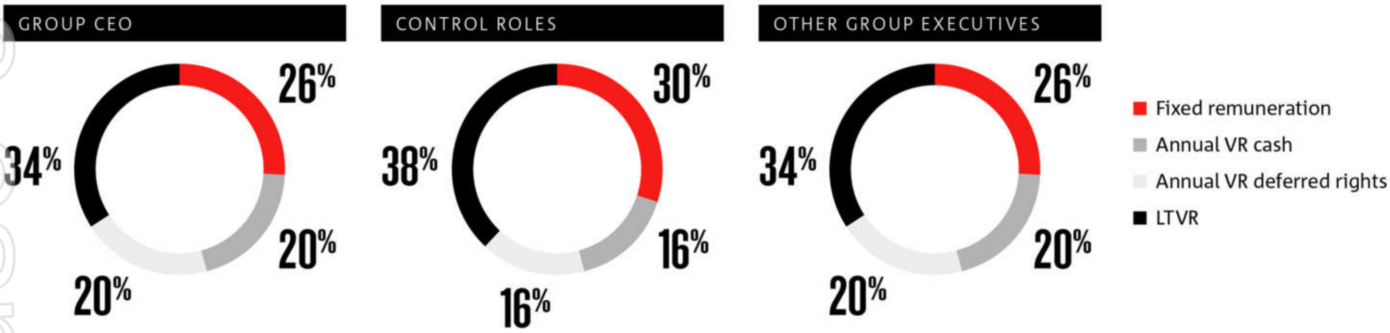
NAB's TSR is measured against the TSR peer group to determine the level of vesting:
<table>
<tr><th>NAB's relative TSR outcome</th><th>Level of vesting</th></tr>
<tr><td>Below 50th percentile</td><td>0%</td></tr>
<tr><td>At 50th percentile</td><td>50%</td></tr>
<tr><td>Between 50th and 75th percentiles</td><td>Pro-rata vesting from 50% to 100%</td></tr>
<tr><td>At or above 75th percentile</td><td>100%</td></tr>
</table>
The TSR peer group for the 2021 LTVR is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Macquarie Group Limited, Suncorp Group Limited, Westpac Banking Corporation.</td></tr>
<tr><td>Testing</td><td>TSR outcomes are calculated by an independent provider.</td></tr>
<tr><td>No retesting</td><td>The performance hurdle is not retested. Any performance rights that have not vested after the end of performance period will lapse in December 2025.</td></tr>
<tr><td>Dividends</td><td>No dividends are paid.</td></tr>
<tr><td>Board discretion</td><td>The Board has extensive discretion in respect of the LTVR, including the initial value to be granted, the amount of performance rights that vest, any forfeiture or clawback applied. Further information is provided in Section 3.1.</td></tr>
</table>

Section 4.4 explains the 2016 LTI award outcome that was tested during 2021.

REMUNERATION REPORT (CONTINUED)

2.3 Remuneration mix

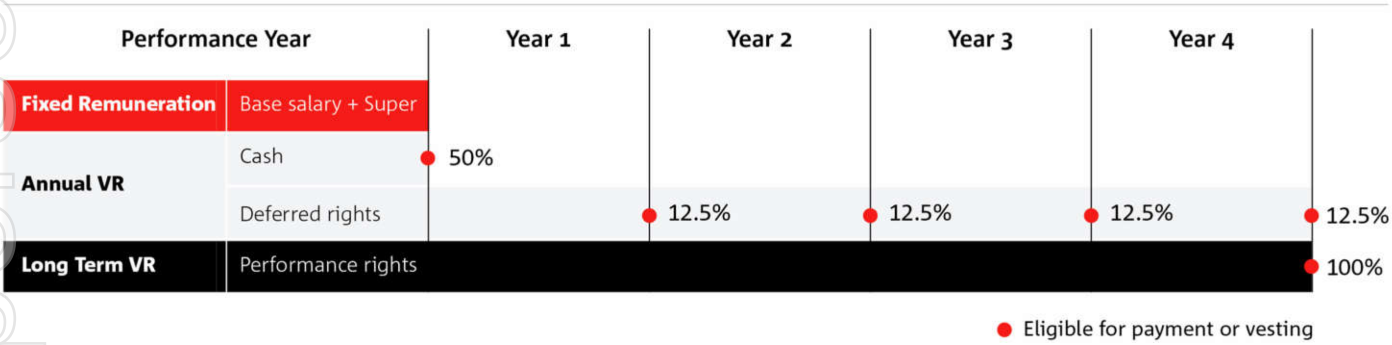
The 2021 remuneration mix for the Group CEO and Group Executives (excluding Control Roles), at maximum opportunity, delivers approximately three-quarters of total remuneration as variable and 'at risk' remuneration. For 2022, the framework will be simplified further, with Control Roles (except the Group Chief Risk Officer) moving to the same Annual VR maximum opportunity as the other Group Executives. The Group Chief Risk Officer's Annual VR maximum opportunity will be set at 112.5% of FR. The changes align with peer practice and will provide fair and appropriate remuneration. The actual remuneration mix for the Group CEO and each Group Executive is subject to Group[1] and individual performance each year.



2.4 Long-term alignment of remuneration

There is a strong focus on alignment of executive remuneration with sustainable performance through deferral. A proportion of remuneration is deferred in the form of equity for up to four years. This encourages long-term decisions which are critical to creating sustainable value for customers and shareholders.

The Board retains discretion to determine whether all or some variable reward (unvested, vested or paid) may be subject to malus and clawback. See Section 3.1 for more detail.



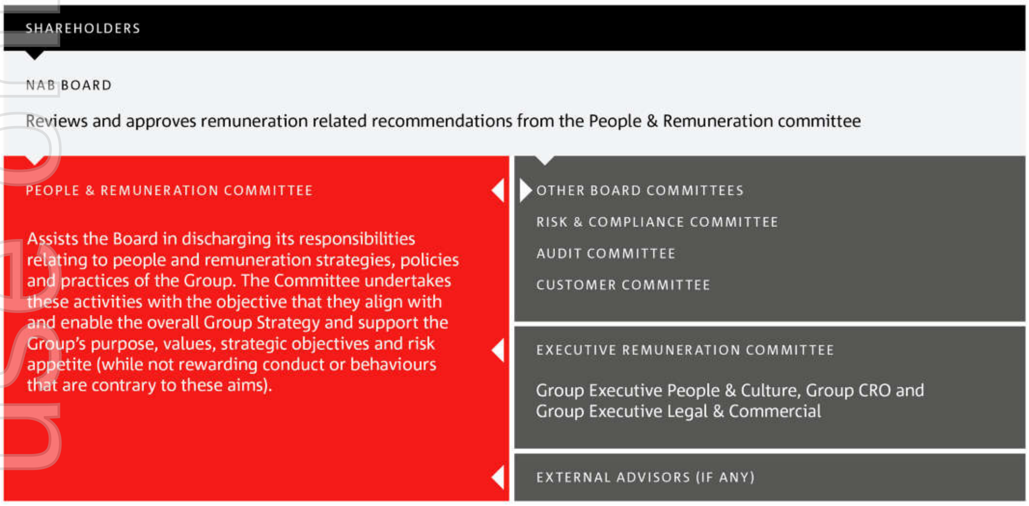
(1) The outcome for the Managing Director and CEO BNZ will vary depending on overall Group and BNZ performance.

REMUNERATION REPORT (CONTINUED)

Section 3 - Governance, risk and consequence

3.1 Remuneration governance

Governance and oversight



The People & Remuneration Committee assists the Board in discharging its responsibilities relating to people and remuneration strategies, policies and practices of the Group. On behalf of the Board, the People & Remuneration Committee is responsible for developing and maintaining an effective remuneration policy. The People & Remuneration Committee governs the application of the policy resulting in responsible remuneration outcomes that are consistent with the Group's strategy and risk appetite. The People & Remuneration Committee has oversight and governance of people related risks, culture, inclusion and diversity, talent and succession matters. The remit emphasises the People & Remuneration Committee's focus on long-term sustainable policy settings that foster desired culture while reinforcing compliance with NAB's Code of Conduct and fulfilling regulatory requirements across jurisdictions in which the Group operates.

Members of the People & Remuneration Committee are independent non-executive directors. Further information about the People & Remuneration Committee is provided in our Corporate Governance Statement and in the People & Remuneration Committee Charter, both of which are available on NAB's website.

Performance, risk and remuneration assessment

The People & Remuneration Committee oversees Group performance outcomes by establishing robust performance measures and targets that support delivery of the Group's strategy and conduct aligned to NAB's Code of Conduct.

The People & Remuneration Committee also makes recommendations to the Board in relation to the assessment of performance and remuneration outcomes for the Group CEO, Group Executives and other persons as determined by the Board. In establishing and assessing performance for recommendation to the Board, the People & Remuneration Committee is supported by all other Board Committees who provide expert, independent reports, and information as required. The Board receives the recommendations, challenges, and applies appropriate judgement in determining the outcome.

Board discretion

The Board regularly reviews Group performance during the year for risk, reputation, conduct and performance considerations. The Board's review includes the Group's quality of financial results, shareholder experience and other sustainability metrics relevant at the time.

The Board has absolute discretion to adjust Rewards[1] down, or to zero, where appropriate. The Board may exercise those discretions in relation to any employee across the Group, by division, by role or individual, depending on circumstances, including if Group or individual performance outcomes have changed over time since the Reward was provided, including for an act or omission that has impacted performance outcomes. Adjustments include, but are not limited to:

- determining the initial value of Rewards
- varying the terms and conditions of Rewards, including performance measures and their weightings
- reducing the value of deferred Rewards (including to zero) during the deferral or performance period, including at vesting
- determining that some, or all, of the unvested Rewards be forfeited on cessation of employment with the Group

(1) In this Section, the term 'Rewards' refers to all forms of variable reward including cash provided under a variable reward plan, deferred variable rewards (cash and equity) to be paid or granted, LTVR performance rights, and any variable rewards granted in previous years.

REMUNERATION REPORT (CONTINUED)

- determining that unvested Rewards should be forfeited due to conduct standards not being met, including as set out in NAB's Code of Conduct
- determining that unvested Rewards will be forfeited (including following the occurrence of a Malus Event[1])
- extending the deferral period at any time for any Rewards[2]
- clawing back of paid and vested Rewards (to the extent legally permissible).

3.2 Risk and consequence management

The People & Remuneration Committee regularly reviews the Group and individual outcomes for risk, reputation, conduct and performance considerations. This includes oversight of the Group's Employee Conduct Management framework. Effective consequence management supports an appropriate risk culture across the Group.

Risk is the responsibility of all employees of the Group. A sound risk culture is where the mindset, decisions and behaviour of employees are aligned to the Group's strategy and contribute to sustainable outcomes for customers, shareholders and external stakeholders. The Board, Group CEO and Group Executives influence culture by focusing on leadership behaviour, systems and colleagues, reinforced through performance and remuneration outcomes.

How risk is integraged in our remuneration framework

IN-YEAR PERFORMANCE & RISK ASSESSMENT

	Consequence management	Risk assessment
Scope	• Applies to all employees, including Group CEO and Group Executives. • Scope of consequences includes any combination of coaching, counselling, formal warnings, termination of employment, impacts to in-year performance assessment and remuneration outcomes, and the application of malus or clawback depending on the severity of the matter.	• Applies to all employees, including Group CEO and Group Executives. • All employees, including Group Executives (other than the Group CEO who has a risk modifier applied to his Annual VR outcome) have a scorecard inclusive of a mandatory risk goal.
Assessment	• In assessing conduct and consequence, each business and enabling unit maintains a Professional Standards Forum which makes recommendations to the Executive Remuneration Committee (members include the Group Executive People & Culture, Group Chief Risk Officer and the Group Executive Legal and Commercial Services). • The Executive Remuneration Committee oversees the effectiveness of the framework, reviews material events, accountability and the application of suitable consequences. The People & Remuneration Committee and the Board oversee consequences for the Group CEO and other executives.	• Divisional Chief Risk Officers provide active oversight, challenge and independent input to the performance review process. • The Group Chief Risk Officer prepares a detailed assessment of the risk outcomes for the Group CEO and each of the Group Executives. The Risk & Compliance Committee assesses the Group Chief Risk Officer's risk outcomes. These assessments are used by the Board in determining individual Group Executive variable reward outcomes. • The Group CEO, Group Executives and employees receive higher variable reward if they are driving improvements in the management of risk and compliance. If risk is not appropriately managed, the individual's variable reward will be reduced and other consequences may be applied.

BOARD DISCRETION APPLIED (in year and prior year' outcomes / including vested and unvested rewards)

	Risk adjustment	Conduct standards	Malus and clawback
Explanation	• On recommendation from the People & Remuneration Committee, the Board may adjust the 'in-year' funding level of variable reward outcomes or reduce variable reward for individuals to align with risk outcomes.	• Vesting and grant of all forms of Rewards are subject to the employee meeting conduct standards as set out in NAB's Code of Conduct. • The Board may determine unvested Rewards should be adjusted or forfeited (including to zero), in circumstances where these conduct standards are not met.	• Malus and clawback may be used to reduce variable reward to align with risk outcomes • Malus (or forfeiture / lapsing of unvested awards) applies to all employees. • Clawback applies to paid and vested variable reward provided to the Group CEO and Group Executives since July 2018. The Board may apply clawback to the Group CEO, Group Executives, some UK employees and other employees in certain circumstances.

(1) Examples include where the executive has failed to comply with their accountability obligations under the Banking Act 1959 (Cth); has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings NAB into disrepute; or has materially breached a representation, warranty, undertaking or obligation to the Group.

(2) For example, the Board may do so if the Board has reason to believe that an employee may not meet conduct standards or comply with their accountability obligations under the *Banking Act 1959* (Cth) or any other analogous or similar legislation or regulations.

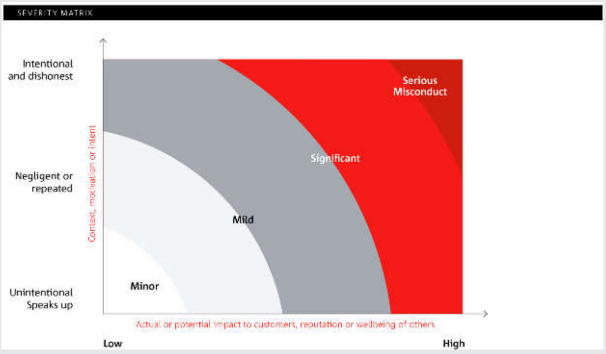
REMUNERATION REPORT (CONTINUED)

Risk and conduct

Effective consequence management supports an appropriate risk culture across the Group. NAB has enhanced its focus on risk and conduct management in 2020 and 2021:

- NAB's Code of Conduct (the Code) (available on NAB's website) was revised and approved by the Board in 2020. The Code outlines what is expected of directors, leaders, colleagues and contractors who perform services on NAB's behalf. It captures not only NAB's legal and regulatory obligations, but also an expectation to act ethically and responsibly towards customers, colleagues and communities.
- The Code emphasises 'How We Work' and the key policies and guidelines which must be followed to achieve expected outcomes. There is a strong emphasis on speaking up about concerns and a guide to ethical decision making.
- The Code is supported by a renewed approach to conduct and consequence management that focuses on fair, consistent and proportionate consequence outcomes. Consequence is informed by the severity of the matter, including an assessment of intention or repetitive conduct.
- Each business and enabling unit has established Professional Standards Forums to review or note breaches of the Code at least quarterly, taking action to set the tone and reinforce NAB's standards of conduct and culture. Any material breaches or conduct that is materially inconsistent with the expected outcomes in the Code are reported to the People and Remuneration Committee.
- Speak Up training deployed to every colleague, and a network of 128 Whistleblower champions foster psychological safety to speak up about concerns.
- NAB's performance framework (Peak performance) was enhanced in 2021 to further embed non-financial metrics with a stronger focus on risk, customer outcomes, and leadership and culture goals to align with Group strategy and values.
- Enhancements on regular reporting, insights and data to support informed decision-making on risk and remuneration outcomes.

Assessing consequence



No remuneration adjustments were applied to the Group CEO or current Group Executives in 2021. Remuneration adjustments and consequence outcomes applied during 2021 are provided in the table below.

	2021	2020[(1)]
Employees recognised for their positive contribution to risk culture	5,139	4,666
Employees identified as not having met risk expectations and accountabilities	2,499	2,390
Code of Conduct breaches identified that resulted in formal consequences[(2)]	4,843	1,271
Employees leaving due to consequence outcomes	209	254
Employees receiving coaching or other remedial actions[(2)]	4,427	1,017
Employees receiving in-year performance rating and variable reward reduction of 5% to 100%[(3)]	220	597
Equity forfeitures as a result of Code of Conduct breaches and revisiting previous variable reward decisions	\$0.33m	\$1.12m

(1) 2020 has been restated to include BNZ data.
(2) The increase in cases does not reflect worse behaviour but more complete data. Processes were enhanced to allow all minor and mild matters independently managed by people leaders to be captured for 2021. This did not lead to an increase in employees leaving employment with the Group or in people receiving a remuneration reduction.
(3) VR reductions were managed through application of conduct gates in Australia for 2020. Conduct gates were removed from 1 October 2020 in Australia and replaced with a more fair, consistent and proportionate approach to applying consequences.

REMUNERATION REPORT (CONTINUED)

Section 4 - Remuneration outcomes

4.1 Group performance

The Board determined Group performance for 2021 based on achievement against the GPI outlined below that are linked to the Group's key strategic priorities, and having regard to a qualitative assessment of risk, quality of performance (including consideration of financial, sustainability, environmental and social impact matters, and progress made against strategy) and any other matters as determined by the Board.

The qualitative assessment included the AUSTRAC enforcement investigation of Group entities announced on 7 June 2021. The outcome of that investigation is not yet known. The Board considers that the Group is working to improve the underlying issues that are the subject of the investigation. Adjustments were made in prior years to variable remuneration for current and former executives for shortcomings in the AML program and processes. No adjustment was made in 2021 for any potential adverse outcomes from the investigation but potential adjustments will be considered for new and deferred awards once the outcome of the investigation is known.

The 2021 GPI outcomes are:

GROUP PERFORMANCE INDICATORS

Return on Total Allocated Equity (25%)
(expected loss basis)[1]

10.36%

Against plan of 9.09%

OUTCOME: **ABOVE PLAN**

Cash earnings (25%)
(expected loss basis)[1]

$5.77BN

Against plan of $5.36 billion

OUTCOME: **ABOVE PLAN**

Strategic Net Promoter Score (15%)
(measures customer advocacy)

+5 INCREASE (August 2020 to August 2021)

1 point below target
#1 amongst major banks

OUTCOME: **PARTIALLY MET**

Colleague Engagement Score (15%)
(measures colleague engagement and motivation)

77

Achieved top quartile target score of 77

OUTCOME: **MET**

Lending Market Share (15%)
(composite growth across business lending, home lending and BNZ)

0.21%

Against plan of 0.20%

OUTCOME: **MET**

Intelligent Control Score (5%)
(internal measure of the Group's control environment)

70

Against target of 63

OUTCOME: **ABOVE TARGET**

1 Calculation on an expected loss basis provides a view that is reflective of long-term underlying business performance and is less volatile than the Credit Impairment Charge view which in individual years can be impacted by large movements in economic adjustments and forward looking adjustments. Return on Total Allocated Equity on an expected loss basis remains sensitive to changes in the risk profile of the Group's portfolio.

The Board determined the GPI outcome at 105% based on the level of achievement and their assessment of the qualitative overlay.

Historical Group performance

The table below shows the Group's annual financial performance over the last five years and its impact on shareholder value, taking into account dividend payments, share price changes, and other capital adjustments during the period.

Financial performance measure	2021	2020	2019	2018	2017
Basic earnings per share (cents)[(1)]	**196.3**	112.7	208.2	215.6	228.2
Cash earnings ($m)[(1)]	**6,558**	3,710	5,853	5,702	6,642
Dividends paid per share ($)	**0.90**	1.13	1.82	1.98	1.98
Company share price at start of year ($)	**17.75**	29.70	27.81	31.50	27.87
Company share price at end of year ($)	**27.83**	17.75	29.70	27.81	31.50
Absolute Total Shareholder Return for the year	**61.9%**	(36.4%)	13.3%	(5.4%)	20.1%

(1) Information is presented on a continuing operations basis, unless otherwise stated. 2019 has been restated for the presentation of MLC Wealth as a discontinued operation. No other comparative periods have been restated.

The table below summarises the variable reward outcomes for the Group CEO and Group Executives over the last five years, including vesting of LTVR awards relating to prior periods.

REMUNERATION REPORT (CONTINUED)

	2021	2020	2019	2018	2017
Group CEO Annual VR (% of max. Annual VR)(1)	**81%**	0%	0%	12%	36%
Average Group Executives Annual VR (% of max. Annual VR)(1)	**83%**	0%	0%	30%	49%
LTVR award - four year performance period (% of total award vested)(2)	**56%**	38%	0%	0%	0%
LTVR award - five year performance period (% of total award vested)(3)	**n/a**	35%	0%	65%	n/a
NAB's four year relative TSR (S&P/ASX50)(4)	**n/a**	23rd	20th	42nd	42nd
NAB's four year relative TSR (Top Financial Services peer group)(4)(5)	**71st**	57th	43rd	29th	29th
NAB's five year relative TSR (S&P/ASX50)(4)	**n/a**	22nd	35th	58th	n/a
NAB's five year relative TSR (Top Financial Services peer group)(4)(5)	**n/a**	57th	43rd	57th	n/a

(1) The maximum Annual VR opportunity has changed over time, consistent with the relevant Annual VR plan.
(2) The amount shown for 2021 is the portion of the total 2016 LTI award that vested and for 2020 is the portion of the total 2015 LTI award that vested. Both awards were measured over a four year performance period, against relevant peer groups.
(3) The amount shown for 2020 is the percentage of the total 2014 LTI award that vested. The amount shown for 2018 is the portion of the total 2012 award that vested. Both awards were measured over a five year performance period against relevant peer groups.
(4) Measured over the performance period of the relevant LTVR award.
(5) The Top Financial Services peer group for all awards is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Suncorp Group Limited and Westpac Banking Corporation.

REMUNERATION REPORT (CONTINUED)

4.2 Group CEO and Group Executives' performance

The table below shows the key 2021 performance measures for the Group CEO and the Board's assessment of the Group CEO's performance against those measures. The measures have been selected to support the Group strategy. The Board considers that the Group CEO and Group Executives have executed well on the refreshed Group strategy and are building momentum, and growth in the Group's core business while delivering against the business plan.

Goal, objective and assessment	Weighting	Rating
Customers: *Deliver a great customer experience and grow customer advocacy*	15%	Achieved
• Strategic NPS up 5 points from August 2020 to -6 in August 2021, with NAB ranked first of the Australian major banks. This was slightly below the 6 point target increase. • Supporting customers with 280 remote working and regional/rural roles combined with 134 new regional small business bankers. • Extending support to SME customers impacted by COVID-19 with the NAB Business Support Loan and helping customers impacted by flooding in NSW and the WA cyclone with emergency grants. • Provided ~$2.2bn in deferrals during COVID-19. • Bolstering our ability to work with customers on climate risk and transition pathways by building a team highly qualified climate bankers. • Reducing 'time to yes'.		
Colleagues: *Lead cultural change through energy, positivity and simplicity*	15%	Achieved
• The Group's overall colleague engagement score of 77 (July 2021) achieved the 2021 target of top quartile engagement and the Group's 2021 target. • Leadership score of 88 for July 2021 increased from 85 at October 2020. • Continued leadership of the representation of women in leadership roles. • The Group CEO and each Group Executive and their direct reports completing the Distinctive Leadership program building leadership and strategy execution discipline. • Delivered Career Qualified in Banking accredited by the Financial Services Institute of Australasia (FINSIA), to over 2,000 colleagues with a further 7,000 commencements.		
Safe Growth: *Deliver with focus and discipline on our new Group strategy*	20%	Highly Achieved
• Overall market share (composite growth across Business Lending, Home Lending and BNZ) was 0.21% (as at 31 August 2021) slightly above the 2021 target of 0.20%. • Lending market share continues to grow driven by Australian SME Lending and New Zealand Home Lending. • Business Lending portfolio continues to grow with share of 26.56% (57 basis points above September 2020). • Investment spend shifted to initiatives which will deliver better colleague and customer outcomes at lower cost. • The proposed acquisition of Citigroup's Australian consumer business, subject to regulatory approvals, and the integration of 86,400's leading technology platform into UBank. • The successful sale of MLC Wealth to IOOF. • Significant improvement in management of the Group's obligations, risk and controls environment. Achieved an ICS (internal measure of the Group's control environment) of 70 against a target of 63.		

REMUNERATION REPORT (CONTINUED)

Goal, objective and assessment	Weighting	Rating
Financial(1)(2): *Deliver attractive returns, safe growth and financial plan* • The Group's 2021 plan was set during a period of high economic uncertainty. This took into account the negative revenue impact of a historically low cash rate and ongoing competition in the housing market. In assessing the Group's financial performance, the Board has considered the actions taken by management to mitigate these impacts. • Cash earnings (expected loss basis) of $5,770 million was $415 million or 7.7% higher than plan. • Cash earnings as reported of $6,558 million was also materially higher than plan. • Net operating income exceeded plan by $433 million or 2.6%. The plan assumed net operating income would be lower than 2020 by 4.7%, reflecting lower earnings rates on deposits and capital due to the low interest rate environment together with competitive pressures and product mix impacting housing lending margins. • Operating expenses were $45 million or 0.6% unfavourable to plan. Expenses were $138 million or 1.8% higher than 2020, primarily driven by higher personnel expenses, including provisions for higher performance-based compensation. • Credit impairment charge (expected loss basis) was $155 million or 14.9% favourable to plan primarily due to underlying asset quality and volume mix. • Return on Total Allocated Equity (expected loss basis) of 10.36% was 127bps higher than plan reflecting an increase in cash earnings and lower allocated equity benefitting from the improved operating conditions and better than expected asset quality outcomes. • Balance sheet settings were maintained at prudent levels including a CET1 capital ratio as at 30 September 2021 of 13.00%, above the top end of the Group's target range and 153 basis points higher over the year. • The Group has maintained strong liquidity through 2021 with surpluses above regulatory minimums. The NSFR was 123% and the LCR was 126%, both above the APRA regulatory requirement of 100%.	50%	Highly Achieved
Overall Outcome		Highly Achieved
Risk modifier: *Regulatory, breach management, progress on matters of interest, losses associated with operational events and remediation costs, reputation* • The Group CEO has shown effective leadership in driving greater ownership and accountability for risk across his direct reports. • Reduction in risk events and regulatory breaches. • Faster and safe simplification of risk policies and processes.		Achieved
How we Work modifier: *Individual conduct and demonstration of NAB's values* • The Board considers the Group CEO has strongly demonstrated the Group's values and supported the Group's desired culture.		Highly Achieved
Overall Outcome		121% of target 81% of maximum opportunity

(1) Information is submitted on a continuing operations basis, unless otherwise stated and excludes large notable items.
(2) Calculation on an expected loss basis provides a view that is reflective of long-term underlying business performance and is less volatile than the Credit Impairment Charge view which in individual years can be impacted by large movements in economic adjustments and forward looking adjustments. Return on Total Allocated Equity on an expected loss basis remains sensitive to changes in the risk profile of the Group's portfolio.

The Group Executives' scorecards have relevant individual measures aligned with the Group CEO's performance measures outlined above. The Group Executives received overall outcomes ranging from 70% to 99% of maximum opportunity, with an average (excluding the Group CEO) of 83% of the maximum opportunity.

REMUNERATION REPORT (CONTINUED)

4.3 In-year variable reward outcomes

Group CEO and Group Executives

The table below outlines the actual VR outcome for the Group CEO and each of the Group Executives for 2021 and how that outcome compares to their maximum VR opportunity. The variance in the individual scores reflects the differences in the Group CEO's and each Group Executive's performance against the key areas of their individual scorecard. Individual outcomes for the Group Executives varied between 70% and 99% of maximum opportunity.

Name	Maximum Annual VR opportunity $	Total Annual VR $	Annual VR cash $	VR deferred rights $	% of maximum Annual VR opportunity %
Group CEO					
Ross McEwan	3,750,000	3,018,750	1,509,375	1,509,375	81
Group Executives					
Sharon Cook	945,000	793,800	396,900	396,900	84
Shaun Dooley	1,155,000	848,926	424,463	424,463	74
Susan Ferrier	945,000	694,576	347,288	347,288	74
David Gall	1,800,000	1,638,000	819,000	819,000	91
Nathan Goonan	945,000	793,800	396,900	396,900	84
Andrew Irvine	1,800,000	1,575,000	787,500	787,500	88
Gary Lennon	1,650,000	1,155,000	577,500	577,500	70
Les Matheson	1,134,863	794,404	397,202	397,202	70
Angela Mentis	1,800,000	1,786,680	893,340	893,340	99
Rachel Slade	1,800,000	1,575,000	787,500	787,500	88
Patrick Wright	2,250,000	1,968,750	984,375	984,375	88
Total	**19,974,863**	**16,642,686**	**8,321,343**	**8,321,343**	**82**

REMUNERATION REPORT (CONTINUED)

4.4 Prior year long-term incentive awards

(a) 2016 LTI award testing

The performance hurdles for the 2016 LTI award were tested during 2021. The performance hurdles for the 2016 LTI award, measured over the relevant four-year performance period, were partially achieved resulting in 55.8% of the total performance rights vesting. This was the only test of the performance hurdles and all performance rights that did not vest were lapsed. The table below sets out details of the outcomes.

Performance hurdle	Performance period	% of award	Result	% of rights vested	% of rights lapsed	% of rights remaining
NAB's Cash Return On Equity growth(1)	2017 to 2020 financial years	40	Ranked 4th	-	100	-
NAB's TSR relative to Top Financial Services peer group(2)(3)	9/11/2016 to 9/11/2020	60	71st percentile ranking	93	7	-

(1) Assessed against Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Westpac Banking Corporation. For Commonwealth Bank of Australia the financial year is from July to June and for NAB and the other banks, from October to September.
(2) The peer group for this performance hurdle is: AMP Limited, Australia and New Zealand Banking Group Limited, Bank of Queensland Limited, Bendigo & Adelaide Bank Limited, Commonwealth Bank of Australia, Suncorp Group Limited and Westpac Banking Corporation.
(3) TSR is based on the 30 trading day volume weighted average price of the relevant shares up to and including the start and end of the performance period.

The following matters were considered by the Board in determining the level of vesting for the 2016 LTI award.

Performance hurdle	Vesting schedule	Performance assessment considerations
NAB's cash Return on Equity growth	• Ranked 4th - no vesting • Ranked 3rd - 25% vesting • Ranked 2nd - 50% vesting • Ranked 1st - 100% vesting	A framework has been approved by the Board to assess relative cash Return on Equity performance for the peer group companies. Consistent with the framework, the Board decided not to make any adjustments to NAB or the peer group companies in assessing the performance hurdle.
NAB's TSR relative to Top Financial Services peer group	• No vesting below the 50th percentile • 50% vesting at the 50th percentile on a straight line scale up to 100% vesting at the 75th percentile • No further vesting for better than the 75th percentile	• TSR measures the return that a shareholder receives through dividends (and any other distributions) together with capital gains over a specific period. For the purposes of calculating TSR over the performance period, the value of the relevant shares on the start date and the end date of the performance period are based on the volume weighted average price of those shares over the 30 trading days up to and including the relevant date. • The Board exercised its discretion under the LTI plan and approved the measurement of the TSR for companies in the peer group be adjusted to ensure the impact of changes in the timing of their ex-dividend date, did not have an unintended consequence and to achieve an outcome consistent with the original intent of the award to measure relative TSR performance over the performance period. • As a result of the Board exercising its discretion and adjusting the TSR calculation for the change in the timing of the ex-dividend date, NAB achieved a 71st percentile ranking. If the TSR calculation had not been adjusted as described, NAB would have achieved a 57th percentile ranking.

(b) Overview of unvested long-term awards

The following is a summary of the unvested long-term awards held by the Group CEO and Group Executives.

Award	Grant date	Performance period	Vesting date	Performance hurdles
2017 LTI	19/12/2017	• 2018 to 2021 financial years • 14/11/2017 to 14/11/2021	20/12/2021	• NAB's cash ROE growth against Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, Westpac Banking Corporation • NAB's TSR performance against a financial services peer group
2019 LTVR	26/02/2020	• 15/11/2019 to 15/11/2023	22/12/2023	• NAB's TSR performance against a financial services peer group
2020 LTVR	24/02/2021	• 15/11/2020 to 15/11/2024	22/12/2024	• NAB's TSR performance against a financial services peer group

Details of LTI and LTVR awards granted in respect of previous years can be found in NAB's previous remuneration reports which are available at www.nab.com.au/about-us/shareholder-centre/financial-disclosuresandreporting/annual-reports-and-presentations.

REMUNERATION REPORT (CONTINUED)

4.5 Realised remuneration

The table below is a voluntary non-statutory disclosure that shows the realised remuneration the Group CEO and each Group Executive received for the period in 2021 during which they were a Group Executive. The amounts shown include fixed remuneration, previous years' deferred variable reward which vested in 2021, and other equity and cash based awards that vested in 2021. The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with Australian Accounting Standards and this information differs from the statutory remuneration table (in Section 5.1) which shows the expense for vested and unvested awards in accordance with Australian Accounting Standards.

		2021			Prior years		
		Fixed remuneration[1]	Annual VR cash	Total 2021 remuneration	Vested / paid remuneration[2]	Total realised remuneration	Equity forfeited / lapsed[3]
Name		$	$	$	$	$	$
Group CEO							
Ross McEwan	**2021**	**2,503,866**	**1,509,375**	**4,013,241**	**-**	**4,013,241**	**-**
	2020	1,837,165	-	1,837,165	-	1,837,165	-
Group Executives							
Sharon Cook	**2021**	**903,514**	**396,900**	**1,300,414**	**8,865**	**1,309,279**	**-**
	2020	903,449	-	903,449	58,340	961,789	-
Shaun Dooley	**2021**	**1,079,637**	**424,463**	**1,504,100**	**202,252**	**1,706,352**	**(201,543)**
	2020	1,003,831	-	1,003,831	236,545	1,240,376	(224,607)
Susan Ferrier	**2021**	**900,988**	**347,288**	**1,248,276**	**6,942**	**1,255,218**	**-**
	2020	903,449	-	903,449	-	903,449	-
David Gall	**2021**	**1,209,534**	**819,000**	**2,028,534**	**595,888**	**2,624,422**	**(472,097)**
	2020	1,204,597	-	1,204,597	884,267	2,088,864	(1,490,936)
Nathan Goonan	**2021**	**904,279**	**396,900**	**1,301,179**	**204,660**	**1,505,839**	**(201,543)**
	2020	303,448	-	303,448	-	303,448	-
Andrew Irvine	**2021**	**1,201,430**	**787,500**	**1,988,930**	**1,492,093**	**3,481,023**	**-**
	2020	101,149	-	101,149	-	101,149	-
Gary Lennon	**2021**	**1,109,009**	**577,500**	**1,686,509**	**755,082**	**2,441,591**	**(590,116)**
	2020	1,106,235	-	1,106,235	360,575	1,466,810	(249,597)
Les Matheson	**2021**	**761,178**	**397,202**	**1,158,380**	**-**	**1,158,380**	**-**
Angela Mentis	**2021**	**1,346,827**	**893,340**	**2,240,167**	**772,787**	**3,012,954**	**(590,116)**
	2020	1,366,499	-	1,366,499	1,454,442	2,820,941	(1,822,197)
Rachel Slade	**2021**	**1,203,746**	**787,500**	**1,991,246**	**212,400**	**2,203,646**	**(201,543)**
	2020	1,033,334	-	1,033,334	113,940	1,147,274	-
Patrick Wright	**2021**	**1,503,141**	**984,375**	**2,487,516**	**52,329**	**2,539,845**	**-**
	2020	1,505,746	-	1,505,746	739,962	2,245,708	-

(1) Includes cash salary and superannuation consistent with the statutory remuneration table in Section 5.1, excluding accrued annual leave entitlements. The 2020 comparative amount has been adjusted for Angela Mentis' annual leave entitlement accrual, arising from changes in BNZ's leave policy.
(2) Amounts related to prior year vested equity or cash based remuneration. This includes LTI performance rights, Transformation performance rights, commencement awards, shares received under the General Employee Share Offer and dividends paid during 2021 in relation to any deferred share awards. Details of the vested equity awards are provided in Section 5.2.
(3) Awards or remuneration lapsed or forfeited during 2021. Details of the awards are provided in Section 5.2.

REMUNERATION REPORT (CONTINUED)

Section 5 - Group CEO and Group Executive statutory remuneration disclosures

5.1 Statutory remuneration

The following table has been prepared in accordance with Australian Accounting Standards and Section 300A of the *Corporations Act 2001* (Cth). The table shows details of the nature and amount of each element of remuneration paid or awarded to the Group CEO and Group Executives for services provided during the year while they were KMP (including variable reward amounts in respect of performance during the year which are paid following the end of the year). In addition to the remuneration benefits below, NAB paid an insurance premium for a contract insuring the Group CEO and Group Executives as officers. It is not possible to allocate the benefit of this premium between individuals. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the premium paid.

		Short-term benefits			Post-employment benefits		Equity-based benefits			
Name		Cash salary[1] $	Annual VR cash[2] $	Non-monetary[3] $	Superannuation[4] $	Other long-term benefits[5] $	Shares[6] $	Rights[7] $	Other remuneration[8] $	Total[9] $
Group CEO										
Ross McEwan	**2021**	**2,480,543**	**1,509,375**	**-**	**23,323**	**14,278**	**-**	**1,265,716**	**-**	**5,293,235**
	2020	1,865,204	-	160,189	22,852	7,664	-	255,279	-	2,311,188
Group Executives										
Sharon Cook	**2021**	**873,563**	**396,900**	**-**	**23,047**	**7,289**	**53,093**	**555,234**	**-**	**1,909,126**
	2020	886,553	-	-	20,344	6,083	53,238	127,349	-	1,093,567
Shaun Dooley	**2021**	**1,043,862**	**424,463**	**-**	**23,117**	**39,280**	**43**	**324,667**	**-**	**1,855,432**
	2020	991,429	-	583	20,065	35,752	6,270	179,572	-	1,233,671
Susan Ferrier	**2021**	**874,489**	**347,288**	**-**	**23,047**	**5,140**	**62,310**	**383,864**	**-**	**1,696,138**
	2020	897,838	-	4,433	22,852	4,152	-	82,347	-	1,011,622
David Gall	**2021**	**1,183,492**	**819,000**	**2,257**	**26,042**	**21,384**	**-**	**535,355**	**-**	**2,587,530**
	2020	1,182,823	-	2,840	21,774	21,221	-	400,689	-	1,629,347
Nathan Goonan	**2021**	**801,835**	**396,900**	**-**	**23,047**	**13,982**	**17,405**	**219,729**	**-**	**1,472,898**
	2020	306,719	-	-	5,994	4,188	5,874	81,397	-	404,172
Andrew Irvine	**2021**	**1,201,292**	**787,500**	**378,543**	**23,152**	**5,577**	**1,033,703**	**584,174**	**870,000**	**4,883,941**
	2020	102,876	-	14,042	5,994	361	203,525	-	210,000	536,798
Gary Lennon	**2021**	**1,081,673**	**577,500**	**-**	**23,117**	**19,670**	**61,286**	**346,078**	**-**	**2,109,324**
	2020	1,086,448	-	583	19,787	19,481	61,454	419,383	-	1,607,136
Les Matheson (for part year)	**2021**	**777,665**	**397,202**	**261,174**	**17,676**	**3,516**	**-**	**354,116**	**-**	**1,811,349**
Angela Mentis	**2021**	**1,443,847**	**893,340**	**238,391**	**35,816**	**34,284**	**167,333**	**518,543**	**-**	**3,331,554**
	2020	1,339,989	-	261,177	33,573	32,361	167,791	513,167	-	2,348,058

REMUNERATION REPORT (CONTINUED)

		Short-term benefits			Post-employment benefits		Equity-based benefits			
		Cash salary[1]	Annual VR cash[2]	Non-monetary[3]	Superannuation[4]	Other long-term benefits[5]	Shares[6]	Rights[7]	Other remuneration[8]	Total[9]
Name		$	$	$	$	$	$	$	$	$
Rachel Slade	**2021**	**1,139,169**	**787,500**	**-**	**23,152**	**11,224**	**60,817**	**524,602**	**-**	**2,546,464**
	2020	1,022,185	-	583	20,344	9,697	64,660	220,320	-	1,337,789
Patrick Wright	**2021**	**1,520,158**	**984,375**	**274,890**	**23,257**	**12,148**	**313,399**	**1,137,646**	**-**	**4,265,873**
	2020	1,556,040	-	130,201	18,672	10,139	314,257	299,613	7,835	2,336,757
Former Group Executives										
Mike Baird (for part year)	2020	677,791	-	2,730	13,514	4,388	261,467	(142,010)	1,109,701	1,927,581
Anthony Healy (for part year)	2020	702,254	-	12,399	13,514	12,348	304,461	4,446	1,169,701	2,219,123
Michael Saadie (for part year)	2020	290,316	55,703	2,863	5,994	4,552	19,239	60,365	-	439,032
Anthony Waldron (for part year)	2020	105,454	13,480	-	1,868	1,236	5,394	18,825	-	146,257
Total	**2021**	**14,421,588**	**8,321,343**	**1,155,255**	**287,793**	**187,772**	**1,769,389**	**6,749,724**	**870,000**	**33,762,864**
Total	2020	13,013,919	69,183	592,623	247,141	173,623	1,467,630	2,520,742	2,497,237	20,582,098

(1) Includes cash allowances, payroll remediation payments, motor vehicle benefits, parking and short-term compensated absences, such as annual leave entitlements accrued. Any related fringe benefits tax is included. The 2020 comparative amount has been adjusted for Angela Mentis' annual leave entitlement accrual, arising from changes in BNZ's leave policy.
(2) The VR cash received in respect of 2021 is scheduled to be paid on 22 December 2021 in Australia and 27 November 2021 in New Zealand.
(3) Includes relocation costs considered to provide a benefit to the individual (including temporary accommodation, furniture rental, utility costs, dependant travel costs, insurance, stamp duty, associated fringe benefit tax and other benefits). For international assignees this may also include the provision of health fund benefits and tax advisory services. The 2020 comparative amount has been adjusted for Ross McEwan as fringe benefits tax is not payable on certain amounts associated with his relocation to Australia and for Angela Mentis an additional amount has been included for motor vehicle benefits.
(4) Includes company contributions to superannuation and allocations by employees made by way of salary sacrifice of fixed remuneration. Superannuation contributions are not required to be paid to individuals based in New Zealand but such payments may be made as part of cash salary.
(5) Includes long service leave entitlements accrued based on an actuarial calculation.
(6) 2021 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for: (a) General Employee shares granted in December 2017 to Shaun Dooley, Nathan Goonan and Rachel Slade, and in December 2018 to Nathan Goonan and Angela Mentis. (b) Long-term shares granted to Susan Ferrier in February 2021, restricted until December 2023. The shares are subject to continued employment, malus and clawback provisions. (c) Commencement shares granted to Andrew Irvine in November 2020. 21% of the shares were restricted until December 2020, 21% until December 2021, 24% until December 2022, 31% until December 2023 and 3% in December 2024. The shares are subject to continued employment, malus and clawback provisions. (d) 2018 VR deferred shares granted in February 2019 to Sharon Cook, Gary Lennon, Angela Mentis, Rachel Slade and Patrick Wright. The shares are restricted for approximately four years, subject to performance and service conditions. 2019 VR deferred shares granted in February 2020 to Nathan Goonan for performance in his previous role. The shares are restricted for approximately three years, subject to performance and service conditions.
(7) 2021 expense based on the grant date fair value, amortised on a straight line basis over the vesting period for: (a) 2021 VR deferred rights scheduled to be granted in February 2022. The VR deferred rights are restricted for up to four years, with 25% scheduled to vest in November 2022, 25% in November 2023, 25% in November 2024 and 25% in November 2025. The deferred rights are subject to continued employment, malus and clawback. (b) 2016 and 2017 LTI performance rights granted in December 2016 and December 2017 respectively under the Group's previous LTI program. The 2016 LTI was tested in 2020 and 55.8% of the performance rights vested and the remaining 44.2% lapsed. Tranche 1 of the 2016 LTI fully lapsed and the associated expense reversed. (c) 2019 and 2020 LTVR performance rights granted in February 2020 and February 2021 respectively and 2021 LTVR performance rights scheduled to be granted in February 2022 as described in Section 1.2 and Section 2.2. (d) Transformation performance rights granted to Shaun Dooley, Nathan Goonan and Rachel Slade in February 2018 for performance in their prior roles. The performance rights were restricted for 3 years and subject to achievement of customer and cost savings performance and service hurdles. The performance hurdles were tested during 2020 and 50% of the award vested. The remaining 50% of the award lapsed and the associated expense reversed.
(8) For Andrew Irvine, the 2021 amount shown is a portion of his commencement award paid in cash in December 2020. In accordance with Australian Accounting Standards this amount has been expensed in 2020 and 2021. Andrew received a commencement award to compensate for the loss of deferred benefits and current year variable reward on leaving his former employer. The award consists of $630,000 cash paid in December 2020 and $2,060,000 in restricted shares (see 6(c) above). The remaining $450,000 was paid in May 2021 to compensate Andrew for an incentive related pension entitlement lost on leaving his former Canadian employer.
(9) The percentage of 2021 total remuneration related to performance-based remuneration was: Ross McEwan 52%, Sharon Cook 53%, Shaun Dooley 40%, Susan Ferrier 47%, David Gall 52%, Nathan Goonan 43%, Andrew Irvine 49%, Gary Lennon 47%, Les Matheson 41%, Angela Mentis 47%, Rachel Slade 54%, Patrick Wright 57%.

REMUNERATION REPORT (CONTINUED)

5.2 Value of shares and rights

The following table shows the number and value of shares and rights that were granted by NAB, forfeited, lapsed or vested for the Group CEO and each Group Executive during the year to 30 September 2021. Rights refers to VR deferred rights, LTI performance rights, LTVR performance rights and any other deferred rights or performance rights provided under a current or previous VR plan. A right is a right to receive one NAB share subject to the satisfaction of the relevant performance and service conditions. The value shown is the full accounting value to be expensed over the vesting period, which is generally longer than the current year. The Group CEO and Group Executives did not pay any amounts for rights that vested and were exercised during 2021. There are no amounts unpaid on any of the shares exercised.

There have been no changes to the terms and conditions of these awards, or any other awards since the awards were granted.

All rights that vest are automatically exercised when they vest. For the awards allocated during the year to 30 September 2021, the maximum number of shares or rights that may vest is shown for the Group CEO and each Group Executive. The maximum value of the equity awards is the number of shares or rights subject to NAB's share price at the time of vesting. The minimum number of shares or rights and the value of the equity awards is zero if the equity is fully forfeited or lapsed.

Name		Granted(1) No.	Grant date	Forfeited / lapsed(2) No.	Vested(3) No.	Granted $	Forfeited / lapsed(4) $	Vested $
Group CEO								
Ross McEwan	LTVR rights	180,655	24/02/2021	-	-	2,077,533	-	-
Group Executives								
Sharon Cook	LTVR rights	65,036	24/02/2021	-	-	747,914	-	-
Shaun Dooley	General employee shares	30	13/12/2017	-	30	-	-	886
	Transformation rights	17,248	21/02/2018	(8,624)	8,624	-	(201,543)	211,374
	LTVR rights	72,262	24/02/2021	-	-	831,013	-	-
Susan Ferrier	Long-term shares	11,570	24/02/2021	-	-	294,688	-	-
	LTVR rights	65,036	24/02/2021	-	-	747,914	-	-
David Gall	LTI rights	45,699	14/12/2016	(20,201)	25,498	-	(472,097)	272,064
	LTVR rights	86,714	24/02/2021	-	-	997,211	-	-
Nathan Goonan	General employee shares	30	13/12/2017	-	30	-	-	886
	Transformation rights	17,248	21/02/2018	(8,624)	8,624	-	(201,543)	211,374
	LTVR rights	65,036	24/02/2021	-	-	747,914	-	-
Andrew Irvine	Commencement shares	109,694	6/11/2020	-	23,323	2,060,053	-	438,006
	LTVR rights	86,714	24/02/2021	-	-	997,211	-	-
Gary Lennon	LTI rights	57,123	14/12/2016	(25,251)	31,872	-	(590,116)	340,074
	LTVR rights	79,488	24/02/2021	-	-	914,112	-	-
Les Matheson	LTVR rights	75,875	24/02/2021	-	-	872,563	-	-
Angela Mentis	LTI rights	57,123	14/12/2016	(25,251)	31,872	-	(590,116)	340,074
	LTVR rights	86,714	24/02/2021	-	-	997,211	-	-
Rachel Slade	General employee shares	30	13/12/2017	-	30	-	-	886
	Transformation rights	17,248	21/02/2018	(8,624)	8,624	-	(201,543)	211,374
	LTVR rights	86,714	24/02/2021	-	-	997,211	-	-
Patrick Wright	LTVR rights	108,393	24/02/2021	-	-	1,246,520	-	-

(1) The following securities have been granted during 2021: a) LTVR performance rights allocated in February 2021 (in respect of 2020) to the Group CEO and all Group Executives. The performance rights are restricted until December 2024 and subject to service and performance hurdles. b) Long-term shares allocated to Susan Ferrier in February 2021. See Section 5.1 for more details. c) Commencement shares allocated to Andrew Irvine in November 2020. See Section 5.1 for more details.

(2) The following securities have lapsed during 2021: a) Transformation performance rights allocated in February 2018 were partially lapsed in December 2020 for Shaun Dooley, Nathan Goonan and Rachel Slade. The award relates to their role prior to becoming a Group Executive. Further details are provided in Section 4.4. b) LTI performance rights allocated in December 2016 were partially lapsed in December 2020 for David Gall, Gary Lennon and Angela Mentis. Further details are provided in Section 4.4.

(3) The following securities have vested during 2021: a) General employee shares granted to Shaun Dooley, Nathan Goonan and Rachel Slade in December 2017, fully vested in December 2020. b) Transformation performance rights allocated in February 2018 partially vested in December 2020 for Shaun Dooley, Nathan Goonan and Rachel Slade. The award relates to their role prior to becoming a Group Executive. Further details are provided in Section 5.1. c) LTI performance rights allocated in December 2016 partially vested in December 2020 for David Gall, Gary Lennon and Angela Mentis. Further details are provided in Section 4.4.

(4) Calculated using NAB's closing share price on the forfeiture / lapsing date.

REMUNERATION REPORT (CONTINUED)

5.3 Determining the value of equity remuneration

The number of shares and rights provided to the Group CEO and Group Executives by NAB are determined using a face value methodology. The table below shows the fair value of shares and rights granted by NAB during 2021 in accordance with statutory requirements. The grant date fair value of each share is determined by the market value of NAB shares and is generally a five day weighted average share price. The grant date fair value of shares and rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.

No performance options have been granted during the year. Shares and rights granted during 2021 were granted at no cost to the Group CEO or Group Executive and have a zero exercise price.

Type of allocation	Award type	Grant date	Grant share price[1] $	Fair value $	Restriction period end[2]
Commencement shares[3]	Shares	6 November 2020		18.78	1 December 2020
Commencement shares[3]	Shares	6 November 2020		18.78	31 December 2021
Commencement shares[3]	Shares	6 November 2020		18.78	31 December 2022
Commencement shares[3]	Shares	6 November 2020		18.78	31 December 2023
Commencement shares[3]	Shares	6 November 2020		18.78	31 December 2024
Long-term share award[4]	Shares	24 February 2021		25.47	22 December 2023
Long-Term Variable Reward[5]	Performance rights	24 February 2021	24.90	11.50	22 December 2024

(1) The Grant share price is NAB's closing share price at the date of valuation (being the grant date of the relevant award). The Grant share price was used to determine the fair value.
(2) Any performance rights that vest are automatically exercised at the end of the restriction period. The end of the restriction period for the LTVR performance rights is also the expiry date for those performance rights.
(3) Andrew Irvine received commencement shares on joining NAB. Details of the awards are provided in section 5.1, footnote 8.
(4) Long-term shares were provided to Susan Ferrier. Details of the award are provided in section 1.2.
(5) The number of LTVR performance rights allocated to each eligible participant was calculated using the weighted average share price over the five trading days up to 30 September 2020, inclusive, being $17.99.

Hedging policy

Directors and employees are prohibited from protecting the value of their equity awards by hedging. Further details are available in the Group Securities Trading Policy.

NAB's Group Securities Trading Policy explains the law and the Policy for our colleagues to comply with when trading in NAB securities. All employees are prohibited from using derivatives in relation to elements of their remuneration that are unvested. In addition, closely related parties of KMP are prohibited from using derivatives or otherwise entering into hedging arrangements in relation to elements of their remuneration that are unvested or which have vested but remain subject to forfeiture conditions.

The Group Securities Trading Policy is available at https://www.nab.com.au/content/dam/nabrwd/documents/policy/corporate/group-securities-trading-policy.pdf.

REMUNERATION REPORT (CONTINUED)

5.4 Rights holdings

No rights or performance options (i.e. entitlements to NAB shares) are granted to the Group CEO or Group Executives' related parties.

No performance options (i.e. a right requiring payment of a subscription price on vesting) are currently held by the Group CEO or Group Executives. The number of rights that vested during the year was equivalent to the number of rights that were exercised during the year. At 30 September 2021, no rights held by the Group CEO or Group Executives were: (i) vested and exercisable; nor (ii) vested but not exercisable.

Name	Balance at beginning of year[1] No.	Granted during year as remuneration No.	Exercised during year No.	Forfeited / lapsed or expired during year No.	Balance at end of year No.
Group CEO					
Ross McEwan	-	180,655	-	-	180,655
Group Executives					
Sharon Cook	59,875	65,036	-	-	124,911
Shaun Dooley	50,748	72,262	(8,624)	(8,624)	105,762
Susan Ferrier	-	65,036	-	-	65,036
David Gall	146,262	86,714	(25,498)	(20,201)	187,277
Nathan Goonan	17,248	65,036	(8,624)	(8,624)	65,036
Andrew Irvine	-	86,714	-	-	86,714
Gary Lennon	158,109	79,488	(31,872)	(25,251)	180,474
Les Matheson	-	75,875	-	-	75,875
Angela Mentis	173,079	86,714	(31,872)	(25,251)	202,670
Rachel Slade	56,443	86,714	(8,624)	(8,624)	125,909
Patrick Wright	134,329	108,393	-	-	242,722

(1) Balance may include rights granted prior to individuals becoming KMP. For individuals who became KMP during 2021, the balance is at the date they became KMP.

REMUNERATION REPORT (CONTINUED)

5.5 Group CEO and Group Executives' share ownership

The number of NAB shares held (directly and nominally) by the Group CEO and each Group Executive or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below:

Name	Balance at beginning of year(1) No.	Granted during year as remuneration No.	Received during year on exercise of rights No.	Other changes during year No.	Balance at end of year No.
Group CEO					
Ross McEwan	53,897	-	-	-	53,897
Group Executives					
Sharon Cook	13,446	-	-	-	13,446
Shaun Dooley	62,480	-	8,624	-	71,104
Susan Ferrier	-	11,570	-	-	11,570
David Gall	94,350	-	25,498	-	119,848
Nathan Goonan	3,590	-	8,624	(8,624)	3,590
Andrew Irvine	-	109,694	-	(23,323)	86,371
Gary Lennon	120,213	-	31,872	(15,172)	136,913
Les Matheson	-	-	-	-	-
Angela Mentis	154,096	-	31,872	(31,500)	154,468
Rachel Slade	39,811	-	8,624	-	48,435
Patrick Wright	79,818	-	-	-	79,818

(1) Balance may include shares held prior to individuals becoming KMP. For individuals who became KMP during 2021, the balance is at the date they became KMP.

Minimum shareholding requirements

The Group CEO and Group Executives are required to accumulate and retain NAB equity over a five year period from commencement as KMP to an amount equal to:

- two times fixed remuneration for the Group CEO
- one times fixed remuneration for Group Executives.

Additionally, the Group CEO must hold at least 2,000 NAB ordinary shares within six months of appointment.

Holdings included in meeting the minimum shareholding requirements for each of the Group CEO or a Group Executive are NAB shares held, equity received under NAB's employee equity plans that has vested and is retained, and unvested VR deferred shares and VR deferred rights.

The Group CEO and Group Executives have met their current shareholding requirements.

5.6 Group CEO and Group Executive contract terms

The Group CEO and Group Executives are employed on the following contractual terms:

Contractual term	Arrangement
Duration	• Permanent ongoing employment
Notice period(1)	• 26 weeks(2)
Other key arrangements on separation	• If the Group CEO or Group Executive resigns or is dismissed by NAB they do not receive any annual or long-term variable reward in that year and any unvested awards are forfeited. • Unvested awards may be retained on separation in other circumstances such as retrenchment or retirement. Where unvested awards do not lapse on cessation of employment, they will continue to be held by the individual on the same terms. • All statutory entitlements are paid.
Post-employment obligations	• Non-compete and non-solicitation obligations apply.

(1) Payment in lieu of notice for some or all of the notice period may be approved by the Board in certain circumstances. Termination payments are not paid on resignation, summary termination or termination for unsatisfactory performance, although the Board may determine exceptions to this.
(2) Subject to the terms of the NAB Enterprise Agreement 2016.

REMUNERATION REPORT (CONTINUED)

Section 6 - Non-executive director remuneration

6.1 Fee policy and pool

Non-executive directors receive fees to recognise their contribution to the work of the Board. Additional fees are paid, where applicable, for serving on Board Committees, on Boards of controlled entities and internal advisory boards. Fees include NAB's compulsory contributions to superannuation. Fees are set to reflect the time commitment and responsibilities of the role. To maintain independence and objectivity, non-executive directors do not receive any performance related remuneration. Non-executive directors do not receive any termination payments.

The total amount of non-executive directors' remuneration is capped at a maximum aggregate fee pool that is approved by shareholders. The current aggregate fee pool of $4.5 million per annum was approved by shareholders at NAB's 2008 Annual General Meeting. The total Board and Committee fees, including superannuation, paid to non-executive directors in 2021 is within the approved aggregate fee pool.

The following table shows the 2021 non-executive director Board and Committee fee policy structure.

	Chair ($pa)	Non-executive director ($pa)
Board	790,000	230,000
Audit Committee	65,000	32,500
Risk & Compliance Committee	60,000	30,000
People & Remuneration Committee	55,000	27,500
Customer Committee	40,000	20,000
Nomination & Governance Committee	-	10,000

Changes for 2022

Non-executive director fees are generally reviewed annually, including against fee levels paid to board members of other major Australian corporations. As a result of the 2021 fee review, the Board determined to make the following changes effective from 1 October 2021:

- Increase the Board Chair fee from $790,000 to $825,000 and non-executive director Board fee from $230,000 to $240,000 to continue to attract and retain high quality non-executive directors.
- Increase the Risk and Compliance Committee Chair fee from $60,000 to $65,000 and the fee for being a member of that Committee from $30,000 to $32,500 due to the increased workload for this Committee over recent years.

REMUNERATION REPORT (CONTINUED)

6.2 Statutory remuneration

The 2021 fees paid to the non-executive directors are set out below. The 2020 fees paid take into account the 20% reduction to the chairman fee and non-executive director base fee from 1 April 2020 to 30 September 2020 and changes in the directors' duties and responsibilities during the year. In 2020, there was a Special Duties fee paid to Philip Chronican while interim Group CEO (an executive director role).

		Short-term benefits		Post-employment benefits	
Name		Cash salary and fees[1] $	Special duties $	Superannuation[2] $	Total $
Non-executive directors					
Philip Chronican (Chair)	**2021**	**767,837**	**-**	**22,163**	**790,000**
	2020	595,226	224,764	21,176	841,166
David Armstrong	**2021**	**302,837**	**-**	**22,163**	**325,000**
	2020	304,325	-	21,175	325,500
Kathryn Fagg	**2021**	**270,337**	**-**	**22,163**	**292,500**
	2020	176,907	-	16,381	193,288
Peeyush Gupta[3]	**2021**	**467,801**	**-**	**22,163**	**489,964**
	2020	506,426	-	21,176	527,602
Anne Loveridge	**2021**	**308,333**	**-**	**-**	**308,333**
	2020	261,349	-	10,651	272,000
Douglas McKay[4]	**2021**	**541,693**	**-**	**22,163**	**563,856**
	2020	492,782	-	20,882	513,664
Simon McKeon	**2021**	**277,837**	**-**	**22,163**	**300,000**
	2020	149,553	-	14,114	163,667
Ann Sherry	**2021**	**275,337**	**-**	**22,163**	**297,500**
	2020	253,325	-	21,176	274,501
Former non-executive directors					
Geraldine McBride (for part year)	**2021**	**56,085**	**-**	**5,328**	**61,413**
	2020	238,740	-	20,760	259,500
Ken Henry (for part year)	2020	91,932	-	5,251	97,183
Anthony Yuen (for part year)	2020	62,280	-	873	63,153
Total	**2021**	**3,268,097**	**-**	**160,469**	**3,428,566**
Total	2020	3,132,845	224,764	173,615	3,531,224

(1) The portion of fees in connection with their roles, duties and responsibilities as a non-executive director, and includes attendance at meetings of the Board, and of Board committees and boards of controlled entities, received as cash.
(2) Reflects compulsory company contributions to superannuation.
(3) Peeyush Gupta received fees of $202,463 in his capacity as a non-executive director on the board of a number of Group subsidiaries, including as a non-executive director of a number of Wealth Boards and BNZ Life. Peeyush resigned from the Wealth Boards on 31 May 2021, upon completion of the sale of MLC Wealth to IOOF. The director fees relating to BNZ Life were paid in NZD.
(4) Douglas McKay received fees of $281,355 in his capacity as Chair of Bank of New Zealand, which were paid in NZD.

REMUNERATION REPORT (CONTINUED)

6.3 Minimum shareholding policy

To align with shareholders interests, non-executive directors are required to hold, within five years of their appointment, NAB ordinary shares to the value of the annual base fee for non-executive directors. To meet the minimum requirement, non-executive directors must:

- hold at least 2,000 NAB ordinary shares within six months of their appointment
- acquire NAB ordinary shares to the value of at least 20% of the annual base fee each year until the minimum holding requirement is met.

The value of a non-executive director's shareholding is based on the share price at the time shares were acquired. All current non-executive directors' shareholding requirements have been met.

From 1 October 2021, the minimum requirement for the Chair's shareholding has increased to equal the value of the Chair's annual fee. The current Chair already meets this requirement.

6.4 Non-executive directors' share ownership and other interests

The number of NAB shares held (directly and nominally) by each non-executive director of NAB and the Group or their related parties (their close family members or any entity they, or their close family members, control, jointly control or significantly influence) are set out below. No rights or performance options are granted to non-executive directors or their related parties.

Name	Balance at beginning of year[1] No.	Acquired No.	Other changes during year No.	Balance at end of year[2] No.
Non-executive directors				
Philip Chronican (Chair)	42,120	-	-	42,120
David Armstrong	19,110	685	-	19,795
Kathryn Fagg	8,700	726	-	9,426
Peeyush Gupta	9,571	-	-	9,571
Anne Loveridge	12,120	-	-	12,120
Douglas McKay	11,972	-	-	11,972
Simon McKeon	12,120	2,880	-	15,000
Ann Sherry	12,698	-	-	12,698
Former non-executive directors				
Geraldine McBride	7,703	-	-	7,703

(1) Balance may include shares held prior to individuals becoming a non-executive director.
(2) For non-executive directors who ceased their directorship during 2021, the balance is as at the date they ceased being a director.

REMUNERATION REPORT (CONTINUED)

Section 7 - Loans, other transactions and other interests

7.1 Loans

Loans made to non-executive directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to the Group CEO and Group Executives may be made on similar terms and conditions generally available to other employees of the Group. Loans to KMP of NAB and the Group may be subject to restrictions under applicable laws and regulations including the *Corporations Act 2001* (Cth). The opening balance is 1 October and closing balance is 30 September, or the date of commencement or cessation of a KMP.

Total aggregated loans provided to KMP and their related parties

NAB and the Group	Terms and conditions	Balance at beginning of year $	Interest charged[1] $	Interest not charged[1] $	Write-off[1] $	Balance at end of year $
KMP[2]	Normal	3,375,290	255,694	-	-	13,702,702
	Employee	4,333,332	270,795	-	-	17,274,318
Other related parties[3]	Normal	14,054,470	283,694	-	-	14,199,104

(1) Relates to the period during which the Group Executive was KMP.
(2) The aggregated loan balance at the end of the year includes loans issued to 16 KMP.
(3) Includes the KMP's related parties, which includes their close family members or any entity they or their close family members control, jointly control or significantly influence.

Aggregated loans to KMP and their related parties above $100,000

NAB and the Group	Balance at beginning of year $	Interest charged[1] $	Interest not charged $	Write-off $	Balance at end of year $	KMP highest indebtedness during year[2] $
Non-executive directors						
David Armstrong	1,078,592	28,821	-	-	1,040,373	-
Kathryn Fagg	1,388,818	34,365	-	-	2,930,750	2,957,420
Douglas McKay	1,638,112	44,920	-	-	1,282,862	4,165
Group CEO						
Ross McEwan	1,830,899	25,334	-	-	1,736,289	1,230,013
Group Executives						
Sharon Cook	1,102,482	18,207	-	-	1,035,595	1,080,388
Susan Ferrier	3,095,097	21,472	-	-	820,175	492,175
David Gall	4,699,033	55,654	-	-	4,392,579	859,062
Nathan Goonan	-	156,144	-	-	6,493,470	8,770,398
Andrew Irvine	715	158,057	-	-	11,831,913	12,026,495
Gary Lennon	3,122,483	95,849	-	-	2,956,470	3,184,679
Les Matheson	-	46,823	-	-	4,413,206	727,916
Angela Mentis	442,183	18,678	-	-	525,935	25,428
Rachel Slade	989	47,682	-	-	2,391,907	2,512,866
Patrick Wright	3,320,357	57,640	-	-	3,235,693	52,784

(1) The interest charged may include the impact of interest offset facilities and only relates to the period during which the non-executive director, Group CEO or Group Executive was KMP.
(2) Represents aggregate highest indebtedness of the KMP during 2021. All other items in this table relate to the KMP and their related parties.

7.2 Other transactions

From time to time various KMP and their related parties will hold investments in funds that are either managed, related to or controlled by the Group. All such transactions with KMP and their related parties are made on terms equivalent to those that prevail in arm's length transactions.

All other transactions that have occurred with KMP are made on terms equivalent to those that prevail in arm's length transactions. These transactions generally involve the provision of financial and investment services including services to eligible international assignees ensuring they are neither financially advantaged nor disadvantaged by their relocation. All such

REMUNERATION REPORT (CONTINUED)

transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are trivial in nature when they are considered of little or no interest to the users of the Remuneration report in making and evaluating decisions about the allocation of scarce resources. Transactions are domestic in nature when they relate to personal household activities.

7.3 Other equity instrument holdings

Holdings and transactions involving equity instruments (held directly or indirectly), other than NAB shares and equity-based compensation, with each KMP or their related parties and NAB and the Group are set out below:

Name	Equity instrument	Balance at beginning of year No.	Changes during year No.	Balance at end of year No.
Non-executive directors				
Philip Chronican	National Income Securities[1]	982	(982)	-
Group Executives				
Susan Ferrier	NAB Convertible Preference Shares II	104	(104)	-
David Gall	NAB Convertible Preference Shares II	700	(700)	-

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

7.4 Other relevant interests

Each KMP or their related parties from time to time invest in various debentures, registered schemes and securities offered by NAB and certain subsidiaries of NAB. The level of interests held directly and indirectly as at 30 September 2021 were:

Name	Nature of product	Relevant Interest (Units)
Non-executive directors		
Ann Sherry	NAB Capital Notes 3	1,500
Group Executives		
Sharon Cook	NAB Subordinated Notes 2	820
	NAB Capital Notes 3	2,000
David Gall	NAB Capital Notes 5	700

There are no contracts, other than those disclosed in the level of interests held table immediately above, to which directors are a party, or under which the directors are entitled to a benefit and that confer the right to call for, or deliver shares in, debentures of, or interests in, a registered scheme made available by NAB or a related body corporate. All of the directors have disclosed interests in organisations not related to the Group and are to be regarded as interested in any contract or proposed contract that may be made between NAB and any such organisations.

FINANCIAL STATEMENTS

INCOME STATEMENTS

		Group[1]		Company	
For the year ended 30 September	**Note**	**2021**	**2020**	**2021**	**2020**
		$m	**$m**	**$m**	**$m**
Interest income					
Effective interest income[2]		**17,148**	20,921	**15,433**	19,030
Fair value through profit or loss		**886**	2,190	**815**	2,017
Interest expense[2]		**(4,241)**	(9,234)	**(6,241)**	(10,905)
Net interest income	3	**13,793**	13,877	**10,007**	10,142
Other income[2][3]	4	**2,936**	3,259	**3,506**	3,992
Operating expenses[2][3]	5	**(7,863)**	(9,221)	**(6,946)**	(11,314)
Credit impairment write-back / (charge)	17	**202**	(2,752)	**192**	(2,462)
Profit before income tax		**9,068**	5,163	**6,759**	358
Income tax expense	6	**(2,597)**	(1,665)	**(1,696)**	(885)
Net profit / (loss) for the year from continuing operations		**6,471**	3,498	**5,063**	(527)
Net loss after tax for the year from discontinued operations	37	**(104)**	(935)	**-**	-
Net profit / (loss) for the year		**6,367**	2,563	**5,063**	(527)
Attributable to non-controlling interests		**3**	4	**-**	-
Attributable to owners of NAB		**6,364**	2,559	**5,063**	(527)

Earnings per share		**cents**	**cents**
Basic	7	**193.0**	82.1
Diluted	7	**185.2**	80.5
Basic from continuing operations	7	**196.3**	112.7
Diluted from continuing operations	7	**188.2**	108.6

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

STATEMENTS OF COMPREHENSIVE INCOME

		Group[1]		Company	
For the year ended 30 September	Note	2021 $m	2020 $m	2021 $m	2020 $m
Net profit / (loss) for the year from continuing operations		**6,471**	3,498	**5,063**	(527)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains on defined benefit superannuation plans		**1**	1	**-**	-
Fair value changes on financial liabilities designated at fair value attributable to the Group's own credit risk		**(78)**	(118)	**(63)**	(56)
Revaluation of land and buildings		**-**	(1)	**-**	-
Equity instruments at fair value through other comprehensive income reserve:					
Revaluation gains / (losses)		**3**	(1)	**-**	-
Tax on items transferred directly to equity		**22**	32	**18**	14
Total items that will not be reclassified to profit or loss		**(52)**	(87)	**(45)**	(42)
Items that will be reclassified subsequently to profit or loss					
Cash flow hedge reserve:					
(Losses) / gains on cash flow hedging instruments		**(318)**	121	**(395)**	161
Cost of hedging reserve		**185**	(234)	**127**	(171)
Foreign currency translation reserve:					
Currency adjustments on translation of foreign operations, net of hedging		**301**	(37)	**27**	(7)
Transfer to the income statement on disposal or partial disposal of foreign operations[2]		**(14)**	(22)	**(14)**	(22)
Debt instruments at fair value through other comprehensive income reserve:					
Revaluation gains		**377**	40	**377**	40
Transferred to the income statement		**(102)**	3	**(102)**	3
Tax on items transferred directly to equity		**(47)**	29	**(6)**	(8)
Total items that will be reclassified subsequently to profit or loss		**382**	(100)	**14**	(4)
Other comprehensive income for the year, net of income tax		**330**	(187)	**(31)**	(46)
Total comprehensive income for the year from continuing operations		**6,801**	3,311	**5,032**	(573)
Net loss after tax for the year from discontinued operations	37	**(104)**	(935)	**-**	-
Other comprehensive income for the year from discontinued operations, net of income tax		**8**	(2)	**-**	-
Total comprehensive income for the year		**6,705**	2,374	**5,032**	(573)
Attributable to non-controlling interests	37	**3**	4	**-**	-
Total comprehensive income attributable to owners of NAB		**6,702**	2,370	**5,032**	(573)

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Partial disposals of foreign operations include returns of capital made by foreign branches.

BALANCE SHEETS

As at 30 September	Note	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Assets					
Cash and liquid assets	8	**50,832**	64,388	**50,336**	63,555
Due from other banks[1]	8	**107,546**	47,333	**98,207**	44,185
Collateral placed[1]		**6,430**	8,579	**5,919**	7,413
Trading securities[1]	9	**50,020**	64,937	**42,916**	54,924
Debt instruments	10	**41,878**	40,355	**41,849**	40,324
Other financial assets	11	**2,794**	3,860	**3,305**	3,885
Derivative assets[1]	18	**27,474**	34,744	**26,811**	34,214
Loans and advances[1]	12	**621,156**	583,962	**529,546**	502,819
Current tax assets		**36**	-	**36**	-
Due from controlled entities[1]		**-**	-	**38,599**	41,847
Deferred tax assets	6	**2,953**	3,647	**2,454**	2,895
Property, plant and equipment		**2,814**	2,374	**1,838**	1,486
Investments in controlled entities		**-**	-	**4,402**	3,806
Goodwill and other intangible assets	22	**4,113**	3,809	**1,757**	1,757
Other assets[1]	23	**7,922**	7,098	**6,858**	6,164
Assets held for sale	37	**-**	1,479	**-**	1,837
Total assets		**925,968**	866,565	**854,833**	811,111
Liabilities					
Due to other banks[1]	8	**74,160**	46,773	**68,715**	44,449
Collateral received[1]		**4,664**	5,327	**4,120**	4,721
Other financial liabilities	16	**27,046**	29,971	**7,136**	8,911
Derivative liabilities[1]	18	**24,031**	32,276	**26,178**	35,171
Deposits and other borrowings	13	**605,043**	546,176	**535,551**	484,338
Current tax liabilities		**271**	192	**115**	150
Provisions	24	**2,834**	3,820	**2,620**	3,628
Due to controlled entities[1]		**-**	-	**38,682**	41,467
Bonds, notes and subordinated debt	14	**109,154**	126,384	**102,501**	120,297
Other debt issues	15	**6,831**	6,191	**6,831**	6,191
Deferred tax liabilities	6	**29**	25	**-**	-
Other liabilities[1]	25	**9,126**	7,916	**7,925**	7,146
Liabilities directly associated with assets held for sale	37	**-**	221	**-**	-
Total liabilities		**863,189**	805,272	**800,374**	756,469
Net assets		**62,779**	61,293	**54,459**	54,642
Equity					
Contributed equity	27	**43,247**	45,476	**42,461**	44,690
Reserves	28	**550**	99	**99**	34
Retained profits		**18,982**	15,717	**11,899**	9,918
Total equity (parent entity interest)		**62,779**	61,292	**54,459**	54,642
Non-controlling interest in controlled entities		**-**	1	**-**	-
Total equity		**62,779**	61,293	**54,459**	54,642

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

STATEMENT OF CASH FLOWS

For the year ended 30 September[1]	Note	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Cash flows from operating activities					
Interest received[2]		**18,194**	23,160	**16,429**	21,073
Interest paid[2]		**(4,589)**	(10,151)	**(6,489)**	(11,675)
Dividends received		**22**	43	**1,573**	1,329
Net trading income received / (paid)		**107**	(2,114)	**964**	(1,341)
Other income received[2]		**3,210**	3,164	**2,047**	985
Operating expenses paid		**(6,130)**	(7,167)	**(4,873)**	(5,462)
Income tax paid		**(1,833)**	(2,580)	**(1,251)**	(1,975)
Cash flows from operating activities before changes in operating assets and liabilities		**8,981**	4,355	**8,400**	2,934
Changes in operating assets and liabilities					
Net (increase) / decrease in					
Collateral placed[2]		**(2,813)**	492	**(3,217)**	667
Deposits with central banks and other regulatory authorities		**(62,430)**	(9,943)	**(62,430)**	(9,943)
Trading securities		**12,453**	(3,860)	**10,167**	(1,405)
Other financial assets designated at fair value		**1,166**	2,861	**680**	2,181
Loans and advances[2]		**(34,370)**	3,067	**(26,385)**	3,499
Other assets[2]		**(985)**	342	**(564)**	99
Net increase / (decrease) in					
Collateral received[2]		**3,100**	(569)	**2,578**	(566)
Deposits and other borrowings		**55,944**	25,890	**50,682**	22,977
Other financial liabilities designated at fair value		**1,173**	66	**(1,374)**	838
Other liabilities[2]		**(1,133)**	(3,438)	**(1,527)**	(2,686)
Net funds advanced to and receipts from other banks		**21,027**	11,006	**18,965**	10,971
Net movement in derivative assets and liabilities		**(1,354)**	3,623	**(1,844)**	2,558
Changes in operating assets and liabilities arising from cash flow movements		**(8,222)**	29,537	**(14,269)**	29,190
Net cash provided by / (used in) operating activities	36	**759**	33,892	**(5,869)**	32,124
Cash flows from investing activities					
Movement in debt instruments					
Purchases		**(29,740)**	(21,066)	**(29,724)**	(21,037)
Proceeds from disposal and maturity		**26,301**	21,411	**26,284**	21,374
Net movement in other debt and equity instruments		**190**	(10)	**(685)**	-
Net movement in amounts due from / (to) controlled entities		**-**	-	**434**	(1,486)
Net movement in shares in controlled entities		**-**	-	**62**	(29)
Net movement in shares in associates and joint ventures		**(124)**	(138)	**(106)**	(138)
Purchase of controlled entities and business combinations, net of cash acquired		**(211)**	-	**(216)**	-
Proceeds from sale of controlled entities, net of costs and cash disposed		**747**	-	**1,132**	-
Purchase of property, plant, equipment and software		**(858)**	(972)	**(589)**	(721)
Proceeds from sale of property, plant, equipment and software, net of costs		**1**	73	**-**	7
Net cash provided by / (used in) investing activities		**(3,694)**	(702)	**(3,408)**	(2,030)

(1) The statement of cash flows include net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Refer to *Note 37 Discontinued operations* for further information.
(2) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 September[1]	Note	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Cash flows from financing activities					
Repayments of bonds, notes and subordinated debt		**(30,062)**	(34,524)	**(24,813)**	(29,800)
Proceeds from issue of bonds, notes and subordinated debt, net of costs		**13,098**	14,996	**10,053**	12,939
Proceeds from issue of ordinary shares, net of costs		**-**	4,904	**-**	4,904
Payments for share buy-back		**(486)**	-	**(486)**	-
Purchase of shares for dividend reinvestment plan neutralisation		**(164)**	-	**(164)**	-
Repayments of other contributed equity		**(2,000)**	-	**(2,000)**	-
Proceeds from other debt issues, net of costs		**2,365**	1,098	**2,365**	1,098
Repayments of other debt issues		**(1,731)**	(649)	**(1,731)**	(649)
Dividends and distributions paid (excluding dividend reinvestment plan)		**(2,682)**	(2,323)	**(2,678)**	(2,319)
Repayments of other financing activities		**(383)**	(322)	**(337)**	(278)
Net cash provided by / (used in) financing activities		**(22,045)**	(16,820)	**(19,791)**	(14,105)
Net increase / (decrease) in cash and cash equivalents		**(24,980)**	16,370	**(29,068)**	15,989
Cash and cash equivalents at beginning of period		**62,041**	47,026	**58,806**	44,164
Effects of exchange rate changes on balance of cash held in foreign currencies		**820**	(1,355)	**724**	(1,347)
Cash and cash equivalents at end of year	36	**37,881**	62,041	**30,462**	58,806

(1) The statement of cash flows include net cash inflows / (outflows) from operating, investing and financing activities on discontinued operations. Refer to *Note 37 Discontinued operations* for further information.

STATEMENTS OF CHANGES IN EQUITY

Group[3]	Contributed equity[1] $m	Reserves[2] $m	Retained profits $m	Total $m	Non-controlling interest in controlled entities $m	Total equity $m
Year to 30 September 2020						
Balance at 1 October 2019	38,707	306	16,500	55,513	8	55,521
Net profit for the year from continuing operations	-	-	3,498	3,498	-	3,498
Net profit / (loss) for the year from discontinued operations	-	-	(939)	(939)	4	(935)
Other comprehensive income for the year from continuing operations	-	(104)	(83)	(187)	-	(187)
Other comprehensive income for the year from discontinued operations	-	1	(3)	(2)	-	(2)
Total comprehensive income for the year	-	(103)	2,473	2,370	4	2,374
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	5,880	-	-	5,880	-	5,880
Conversion of convertible notes	750	-	-	750	-	750
Transfer from / (to) retained profits	-	(39)	39	-	-	-
Transfer from equity-based compensation reserve	139	(139)	-	-	-	-
Equity-based compensation	-	74	-	74	-	74
Dividends paid[4]	-	-	(3,256)	(3,256)	(4)	(3,260)
Distributions on other equity instruments[4]	-	-	(39)	(39)	-	(39)
Changes in ownership interests[5]						
Movement of non-controlling interest in controlled entities	-	-	-	-	(7)	(7)
Balance as at 30 September 2020	45,476	99	15,717	61,292	1	61,293
Year to 30 September 2021						
Net profit for the year from continuing operations	**-**	**-**	**6,471**	**6,471**	**-**	**6,471**
Net profit / (loss) for the year from discontinued operations	**-**	**-**	**(107)**	**(107)**	**3**	**(104)**
Other comprehensive income for the year from continuing operations	**-**	**385**	**(55)**	**330**	**-**	**330**
Other comprehensive income for the year from discontinued operations	**-**	**3**	**5**	**8**	**-**	**8**
Total comprehensive income for the year	**-**	**388**	**6,314**	**6,702**	**3**	**6,705**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares	**274**	**-**	**-**	**274**	**-**	**274**
Tax on deductible transaction costs	**13**	**-**	**-**	**13**	**-**	**13**
On-market purchase of shares for dividend reinvestment plan neutralisation	**(164)**	**-**	**-**	**(164)**	**-**	**(164)**
Share buy-back	**(486)**	**-**	**-**	**(486)**	**-**	**(486)**
Transfer from / (to) retained profits	**-**	**27**	**(27)**	**-**	**-**	**-**
Transfer from equity-based compensation reserve	**79**	**(79)**	**-**	**-**	**-**	**-**
Equity-based compensation	**-**	**100**	**-**	**100**	**-**	**100**
Dividends paid	**-**	**-**	**(2,939)**	**(2,939)**	**(4)**	**(2,943)**
Distributions on other equity instruments	**-**	**-**	**(13)**	**(13)**	**-**	**(13)**
Redemption of National Income Securities	**(1,945)**	**15**	**(70)**	**(2,000)**	**-**	**(2,000)**
Balance as at 30 September 2021	**43,247**	**550**	**18,982**	**62,779**	**-**	**62,779**

(1) Refer to *Note 27 Contributed equity* for further details.
(2) Refer to *Note 28 Reserves* for further details.
(3) Information is presented on a continuing operations basis, unless otherwise stated.
(4) Refer to *Note 29 Dividends and distributions* for further details.
(5) Changes in ownership interests in controlled entities that do not result in a loss of control.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Company	Contributed equity[1] $m	Reserves[2] $m	Retained profits $m	Total equity $m
Year to 30 September 2020				
Balance at 1 October 2019	37,921	113	13,772	51,806
Net loss for the year from continuing operations	-	-	(527)	(527)
Other comprehensive income for the year from continuing operations	-	(7)	(39)	(46)
Total comprehensive income for the year	-	(7)	(566)	(573)
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	5,880	-	-	5,880
Conversion of convertible notes	750	-	-	750
Transfer from / (to) retained profits	-	(7)	7	-
Transfer from equity-based compensation reserve	139	(139)	-	-
Equity-based compensation	-	74	-	74
Dividends paid	-	-	(3,256)	(3,256)
Distributions on other equity instruments	-	-	(39)	(39)
Balance as at 30 September 2020	44,690	34	9,918	54,642
Year to 30 September 2021				
Net profit for the year from continuing operations	**-**	**-**	**5,063**	**5,063**
Other comprehensive income for the year from continuing operations	**-**	**14**	**(45)**	**(31)**
Total comprehensive income for the year	**-**	**14**	**5,018**	**5,032**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners				
Issue of ordinary shares	**274**	**-**	**-**	**274**
Tax on deductible transaction costs	**13**	**-**	**-**	**13**
On-market purchase of shares for dividend reinvestment plan neutralisation	**(164)**	**-**	**-**	**(164)**
Share buy-back	**(486)**	**-**	**-**	**(486)**
Transfer from / (to) retained profits	**-**	**15**	**(15)**	**-**
Transfer from equity-based compensation reserve	**79**	**(79)**	**-**	**-**
Equity-based compensation	**-**	**100**	**-**	**100**
Dividends paid[3]	**-**	**-**	**(2,939)**	**(2,939)**
Distributions on other equity instruments[3]	**-**	**-**	**(13)**	**(13)**
Redemption of National Income Securities	**(1,945)**	**15**	**(70)**	**(2,000)**
Balance as at 30 September 2021	**42,461**	**99**	**11,899**	**54,459**

(1) Refer to *Note 27 Contributed equity* for further details.
(2) Refer to *Note 28 Reserves* for further details.
(3) Refer to *Note 29 Dividends and distributions* for further details.

INTRODUCTION

NOTE 1
BASIS OF PREPARATION

These are the financial statements of National Australia Bank Limited (NAB or the Company) together with its controlled entities (Group) for the year ended 30 September 2021. National Australia Bank Limited, incorporated and domiciled in Australia, is a for-profit company limited by shares which are publicly traded on the Australian Securities Exchange.

The directors resolved to authorise the issue of these financial statements on 9 November 2021. The directors have the power to amend and reissue the financial statements.

The financial statements include information to the extent the Group considers it material and relevant to the understanding of users. Disclosed information is considered material and relevant if, for example:

- The dollar amount is significant in size or by nature.
- The Group's results cannot be understood by users without the specific disclosure.
- The information is important to help users understand the impact of significant changes in the Group's business during the financial year, for example, a business acquisition, disposal, or an impairment / write-down.
- The information relates to an aspect of the Group's operations which is important to its future performance.
- The information is required under legislative requirements of the *Corporations Act 2001* (Cth), the *Banking Act 1959* (Cth) or by the Group's principal regulators, including the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA).

Basis of preparation

This general purpose financial report has been prepared by a for-profit company, in accordance with the requirements of the *Corporations Act 2001* (Cth) and accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB). Compliance with standards and interpretations issued by the AASB ensures that this financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Amounts are presented in Australian dollars (unless otherwise stated), which is the Company's functional and presentation currency. These amounts have been rounded to the nearest million dollars ($m), except where indicated, as allowed by ASIC Corporations Instrument 2016/191.

Unless otherwise stated, comparative information has been restated for any changes to presentation made in the current year. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the Group's income statement and statement of comprehensive income with comparative information restated accordingly. Balance sheets are not required to be restated for the effect of discontinued operations. Refer to *Note 37 Discontinued operations* for further detail.

To comply with its obligations as an Australian Financial Services Licence holder, the Group includes the separate financial statements of the Company in this financial report, which is permitted by ASIC Corporations (Parent Entity Financial Statements) Instrument 2021/195.

Basis of measurement

The financial report has been prepared under the historical cost convention, except for:

- Certain assets and liabilities (including derivative instruments) measured at fair value through profit or loss or other comprehensive income.
- Financial assets and liabilities that are otherwise measured on an amortised cost basis but adjusted for changes in fair value attributable to the risk being hedged in qualifying fair value hedge relationships.

New and amended accounting standards and interpretations

Interest rate benchmark reform

The Group has early adopted AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* released by the AASB in September 2020 and mandatorily effective for the Group from 1 October 2021. AASB 2020-8 amends AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments*, AASB 4 *Insurance Contracts* and AASB 16 *Leases* to address various accounting issues arising from the cessation of some Inter-Bank Offered Rates (IBOR) and the transition to Alternative Reference Rates (ARRs). AASB 2020-8 provides relief from certain accounting requirements, including hedge accounting and the modification of financial assets and liabilities, to facilitate the transition to ARRs.

In accordance with the transitional provisions, the amendments have been applied retrospectively to impacted assets and liabilities for the financial year commencing 1 October 2020. No assets or liabilities were restated as a result of the transition. Additional information about the Group's exposure to IBOR reform is presented in *Note 18 Derivatives and hedge accounting*.

NOTE 1 BASIS OF PREPARATION (CONTINUED)

IFRIC agenda decision on Software as a Service arrangements

In April 2021 the IFRS Interpretations Committee (IFRIC) issued its final agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The decision provides additional guidance on the treatment of costs for configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement and requires entities to assess whether any configuration or customisation costs incurred result in the recognition of an intangible asset. If these costs are incurred in an arrangement where the Group controls the underlying software, they can be capitalised as part of an intangible asset. If no intangible asset can be recognised because the software provider controls the underlying software, then these costs are expensed as the services are received. The implementation of this agenda decision did not have a material effect on the Group's financial statements.

There were no other new or amended accounting standards or interpretations adopted during the period that have a material impact on the Group.

Change in accounting policy

Intragroup transactions with consolidated securitisation entities

During the current year the Company amended its accounting policy in respect of certain intragroup transactions with consolidated securitisation entities. The accounting policy change applies only to securitisation entities where the Company holds all of the issued securities, such as internal residential mortgage backed securities (RMBS) transactions. Previously these transactions were accounted for as debt securities held by the Company (asset) and a loan to the structured entity (liability). The revised accounting policy recognises that there is no impact to the overall financial position of the Company as a result of these internal RMBS transactions. The change in accounting policy provides reliable and more relevant information as it more fairly represents the economic substance of the transactions, while also aligning to current market practice in accounting for such structures.

The change in accounting policy had no impact on the financial statements of the Group. The change has been applied retrospectively and impacted the prior period financial statements of the Company as follows:

- A decrease of $135,955 million in 'Due from controlled entities' as at 30 September 2020 (30 September 2019: $75,585 million)
- A decrease of $135,955 million in 'Due to controlled entities' as at 30 September 2020 (30 September 2019: $75,585 million)
- A decrease of $1,484 million in 'Interest income' for the year ended 30 September 2020
- A decrease of $1,484 million in 'Interest expense' for the year ended 30 September 2020

Changes in comparatives

Presentation of investment management income

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

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

The change has been applied retrospectively and impacted the prior period financial statements of the Group as follows:

- A decrease of $137 million in 'Other income' and 'Operating expenses' for the year ended 30 September 2020

The change in presentation had no impact on the financial statements of the Company.

Refer to *Note 4 Other income* for the disclosure of 'Net investment management income'.

Presentation of derivatives

During the current year the Group updated the balance sheet presentation of derivatives. Previously trading derivatives were presented together with trading securities as 'Trading instruments' on the balance sheet while 'Hedging derivatives' were separately presented on the balance sheet. In the current year trading derivatives are presented together with hedging derivatives as 'Derivatives' on the balance sheet. This presentation allows users to understand the Group's full exposure to derivatives.

The change has been applied retrospectively and impacted the prior period financial statements of the Group and Company. Refer to *Note 18 Derivatives and hedge accounting* for the disclosures relating to trading derivatives previously included as part of *Note 9 Trading securities*.

NOTE 1 BASIS OF PREPARATION (CONTINUED)

Presentation of collateral placed and collateral received

During the current year the Group updated the balance sheet presentation of collateral balances placed with and received from financial institutions and other counterparties. The revised presentation results in two new balance sheet line items for 'Collateral placed' and 'Collateral received' which now include all collateral balances across the Group. This presentation enhances the ability of users of the financial statements to understand collateral balances within the Group.

The change has been applied retrospectively and impacted the prior period financial statements of the Group and Company as detailed below.

'Collateral placed' comprises the following amounts:
- $5,018 million previously presented in 'Due from other banks' as at 30 September 2020 (Company: $4,710 million)
- $3,561 million previously presented in 'Other assets' as at 30 September 2020 (Company: $2,703 million)

'Collateral received' comprises the following amounts:
- $3,783 million previously presented in 'Due to other banks' as at 30 September 2020 (Company: $3,179 million)
- $1,544 million previously presented in 'Other liabilities' as at 30 September 2020 (Company: $1,542 million)

Presentation of amounts due from customers on acceptances

During the current year the Group updated the balance sheet presentation of amounts due from customers on acceptances. Previously these amounts were separately presented on the balance sheet. In the current year these amounts are included in 'Loans and advances' on the balance sheet, given the reduced significance of these balances to the Group's financial position.

The change has been applied retrospectively and resulted in an increase of $1,477 million in 'Loans and advances' for both the Group and Company as at 30 September 2020.

Where relevant, comparative information has been restated throughout the financial statements as indicated by footnotes.

Critical accounting judgements and estimates

In the process of applying the Group's accounting policies, management have made a number of judgements and assumptions and applied estimates of future events. Some of these areas include:
- impairment charges on loans and advances
- fair value of financial assets and liabilities
- impairment assessment of goodwill and other intangible assets
- determination of income tax
- provisions for customer-related remediation and other regulatory matters.

Further details of these critical accounting judgements and estimates are provided in the respective notes to the financial statements.

COVID-19

The COVID-19 pandemic continues to have an impact on global economies and remains a source of uncertainty. Certain sectors, including tourism and transport, hospitality, education, retail, personal services and commercial property, are not expected to return to pre-COVID-19 activity levels in the short-term. The Group has considered the impact of COVID-19 in determining the estimates, assumptions and judgements used to prepare the financial statements.

The most significant areas impacted by the uncertainties related to COVID-19 are the measurement of expected credit losses and the impairment assessment of goodwill.

Measurement of expected credit losses

While the methodologies applied in the expected credit loss (ECL) calculations remained unchanged from those applied in the prior period financial statements, the Group has incorporated estimates, assumptions and judgements specific to the impact of COVID-19 and the associated support packages in the measurement of ECL through forward looking economic adjustments. These are explained further in *Note 17 Provision for credit impairment on loans at amortised cost*.

Goodwill

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

The key assumptions used in determining the recoverable amounts of CGUs are disclosed in *Note 22 Goodwill and other intangible assets*.

Future accounting developments

There are no new standards or amendments to existing standards that are not yet effective which are expected to have a material impact on the Group's financial statements.

FINANCIAL PERFORMANCE

OVERVIEW

The Group's reportable segments are unchanged from the 2020 Annual Financial Report, with the exception of the Corporate Functions and Other segment which now includes 86 400 following its acquisition by the Group in May 2021.

The Group's segment information is presented based on the following reportable segments:

- Business and Private Banking
- Personal Banking
- Corporate and Institutional Banking
- New Zealand Banking
- Corporate Functions and Other, including UBank, 86 400 and eliminations
- MLC Wealth (presented as a discontinued operation).

Refer to The Group's business section in the *Report of the Directors* for a description of the operating activities of each business unit.

Comparative information has been restated to reflect a reallocation of operating expenses between reportable segments in the current year to better align with the Group's organisational restructure. These changes have not impacted the Group's net profit but have resulted in reallocations of net profit between the reportable segments.

The Group evaluates performance on the basis of cash earnings as it better reflects what is considered to be the underlying performance of the Group. Cash earnings is a non-IFRS key financial performance measure used by the Group and the investment community.

Cash earnings is calculated by adjusting statutory net profit from continuing operations for certain non-cash earnings items. Non-cash earnings items are those items which are considered separately when assessing performance and analysing the underlying trends in the business. Cash earnings for the year ended 30 September 2021 has been adjusted for distributions, hedging and fair value volatility, amortisation of acquired intangible assets, and costs related to the acquisition, integration and disposal of Group businesses. Cash earnings does not purport to represent the cash flows, funding or liquidity position of the Group, nor any amount represented on a statement of cash flows.

The Group earns the vast majority of its revenue in the form of net interest income (NII). NII is the difference between interest earned on financial assets and interest paid on financial liabilities and other financing costs.

NOTE 2
SEGMENT INFORMATION

	2021(1)						
	Business and Private Banking $m	Personal Banking $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other(2) $m	MLC Wealth $m	Total Group $m
Reportable segment information							
Net interest income	5,339	3,962	1,918	2,017	561	-	13,797
Other income	877	483	1,304	505	(160)	-	3,009
Net operating income	6,216	4,445	3,222	2,522	401	-	16,806
Operating expenses	(2,547)	(2,197)	(1,369)	(933)	(771)	-	(7,817)
Underlying profit / (loss)	3,669	2,248	1,853	1,589	(370)	-	8,989
Credit impairment (charge) / write-back	(109)	95	(186)	12	405	-	217
Cash earnings before tax and distributions	3,560	2,343	1,667	1,601	35	-	9,206
Income tax (expense) / benefit	(1,080)	(693)	(460)	(447)	45	-	(2,635)
Cash earnings before distributions	2,480	1,650	1,207	1,154	80	-	6,571
Distributions	-	-	-	-	(13)	-	(13)
Cash earnings	2,480	1,650	1,207	1,154	67	-	6,558
Fair value and hedge ineffectiveness	(4)	-	22	18	(99)	-	(63)
Other non-cash earnings items	-	-	-	(1)	(23)	-	(24)
Net profit / (loss) for the year from continuing operations	2,476	1,650	1,229	1,171	(55)	-	6,471
Net loss attributable to the owners of NAB from discontinued operations	-	-	-	-	(131)	24	(107)
Net profit / (loss) attributable to the owners of NAB	2,476	1,650	1,229	1,171	(186)	24	6,364
Reportable segment assets(3)	208,189	222,510	276,448	96,734	122,087	-	925,968

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Corporate Functions and Other includes eliminations.
(3) Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.

NOTE 2 SEGMENT INFORMATION (CONTINUED)

	2020(1)						
	Business and Private Banking $m	Personal Banking $m	Corporate and Institutional Banking $m	New Zealand Banking $m	Corporate Functions and Other(2) $m	MLC Wealth $m	Total Group $m
Reportable segment information							
Net interest income	5,400	4,017	2,075	1,872	507	-	13,871
Other income	878	514	1,382	520	25	-	3,319
Net operating income	6,278	4,531	3,457	2,392	532	-	17,190
Operating expenses(3)	(2,429)	(2,204)	(1,388)	(894)	(2,092)	-	(9,007)
Underlying profit / (loss)	3,849	2,327	2,069	1,498	(1,560)	-	8,183
Credit impairment (charge) / write-back	(322)	(256)	(170)	(140)	(1,874)	-	(2,762)
Cash earnings / (loss) before tax and distributions	3,527	2,071	1,899	1,358	(3,434)	-	5,421
Income tax (expense) / benefit	(1,055)	(629)	(483)	(381)	876	-	(1,672)
Cash earnings / (loss) before distributions	2,472	1,442	1,416	977	(2,558)	-	3,749
Distributions	-	-	-	-	(39)	-	(39)
Cash earnings / (loss)	2,472	1,442	1,416	977	(2,597)	-	3,710
Fair value and hedge ineffectiveness	(9)	(1)	(31)	(20)	27	-	(34)
Other non-cash earnings items	-	-	-	-	(178)	-	(178)
Net profit / (loss) for the year from continuing operations	2,463	1,441	1,385	957	(2,748)	-	3,498
Net loss attributable to the owners of NAB from discontinued operations	-	-	-	-	(788)	(151)	(939)
Net profit / (loss) attributable to the owners of NAB	2,463	1,441	1,385	957	(3,536)	(151)	2,559
Reportable segment assets(4)	196,772	217,712	317,342	86,413	46,214	2,112	866,565

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Corporate Functions and Other includes eliminations.
(3) Comparative information has been restated to reflect a reallocation of operating expenses between business units to better align with the Group's new organisational structure.
(4) Reportable segment assets include inter-company balances which are eliminated within the Corporate Functions and Other segment.

Major customers

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

Geographical information

The Group has operations in Australia (the Company's country of domicile), New Zealand, Europe, the United Kingdom, the United States and Asia. The allocation of income and non-current assets is based on the geographical location in which transactions are booked.

	Group			
	Income(1)(2)		Non-current assets(3)	
	2021 $m	2020 $m	2021 $m	2020 $m
Australia	**13,206**	13,859	**6,363**	5,618
New Zealand	**2,741**	2,431	**982**	862
Other International	**843**	929	**97**	133
Total before inter-geographic eliminations	**16,790**	17,219	**7,442**	6,613
Elimination of inter-geographic items	**(61)**	(83)	**-**	-
Total	**16,729**	17,136	**7,442**	6,613

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(2) Comparative information has been restated to reflect product reclassification in the Group's BNZ Life business.
(3) Consists of goodwill and other intangible assets, property, plant and equipment and investments in joint ventures and associates.

NOTE 3
NET INTEREST INCOME

Accounting policy

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest method measures the amortised cost of a financial asset or financial liability using the effective interest rate. The effective interest rate discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial instrument.

Fees and costs which form an integral part of the effective interest rate of a financial instrument (for example, loan origination fees) are recognised using the effective interest method and recorded in interest income or expense depending on whether the underlying instrument is a financial asset or liability.

Included in net interest income are interest income and expense on trading securities, hedging instruments and financial instruments measured at fair value through profit or loss.

	Group[1]		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Interest income				
Effective interest method				
Amortised cost				
Due from other banks	**60**	265	**38**	240
Loans and advances[2]	**16,754**	19,538	**14,122**	16,366
Due from controlled entities[2]	**-**	-	**987**	1,367
Other interest income[3]	**148**	738	**101**	678
Fair value through other comprehensive income				
Debt instruments	**186**	380	**185**	379
Total effective interest method	**17,148**	20,921	**15,433**	19,030
Fair value through profit or loss				
Due from other banks	**-**	11	**-**	-
Trading instruments	**733**	1,214	**692**	1,125
Other financial assets	**153**	965	**123**	892
Total fair value through profit or loss	**886**	2,190	**815**	2,017
Total interest income	**18,034**	23,111	**16,248**	21,047
Interest expense				
Effective interest method				
Due to other banks	**91**	268	**86**	261
Deposits and other borrowings	**1,662**	5,102	**1,269**	4,166
Bonds, notes and subordinated debt	**1,157**	2,118	**1,084**	2,014
Due to controlled entities[2]	**-**	-	**2,700**	3,110
Other debt issues	**195**	202	**195**	202
Other interest expense	**329**	458	**324**	455
Total effective interest method	**3,434**	8,148	**5,658**	10,208
Fair value through profit or loss				
Trading instruments	**17**	54	**17**	54
Other financial liabilities	**426**	620	**202**	231
Total fair value through profit or loss	**443**	674	**219**	285
Bank levy	**364**	412	**364**	412
Total interest expense	**4,241**	9,234	**6,241**	10,905
Net interest income	**13,793**	13,877	**10,007**	10,142

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(3) In the 2021 financial year, the Group and Company recognised customer-related remediation charges of $18 million (2020: $49 million) as a reduction in other interest income. These costs mainly relate to the refund of interest from various banking-related matters.

NOTE 4
OTHER INCOME

Accounting policy

Classes of other income are measured as follows:

Item	Measurement basis
Trading instruments	**Trading derivatives** - Total fair value change (including interest income or expense), with the exception of some instruments that form part of an economic hedge relationship. **Trading securities** - All fair value changes except for interest income or expense, which is recognised within net interest income.
Hedge ineffectiveness	Represents hedge ineffectiveness arising from hedge accounting, which are the fair value movements (excluding interest income or expense) that do not offset the hedged risk.
Financial instruments designated at fair value	Includes fair value movements on such items, other than interest income or expense and movements attributable to the Group's own credit risk.
Dividend revenue	Dividend revenue is recognised in the income statement on an accruals basis when the Group's right to receive the dividend is established.
Banking fees, money transfer fees and fees and commissions	Unless included in the effective interest rate, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided. When a third party is involved in providing goods or services to the Group's customer, the Group assesses whether the nature of the arrangement with its customer is as a principal or an agent of the third party. When the Group is not acting in a principal capacity, the income earned by the Group is net of the amounts paid to the third party provider. The net consideration represents the Group's income for facilitating the transaction.
Net investment management income	Investment management income is recognised on an accruals basis as the services are provided and is presented net of direct and incremental investment management expenses incurred in the provision of these services.

NOTE 4 OTHER INCOME (CONTINUED)

	Group[1]		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Gains less losses on financial instruments at fair value				
Trading instruments	**472**	1,279	**393**	1,305
Hedge ineffectiveness[2]	**(233)**	26	**(19)**	16
Financial instruments designated at fair value	**372**	(217)	**107**	(116)
Total gains less losses on financial instruments at fair value	**611**	1,088	**481**	1,205
Other operating income				
Dividend revenue				
Controlled entities[3]	**-**	-	**1,561**	1,294
Other entities	**12**	36	**12**	35
Banking fees	**1,054**	1,020	**872**	835
Money transfer fees	**473**	440	**333**	325
Fees and commissions[4][5]	**434**	452	**111**	222
Other income[6]	**226**	122	**136**	76
Total other operating income	**2,199**	2,070	**3,025**	2,787
Net investment management income[4]				
Investment management income	**278**	238	**-**	-
Investment management expense	**(152)**	(137)	**-**	-
Total net investment management income	**126**	101	**-**	-
Total other income	**2,936**	3,259	**3,506**	3,992

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Represents hedge ineffectiveness of designated hedging relationships. In the 2021 financial year, operational enhancements were implemented to reduce future volatility in earnings related to hedge accounting. This resulted in a one-off $245 million charge.
(3) Includes $45 million net pre-completion dividend income received from MLC Wealth.
(4) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(5) In the 2021 financial year, the Group recognised customer-related remediation charges of $60 million (2020: $80 million) and the Company recognised customer-related remediation charges of $211 million (2020: $162 million) as a reduction in fees and commissions. Customer-related remediation charges of the Company includes MLC Wealth-related matters which are presented in discontinued operations at a Group level. Refer to *Note 37 Discontinued operations* for further information.
(6) Comparative information has been restated to reflect product reclassification in the Group's BNZ Life business.

NOTE 5
OPERATING EXPENSES

Accounting policy

Operating expenses are recognised as services are provided to the Group, over the period in which an asset is consumed or once a liability is created.

Amounts received by the Group as a reimbursement for costs incurred are recognised as a reduction of the related expense.

Annual leave, long service leave and other personnel expenses

Salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of employees rendering service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled. A liability is recognised for the amount expected to be paid under short-term cash bonuses when the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows. Employee entitlements to long service leave are accrued using an actuarial calculation, which includes assumptions regarding employee departures, leave utilisation and future salary increases.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Refer to *Note 24 Provisions* for balances of provisions for employee entitlements.

NOTE 5 OPERATING EXPENSES (CONTINUED)

	Group(1)		Company(2)	
	2021 $m	2020 $m	2021 $m	2020 $m
Personnel expenses				
Salaries and related on-costs(3)	**3,483**	3,402	**2,956**	3,150
Superannuation costs-defined contribution plans	**302**	285	**288**	269
Performance-based compensation(3)	**590**	214	**561**	234
Other expenses(4)	**202**	452	**195**	462
Total personnel expenses	**4,577**	4,353	**4,000**	4,115
Occupancy and depreciation expenses				
Rental expense	**64**	92	**158**	193
Depreciation and impairment	**628**	776	**461**	554
Other expenses	**70**	95	**59**	85
Total occupancy and depreciation expenses	**762**	963	**678**	832
General expenses				
Fees and commissions expense(3)	**47**	43	**46**	44
Amortisation of intangible assets	**417**	1,263	**417**	1,101
Advertising and marketing	**160**	162	**135**	138
Charge to provide for operational risk event losses	**85**	257	**4**	625
Communications, postage and stationery	**152**	171	**126**	141
Computer equipment and software	**740**	741	**656**	684
Data communication and processing charges	**77**	84	**65**	60
Professional fees(3)	**558**	663	**539**	724
Impairment losses recognised	**16**	225	**89**	2,578
Other expenses(3)(4)	**272**	296	**191**	272
Total general expenses	**2,524**	3,905	**2,268**	6,367
Total operating expenses	**7,863**	9,221	**6,946**	11,314

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) Operating expenses of the Company includes amounts which are presented in discontinued operations at a Group level. These include customer-related and payroll remediation charges, MLC Wealth separation charges, and changes in the provision for litigation. Refer to *Note 37 Discontinued operations* for further information.
(3) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(4) Comparative information has been restated to reflect product reclassification in the Group's BNZ Life business.

Customer-related and payroll remediation

Customer-related remediation recognised by the Group relates to costs for executing the remediation programs for banking-related matters. Payroll remediation relates to costs to address potential payroll issues relating to both current and former Australian colleagues, comprising payments to colleagues and costs to execute the remediation program. The charges recognised by the Company include both costs related to the remediation programs for banking and MLC Wealth-related matters. Further information about MLC Wealth-related matters is included in *Note 37 Discontinued operations*.

In the 2021 financial year, included in the losses for operational risk events is $5 million of write-back for the Group and $20 million charges for the Company (2020: $244 million charges for the Group and $531 million charges for the Company).

Capitalised software policy change

In the 2020 financial year, the Group made a change to the application of the software capitalisation policy by increasing the threshold for capitalisation of software from $2 million to $5 million. This reflected a change in approach to managing projects which was intended to improve business accountability for projects less than $5 million. This resulted in an accelerated amortisation charge in the Group of $950 million ($806 million in the Company) for the 2020 financial year.

NOTE 5 OPERATING EXPENSES (CONTINUED)

Impairment of property-related assets

In 2020 the Group recognised a charge of $134 million for the impairment of property-related assets which is reflected within depreciation and impairment. This was primarily related to plans to consolidate NAB's Melbourne office space with more colleagues expected to adopt a flexible and hybrid approach to working over the longer term.

Impairment losses recognised

The Company recognised an impairment loss of $70 million (2020: $239 million) in respect of its investment in MLC Life as a result of the ongoing challenges facing the life insurance industry. The Group did not recognise any impairment in 2021 (2020: $214 million). The recoverable amount of the investment has been determined with reference to its value in use.

In 2020 when the investment in NWMH was classified as held for sale the Company recognised an impairment loss of $2,339 million. Refer to *Note 37 Discontinued operations* for the impact of the discontinued operation on the Group results.

NOTE 6
INCOME TAX

Accounting policy

Income tax expense (or benefit) is the tax payable (or receivable) on the current year's taxable income based on the applicable tax rate in each jurisdiction, adjusted by changes in deferred tax assets and liabilities. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of comprehensive income. The tax associated with these transactions will be recognised in the income statement at the same time as the underlying transaction.

The income tax benefit related to research and development expenditure is recognised as a reduction in the related asset or operating expense, depending on the nature of the expenditure.

Deferred tax assets and liabilities are recognised for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are only recognised for temporary differences, unused tax losses and unused tax credits if it is probable that future taxable amounts will arise to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset where there is a legally enforceable right to offset current tax assets and current tax liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities which intend either to settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously.

The Company and its wholly owned Australian subsidiaries are part of a tax consolidated group. The Company is the head entity in the tax consolidated group. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations of members. Any current tax liabilities / assets and deferred tax assets from unused tax losses of subsidiaries in the tax consolidated group are recognised by the Company and funded in line with the tax funding arrangements.

Critical accounting judgements and estimates

The Group undertakes transactions in the ordinary course of business where the income tax treatment requires the exercise of judgement. The Group estimates the amount expected to be paid to tax authorities based on its understanding and interpretation of relevant tax laws. The effect of uncertainty over income tax treatments is reflected in determining the relevant taxable profit or tax loss, tax bases, unused tax losses and unused tax credits or tax rates. Uncertain tax positions are presented as current or deferred tax assets or liabilities as appropriate.

NOTE 6 INCOME TAX (CONTINUED)

Income tax expense

The income tax expense for the year reconciles to the profit before income tax as follows:

	Group[1]		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Profit before income tax	9,068	5,163	6,759	358
Prima facie income tax expense at 30%	2,720	1,549	2,028	107
Tax effect of permanent differences:				
Assessable foreign income	7	5	7	5
Foreign tax rate differences	(78)	(60)	(37)	(32)
Losses not tax effected	(13)	32	(15)	32
Foreign branch income not assessable	(35)	(56)	(35)	(56)
Over provision in prior years	(8)	3	3	(3)
Offshore banking unit adjustment	(46)	23	(37)	40
Restatement of deferred tax balances for tax rate changes	(1)	10	(11)	2
Non-deductible interest on convertible instruments	58	61	58	61
Dividend income adjustments	-	-	(181)	(135)
Impairment of investment in MLC Life	-	64	21	72
Impairment of investment in NWMH	-	-	-	702
Other	(7)	34	(105)	90
Income tax expense	2,597	1,665	1,696	885
Current tax expense	1,986	2,544	1,273	1,574
Deferred tax expense/ (benefit)	611	(879)	423	(689)
Total income tax expense	2,597	1,665	1,696	885

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

NOTE 6 INCOME TAX (CONTINUED)

Deferred tax assets and liabilities

The balance comprises temporary differences attributable to:

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Deferred tax assets				
Specific provision for credit impairment	**187**	219	**154**	162
Collective provision for credit impairment	**1,276**	1,447	**1,091**	1,264
Employee entitlements	**306**	232	**290**	218
Tax losses	**42**	25	**28**	25
Unrealised derivatives in funding vehicles	**149**	294	**-**	-
Other provisions	**373**	674	**371**	659
Depreciation	**360**	496	**284**	358
Reserves	**126**	161	**91**	105
Other	**352**	393	**312**	355
Total deferred tax assets	**3,171**	3,941	**2,621**	3,146
Set-off of deferred tax liabilities pursuant to set-off provisions	**(218)**	(294)	**(167)**	(251)
Net deferred tax assets	**2,953**	3,647	**2,454**	2,895
Deferred tax liabilities				
Intangible assets	**5**	5	**-**	-
Depreciation	**71**	62	**-**	-
Defined benefit superannuation plan assets	**11**	9	**9**	7
Reserves				
Cash flow hedge reserve	**26**	133	**30**	148
Other reserves	**114**	22	**113**	22
Other	**20**	88	**15**	74
Total deferred tax liabilities	**247**	319	**167**	251
Deferred tax liabilities set-off against deferred tax assets pursuant to set-off provisions	**(218)**	(294)	**(167)**	(251)
Net deferred tax liability	**29**	25	**-**	-

Deferred tax assets not brought to account

Deferred tax assets have not been brought to account for the following realised losses as the utilisation of the losses is not regarded as probable:

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Capital gains tax losses	**1,829**	1,684	**1,829**	1,684
Income tax losses	**314**	351	**314**	351

NOTE 7
EARNINGS PER SHARE

	Group(1)			
	Basic		Diluted	
	2021	2020	2021	2020
Earnings ($m)				
Net profit attributable to owners of NAB	6,364	2,559	6,364	2,559
Distributions on other equity instruments	(13)	(39)	(13)	(39)
Potential dilutive adjustments (after tax)				
Interest expense on convertible notes	-	-	194	162
Interest expense on convertible preference shares(2)(3)	-	-	9	-
Adjusted earnings	6,351	2,520	6,554	2,682
Net loss attributable to owners of NAB from discontinued operations	107	939	107	939
Adjusted earnings from continuing operations	6,458	3,459	6,661	3,621
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares (net of treasury shares)	3,290	3,068	3,290	3,068
Potential dilutive weighted average number of ordinary shares				
Convertible notes	-	-	229	258
Convertible preference shares(2)(3)	-	-	16	-
Share-based payments	-	-	5	7
Total weighted average number of ordinary shares	3,290	3,068	3,540	3,333
Earnings per share (cents) attributable to owners of NAB	193.0	82.1	185.2	80.5
Earnings per share (cents) from continuing operations	196.3	112.7	188.2	108.6
Earnings per share (cents) from discontinued operations	(3.3)	(30.6)	(3.0)	(28.1)

(1) Information is presented on a continuing operations basis, unless otherwise stated.
(2) On 17 December 2020, the Group redeemed the $1,717 million Convertible Preference Shares II issued on 17 December 2013, in accordance with the redemption notice issued on 5 November 2020.
(3) Convertible preference shares were excluded from the calculation of diluted earnings per share in the September 2020 full year as the conversion conditions had not been met as at 30 September 2020.

FINANCIAL INSTRUMENTS

OVERVIEW

Financial instruments represent the majority of the Group's balance sheet, including loans and advances, deposits, trading securities and derivatives.

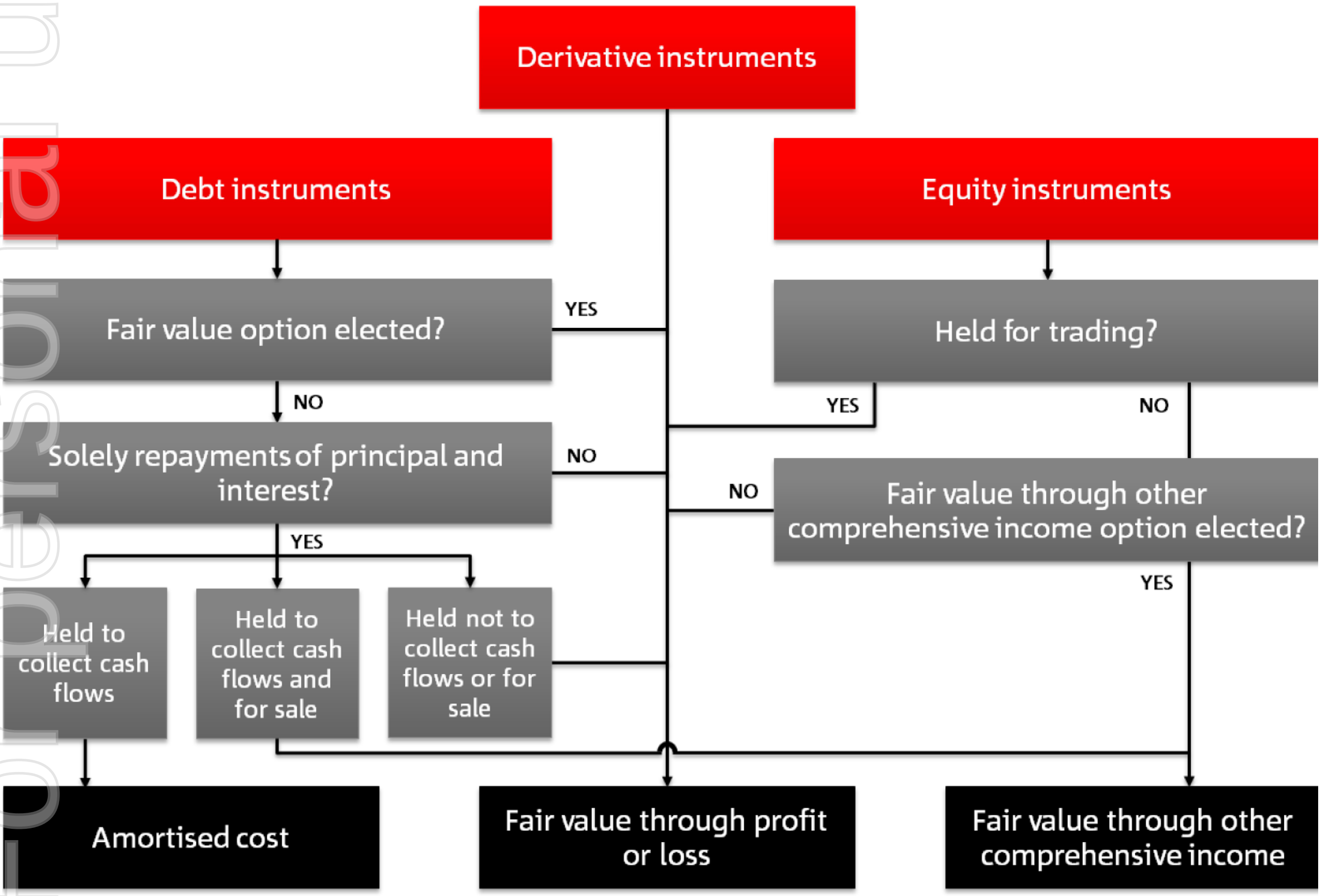
Initial recognition of financial instruments

A financial asset or financial liability is recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group recognises regular way transactions on the trade date.

All financial instruments are initially recognised at fair value. Directly attributable transaction costs are added to or deducted from the carrying value of the asset or liability on initial recognition, unless the instrument is measured at fair value through profit or loss, in which case they are recognised in profit or loss.

Classification

Subsequently, financial instruments are measured either at amortised cost or fair value depending on their classification. Classification of financial assets is driven by the Group's business model for managing the asset and the contractual cash flows of the asset. The Group uses the following flowchart to determine the appropriate classification for financial assets.



Non-derivative financial liabilities are measured at amortised cost unless the Group elects to measure the financial liability at fair value through profit or loss. The Group will elect to measure a financial liability at fair value through profit or loss if such measurement significantly reduces or eliminates an accounting mismatch.

Refer to the table at the end of this section for a summary of the classification of the Group's financial instruments.

OVERVIEW (CONTINUED)

Measurement

Financial instruments measured at amortised cost

Amortised cost is the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of transaction costs, premiums or discounts using the effective interest method, and for financial assets, adjusted for any loss allowance.

Financial assets measured at fair value through other comprehensive income

Gains or losses arising from changes in the fair value of debt instruments measured at fair value through other comprehensive income are recognised in other comprehensive income and accumulated in a separate component of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Investments in equity instruments that are neither held for trading nor contingent consideration recognised by the Group in a business combination to which AASB 3 *Business Combinations* applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts recognised in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial instruments at fair value through profit or loss

Changes in the fair value of financial assets are recognised in profit or loss.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit risk is calculated by determining the changes in own credit spreads and is recognised separately in other comprehensive income.

Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from an underlying price, index or other variable, and include instruments such as swaps, forward rate agreements, futures and options.

All derivatives are recognised initially on the balance sheet at fair value and are subsequently measured at fair value through profit or loss, except where they are designated as a part of an effective hedge relationship and classified as hedging derivatives. Derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Refer to *Note 18 Derivatives and hedge accounting*.

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group removes a financial liability from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

OVERVIEW (CONTINUED)

Summary of classification and measurement basis

Type of instrument	Classification and measurement	Reason	Note
Financial assets			
Loans and advances (customer loans and facilities)	Amortised cost	Cash flows represent solely payments of principal and interest, held with the objective to collect contractual cash flows	*Note 12 Loans and advances*
Trading securities (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through profit or loss	Principal purpose is selling or repurchasing in the near term, or part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking	*Note 9 Trading securities*
Other financial assets		Cash flows are not solely payments of principal and interest or designated at fair value through profit or loss to eliminate an accounting mismatch	*Note 11 Other financial assets*
Debt instruments (bonds, notes or securities issued by government, financial institutions or other corporates)	Fair value through other comprehensive income	Cash flows represent solely payments of principal and interest, held with the objective to both collect contractual cash flows or to sell	*Note 10 Debt instruments*
Derivatives (forwards, swaps, futures, options)	Fair value(1)	Trading derivatives - not in a qualifying hedging relationship	*Note 18 Derivatives and hedge accounting*
		Hedging derivatives - designated in a qualifying hedging relationship	

(1) Fair value movements on trading derivatives are recognised in profit or loss. The recognition of the fair value movements on hedging derivatives will depend on the type of hedge (i.e. fair value hedge, cash flow hedge, or hedge of a net investment). Refer to *Note 18 Derivatives and hedge accounting*.

Financial liabilities

Type of instrument	Classification and measurement	Reason	Note
Financial liabilities			
Deposits and other borrowings (deposits, commercial paper, repurchase agreements)	Amortised cost	Not designated at fair value through profit or loss	*Note 13 Deposits and other borrowings*
Bonds and notes			*Note 14 Bonds, notes and subordinated debt*
Perpetual notes, convertible preference shares and convertible notes			*Note 15 Other debt issues*
Certain bonds, notes and deposits	Fair value through profit or loss(1)	Designated at fair value through profit or loss to eliminate an accounting mismatch	*Note 16 Other financial liabilities*
Derivatives (forwards, swaps, futures, options)	Fair value(2)	Trading derivatives - not in a qualifying hedging relationship	*Note 18 Derivatives and hedge accounting*
		Hedging derivatives - designated in a qualifying hedging relationship	

(1) Except for changes in own credit risk which are recognised in other comprehensive income.
(2) Fair value movements on trading derivatives are recognised in profit or loss. The recognition of the fair value movements on hedging derivatives will depend on the type of hedge (i.e. fair value hedge, cash flow hedge, or hedge of a net investment). Refer to *Note 18 Derivatives and hedge accounting*.

NOTE 8
CASH AND BALANCES WITH OTHER BANKS

Accounting policy

Cash and liquid assets, and balances with other banks are initially measured at fair value and subsequently at amortised cost.

For the purposes of the statement of cash flows, cash and cash equivalents include cash and liquid assets (including reverse repurchase agreements and short-term government securities) and amounts due from other banks net of amounts due to other banks that are highly liquid, readily convertible to known amounts of cash within three months and are subject to an insignificant risk of changes in value. They are held for the purposes of meeting short-term cash commitments (rather than for investment or other purposes).

Refer to *Note 36 Notes to the statement of cash flows* for a detailed reconciliation of cash and cash equivalents.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Cash and liquid assets				
Coins, notes and cash at bank	**1,094**	1,366	**939**	1,197
Reverse repurchase agreements	**49,164**	61,542	**48,982**	61,016
Other (including bills receivable and remittances in transit)	**574**	1,480	**415**	1,342
Total cash and liquid assets	**50,832**	64,388	**50,336**	63,555
Due from other banks				
Central banks	**89,708**	18,934	**81,297**	16,914
Other banks(1)	**17,838**	28,399	**16,910**	27,271
Total due from other banks	**107,546**	47,333	**98,207**	44,185
Due to other banks				
Central banks(2)	**42,486**	25,111	**39,849**	24,900
Other banks(1)	**31,674**	21,662	**28,866**	19,549
Total due to other banks	**74,160**	46,773	**68,715**	44,449

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(2) Included within amounts due to central banks is $34,409 million (2020: $14,401 million) for the Group and $31,866 million (2020: $14,270 million) for the Company relating to the Term Funding Facility provided by the RBA and the Term Lending Facility, Funding for Lending Program and the Term Auction Facility (2020 only) provided by the RBNZ.

NOTE 9
TRADING SECURITIES

Accounting policy

Trading securities comprise securities that are classified as held for trading because they are acquired or incurred principally for the purpose of selling or repurchasing in the near term, or form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking. Trading securities are measured at fair value through profit or loss.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Government bonds, notes and securities	**31,660**	42,071	**27,199**	36,361
Semi-government bonds, notes and securities	**4,153**	5,827	**2,878**	3,096
Corporate / financial institution bonds, notes and securities	**12,240**	15,965	**10,961**	14,394
Other bonds, notes, securities, equities and other assets	**1,967**	1,074	**1,878**	1,073
Total trading securities	**50,020**	64,937	**42,916**	54,924

NOTE 10
DEBT INSTRUMENTS

Accounting policy

Debt instruments are measured at fair value through other comprehensive income as they are held in a business model with the objective of collecting contractual cash flows or realising the asset through sale and they have contractual cash flows which are considered to be solely repayments of principal and interest.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Government bonds, notes and securities	**3,280**	3,282	**3,279**	3,280
Semi-government bonds, notes and securities	**25,027**	23,240	**25,027**	23,240
Corporate / financial institution bonds, notes and securities	**6,642**	6,648	**6,642**	6,648
Other bonds, notes and securities	**6,929**	7,185	**6,901**	7,156
Total debt instruments	**41,878**	40,355	**41,849**	40,324

NOTE 11
OTHER FINANCIAL ASSETS

Accounting policy

Other financial assets are measured at fair value through profit or loss. Changes in fair value and transaction costs are recognised in the income statement. Financial assets are measured at fair value through profit or loss when they have contractual cash flow characteristics that are not considered to be solely principal and interest or they have been designated as such to eliminate or reduce an accounting mismatch that would otherwise arise.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Loans at fair value	**2,556**	3,860	**1,678**	2,552
Other financial assets at fair value	**238**	-	**1,627**	1,333
Total other financial assets	**2,794**	3,860	**3,305**	3,885

The maximum credit exposure of loans (excluding any undrawn facility limits) included in other financial assets is $2,556 million (2020: $3,860 million) for the Group and $1,678 million (2020: $2,552 million) for the Company. The cumulative change in fair value of the loans attributable to changes in credit risk amounted to a $52 million loss (2020: $66 million loss) for the Group and a $33 million loss (2020: $35 million loss) for the Company.

NOTE 12
LOANS AND ADVANCES

Accounting policy

Loans and advances are financial assets for which the contractual cash flows are solely repayments of principal and interest and that are held in a business model with the objective of collecting contractual cash flows.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Loans and advances				
Housing loans	**360,000**	341,729	**308,041**	298,154
Other term lending	**236,156**	219,591	**199,102**	184,665
Asset and lease financing	**13,879**	13,009	**13,474**	12,611
Overdrafts	**4,588**	4,347	**2,801**	2,484
Credit card outstandings	**4,871**	5,259	**4,158**	4,426
Other lending[1]	**7,006**	6,257	**6,650**	5,940
Total gross loans and advances[1]	**626,500**	590,192	**534,226**	508,280
Deduct:				
Unearned income and deferred net fee income	**(173)**	(219)	**(273)**	(282)
Provision for credit impairment	**(5,171)**	(6,011)	**(4,407)**	(5,179)
Total net loans and advances[1]	**621,156**	583,962	**529,546**	502,819

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 13
DEPOSITS AND OTHER BORROWINGS

Accounting policy

Deposits and other borrowings are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Term deposits	**108,494**	134,181	**85,217**	107,044
On-demand and short-term deposits	**302,414**	261,260	**268,838**	234,933
Certificates of deposit	**45,193**	34,708	**45,193**	34,709
Deposits not bearing interest	**89,350**	72,221	**77,715**	64,163
Commercial paper and other borrowings	**29,244**	18,679	**28,357**	18,362
Repurchase agreements	**30,348**	25,127	**30,231**	25,127
Total deposits and other borrowings	**605,043**	546,176	**535,551**	484,338

NOTE 14
BONDS, NOTES AND SUBORDINATED DEBT

Accounting policy

Bonds, notes and subordinated debt are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Premiums, discounts and associated issue expenses are recognised using the effective interest method through the income statement from the date of issue.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Bonds, notes and subordinated debt				
Medium-term notes	**67,278**	85,274	**64,759**	83,711
Securitisation notes	**2,264**	3,126	**-**	-
Covered bonds	**23,715**	25,659	**21,845**	24,769
Subordinated medium-term notes	**15,897**	11,817	**15,897**	11,817
Other subordinated notes	**-**	508	**-**	-
Total bonds, notes and subordinated debt	**109,154**	126,384	**102,501**	120,297
Issued bonds, notes and subordinated debt by currency				
AUD	**33,721**	38,663	**31,361**	35,390
USD	**29,512**	37,633	**27,334**	36,351
EUR	**27,555**	30,898	**25,902**	30,421
GBP	**6,371**	5,261	**6,356**	5,219
JPY	**4,297**	4,916	**4,297**	4,916
CHF	**3,655**	3,835	**3,208**	3,362
Other	**4,043**	5,178	**4,043**	4,638
Total bonds, notes and subordinated debt	**109,154**	126,384	**102,501**	120,297

NOTE 14 BONDS, NOTES AND SUBORDINATED DEBT (CONTINUED)

Subordinated medium-term notes

	Notional amount[1]		Group		Company	
			2021	2020	2021	2020
Currency	Currency amount (m)	Maturity / First optional call date[2]	$m	$m	$m	$m
HKD	1,137	Fixed matured 2021	-	208	-	208
JPY	10,000	Fixed matured 2021	-	133	-	133
AUD	150	Fixed matured 2021	-	152	-	152
AUD	650	Floating matured 2021	-	650	-	650
JPY	10,000	Fixed due 2021	**124**	134	**124**	134
SGD	450	Fixed due 2023	**470**	484	**470**	484
AUD	943	Floating due 2023	**940**	939	**940**	939
AUD	1,000	Floating due 2024	**1,000**	1,000	**1,000**	1,000
CAD	1,000	Fixed due 2025	**1,110**	1,103	**1,110**	1,103
AUD	1,250	Floating due 2025	**1,250**	-	**1,250**	-
GBP	600	Fixed due 2026	**1,104**	-	**1,104**	-
AUD	1,175	Floating due 2026	**1,178**	1,175	**1,178**	1,175
AUD	225	Fixed due 2026	**225**	237	**225**	237
AUD	275	Fixed due 2027	**300**	316	**300**	316
AUD	20	Fixed due 2027	**27**	30	**27**	30
AUD	20	Fixed due 2028	**28**	30	**28**	30
USD	1,500	Fixed due 2029	**2,165**	2,356	**2,165**	2,356
USD	1,500	Fixed due 2030	**1,933**	2,104	**1,933**	2,104
USD	1,250	Fixed due 2031	**1,740**	-	**1,740**	-
AUD	205	Fixed due 2035	**205**	205	**205**	205
AUD	215	Fixed due 2040	**186**	215	**186**	215
AUD	245	Fixed due 2040	**212**	246	**212**	246
AUD	100	Fixed due 2040	**86**	100	**86**	100
USD	1,250	Fixed due 2041	**1,614**	-	**1,614**	-
Total			**15,897**	11,817	**15,897**	11,817

(1) Subordinated medium-term notes qualify as Tier 2 capital, in some cases subject to transitional Basel III treatment.
(2) Reflects calendar year of maturity / first optional call date.

Other subordinated notes

On 17 December 2015, BNZ issued NZ$550 million of subordinated unsecured notes in New Zealand (BNZ Subordinated Notes), treated as Tier 2 capital, subject to an adjustment as the notes were issued by a subsidiary to third parties. On 17 June 2021, having received APRA and RBNZ approval, BNZ exercised its option to repay all of the BNZ Subordinated Notes in accordance with their terms.

NOTE 15
OTHER DEBT ISSUES

Accounting policy

Perpetual notes, convertible preference shares and convertible notes are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Perpetual floating rate notes	5	21	5	21
Convertible preference shares and convertible notes	6,826	6,170	6,826	6,170
Total other debt issues	**6,831**	6,191	**6,831**	6,191

The table below highlights the key features of the Group's other debt issuances.

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Issued amount	USD250 million	NAB CPS II - $1.72 billion[1]	NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion NAB Capital Notes 5 - $2.39 billion NAB Wholesale Capital Notes - $500 million NAB Wholesale Capital Notes 2 - $600 million
Issued date	9 October 1986	NAB CPS II - 17 December 2013	NAB Capital Notes 2 - 7 July 2016 NAB Capital Notes 3 - 20 March 2019 NAB Capital Notes 5 - 17 December 2020 NAB Wholesale Capital Notes - 12 December 2019 NAB Wholesale Capital Notes 2 - 17 July 2020
Interest payment frequency	Semi-annually in arrears	Quarterly in arrears	NAB Capital Notes 2 - Quarterly in arrears NAB Capital Notes 3 - Quarterly in arrears NAB Capital Notes 5 - Quarterly in arrears NAB Wholesale Capital Notes - Semi-annually in arrears until the optional call date. Quarterly in arrears thereafter. NAB Wholesale Capital Notes 2 - Quarterly in arrears
Interest rate	0.15% per annum above the 6 month USD LIBOR	NAB CPS II - 3.25% per annum above the 3 month BBSW	NAB Capital Notes 2 - 4.95% per annum above the 3 month BBSW NAB Capital Notes 3 - 4.00% per annum above the 3 month BBSW NAB Capital Notes 5 - 3.50% per annum above the 3 month BBSW NAB Wholesale Capital Notes - 4.95% per annum until the optional call date. 3.75% per annum above the 3 month BBSW thereafter. NAB Wholesale Capital Notes 2 - 4.00% per annum above the 3 month BBSW
Maturity/ Conversion	No final maturity	NAB CPS II were redeemed on 17 December 2020	Mandatory conversion: NAB Capital Notes 2 - 8 July 2024 NAB Capital Notes 3 - 19 June 2028 NAB Capital Notes 5 - 17 December 2029 NAB Wholesale Capital Notes - 12 December 2031 NAB Wholesale Capital Notes 2 - 17 July 2027 Issuer conversion option: NAB Capital Notes 2 - 7 July 2022 NAB Capital Notes 3 - 17 June 2026 NAB Capital Notes 5 - 17 December 2027 NAB Wholesale Capital Notes - 12 December 2029 NAB Wholesale Capital Notes 2 - 17 July 2025

NOTE 15 OTHER DEBT ISSUES (CONTINUED)

	Perpetual floating rate notes	Convertible preference shares	Convertible notes
Outstanding amount	USD3.77 million	NAB CPS II - Nil	NAB Capital Notes 2 - $1.50 billion NAB Capital Notes 3 - $1.87 billion NAB Capital Notes 5 - $2.39 billion NAB Wholesale Capital Notes - $500 million NAB Wholesale Capital Notes 2 - $600 million
Capital treatment	Tier 2 capital, subject to transitional Basel III arrangements	Additional Tier 1 capital	Additional Tier 1 capital

(1) On 17 December 2020, NAB redeemed all of the NAB CPS II for $100 per NAB CPS II.

NOTE 16
OTHER FINANCIAL LIABILITIES

Accounting policy

In certain circumstances, the Group applies the fair value measurement option to financial liabilities. This option is applied where an accounting mismatch is significantly reduced or eliminated by measuring the financial liability at fair value through profit or loss.

Where liabilities are designated at fair value through profit or loss, they are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses (except for changes in own credit risk that are recognised in other comprehensive income) are recognised in the income statement as they arise.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Other financial liabilities at fair value				
Bonds, notes and subordinated debt	**18,416**	22,348	**5,570**	5,845
Deposits and other borrowings				
Certificates of deposit	**2,324**	856	**-**	-
Term deposits	**-**	562	**-**	-
Commercial paper and other borrowings	**4,228**	3,089	**-**	-
Securities sold short	**2,059**	3,092	**1,547**	3,042
Other financial liabilities	**19**	24	**19**	24
Total other financial liabilities	**27,046**	29,971	**7,136**	8,911

The change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss for the 2021 financial year of $78 million (2020: $118 million loss) for the Group and a loss of $63 million (2020: $56 million loss) for the Company. The cumulative change in fair value of bonds, notes and subordinated debt attributable to changes in the Group's credit risk amounts to a loss of $161 million (2020: $83 million loss) for the Group and a loss of $53 million (2020: $10 million gain) for the Company. The contractual amount to be paid at the maturity of the bonds, notes and subordinated debt is $17,707 million (2020: $21,230 million) for the Group and $5,222 million (2020: $5,358 million) for the Company.

NOTE 17
PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST

Accounting policy

The Group applies a three-stage approach to measuring ECL for the following categories of financial assets that are not measured at fair value through profit or loss:

- debt instruments measured at amortised cost and fair value through other comprehensive income
- loan commitments
- financial guarantee contracts.

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

Stage	Measurement basis
12-months ECL (Stage 1)	The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months.
Lifetime ECL – not credit impaired (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – credit impaired (Stage 3)	Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL.

At each reporting date, the Group assesses the default risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If no significant increase in default risk is observed, the exposure will remain in Stage 1. If the default risk of an exposure has increased significantly since initial recognition, the exposure will migrate to Stage 2. Should an exposure become credit impaired it will migrate to Stage 3.

For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and also forward looking analysis. Refer to *Note 19 Financial risk management*.

ECL are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit quality of financial assets

The Group's internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided to counterparties or customers. The Group has defined counterparty probabilities of default across retail and non-retail loans and advances, including performing (pre-default) and non-performing (post-default) rating grades. In assessing for credit impairment of financial assets under the expected credit loss model, the Group aligns impairment with the definition of default prescribed in its Credit Policy and Procedures.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on the Group's historical experience.

- For non-retail facilities, internally derived credit ratings, as described above, represent a key determinant of default risk. The Group assigns each customer a credit rating at initial recognition based on available information. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date, relative to the credit rating at the date of initial recognition.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

- Retail facilities use the number of days past due (DPD) or the relative change in probability of default at an account level, to determine whether or not there has been a significant increase in credit risk.
- In addition, the Group considers that significant increase in credit risk occurs when a facility is more than 30 DPD.
- Consistent with industry guidance, a customer support payment deferral as part of COVID-19 support packages in isolation does not necessarily result in a significant increase in credit risk, and therefore does not trigger an automatic migration from Stage 1 (12-month ECL) to Stage 2 (lifetime ECL) in the credit impairment for such loans.

Definition of default

Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without remedial action, such as realisation of security. The offer or uptake of a COVID-19 related payment deferral does not automatically trigger a default event unless there is other evidence that the customer is unlikely to meet their contractual obligations.

Calculation of ECL

- ECL are calculated using three main parameters being probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward looking information, including macro-economic data.
- For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
- The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.
- The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.
- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the expected remaining life multiplied by LGD and EAD.

Incorporation of forward looking information

- The Group uses internal subject matter experts from Risk, Economics and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments and any idiosyncratic or targeted portfolio / industry adjustments, to support the calculation of ECL.
- Forward looking adjustments for both general macro-economic adjustments and more targeted portfolio / industry adjustments, reflect reasonable and supportable forecasts of potential future conditions that are not captured within the base ECL calculations.
- Macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.
- Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points, will affect ECL. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Critical accounting judgements and estimates

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

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Credit impairment charge on loans at amortised cost				
New and increased provisions (net of collective provision releases)	**122**	2,990	**19**	2,651
Write-backs of specific provisions	**(270)**	(169)	**(169)**	(130)
Recoveries of specific provisions	**(54)**	(69)	**(42)**	(59)
Total charge / (write-back) to the income statement	**(202)**	2,752	**(192)**	2,462

Group	Stage 1 12-mth ECL Collective provision $m	Stage 2 Lifetime ECL not credit impaired Collective provision $m	Stage 3 Lifetime ECL credit impaired Collective provision $m	Stage 3 Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 2019	368	2,227	523	782	3,900
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	335	(319)	(16)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(83)	142	(59)	-	-
Transfer to Lifetime ECL credit impaired - collective provision	(2)	(83)	85	-	-
Transfer to Lifetime ECL credit impaired - specific provision	(1)	(46)	(107)	154	-
New and increased provisions (net of collective provision releases)	(146)	1,981	399	756	2,990
Write-backs of specific provisions	-	-	-	(169)	(169)
Write-offs from specific provisions	-	-	-	(700)	(700)
Foreign currency translation and other adjustments	(1)	(5)	(1)	(3)	(10)
Balance at 30 September 2020	470	3,897	824	820	6,011
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	**213**	**(197)**	**(16)**	**-**	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	**(69)**	**240**	**(171)**	**-**	**-**
Transfer to Lifetime ECL credit impaired - collective provision	**(2)**	**(59)**	**61**	**-**	**-**
Transfer to Lifetime ECL credit impaired - specific provision	**(1)**	**(31)**	**(93)**	**125**	**-**
New and increased provisions (net of collective provision releases)	**(358)**	**(188)**	**281**	**387**	**122**
Write-backs of specific provisions	**-**	**-**	**-**	**(270)**	**(270)**
Write-offs from specific provisions	**-**	**-**	**-**	**(413)**	**(413)**
Derecognised in respect of a sale of loans	**-**	**(299)**	**-**	**-**	**(299)**
Foreign currency translation and other adjustments	**3**	**13**	**3**	**1**	**20**
Balance at 30 September 2021	**256**	**3,376**	**889**	**650**	**5,171**

Impact of movements in gross carrying amount on provision for ECL for the Group

Provision for credit impairment reflects ECL measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2021 financial year have contributed to the changes in the provision for credit impairment for the Group under the expected credit loss model.

Overall, the total provision for credit impairment decreased by $840 million compared to the balance at 30 September 2020.

Specific provisions decreased by $170 million compared to the balance at 30 September 2020, mainly due to work-outs for a small number of larger exposures in the business lending portfolio in Australia and New Zealand.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Collective provisions decreased by $670 million compared to the balance at 30 September 2020, comprised of:

Collective provision 12-months ECL (Stage 1) decreased by $214 million as a result of:
- $139 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.
- Partial reallocation of forward looking adjustments raised for targeted sectors to Stage 2 due to methodology refinements.
- Partially offset by $141 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.

Collective provision Lifetime ECL – not credit impaired (Stage 2) decreased by $521 million as a result of:
- $64 billion of loans and advances that migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality, were repaid or experienced movement in underlying account balances during the period.
- Decrease in net collective provision forward looking adjustments raised for targeted sectors including aviation due to a sale of loans in the aviation portfolio.

Partially offset by:
- The reallocation of forward looking adjustments raised for targeted sectors from Stage 1 due to methodology refinements.
- $85 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.

Collective provision Lifetime ECL – credit impaired (Stage 3) increased by $65 million as a result of:
- $6 billion of loans and advances that experienced movement in underlying account balances during the period or were transferred into Stage 3 from Stage 1 and Stage 2 due to credit quality deterioration.
- Partially offset by $6 billion of loans and advances that were repaid or migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

ECL scenario analysis

The following table shows the key macro-economic variables used in the base case and downside scenario at 30 September 2021.

	Base case			Downside		
	Financial year			Financial year		
	2022	2023	2024	2022	2023	2024
	%	%	%	%	%	%
GDP change (year ended September)	**5.9**	2.2	2.5	**(0.5)**	(3.0)	2.0
Unemployment (as at 30 September)	**4.5**	4.0	3.8	**8.4**	10.6	10.9
House price change (year ended September)	**5.5**	3.0	2.0	**(18.0)**	(14.1)	4.3

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

	2021	2020
	$m	$m
Total provisions for ECL		
Probability weighted	**5,171**	6,011
100% Base case	**4,291**	5,611
100% Downside	**6,984**	7,774

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

The table below shows weightings applied to the Australian portfolio, to derive the probability weighted ECL.

	2021 %	2020 %
Macro-economics scenario weightings		
Upside	**5.0**	15.0
Base case	**62.5**	60.0
Downside	**32.5**	25.0

- The September 2021 total provisions for ECL in the 100% base case and 100% downside scenarios have reduced since September 2020, driven primarily by an improvement in the base case macro-economic outlook, the reduction in provisions from a sale of part of the aviation portfolio and a lower specific provision balance.
- The upside scenario weighting has reduced from 15% at September 2020 to 5% at September 2021, given the improvement in the base case scenario.
- The downside scenario weighting has increased from 25% at September 2020 to 32.5% at September 2021, to reflect increased uncertainty and potential headwinds in the outlook.

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

	2021 $m	2020 $m
Total provision for ECL for key portfolios		
Housing	**1,248**	1,245
Business	**3,770**	4,252
Others	**153**	514
Total	**5,171**	6,011

	Stage 1	Stage 2	Stage 3		
Company	12-mth ECL Collective provision $m	Lifetime ECL not credit impaired Collective provision $m	Lifetime ECL credit impaired Collective provision $m	Lifetime ECL credit impaired Specific provision $m	Total $m
Balance at 1 October 2019	300	1,883	474	624	3,281
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	233	(221)	(12)	-	-
Transferred to Lifetime ECL not credit impaired - collective provision	(77)	132	(55)	-	-
Transferred to Lifetime ECL credit impaired - collective provision	(2)	(74)	76	-	-
Transferred to Lifetime ECL credit impaired - specific provision	(1)	(31)	(97)	129	-
New and increased provisions (net of collective provision releases)	(38)	1,747	335	607	2,651
Write-backs of specific provisions	-	-	-	(130)	(130)
Write-offs from specific provisions	-	-	-	(618)	(618)
Foreign currency translation and other adjustments	(1)	(2)	1	(3)	(5)
Balance at 30 September 2020	414	3,434	722	609	5,179
Changes due to financial assets recognised in the opening balance that have:					
Transferred to 12-months ECL - collective provision	**192**	**(180)**	**(12)**	**-**	**-**
Transferred to Lifetime ECL not credit impaired - collective provision	**(18)**	**175**	**(157)**	**-**	**-**
Transferred to Lifetime ECL credit impaired - collective provision	**(1)**	**(53)**	**54**	**-**	**-**
Transferred to Lifetime ECL credit impaired - specific provision	**(1)**	**(26)**	**(85)**	**112**	**-**
New and increased provisions (net of collective provision releases)	**(382)**	**(179)**	**283**	**297**	**19**
Write-backs of specific provisions	**-**	**-**	**-**	**(169)**	**(169)**
Write-offs from specific provisions	**-**	**-**	**-**	**(322)**	**(322)**
Derecognised in respect of a sale of loans	**-**	**(299)**	**-**	**-**	**(299)**
Foreign currency translation and other adjustments	**(1)**	**-**	**1**	**(1)**	**(1)**
Balance at 30 September 2021	**203**	**2,872**	**806**	**526**	**4,407**

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Impact of movements in gross carrying amount on provision for ECL for the Company

Provision for credit impairment reflects ECL measured using the three-stage approach. The following explains how significant changes in the gross carrying amount of loans and advances during the 2021 financial year have contributed to the changes in the provision for credit impairment for the Company under the expected credit loss model.

Overall, the total provision for credit impairment decreased by $772 million compared to the balance at 30 September 2020.

Specific provisions decreased by $83 million compared to the balance at 30 September 2020, mainly due to work-outs for a small number of larger exposures in the Australian business lending portfolio.

Collective provisions decreased by $689 million compared to the balance at 30 September 2020, comprised of:

Collective provision 12-months ECL (Stage 1) decreased by $211 million due to:
- $109 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or Stage 3 due to deterioration in credit quality.
- Partial reallocation of forward looking adjustments raised for targeted sectors to Stage 2 due to methodology refinements.
- Partially offset by $119 billion of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvement.

Collective provision Lifetime ECL – not credit impaired (Stage 2) decreased by $562 million due to:
- $57 billion of loans and advances that were repaid, experienced movement in underlying account balances during the period, migrated to Stage 1 as a result of improved credit quality or into Stage 3 due to deterioration in credit quality.
- Decrease in net collective provision forward looking adjustments raised for targeted sectors including aviation due to a sale of loans in the aviation portfolio.

Partially offset by:
- The reallocation of forward looking adjustments raised for targeted sectors from Stage 1 due to methodology refinements.
- $64 billion of loans and advances migrating into Stage 2 as a result of loans and advances transferred from Stage 1 or Stage 3.

Collective provision Lifetime ECL – credit impaired (Stage 3) increased by $84 million due to:
- $5 billion of existing loans and advances that were transferred into Stage 3 from Stage 1 and stage 2 due to credit quality deterioration or experienced movement in underlying account balances during the period.
- Partially offset by $5 billion of loan and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvement or migrated to individually credit assessed with specific provisions raised.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that were written off during the 2021 financial year, which are still subject to enforcement activity was $32 million (2020: $99 million) for the Group and $10 million (2020: $73 million) for the Company.

Information about total impaired assets

The following table provides details on impaired assets. Gross amounts are shown before taking into account any collateral held or other credit enhancements. Refer to *Note 19 Financial risk management* for analysis of the credit quality of the Group's loans and advances.

	Group		Company	
	2021	2020	2021	2020
Summary of total impaired assets	$m	$m	$m	$m
Gross impaired assets[1]	**1,258**	1,866	**1,031**	1,299
Specific provision for credit impairment[2]	**(664)**	(840)	**(526)**	(609)
Net impaired assets[3]	**594**	1,026	**505**	690

(1) Gross impaired assets include $30 million (2020: $38 million) for the Group and $nil (2020: $nil) for the Company of gross impaired loans at fair value, $9 million (2020: $26 million) of impaired off-balance sheet credit exposures for the Group and $7 million (2020: $19 million) for the Company.
(2) Specific provision for credit impairment includes $14 million (2020: $20 million) for the Group and nil (2020: $nil) for the Company of fair value credit adjustments on loans at fair value.
(3) The fair value of security in respect of impaired assets is $638 million (2020: $1,065 million) for the Group and $560 million (2020: $740 million) for the Company. Fair value amounts of security held in excess of the outstanding balance of individual impaired assets are not included in these amounts.

NOTE 17 PROVISION FOR CREDIT IMPAIRMENT ON LOANS AT AMORTISED COST (CONTINUED)

Modifications

The Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments for retail and business customers in accordance with APRA guidance. The terms and conditions related to the deferrals were considered to be non-substantial modifications and accounted for as a continuation of the existing loan agreements. In accordance with APRA guidance the deferral program closed on 30 September 2021. No material modification gains or losses have been recognised in respect of loans on deferral.

The table below sets out the gross credit risk exposures on deferral:

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Stage 1	**919**	26,989	**919**	25,602
Stage 2	**1,265**	18,104	**1,265**	18,051
Stage 3	**36**	680	**36**	637
Total	**2,220**	45,773	**2,220**	44,290

NOTE 18
DERIVATIVES AND HEDGE ACCOUNTING

Accounting policy

Trading derivatives

Trading derivatives are not in a qualifying hedging relationship and are measured at fair value through profit or loss.

Hedge accounting

The Group utilises the following three types of hedge relationships in managing its exposure to risk. At inception of all hedge relationships the Group documents the relationship between the hedging instrument and hedged item, the risk being hedged, the Group's risk management objective and strategy and how effectiveness will be measured throughout the hedge relationship.

	Cash flow hedge	Fair value hedge	Net investment hedge
Objective	To hedge changes to cash flows arising from interest rate and foreign currency risk.	To hedge fair value changes to recognised assets and liabilities arising from interest rate and foreign currency risk.	To hedge foreign currency exposure arising from foreign operations of the Group.
Methods for testing hedge effectiveness	For portfolio hedges, capacity analysis to ensure interest cash flows arising from the portfolio of hedged items are in excess of the hedging instruments.	Regression analysis and the Cumulative dollar offset method.	Cumulative dollar offset method.
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument. Discounting basis between the hedged item and hedging instrument.	Mainly mismatches in terms of the hedged item and the hedging instrument, prepayment risk and reset risk. Discounting basis between the hedged item and hedging instrument.	None expected as the net investment is only hedged to the extent of the notional or carrying amount of the hedging instrument.
Recognition of effective hedge portion	Fair value changes of the hedging instrument associated with the hedged risk are recognised in the cash flow hedge reserve in equity.	Fair value changes of the hedging instrument and those arising from the hedged risk on the hedged item are recognised in the income statement.	Fair value changes of the hedging instrument are recognised in the foreign currency translation reserve within equity.
Recognition of ineffective hedge portion	Recognised in the income statement as ineffectiveness arises.		
Hedging instrument expires, is sold, or when hedging criteria are no longer met	Transferred to the income statement as / when the hedged item affects the income statement. If the hedged item is no longer expected to occur the effective portion accumulated in equity is transferred to the income statement immediately.	Cumulative hedge adjustment to the hedged item is amortised to the income statement on an effective yield basis.	Cumulative fair value changes arising from the hedging instrument will remain in equity until the foreign operation is disposed.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Derivative assets and liabilities

The tables below set out total derivative assets and liabilities disclosed as trading and hedging derivatives.

Total derivatives

	Group				Company			
	2021 Assets $m	2020 Assets $m	2021 Liabilities $m	2020 Liabilities $m	2021 Assets $m	2020 Assets $m	2021 Liabilities $m	2020 Liabilities $m
Trading derivatives	**24,254**	30,914	**22,084**	30,021	**24,658**	31,326	**24,948**	33,450
Hedging derivatives	**3,220**	3,830	**1,947**	2,255	**2,153**	2,888	**1,230**	1,721
Total derivatives	**27,474**	34,744	**24,031**	32,276	**26,811**	34,214	**26,178**	35,171

Trading derivatives

	Group				Company			
	2021 Assets $m	2020 Assets $m	2021 Liabilities $m	2020 Liabilities $m	2021 Assets $m	2020 Assets $m	2021 Liabilities $m	2020 Liabilities $m
Foreign exchange rate-related contracts								
Spot and forward contracts	**7,218**	6,389	**6,178**	6,527	**6,867**	6,132	**5,854**	6,112
Cross currency swaps	**4,697**	5,601	**6,674**	8,649	**5,875**	6,462	**9,667**	12,180
Options / swaptions	**222**	218	**201**	136	**222**	217	**201**	136
Total foreign exchange rate-related contracts	**12,137**	12,208	**13,053**	15,312	**12,964**	12,811	**15,722**	18,428
Interest rate-related contracts								
Forward rate agreements	**12**	25	**12**	19	**12**	23	**12**	16
Swaps	**10,360**	16,548	**7,330**	12,452	**9,914**	16,353	**7,502**	12,761
Options / swaptions	**870**	1,513	**932**	1,718	**870**	1,513	**931**	1,718
Total interest rate-related contracts	**11,242**	18,086	**8,274**	14,189	**10,796**	17,889	**8,445**	14,495
Credit derivatives	**2**	74	**85**	156	**5**	77	**88**	159
Commodity derivatives	**822**	525	**642**	359	**842**	528	**664**	363
Other derivatives	**51**	21	**30**	5	**51**	21	**29**	5
Total trading derivatives	**24,254**	30,914	**22,084**	30,021	**24,658**	31,326	**24,948**	33,450

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Risk management strategy for hedge accounting

Overview

The Group's hedging strategy is to manage its exposure to interest rate risk on a net variable basis in Australian or New Zealand dollars. For Australian and New Zealand denominated exposures the Group will enter into interest rate swaps where the exposure is to a fixed interest rate. In some instances, cash flow hedges of interest rate risk are also used to arrive at a net variable rate position. Foreign currency exposures are swapped to Australian or New Zealand dollars using cross-currency swaps and interest rate swaps. The material risks and the risk management strategy are explained further below.

Cash flow hedges – interest rate risk

The Group manages interest rate risk exposure on deposits and loans via interest rate derivatives. The Group accounts for these hedge relationships as a macro cash flow hedge. The gross exposures are allocated to time buckets based on expected repricing dates, with interest rate derivatives allocated to hedge accordingly. The benchmark interest rate is hedged which represents the largest component of changes in fair value and is observable in relevant financial markets.

Cash flow hedges – foreign currency risk

The Group is exposed to foreign currency risk on credit margin cash flows and foreign currency risk on the principal cash flows, both of which arise from foreign currency debt issuances.

The Group uses foreign currency derivatives to manage changes between the foreign currency and Australian and New Zealand dollars for the above mentioned cash flows.

Fair value hedges – interest rate risk

Interest rate risk arises on fixed rate bonds, notes and subordinated debt issuances, fixed rate debt instruments held for liquidity purposes and fixed rate loans and advances. The Group hedges its interest rate risk on these instruments with relevant interest rate derivatives to reduce its exposure to changes in fair value due to interest rate fluctuations.

Hedging relationships involving debt issuances and the debt instruments are predominantly one-to-one. The fixed rate loans and advances are predominantly managed on a macro basis, where exposures are bucketed based on expected repricing dates with hedging instruments designated accordingly.

With all the fair value hedges, the benchmark interest rate is hedged which represents the largest component of changes in fair value and is observable in relevant financial markets.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Hedging derivatives

Hedging derivative assets and liabilities are disclosed by the hedged risk and type of hedge relationship in which they are designated. The Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps, the Group can designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

			Group				Company			
			2021		2020		2021		2020	
	Hedging instrument	Risk	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m	Carrying amount $m	Notional $m
Derivative assets										
Cash flow hedges	Interest rate swaps	Interest	**-**	**137,799**	10	112,785	**-**	**127,152**	9	106,602
Cash flow hedges	Cross-currency swaps	Currency	**2,609**	**103,037**	2,620	95,600	**1,788**	**79,426**	2,098	88,825
Cash flow hedges	Foreign exchange contracts	Currency	**49**	**6,340**	273	11,972	**49**	**6,340**	273	11,972
Fair value hedges	Interest rate swaps	Interest	**209**	**72,029**	379	57,912	**137**	**58,868**	266	44,031
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**352**	**5,530**	547	9,757	**178**	**2,646**	241	5,191
Cash flow hedges	Futures(1)	Interest	**1**	**3,092**	1	663	**1**	**1,221**	1	32
Derivative liabilities										
Cash flow hedges	Interest rate swaps	Interest	**15**	**106,774**	29	54,817	**15**	**99,476**	29	49,853
Cash flow hedges	Cross-currency swaps	Currency	**1,288**	**64,408**	1,222	65,451	**1,072**	**55,180**	1,199	63,594
Cash flow hedges	Foreign exchange contracts	Currency	**7**	**1,492**	145	5,449	**7**	**1,492**	145	5,449
Fair value hedges	Interest rate swaps	Interest	**19**	**58,864**	82	40,418	**12**	**46,290**	80	23,892
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**618**	**8,643**	772	7,505	**124**	**4,366**	263	3,990
Cash flow hedges	Futures(1)	Interest	**-**	**1,047**	5	2,990	**-**	**1,047**	5	2,527

(1) Futures notional amounts are netted for presentation purposes.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

The following table shows the maturity profile of hedging instruments based on their notional amounts.

	2021				2020			
	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m	0 to 12 months $m	1 to 5 years $m	Over 5 years $m	Total $m
Group								
Interest rate swaps	**91,837**	**235,087**	**48,542**	**375,466**	106,450	121,833	37,649	265,932
Foreign exchange contracts	**7,832**	**-**	**-**	**7,832**	17,421	-	-	17,421
Futures[1]	**3,342**	**797**	**-**	**4,139**	3,034	619	-	3,653
Cross-currency swaps - interest and currency	**5,872**	**5,700**	**2,601**	**14,173**	2,917	11,065	3,280	17,262
Cross-currency swaps - currency	**39,830**	**91,543**	**36,072**	**167,445**	28,257	90,823	41,971	161,051
Company								
Interest rate swaps	**77,379**	**209,176**	**45,231**	**331,786**	93,449	96,038	34,891	224,378
Foreign exchange contracts	**7,832**	**-**	**-**	**7,832**	17,421	-	-	17,421
Futures[1]	**1,471**	**797**	**-**	**2,268**	1,940	619	-	2,559
Cross-currency swaps - interest and currency	**5,376**	**1,287**	**349**	**7,012**	2,092	6,694	395	9,181
Cross-currency swaps - currency	**32,524**	**73,551**	**28,531**	**134,606**	27,799	84,143	40,477	152,419

(1) Futures notional amounts are netted for presentation purposes.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

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

	Group		Company	
	2021	2020	**2021**	2020
USD:AUD	**1.352**	1.337	**1.349**	1.333
EUR:AUD	**1.466**	1.461	**1.491**	1.489
GBP:AUD	**1.803**	1.790	**1.815**	1.788
USD:NZD	**1.458**	1.579	**n/a**	n/a
CHF:NZD	**1.440**	1.560	**n/a**	n/a
EUR:NZD	**1.696**	n/a	**n/a**	n/a

The average executed rate for interest rate swaps in hedge accounting relationships for major currencies is as follows:

	Group				Company			
	2021		2020		**2021**		2020	
	Fair value hedges %	**Cash flow hedges %**	Fair value hedges %	Cash flow hedges %	**Fair value hedges %**	**Cash flow hedges %**	Fair value hedges %	Cash flow hedges %
NZD interest rates	**0.11 - 4.50**	**(0.01) - 3.20**	0.11 - 5.39	0.03 - 5.31	**1.95 - 3.05**	**-**	1.95 - 5.39	-
USD interest rates	**0.61 - 2.96**	**-**	0.62 - 3.52	-	**0.61 - 2.73**	**-**	0.62 - 3.52	-
AUD interest rates	**0.40 - 7.13**	**0.02 - 7.29**	1.00 - 7.13	0.09 - 7.29	**0.40 - 7.13**	**0.02 - 7.29**	1.00 - 7.13	0.09 - 7.29
EUR interest rates	**(0.22) - 2.61**	**-**	(0.22) - 2.59	-	**(0.22) - 2.61**	**-**	(0.22) - 2.59	-

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in *Note 28 Reserves*. The movements in hedging instruments recognised in other comprehensive income are reported in the Group's statement of other comprehensive income. There are no amounts recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (2020: $nil).

The following table shows the carrying amount of fair value hedged items in hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes. The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses is $nil (2020: $nil) for the Group and $nil (2020: $nil) for the Company.

	Group				Company			
	2021		2020		2021		2020	
	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m	Carrying amount $m	Fair value hedge adjustments $m
Debt instruments[(1)]								
Semi-government bonds, notes and securities	**21,513**	**-**	21,013	-	**21,513**	**-**	21,013	-
Loans and advances								
Housing loans	**7,581**	**(27)**	14,102	131	**-**	**-**	-	-
Other term lending	**1,423**	**47**	2,399	147	**1,423**	**47**	2,399	147
Bonds, notes and subordinated debt								
Medium-term notes	**42,059**	**781**	52,503	1,850	**39,539**	**773**	50,940	1,790
Covered bonds[(2)]	**20,803**	**696**	22,807	1,159	**-**	**-**	-	-
Subordinated medium-term notes	**11,327**	**(160)**	7,848	410	**11,327**	**(160)**	7,848	410

(1) The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.
(2) The Company ceased to apply hedge accounting to covered bonds, which continue to be designated for hedge accounting purposes at the Group level.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

Hedge ineffectiveness

Fair value and cash flow hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the years ended 30 September:

	Change in fair value on hedging instruments		Change in fair value on hedged items		Hedge ineffectiveness recognised in income statement[1]	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Group						
Fair value hedges (interest rate risk)	**(3)**	404	**10**	(419)	**7**	(15)
Cash flow hedges (interest rate risk)	**(447)**	357	**445**	(356)	**(2)**	1
Cash flow hedges (currency risk)	**(927)**	(801)	**689**	841	**(238)**	40
Fair value and Cash flow hedges (interest rate and currency risk)	**(37)**	32	**37**	(32)	**-**	-
Total	**(1,414)**	(8)	**1,181**	34	**(233)**	26
Company						
Fair value hedges (interest rate risk)	**334**	422	**(318)**	(425)	**16**	(3)
Cash flow hedges (interest rate risk)	**(380)**	284	**380**	(284)	**-**	-
Cash flow hedges (currency risk)	**(756)**	(553)	**720**	572	**(35)**	19
Total	**(802)**	153	**782**	(137)	**(19)**	16

(1) In the 2021 financial year, operational enhancements were implemented to reduce future volatility in earnings related to hedge accounting. This resulted in a one-off $245 million charge.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Cash flow hedge (interest rate risk)				
Cash flow hedges - gains or losses recognised in other comprehensive income	**(444)**	360	**(380)**	288
Amount reclassified from the cash flow hedge reserve to income statement	**(55)**	(61)	**(9)**	(14)

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Cash flow hedge (currency risk)				
Cash flow hedges - gains or losses recognised in other comprehensive income	**(724)**	(818)	**(720)**	(571)
Amount reclassified from the cash flow hedge reserve to income statement	**887**	640	**714**	458

IBOR reform

Phase 1

The Group early adopted AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, effective 1 October 2019. This standard amends AASB 7 *Financial Instruments: Disclosures* and AASB 9 *Financial Instruments* to modify some specific hedge accounting requirements to provide relief from the potential effects of uncertainty caused by interest rate benchmark reform.

Key exposures

The Group's hedge accounting relationships are exposed to the following significant interest rate benchmarks subject to cessation: USD Libor, GBP Libor and JPY Libor. These hedging relationships are primarily within the Group's Corporate and Institutional Banking division and Treasury function. In addition to interest rate risk, the Group is also exposed to foreign exchange risk and potentially in the future, additional basis risk as market conventions develop and evolve.

Further information on significant interest rate benchmarks, the extent of risk exposure managed by the Group that is affected by interest rate benchmark reform and the nominal amount of the hedging instruments in those hedging relationships is outlined below.

Significant assumptions and judgements

The Group has made the following significant assumptions and judgements in applying AASB 2019-3:

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

- The Group has applied the assumptions afforded by AASB 2019-3 paras 6.8.1-6.8.8 where applicable.
- Disclosure in the table below is only shown for hedged items and hedging instruments referencing interest rate benchmarks subject to cessation and where their contractual terms need to be updated as a result of cessation.
- Where a single hedging instrument references more than one benchmark rate and both benchmarks are subject to cessation (for example, in the case of a cross currency swap), the notional amount has been disclosed in the table below twice to reflect the absolute notional exposure to benchmark reform. Likewise, if only one benchmark rate is subject to cessation, the notional is only disclosed once in the table below. Since hedging instruments might be in asset or liability positions, the table below discloses the absolute (gross) notional rather than net notionals.
- Disclosure in the table below in relation to hedged items includes externally issued standalone instruments where their contractual cash flows are directly impacted by IBOR reform. Not included in the table below are:
  - Hedged item assets amounting to $1.4 billion at 30 September 2021 and $2.4 billion at 30 September 2020 (for Group and Company), and
  - Hedged item liabilities amounting to $38.4 billion (for Group) and $29.8 billion (for Company) at 30 September 2021 and $42.2 billion (for Group) and $33.8 billion (for Company) at 30 September 2020,

whose contractual cash flows are not directly impacted by IBOR reform, are designated in accounting hedge relationships using hedging instruments affected by IBOR reform.

Extent of the hedge accounted exposure directly affected by interest rate benchmark reform

	Group 2021			Group 2020		
	USD Libor $m	GBP Libor $m	JPY Libor $m	USD Libor $m	GBP Libor $m	JPY Libor $m
Hedged items (carrying value)						
Bonds, notes and subordinated debt	**4,580**	**-**	**-**	7,215	361	-
Hedging instruments (notional)						
Fair value hedges	**50,273**	**4,384**	**4,153**	47,750	3,159	4,606
Cash flow hedges	**167,399**	**4,384**	**4,153**	160,592	3,520	4,606

	Company 2021			Company 2020		
	USD Libor $m	GBP Libor $m	JPY Libor $m	USD Libor $m	GBP Libor $m	JPY Libor $m
Hedged items (carrying value)						
Bonds, notes and subordinated debt	**4,580**	**-**	**-**	7,215	361	-
Hedging instruments (notional)						
Fair value hedges	**50,273**	**4,384**	**4,153**	34,113	542	4,606
Cash flow hedges	**160,909**	**4,384**	**4,153**	152,264	2,708	4,606

Phase 2

The Group has early adopted AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2,* effective 1 October 2020. This standard amends AASB 7 and AASB 9 to address various accounting issues arising from the cessation of some Inter-bank Offered Rates and the transition to ARRs. The standard also provides relief from some accounting requirements, including hedge accounting and the modification of financial assets and liabilities, to facilitate the transition to ARRs.

Managing the process to transition

The Group has an established project team which continues to comprehensively assess and manage the impacts of IBOR reform, including overseeing the transition from the impacted interest rate benchmarks to ARRs across various divisions and functions within the Group. A steering committee comprising senior executives from relevant divisions and functions is responsible for governance ensuring clear accountability for decisions made.

The scope of the project team includes:

- Assessing the impact of IBOR reform on systems and processes within the Group and implementing changes to position the Group post IBOR cessation.

NOTE 18 DERIVATIVES AND HEDGE ACCOUNTING (CONTINUED)

- Assessing the impact of IBOR reform on legal agreements the Group has executed, developing plans to support transition and future regulatory changes.
- Periodically updating the Group's Executive Leadership Team and the Board on progress within the Group, market developments and important transition events.

In March 2021, the Financial Conduct Authority (FCA) and ICE Benchmark Administrator announced the cessation dates for all 35 LIBOR tenors. They confirmed the:

- Discontinuation of all USD LIBOR and GBP, JPY, EUR, CHF LIBOR tenors (1 week, 2-month tenors only), with the last publication date being 31 December 2021.
- Remaining USD LIBOR tenors (overnight, 1, 3, 6 and 12 month) will continue, with last publication on 30 June 2023.

The Group continues to take active steps to meet jurisdictional regulatory guidance and national working group timelines to cease referencing LIBOR in new transactions and actively transition legacy contracts to ARRs prior to the respective LIBOR cessation dates.

Risk arising from transition

The Group has been working on and implementing a set of mitigants to eliminate or manage risks arising from transition to ensure a low probability of occurrence and impact to the Group and its customers. IBOR reform, including the transition from LIBOR to ARRs, has not resulted in changes to the Group's Risk Management Strategy for hedge accounting as at 30 September 2021.

Financial instruments yet to transition to an alternative benchmark rate

	Group (1)				Company			
	2021				2021			
	USD Libor $m	GBP Libor $m	JPY Libor $m	Others $m	USD Libor $m	GBP Libor $m	JPY Libor $m	Others $m
Non-derivative financial assets	11,099	4,129	75	6	11,099	4,129	75	6
Non-derivative financial liabilities	(5)	-	-	-	(5)	-	-	-
Derivatives	1,846	154	5	82	1,753	154	(1)	82

(1) All amounts represent the AUD carrying value.

Significant assumptions and judgements made in compiling the above disclosure table:

- The disclosure only includes financial instrument contracts where contractual cash flows reference an IBOR subject to cessation (for example, this does not include AUD BBSW, NZD BKBM etc.). The disclosure also excludes fixed rate financial instruments with no variability in contractual cash flows.
- The population disclosed includes financial instrument contracts where fallback language is updated and awaiting benchmark cessation before transition to ARRs occurs.
- A cross currency swap referencing two benchmarks subject to cessation (for example, USD/GBP) has its AUD equivalent carrying value disclosed twice (for example, in both the USD and GBP column).
- A cross currency swap referencing only one benchmark subject to cessation (for example, USD/AUD) has its AUD equivalent carrying value disclosed once (for example, in the USD column).
- Financial instruments that mature before cessation date are excluded from the above disclosure.

NOTE 19
FINANCIAL RISK MANAGEMENT

Overview of risk management framework

Risk is the potential for harm and an inherent part of the Group's business. The Group's ability to manage risk effectively is critical to being a safe and secure bank that can serve customers well and help our communities prosper. The Group's risk management is in line with APRA Prudential Standard CPS 220 *Risk Management*.

The Group's Risk Management Framework consists of systems, structures, policies, processes and people within the Group that manage the Group's material risks. The Risk Management Framework is comprehensively reviewed every three years for appropriateness, effectiveness and adequacy by an operationally independent party. The Board is ultimately responsible for the Risk Management Framework and oversees its operation by management. In addition, directors and senior executives are held accountable for the parts of the Group's operations they manage or control, consistent with the BEAR.

The Group applies a 'Three Lines of Accountability' operating model in relation to the management of risk. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line is:

- First Line - Businesses own risks and obligations, and the controls and mitigation strategies that help manage them.
- Second Line - A functionally segregated Risk function develops risk management frameworks, defines risk boundaries, provides objective review and challenge regarding the effectiveness of risk management within the first line businesses, and executes specific risk management activities where a functional segregation of duties and / or specific risk capability is required.
- Third Line - An independent Internal Audit function reporting to the Board monitors the end-to-end effectiveness of risk management and compliance with the Risk Management Framework.

Further risk management information for the Group is disclosed in the *Corporate Governance* section of the Group's website at www.nab.com.au/about-us/corporate-governance.

Credit risk

Credit risk overview, management and control responsibilities

Credit is any transaction that creates an actual or potential obligation for a counterparty or a customer to pay the Group. Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Bank lending activities account for most of the Group's credit risk, however other sources of credit risk also exist throughout the activities of the Group. These activities include the banking book, the trading book, and other financial instruments and loans (including, but not limited to, acceptances, placements, inter-bank transactions, trade financing, foreign exchange transactions, swaps, bonds and options), as well as in the extension of commitments and guarantees and the settlement of transactions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to annual or more frequent review.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and principal repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part, by obtaining collateral and corporate and personal guarantees.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if any counterparty failed to meet its obligations in accordance with agreed terms, all amounts with a counterparty are terminated and settled on a net basis.

Environmental, social and governance (ESG) risks

The Group is exposed to ESG and other emerging risks. The following items are examples of how these risks may impact the Group:

- Increases in the frequency and severity of climatic events could impact customers' ability to service their loans or the value of the collateral held to secure the loans.
- Action taken by governments, regulators and society more generally, to transition to a low-carbon economy, could impact the ability of some customers to generate long-term returns in a sustainable way or lead to certain assets being stranded in the future.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

- Failure to comply with environmental and social legislation (emerging and current) may impact customers' ability to generate sustainable returns and service their loans.
- If in future, customers don't hold appropriate levels of insurance for physical assets against certain risks, this may impact the value the Group can recover in the event of certain natural disasters.

The Group considers these risks as part of the credit risk assessment and due diligence process before a customer is granted credit and for new product development. The Group also manages its total credit portfolio within established risk appetite and limits, particularly for specific industries or regions that are more exposed to these types of risks. As at 30 September 2021, the Group holds no forward looking adjustments (FLAs) in its credit impairment provisions reflecting the potential impact of Australian drought conditions (2020: $89 million).

Maximum exposure to credit risk

For financial assets recognised on the balance sheet, the maximum exposure to credit risk is the carrying amount. In certain circumstances, there may be differences between the carrying amounts reported on the balance sheet and the amounts reported in the tables below. Principally, these differences arise in respect of financial assets that are subject to risks other than credit risk, such as equity instruments which are primarily subject to market risk, or bank notes and coins.

For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees are called upon. For irrevocable loan commitments and other credit-related commitments, the maximum exposure to credit risk is the full amount of committed facilities.

The table below shows the Group's maximum exposure to credit risk for on-balance sheet and off-balance sheet positions before taking into account any collateral held or other credit enhancements.

		Group		Company	
		2021	2020	2021	2020
	Footnote	$m	$m	$m	$m
Financial assets					
Cash and liquid assets	(a)	**49,738**	63,022	**49,397**	62,358
Due from other banks[1]	(b)	**107,546**	47,333	**98,207**	44,185
Collateral placed [1]	(c)	**6,430**	8,579	**5,919**	7,413
Trading securities[1]	(d)	**50,020**	64,937	**42,916**	54,924
Debt instruments	(e)	**41,878**	40,355	**41,849**	40,324
Other financial assets	(f)	**2,794**	3,860	**3,305**	3,885
Derivative assets[1]	(d)	**27,474**	34,744	**26,811**	34,214
Gross loans and advances[1]	(f)	**626,500**	590,192	**534,226**	508,280
Due from controlled entities[1]	(g)	**-**	-	**38,599**	41,847
Other assets[1]	(g)	**6,261**	5,724	**5,519**	5,045
Total		**918,641**	858,746	**846,748**	802,475
Contingent liabilities	(h)	**21,409**	20,626	**20,633**	19,707
Credit-related commitments	(h)	**185,369**	173,656	**163,196**	153,090
Total		**206,778**	194,282	**183,829**	172,797
Total credit risk exposure		**1,125,419**	1,053,028	**1,030,577**	975,272

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

(a) The balance of **Cash and liquid assets** that is exposed to credit risk is comprised primarily of reverse repurchase agreements and securities borrowing agreements.

(b) The balance of **Due from other banks** that is exposed to credit risk is comprised primarily of securities borrowing agreements and reverse repurchase agreements, as well as balances held with central supervisory banks and other interest earning assets. Securities borrowing agreements and reverse repurchase agreements are collateralised with highly liquid securities and the collateral is in excess of the borrowed or loaned amount.
Balances held with central supervisory banks and other interest earning assets that are due from other banks are managed based on the counterparty's creditworthiness. The Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

(c) The maximum exposure to credit risk from **Collateral placed** is the collateral placed with the counterparty before consideration of any netting arrangements.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) At any one time, the maximum exposure to credit risk from **Trading securities** and **Derivative assets** is limited to the current fair value of instruments that are favourable to the Group less collateral obtained. This credit risk is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

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

Credit risk from over-the-counter trading and hedging derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over-the-counter derivatives and are subject to relevant netting and collateral agreements.

Collateral is obtained against derivative assets, depending on the creditworthiness of the counterparty and / or the nature of the transaction.

(e) **Debt instruments** are generally comprised of government, semi-government, corporate and financial institution bonds, notes and securities. The amount of collateral held against such instruments will depend on the counterparty and the nature of the specific financial instrument.

The Group may utilise credit default swaps, guarantees provided by central banks, other forms of credit enhancements or collateral to minimise the Group's exposure to credit risk.

(f) **Gross loans and advances and Other financial assets** mainly comprise general lending and line of credit products. The distinction of classification is due to an accounting designation. These lending products will generally have a significant level of collateralisation depending on the nature of the product.

Other lending to non-retail customers may be provided on an unsecured basis or secured (partially or fully) by acceptable collateral defined in specific Group credit policy and business unit procedures. Collateral is generally comprised of business assets, inventories and in some cases personal assets of the borrower. The Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment for funds advanced in the event that a customer cannot meet their contractual repayment obligations. For amounts due from customers on acceptances the Group generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

Housing loans are secured against residential property as collateral and, where applicable, Lenders Mortgage Insurance (LMI) is obtained by the Group (mostly in Australia) to cover any shortfall in outstanding loan principal and accrued interest. LMI is generally obtained for residential mortgages with a Loan to Valuation Ratio (LVR) in excess of 80%. The financial effect of these measures is that remaining credit risk on residential mortgage loans is minimal. Other retail lending products are mostly unsecured (e.g. credit card outstandings and other personal lending).

(g) The balance of **Other assets** which is exposed to credit risk includes securities sold not delivered, interest receivable accruals and other receivables. Interest receivable accruals are subject to the same collateral as the underlying borrowings. Other receivables will mostly be unsecured. There are typically no collateral or other credit enhancements obtained in respect of amounts **Due from controlled entities**.

(h) **Contingent liabilities and credit-related commitments** are comprised mainly of guarantees to customers, standby or documentary letters of credit, performance related contingencies and binding credit commitments. The Group will typically have recourse to specific assets pledged as collateral in the event of a default by a party for which the Group has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss of an amount equal to the total unused commitments. However, the likely amount of loss is generally less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because, in general, longer term commitments have a greater degree of credit risk than shorter term commitments.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Offsetting financial assets and liabilities

The tables below present the amounts of financial instruments that have been offset on the balance sheet, as well as those amounts that are subject to enforceable master netting arrangements or similar agreements. The tables exclude financial instruments that are not subject to offsetting arrangements but are instead only subject to collateral arrangements.

The 'Net amounts' presented in the tables are not intended to represent the Group's actual exposure to credit risk. The Group utilises a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements, including placing limits on the amount of risk accepted in relation to counterparties, customers, groups of related counterparties or customers and geographical and industry segments.

The amounts recognised on the balance sheet are presented in the 'Total balance sheet amount' column in the tables below, and comprise the sum of the 'Net amount reported on balance sheet' and 'Amounts not subject to enforceable netting arrangements'.

	2021 Subject to enforceable netting arrangements								
	Amounts offset on balance sheet			Amounts not offset on balance sheet					
	Gross amount	Amount offset	Net amount reported on balance sheet	Financial Instruments	Non-cash collateral	Cash collateral	Net Amount	Amounts not subject to enforceable netting arrangements	Total balance sheet amount
Group	$m	$m	$m	$m	$m	$m	$m	$m	$m
Derivative assets[1]	75,219	(52,723)	22,496	(11,115)	(245)	(4,531)	6,605	4,978	27,474
Reverse repurchase agreements	72,172	(9,865)	62,307	-	(62,307)	-	-	-	62,307
Loans and advances	1,106	(1,035)	71	-	-	-	71	628,985	629,056
Total assets	148,497	(63,623)	84,874	(11,115)	(62,552)	(4,531)	6,676	633,963	718,837
Derivative liabilities[1]	(73,803)	52,723	(21,080)	11,115	179	5,928	(3,858)	(2,951)	(24,031)
Repurchase agreements	(98,801)	9,865	(88,936)	-	88,936	-	-	-	(88,936)
Deposits and other borrowings	(4,562)	1,035	(3,527)	-	-	-	(3,527)	(608,068)	(611,595)
Total liabilities	(177,166)	63,623	(113,543)	11,115	89,115	5,928	(7,385)	(611,019)	(724,562)
Company									
Derivative assets[1]	69,026	(46,823)	22,203	(8,406)	(245)	(4,116)	9,436	4,608	26,811
Reverse repurchase agreements	71,603	(9,865)	61,738	-	(61,738)	-	-	-	61,738
Loans and advances	491	(454)	37	-	-	-	37	535,867	535,904
Total assets	141,120	(57,142)	83,978	(8,406)	(61,983)	(4,116)	9,473	540,475	624,453
Derivative liabilities[1]	(70,236)	46,823	(23,413)	8,406	179	5,789	(9,039)	(2,765)	(26,178)
Repurchase agreements	(95,737)	9,865	(85,872)	-	85,872	-	-	-	(85,872)
Deposits and other borrowings	(3,341)	454	(2,887)	-	-	-	(2,887)	(532,664)	(535,551)
Total liabilities	(169,314)	57,142	(112,172)	8,406	86,051	5,789	(11,926)	(535,429)	(647,601)

(1) At 30 September 2021, the amount offset for derivative assets includes $1,340 million (Company: $1,005 million) of cash collateral netting and the amount offset for derivative liabilities includes $2,082 million (Company: $1,852 million) of cash collateral netting.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2020								
	Subject to enforceable netting arrangements								
	Amounts offset on balance sheet			Amounts not offset on balance sheet					
Group	Gross amount $m	Amount offset $m	Net amount reported on balance sheet $m	Financial Instruments $m	Non-cash collateral $m	Cash collateral $m	Net Amount $m	Amounts not subject to enforceable netting arrangements $m	Total balance sheet amount $m
Derivative assets[1]	111,672	(83,311)	28,361	(12,372)	(459)	(5,169)	10,361	6,383	34,744
Reverse repurchase agreements	98,058	(13,731)	84,327	-	(84,327)	-	-	-	84,327
Loans and advances[2]	1,152	(1,082)	70	-	-	-	70	593,982	594,052
Total assets	210,882	(98,124)	112,758	(12,372)	(84,786)	(5,169)	10,431	600,365	713,123
Derivative liabilities[1]	(111,868)	83,311	(28,557)	12,372	909	8,126	(7,150)	(3,719)	(32,276)
Repurchase agreements	(70,647)	13,731	(56,916)	-	56,916	-	-	-	(56,916)
Deposits and other borrowings[2]	(4,338)	1,082	(3,256)	-	-	-	(3,256)	(547,427)	(550,683)
Total liabilities	(186,853)	98,124	(88,729)	12,372	57,825	8,126	(10,406)	(551,146)	(639,875)
Company									
Derivative assets[1]	100,267	(71,796)	28,471	(14,318)	(459)	(4,722)	8,972	5,743	34,214
Reverse repurchase agreements	97,134	(13,731)	83,403	-	(83,403)	-	-	-	83,403
Loans and advances[2]	594	(562)	32	-	-	-	32	510,800	510,832
Total assets	197,995	(86,089)	111,906	(14,318)	(83,862)	(4,722)	9,004	516,543	628,449
Derivative liabilities[1]	(103,475)	71,796	(31,679)	14,318	909	7,411	(9,041)	(3,492)	(35,171)
Repurchase agreements	(69,992)	13,731	(56,261)	-	56,261	-	-	-	(56,261)
Deposits and other borrowings[2]	(3,218)	562	(2,656)	-	-	-	(2,656)	(481,682)	(484,338)
Total liabilities	(176,685)	86,089	(90,596)	14,318	57,170	7,411	(11,697)	(485,174)	(575,770)

(1) At 30 September 2020, the amount offset for derivative assets includes $3,382 million (Company: $2,580 million) of cash collateral netting and the amount offset for derivative liabilities includes $5,436 million (Company: $4,985 million) of cash collateral netting.
(2) Comparative information has been restated to align to the disclosure in the current period.

Derivative assets and derivative liabilities

Derivative amounts are only offset on the balance sheet where the Group has a legally enforceable right to offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The Group has applied offsetting to certain centrally cleared derivatives and their associated collateral amounts which were deemed to satisfy the AASB 132 *Financial Instruments: Presentation* requirements.

Reverse repurchase and repurchase agreements

Reverse repurchase and repurchase agreements will typically be subject to Global Master Repurchase Agreements or similar agreements whereby all outstanding transactions with the same counterparty can only be offset and closed out upon a default or insolvency event. In some instances, the agreement provides the Group with a legally enforceable right to offset in all circumstances. In such a case and where there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously, the amounts with that counterparty are offset on the balance sheet.

Where the Group has a right to offset on default or insolvency only, the related non-cash collateral amounts comprise highly liquid securities, either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore the net exposure is considered to be nil.

Loans and advances, deposits and other borrowings

The amounts offset for loans and advances and deposits and other borrowings represent amounts subject to set-off agreements that satisfy the AASB 132 requirements. The 'Net amounts reported on balance sheet' are included within 'Overdrafts' in *Note 12 Loans and Advances* and 'On-demand and short-term deposits' and 'Deposits not bearing interest' in *Note 13 Deposits and other borrowings*. The 'Amounts not subject to enforceable netting arrangements' represent all other loans and advances and deposits and other borrowings of the Group, including those measured at fair value.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk exposure by risk grade

The following tables show the credit quality of gross credit risk exposures to which the expected credit loss model is applied, for both recognised and unrecognised financial assets, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5).
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11).
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23).
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 and 99).

Notional stage allocations (Stage 1, Stage 2 and Stage 3) for gross credit risk exposures incorporate the impact of forward looking stress applied in the expected credit loss model. Refer Accounting Policy section of *Note 17 Provision for credit impairment on loans at amortised cost* for further information.

	Stage 1		Stage 2		Stage 3		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Group	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
On balance sheet assets								
Gross loans and advances[(1)]								
Senior investment grade	**99,145**	116,598	**14,675**	2,692	**-**	-	**113,820**	119,290
Investment grade	**242,260**	220,507	**35,567**	27,769	**-**	-	**277,827**	248,276
Sub-investment grade	**93,082**	88,053	**132,179**	124,460	**-**	-	**225,261**	212,513
Default	**-**	-	**2,101**	1,948	**7,491**	8,165	**9,592**	10,113
Total gross loans and advances	**434,487**	425,158	**184,522**	156,869	**7,491**	8,165	**626,500**	590,192
Debt instruments								
Senior investment grade	**41,615**	40,344	**-**	-	**-**	-	**41,615**	40,344
Investment grade	**263**	11	**-**	-	**-**	-	**263**	11
Sub-investment grade	**-**	-	**-**	-	**-**	-	**-**	-
Default	**-**	-	**-**	-	**-**	-	**-**	-
Total debt instruments	**41,878**	40,355	**-**	-	**-**	-	**41,878**	40,355
Total on balance sheet assets	**476,365**	465,513	**184,522**	156,869	**7,491**	8,165	**668,378**	630,547
Off balance sheet commitments								
Senior investment grade	**66,797**	71,894	**15,872**	5,007	**-**	-	**82,669**	76,901
Investment grade	**57,722**	55,675	**18,770**	16,991	**-**	-	**76,492**	72,666
Sub-investment grade	**17,478**	16,583	**29,474**	27,433	**-**	-	**46,952**	44,016
Default	**-**	-	**248**	211	**417**	488	**665**	699
Total off balance sheet commitments	**141,997**	144,152	**64,364**	49,642	**417**	488	**206,778**	194,282

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Stage 1		Stage 2		Stage 3		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Company	$m	$m	$m	$m	$m	$m	$m	$m
On balance sheet assets								
Gross loans and advances[1]								
Senior investment grade	**71,933**	91,170	**13,626**	2,671	**-**	-	**85,559**	93,841
Investment grade	**217,280**	196,163	**29,640**	26,941	**-**	-	**246,920**	223,104
Sub-investment grade	**78,255**	65,802	**114,597**	116,434	**-**	-	**192,852**	182,236
Default	**-**	-	**2,096**	1,943	**6,799**	7,156	**8,895**	9,099
Total gross loans and advances	**367,468**	353,135	**159,959**	147,989	**6,799**	7,156	**534,226**	508,280
Debt instruments								
Senior investment grade	**41,586**	40,313	**-**	-	**-**	-	**41,586**	40,313
Investment grade	**263**	11	**-**	-	**-**	-	**263**	11
Sub-investment grade	**-**	-	**-**	-	**-**	-	**-**	-
Default	**-**	-	**-**	-	**-**	-	**-**	-
Total debt instruments	**41,849**	40,324	**-**	-	**-**	-	**41,849**	40,324
Total on balance sheet assets	**409,317**	393,459	**159,959**	147,989	**6,799**	7,156	**576,075**	548,604
Off balance sheet commitments								
Senior investment grade	**61,763**	66,599	**15,202**	5,007	**-**	-	**76,965**	71,606
Investment grade	**51,853**	47,925	**15,520**	16,540	**-**	-	**67,373**	64,465
Sub-investment grade	**14,176**	10,311	**24,688**	25,833	**-**	-	**38,864**	36,144
Default	**-**	-	**247**	210	**380**	372	**627**	582
Total off balance sheet commitments	**127,792**	124,835	**55,657**	47,590	**380**	372	**183,829**	172,797

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

Concentration of exposure

Concentration of credit risk exists when a number of counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions.

The diversification and size of the Group is such that its lending is widely spread both geographically and in terms of the types of industries it serves.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Industry concentration of financial assets

	Net loans and advances(1)		Other financial assets(2)		Contingent liabilities and credit-related commitments		Total	
	2021 $m	2020 $m(3)	2021 $m	2020 $m(3)	2021 $m	2020 $m	2021 $m	2020 $m
Group								
Accommodation and hospitality	**8,038**	7,831	**-**	-	**1,359**	1,304	**9,397**	9,135
Agriculture, forestry, fishing & mining	**47,576**	43,348	**-**	-	**12,253**	11,271	**59,829**	54,619
Business services and property services(4)	**17,298**	17,262	**-**	-	**7,149**	6,710	**24,447**	23,972
Commercial property(4)	**62,918**	59,303	**-**	-	**13,163**	12,588	**76,081**	71,891
Construction(4)	**7,013**	6,971	**-**	-	**6,217**	5,644	**13,230**	12,615
Financial & insurance	**39,828**	31,830	**121,260**	62,540	**45,998**	44,283	**207,086**	138,653
Government & public authorities	**2,347**	2,067	**27,773**	26,427	**2,413**	1,566	**32,533**	30,060
Manufacturing	**11,344**	11,052	**-**	-	**7,679**	7,731	**19,023**	18,783
Personal	**6,873**	7,102	**-**	-	**14,590**	14,977	**21,463**	22,079
Residential mortgages	**358,736**	340,504	**6,719**	6,923	**62,187**	55,717	**427,642**	403,144
Retail and wholesale trade	**18,426**	17,266	**-**	-	**11,864**	11,794	**30,290**	29,060
Transport and storage	**16,162**	16,676	**-**	-	**6,762**	6,801	**22,924**	23,477
Utilities	**9,193**	8,990	**98**	372	**4,709**	4,654	**14,000**	14,016
Other(4)	**18,133**	17,839	**4**	5	**10,435**	9,242	**28,572**	27,086
Total	**623,885**	588,041	**155,854**	96,267	**206,778**	194,282	**986,517**	878,590
Company								
Accommodation and hospitality	**6,921**	6,705	**-**	-	**1,162**	1,132	**8,083**	7,837
Agriculture, forestry, fishing & mining	**33,392**	29,199	**-**	-	**10,027**	9,158	**43,419**	38,357
Business services and property services(4)	**15,788**	15,909	**-**	-	**6,379**	6,069	**22,167**	21,978
Commercial property(4)	**55,097**	51,743	**-**	-	**11,052**	10,600	**66,149**	62,343
Construction(4)	**5,974**	6,028	**-**	-	**5,238**	4,722	**11,212**	10,750
Financial & insurance	**37,375**	29,777	**111,439**	58,226	**44,678**	42,892	**193,492**	130,895
Government & public authorities	**2,292**	1,898	**27,742**	26,426	**1,689**	905	**31,723**	29,229
Manufacturing	**8,320**	8,205	**-**	-	**5,718**	5,629	**14,038**	13,834
Personal	**6,085**	6,175	**-**	-	**12,041**	12,415	**18,126**	18,590
Residential mortgages	**306,878**	297,022	**6,692**	6,893	**57,860**	52,028	**371,430**	355,943
Retail and wholesale trade	**15,090**	14,396	**-**	-	**9,867**	9,921	**24,957**	24,317
Transport and storage	**14,043**	14,744	**-**	-	**5,692**	5,671	**19,735**	20,415
Utilities	**8,289**	8,013	**98**	372	**4,021**	4,019	**12,408**	12,404
Other(4)	**15,953**	15,839	**4**	5	**8,405**	7,636	**24,362**	23,480
Total	**531,497**	505,653	**145,975**	91,922	**183,829**	172,797	**861,301**	770,372

(1) Net loans and advances includes loans at fair value.
(2) Other financial assets represents amounts due from other banks, debt instruments and collateral placed.
(3) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(4) Comparative information has been restated to reflect a revised classification of amounts within 'Net loans and advances'.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Geographic concentration of financial assets

	Australia		New Zealand		Other International	
	2021	2020	2021	2020	2021	2020
	$m	$m	$m	$m	$m	$m
Group						
Cash and liquid assets	**4,319**	20,320	**173**	505	**45,246**	42,197
Due from other banks[1]	**83,982**	19,934	**9,235**	3,090	**14,329**	24,309
Collateral placed[1]	**5,789**	7,410	**511**	1,166	**130**	3
Trading securities[1]	**42,984**	54,577	**7,014**	10,013	**22**	347
Debt instruments	**31,833**	30,466	**-**	-	**10,045**	9,889
Other financial assets	**1,916**	2,552	**878**	1,308	**-**	-
Derivative assets[1]	**17,390**	22,080	**2,567**	3,559	**7,517**	9,105
Loans and advances[1]	**509,809**	487,170	**89,585**	79,767	**21,762**	17,025
Other assets[1]	**5,817**	5,069	**1,030**	809	**993**	1,184
Total	**703,839**	649,578	**110,993**	100,217	**100,044**	104,059
Company						
Cash and liquid assets	**4,192**	20,223	**-**	-	**45,205**	42,135
Due from other banks[1]	**83,957**	19,925	**-**	-	**14,250**	24,260
Collateral placed[1]	**5,789**	7,410	**-**	-	**130**	3
Trading securities[1]	**42,894**	54,577	**-**	-	**22**	347
Debt instruments	**31,832**	30,466	**-**	-	**10,017**	9,858
Other financial assets	**1,915**	2,552	**-**	-	**1,390**	1,333
Derivative assets[1]	**19,204**	25,047	**-**	-	**7,607**	9,167
Loans and advances[1]	**508,189**	486,192	**-**	-	**21,357**	16,627
Other assets [1]	**5,812**	4,991	**-**	-	**983**	1,154
Total	**703,784**	651,383	**-**	-	**100,961**	104,884

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

Market risk

Market risk overview and management

Market risk primarily stems from the Group's trading and balance sheet management activities, the impact of changes and correlation between interest rates, foreign exchange rates, credit spreads and volatility in bond, commodity or equity prices.

Market risk is represented by the below two categories:

Traded Market Risk

Traded Market Risk is the potential for gains or losses to arise from trading activities undertaken by the Group as a result of movements in market prices. The trading activities of the Group are principally carried out by Corporate and Institutional Banking.

Trading activities represent dealings that encompass both active management of market risk and supporting client sales businesses. The types of market risk arising from these activities include interest rate, foreign exchange, commodity, equity price, credit spread and volatility risk.

Non-Traded Market Risk

The Group has exposure to non-traded market risk, primarily Interest Rate Risk in the Banking Book (IRRBB). IRRBB is the risk that the Group's earnings or economic value will be affected or reduced by changes in interest rates. The sources of IRRBB are as follows:

- Repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- Yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- Basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- Optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risks.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Measurement of market risk

The Group primarily manages and controls market risk using Value at Risk (VaR), which is a standard measure used throughout the industry. VaR gauges the Group's possible loss for the holding period based on historical market movements. VaR is measured at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate during the holding period.

The Group employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to management, the Board Risk & Compliance Committee and ultimately the Board. These supplementary measures include stress testing, loss, position and sensitivity limits.

Traded market risk

The VaR methodology involves multiple revaluations of the trading books using 550 days of historical pricing shifts. The pricing data is rolled daily.

The use of VaR methodology has limitations, which include:

- The historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests.
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe.
- VaR is calculated on positions at the close of each trading day, and does not measure risk on intra-day positions.
- VaR does not describe the directional bias or size of the positions generating the risk.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Traded market risk

The table below shows the Group and Company VaR for the trading portfolio, including both physical and derivative positions:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Value at Risk at a 99% confidence level																
Foreign exchange risk	**2.8**	0.8	**4.6**	2.3	**0.9**	0.5	**9.3**	5.6	**2.6**	0.9	**4.1**	2.2	**0.8**	0.5	**8.4**	6.1
Interest rate risk	**8.6**	10.1	**13.6**	10.8	**7.8**	5.6	**27.3**	25.0	**7.8**	7.8	**12.0**	9.3	**6.6**	5.1	**23.4**	21.3
Volatility risk	**3.0**	4.7	**3.2**	4.2	**1.9**	2.8	**4.7**	6.2	**2.9**	4.7	**3.1**	4.2	**1.9**	2.8	**4.7**	6.2
Commodities risk	**1.1**	1.1	**1.3**	0.7	**0.5**	0.3	**3.3**	1.7	**1.1**	1.1	**1.3**	0.7	**0.5**	0.3	**3.3**	1.7
Credit risk	**2.2**	2.1	**2.6**	1.8	**1.7**	0.9	**3.9**	4.4	**1.8**	1.9	**2.2**	1.5	**1.2**	0.7	**3.6**	3.9
Inflation risk	**2.3**	1.7	**2.3**	1.9	**1.1**	1.1	**3.2**	3.3	**2.1**	1.7	**2.0**	1.7	**1.0**	0.9	**3.1**	3.1
Diversification benefit	**(8.8)**	(9.2)	**(11.9)**	(9.1)	**n/a**	n/a	**n/a**	n/a	**(10.1)**	(8.8)	**(10.8)**	(8.6)	**n/a**	n/a	**n/a**	n/a
Total Diversified VaR at 99% confidence interval	**11.2**	11.3	**15.7**	12.6	**9.1**	7.5	**29.5**	24.2	**8.2**	9.3	**13.9**	11.0	**8.1**	6.7	**26.4**	23.6
Other market risks	**9.3**	10.0	**8.5**	4.9	**5.7**	2.3	**11.7**	10.0	**9.3**	10.0	**8.5**	4.9	**5.7**	2.3	**11.7**	10.0
Total	**20.5**	21.3	**24.2**	17.5	**14.8**	9.8	**41.2**	34.2	**17.5**	19.3	**22.4**	15.9	**13.8**	9.0	**38.1**	33.6

Non-traded market risk - Balance sheet risk management

The principal objective of balance sheet risk management is to maintain acceptable levels of interest rate and liquidity risk to mitigate the negative impact of movements in interest rates on the earnings and market value of the Group's banking book, while ensuring the Group maintains sufficient liquidity to meet its obligations as they fall due.

Non-traded market risk – Interest rate risk management

IRRBB is measured, monitored, and managed from both an internal management and regulatory perspective. The Risk Management Framework incorporates both market valuation and earnings based approaches in accordance with the IRRBB Policy and Prudential Practice Guides. Risk measurement techniques include VaR, Earnings at Risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis and scenario analysis. The IRRBB regulatory capital calculation incorporates repricing, yield curve, basis, and optionality risk, embedded gains / losses and any inter-risk and / or inter-currency diversification. The Group has been accredited by APRA to use its internal model for the measurement of IRRBB.

Key features of the internal interest rate risk management model include:

- historical simulation approach utilising instantaneous interest rate shocks
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing)
- VaR and EaR are measured on a consistent basis
- 99% confidence level
- three month holding period
- EaR utilises a 12 month forecast period

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

- at least six years of business day historical data (updated daily)
- investment term for capital is modelled with an established benchmark term of between one and five years
- investment term for core non-interest bearing assets and liabilities is modelled on a behavioural basis with a term that is consistent with sound statistical analysis.

The following table shows the Group and the Company aggregate VaR and EaR for the IRRBB:

	Group								Company							
	As at 30 September		Average value		Minimum value		Maximum value		As at 30 September		Average value		Minimum value		Maximum value	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Value at Risk																
Australia	**347.3**	366.6	**346.3**	317.4	**324.0**	255.9	**361.6**	391.3	**347.3**	366.6	**346.3**	317.4	**324.0**	255.9	**361.6**	391.3
New Zealand	**35.3**	48.5	**42.3**	31.1	**23.6**	21.9	**62.2**	48.5	**-**	-	**-**	-	**-**	-	**-**	-
Other International	**38.7**	24.5	**28.8**	21.5	**22.0**	12.0	**38.7**	33.1	**38.7**	24.5	**28.8**	21.5	**22.0**	12.0	**38.7**	33.1
Earnings at Risk[(1)]																
Australia	**12.7**	24.2	**20.6**	39.7	**11.3**	18.0	**30.8**	67.6	**12.7**	24.2	**20.6**	39.7	**11.3**	18.0	**30.8**	67.6
New Zealand	**11.7**	12.7	**15.2**	8.8	**7.4**	4.2	**23.4**	12.7	**-**	-	**-**	-	**-**	-	**-**	-

(1) EaR amounts calculated under the IRRBB model include Australian banking and other overseas banking subsidiary books, however excludes offshore branches.

Residual value risk

As part of its normal lending activities, the Group takes residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. This exposes the Group to a potential fall in prices of these assets below the outstanding residual exposure at the facility expiry.

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding mix

Liquidity risk

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 and the payment of interest on borrowings.

These risks are governed by the Group's funding and liquidity risk appetite which is set by the Board. Group Treasury is responsible for the management of these risks. Objective review and challenge of the effectiveness of risk management is provided by Group Balance Sheet and Liquidity Risk Management with oversight by the Group Asset and Liability Committee. The Board has the ultimate responsibility to monitor and review the adequacy of the Group's funding and liquidity risk management framework and the Group's compliance with risk appetite.

Key principles adopted in the Group's approach to managing liquidity risk include:

- Monitoring the Group's liquidity position on a daily basis, using a combination of contractual and behavioural modelling of balance sheet and cash flow information.
- Maintaining a HQLA portfolio which supports intra-day operations and may be sold in times of market stress.
- Operating a prudent funding strategy which ensures appropriate diversification and limits maturity concentrations. The Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.
- Maintaining a contingent funding plan designed to respond to the event of an accelerated outflow of funds from the Group.
- Requiring the Group to have the ability to meet a range of survival horizon scenarios, including name-specific and general liquidity stress scenarios.

On 10 September 2021, APRA announced that the CLF will be phased out to zero by the end of 2022 subject to financial market conditions. The CLF reduction is expected to be offset by ADIs increasing holdings of HQLA.

The liquid asset portfolio held as part of these principles is well diversified by currency, tenor, counterparty and product type. The composition of the portfolio includes cash, government securities and highly rated investment grade paper. The market value of total on balance sheet liquid assets held at 30 September 2021 was $194,498 million (2020: $170,141 million). In addition, the Group holds internal RMBS as a source of contingent liquidity. As at 30 September 2021, the amount of unencumbered internal RMBS after haircuts held was $39,704 million (2020: $81,617 million).

Funding mix

The Group's funding is comprised of a mix of deposits, term wholesale funding, short-term wholesale funding and equity. The Group manages this within risk appetite settings to ensure suitable funding of its asset base and to enable it to respond to changing market conditions and regulatory requirements.

The Group maintains a strong focus on stable deposits both from a growth and quality perspective and continues to utilise deposits as a key funding source for funded assets.

The Group supplements deposit-raising via its term funding programmes, raising $12,476 million of term wholesale funding in the 2021 financial year (2020: $15,010 million) at a weighted average maturity of approximately 8.1[1] years to first call (2020: 6.7[1] years). In addition, during the 2021 financial year, the Group continued to access international and domestic short-term wholesale markets.

On 19 March 2020, the RBA announced the establishment of the TFF for the Australian banking system to support ADIs in providing credit into the economy. The TFF provides access to three-year secured funding, supporting lending to the Group's customers and reducing wholesale funding refinancing risks. NAB fully drew down on its total TFF allocation of $31,866 million, consisting of $17,596 million of Additional and Supplementary Allowances in the 2021 financial year and $14,270 million of Initial Allowance in the 2020 financial year.

Contractual maturity of assets and liabilities

The following tables show an analysis of contractual maturities of assets and liabilities at the reporting date. The Group expects that certain assets and liabilities will be recovered or settled at maturities which are different to their contractual maturities, including deposits where the Group expects as part of normal banking operations that a large proportion of these balances will roll over.

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

NOTE 19 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Less than 12 months		Greater than 12 months		No specific maturity		Total	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Group								
Assets								
Cash and liquid assets	**50,832**	64,388	**-**	-	**-**	-	**50,832**	64,388
Due from other banks(1)	**107,346**	46,643	**200**	690	**-**	-	**107,546**	47,333
Collateral placed(1)	**6,430**	8,579	**-**	-	**-**	-	**6,430**	8,579
Trading securities(1)	**9,622**	10,640	**39,517**	54,294	**881**	3	**50,020**	64,937
Debt instruments	**6,767**	7,321	**35,111**	33,034	**-**	-	**41,878**	40,355
Other financial assets	**2,435**	2,313	**359**	1,547	**-**	-	**2,794**	3,860
Derivative assets(1)	**1,133**	939	**2,087**	2,891	**24,254**	30,914	**27,474**	34,744
Loans and advances(1)	**112,481**	117,627	**503,804**	461,076	**4,871**	5,259	**621,156**	583,962
All other assets(1)	**6,844**	6,306	**150**	-	**10,844**	12,101	**17,838**	18,407
Total assets	**303,890**	264,756	**581,228**	553,532	**40,850**	48,277	**925,968**	866,565
Liabilities								
Due to other banks(1)	**40,255**	32,464	**33,905**	14,309	**-**	-	**74,160**	46,773
Collateral received(1)	**4,664**	5,327	**-**	-	**-**	-	**4,664**	5,327
Other financial liabilities	**11,730**	9,035	**15,316**	20,936	**-**	-	**27,046**	29,971
Derivative liabilities(1)	**522**	857	**1,425**	1,398	**22,084**	30,021	**24,031**	32,276
Deposits and other borrowings	**599,285**	540,321	**5,758**	5,855	**-**	-	**605,043**	546,176
Bonds, notes and subordinated debt	**23,586**	24,838	**85,568**	101,546	**-**	-	**109,154**	126,384
Other debt issues	**-**	-	**-**	-	**6,831**	6,191	**6,831**	6,191
All other liabilities(1)	**6,977**	6,302	**1,754**	1,649	**3,529**	4,223	**12,260**	12,174
Total liabilities	**687,019**	619,144	**143,726**	145,693	**32,444**	40,435	**863,189**	805,272
Net (liabilities) / assets	**(383,129)**	(354,388)	**437,502**	407,839	**8,406**	7,842	**62,779**	61,293
Company								
Assets								
Cash and liquid assets	**50,336**	63,555	**-**	-	**-**	-	**50,336**	63,555
Due from other banks(1)	**98,007**	43,495	**200**	690	**-**	-	**98,207**	44,185
Collateral placed (1)	**5,919**	7,413	**-**	-	**-**	-	**5,919**	7,413
Trading securities(1)	**5,248**	6,421	**36,787**	48,500	**881**	3	**42,916**	54,924
Debt instruments	**6,766**	7,320	**35,083**	33,004	**-**	-	**41,849**	40,324
Other financial assets	**682**	1,271	**2,623**	2,614	**-**	-	**3,305**	3,885
Derivative assets(1)	**787**	829	**1,366**	2,059	**24,658**	31,326	**26,811**	34,214
Loans and advances(1)	**92,359**	97,818	**433,029**	400,575	**4,158**	4,426	**529,546**	502,819
All other assets(1)	**5,509**	5,556	**674**	-	**49,761**	54,236	**55,944**	59,792
Total assets	**265,613**	233,678	**509,762**	487,442	**79,458**	89,991	**854,833**	811,111
Liabilities								
Due to other banks(1)	**35,840**	30,179	**32,875**	14,270	**-**	-	**68,715**	44,449
Collateral received(1)	**4,120**	4,721	**-**	-	**-**	-	**4,120**	4,721
Other financial liabilities	**2,393**	437	**4,743**	8,474	**-**	-	**7,136**	8,911
Derivative liabilities(1)	**323**	765	**907**	956	**24,948**	33,450	**26,178**	35,171
Deposits and other borrowings	**531,418**	481,691	**4,133**	2,647	**-**	-	**535,551**	484,338
Bonds, notes and subordinated debt	**23,573**	24,820	**78,928**	95,477	**-**	-	**102,501**	120,297
Other debt issues	**-**	-	**-**	-	**6,831**	6,191	**6,831**	6,191
All other liabilities(1)	**5,905**	5,552	**1,487**	1,445	**41,950**	45,394	**49,342**	52,391
Total liabilities	**603,572**	548,165	**123,073**	123,269	**73,729**	85,035	**800,374**	756,469
Net (liabilities) / assets	**(337,959)**	(314,487)	**386,689**	364,173	**5,729**	4,956	**54,459**	54,642

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 20
FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where the classification of a financial asset or liability results in it being measured at fair value, wherever possible, the fair value is determined with reference to the quoted bid or offer price in the most advantageous active market to which the Group has immediate access. An adjustment for credit risk (CVA) is also incorporated into the fair value as appropriate as well as an adjustment for funding costs (FVA) related to uncollateralised over-the-counter derivatives. The fair value measurement technique of each class of instrument is described below.

Instrument	Fair value measurement technique
Loans and advances	The fair value of loans and advances that are priced based on a variable rate with no contractual repricing tenor is assumed to equate to the carrying value. The fair value of all other loans and advances is calculated using discounted cash flow models based on the maturity of the loans and advances. The discount rates applied are based on interest rates at reporting date for similar types of loans and advances, if the loans and advances were performing at reporting date.
Deposits and other borrowings	The fair value of deposits and other borrowings that are non-interest bearing, at call or at a fixed rate that reprice within six months of reporting date, is assumed to equate to the carrying value. The fair value of other deposits and other borrowings is calculated using discounted cash flow models based on the deposit type and maturity.
Bonds, notes and subordinated debt and other debt issues	The fair values of bonds, notes and subordinated debt and other debt issues are calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments and appropriate credit spreads, or in some instances are calculated based on market quoted prices when there is sufficient liquidity in the market.
Derivatives	The fair values of trading and hedging derivative assets and liabilities are obtained from quoted closing market prices at reporting date, discounted cash flow models or option pricing models as appropriate.
Trading securities and debt instruments	The fair values of trading securities and debt instruments are based on quoted closing market prices at reporting date. Where securities are unlisted and quoted market prices are not available, the Group obtains the fair value by means of discounted cash flows and other valuation techniques that are commonly used by market participants. These techniques address factors such as interest rates, credit risk and liquidity.
Equity instruments	The fair value of equity instruments at fair value through other comprehensive income is estimated on the basis of the actual and forecasted financial position and results of the underlying assets or net assets taking into consideration their risk profile.
Other financial assets and liabilities	The fair values of other financial assets and liabilities are based on quoted closing market prices and data or valuation techniques, appropriate to the nature and type of the underlying instrument.

The carrying amounts of cash and liquid assets, due from and to other banks, due from customers on acceptances, other assets, other liabilities and amounts due from and to controlled entities, approximate their fair value as they are short-term in nature or are receivable or payable on demand.

Guarantees, letters of credit, performance related contingencies and credit related commitments are generally not sold or traded and estimated fair values are not readily ascertainable. The fair value of these items are not calculated, as very few of the commitments extending beyond six months would commit the Group to a predetermined rate of interest, and the fees attaching to these commitments are the same as those currently charged for similar arrangements.

Fair value for a net open position is the offer price for a financial liability and the bid price for a financial asset, multiplied by the number of units of the instrument issued or held.

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

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Critical accounting judgements and estimates

A significant portion of financial instruments are carried on the balance sheet at fair value.

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

Fair value hierarchy

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

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

Transfers into and out of Level 3 take place when there are changes to the inputs in the valuation technique. Where inputs are no longer observable the fair value measurement is transferred into Level 3. Conversely, a measurement is transferred out of Level 3 when inputs become observable.

The Group's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios in which they belong. As such, a change in the assumption used to value the instruments as at 30 September 2021 attributable to reasonably possible alternatives would not have a material effect.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments, carried at amortised cost

The financial assets and financial liabilities listed in the table below are carried at amortised cost. While this is the value at which the Group expects the assets to be realised and the liabilities to be settled, the table below includes their fair values as at 30 September:

	2021					2020				
	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m	Carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Fair Value $m
Group										
Financial assets										
Loans and advances[1]	**621,156**	**-**	**4,645**	**616,438**	**621,083**	583,962	-	4,506	580,524	585,030
Financial liabilities										
Deposits and other borrowings	**605,043**	**-**	**605,068**	**-**	**605,068**	546,176	-	546,530	-	546,530
Bonds, notes and subordinated debt	**109,154**	**-**	**112,563**	**-**	**112,563**	126,384	514	128,297	-	128,811
Other debt issues	**6,831**	**6,061**	**1,156**	**-**	**7,217**	6,191	5,236	1,128	-	6,364
Company										
Financial assets										
Loans and advances[1]	**529,546**	**-**	**2,786**	**527,076**	**529,862**	502,819	-	2,528	501,338	503,866
Financial liabilities										
Deposits and other borrowings	**535,551**	**-**	**535,590**	**-**	**535,590**	484,338	-	484,137	-	484,137
Bonds, notes and subordinated debt	**102,501**	**-**	**104,447**	**-**	**104,447**	120,297	-	122,264	-	122,264
Other debt issues	**6,831**	**6,061**	**1,156**	**-**	**7,217**	6,191	5,236	1,128	-	6,364

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurements recognised on the balance sheet

	2021				2020			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Group								
Financial assets								
Trading securities[1]	**33,694**	**16,326**	**-**	**50,020**	42,075	22,862	-	64,937
Debt instruments	**3,211**	**37,748**	**919**	**41,878**	3,209	36,427	719	40,355
Other financial assets	**-**	**2,560**	**234**	**2,794**	-	3,860	-	3,860
Derivative assets[1]	**-**	**27,326**	**148**	**27,474**	-	34,636	108	34,744
Investments relating to life insurance business	**-**	**102**	**-**	**102**	-	100	-	100
Equity instruments[2]	**-**	**-**	**135**	**135**	-	-	116	116
Total financial assets measured at fair value	**36,905**	**84,062**	**1,436**	**122,403**	45,284	97,885	943	144,112
Financial liabilities								
Other financial liabilities	**1,291**	**25,755**	**-**	**27,046**	1,371	28,600	-	29,971
Derivative liabilities[1]	**-**	**23,935**	**96**	**24,031**	-	32,188	88	32,276
Total financial liabilities measured at fair value	**1,291**	**49,690**	**96**	**51,077**	1,371	60,788	88	62,247
Company								
Financial assets								
Trading securities[1]	**29,143**	**13,773**	**-**	**42,916**	36,365	18,559	-	54,924
Debt instruments	**3,210**	**37,720**	**919**	**41,849**	3,209	36,396	719	40,324
Other financial assets	**-**	**3,071**	**234**	**3,305**	-	3,885	-	3,885
Derivative assets[1]	**-**	**26,663**	**148**	**26,811**	-	34,106	108	34,214
Equity instruments[2]	**-**	**-**	**51**	**51**	-	-	44	44
Total financial assets measured at fair value	**32,353**	**81,227**	**1,352**	**114,932**	39,574	92,946	871	133,391
Financial liabilities								
Other financial liabilities	**852**	**6,284**	**-**	**7,136**	1,343	7,568	-	8,911
Derivative liabilities[1]	**-**	**26,082**	**96**	**26,178**	-	35,083	88	35,171
Total financial liabilities measured at fair value	**852**	**32,366**	**96**	**33,314**	1,343	42,651	88	44,082

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(2) Includes fair value through profit or loss instruments.

There were no material transfers between Level 1 and Level 2 during the financial year for the Group and the Company.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Assets						Liabilities	
	Derivative		Debt instruments		Other[1]		Derivative	
	2021	2020	2021	2020	2021	2020	2021	2020
Group	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of year	**108**	77	**719**	479	**116**	91	**88**	56
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or loss	**(4)**	21	**-**	-	**14**	1	**(5)**	31
In other comprehensive income	**-**	-	**5**	13	**7**	(5)	**-**	-
Purchases and issues	**30**	14	**379**	91	**241**	29	**12**	-
Sales and settlements	**-**	-	**(384)**	(215)	**(9)**	-	**-**	-
Transfers into Level 3	**7**	(6)	**318**	429	**-**	-	**-**	-
Transfers out of Level 3	**6**	-	**(118)**	(78)	**-**	-	**-**	-
Foreign currency translation adjustments	**1**	2	**-**	-	**-**	-	**1**	1
Balance at end of year	**148**	108	**919**	719	**369**	116	**96**	88
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or loss	**(4)**	21	**-**	-	**14**	1	**(5)**	31
In other comprehensive income	**-**	-	**5**	13	**7**	(5)	**-**	-
Company								
Balance at the beginning of year	**108**	77	**719**	479	**44**	44	**88**	56
Gains / (losses) on assets and (gains) / losses on liabilities recognised:								
In profit or loss	**(4)**	21	**-**	-	**13**	-	**(5)**	31
In other comprehensive income	**-**	-	**5**	13	**-**	-	**-**	-
Purchases and issues	**30**	14	**379**	91	**228**	-	**12**	-
Sales and settlements	**-**	-	**(384)**	(215)	**-**	-	**-**	-
Transfers into Level 3	**7**	(6)	**318**	429	**-**	-	**-**	-
Transfers out of Level 3	**6**	-	**(118)**	(78)	**-**	-	**-**	-
Foreign currency translation adjustments	**1**	2	**-**	-	**-**	-	**1**	1
Balance at end of year	**148**	108	**919**	719	**285**	44	**96**	88
Gains / (losses) on assets and (gains) / losses on liabilities for the reporting period related to financial instruments held at the end of the reporting period recognised:								
In profit or loss	**(4)**	21	**-**	-	**13**	-	**(5)**	31
In other comprehensive income	**-**	-	**5**	13	**-**	-	**-**	-

(1) Includes other financial assets and equity instruments.

NOTE 21
FINANCIAL ASSET TRANSFERS

The Group and the Company enter into transactions by which they transfer financial assets to counterparties or to structured entities. Financial assets that do not qualify for derecognition are typically associated with repurchase agreements, covered bonds and securitisation program agreements. The following table sets out the carrying amount of financial assets that did not qualify for derecognition and their associated liabilities. Where relevant, the table also sets out the net position of the fair value of financial assets where the counterparty to the associated liabilities has recourse only to the transferred assets.

	Group						Company					
	Repurchase agreements		Covered bonds		Securitisation		Repurchase agreements		Covered bonds		Securitisation[1][2]	
	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m	2021 $m	2020 $m
Carrying amount of transferred assets	**62,003**	28,050	**33,708**	33,454	**2,212**	3,051	**58,487**	26,741	**28,841**	29,211	**2,329**	3,108
Carrying amount of associated liabilities	**49,092**	25,432	**25,836**	28,648	**2,212**	3,126	**46,072**	24,146	**21,694**	24,544	**2,329**	3,108
For those liabilities that have recourse only to the transferred assets												
Fair value of transferred assets	**n/a**	n/a	**n/a**	n/a	**2,212**	3,057	**n/a**	n/a	**n/a**	n/a	**2,330**	3,114
Fair value of associated liabilities	**n/a**	n/a	**n/a**	n/a	**2,281**	3,186	**n/a**	n/a	**n/a**	n/a	**2,373**	3,159
Net position	**n/a**	n/a	**n/a**	n/a	**(69)**	(129)	**n/a**	n/a	**n/a**	n/a	**(43)**	(45)

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.
(2) Securitisation assets exclude $96,789 million of assets (2020: $132,882 million) where NAB holds all of the issued instruments of the securitisation vehicle.

OTHER ASSETS AND LIABILITIES

NOTE 22
GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policy

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the identifiable net assets acquired.

Software costs

External and internal costs that are incurred to acquire or develop software are capitalised and recognised as an intangible asset. Capitalised software costs and other intangible assets are amortised on a systematic basis once deployed, using the straight-line method over their expected useful lives which are between three and ten years.

Impairment of intangible assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value in use. For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which that asset belongs. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Group at which goodwill is maintained for internal management purposes, which is at the segment level.

Recoverable amounts of CGUs

The recoverable amount of a CGU is determined using either a value in use or fair value less costs of disposal. Assumptions for determining the recoverable amount of each CGU, under either a value in use or fair value less costs of disposal approach, are based on past experience and/or expectations for the future. Cash flow projections for value in use are based on five year management approved forecasts which are then extrapolated using a constant growth rate for up to a further five years. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each CGU.

The discount rate reflects the market determined, risk-adjusted, post-tax discount rate and is adjusted for specific risks relating to the CGUs and the countries in which they operate. Terminal value growth rate represents the growth rate applied to extrapolate cash flows beyond the forecast period. These growth rates are based on forecast assumptions of the CGUs' long-term performance in their respective markets.

Critical accounting judgements and estimates

The measurement of goodwill is subject to a number of key judgements and estimates. These include:
- the allocation of goodwill to CGUs on initial recognition
- the re-allocation of goodwill in the event of disposal or reorganisation
- the appropriate cash flows, growth rates and discount rates.

Further details about these items are provided below.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Goodwill	**1,964**	1,838	**-**	-
Internally generated software	**1,956**	1,890	**1,703**	1,705
Acquired software	**177**	65	**54**	52
Other acquired intangible assets[1]	**16**	16	**-**	-
Total goodwill and other intangible assets	**4,113**	3,809	**1,757**	1,757
At cost	**9,627**	8,860	**6,333**	5,940
Deduct: Accumulated amortisation / impairment losses	**(5,514)**	(5,051)	**(4,576)**	(4,183)
Total goodwill and other intangible assets	**4,113**	3,809	**1,757**	1,757

(1) Other acquired intangible assets relate to brand names.

Reconciliation of movements in goodwill and internally generated software

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Goodwill				
Balance at beginning of year	**1,838**	2,864	**-**	-
Additions from the acquisition of controlled entities and business combinations	**126**	-	**-**	-
Reclassified to held for sale[1]	**-**	(827)	**-**	-
Impairment and write-offs	**-**	(199)	**-**	-
Balance at end of year	**1,964**	1,838	**-**	-
Internally generated software				
Balance at beginning of year	**1,890**	2,628	**1,705**	2,263
Additions from internal development	**500**	629	**404**	520
Disposals, impairments and write-offs	**(11)**	(12)	**(8)**	(12)
Amortisation	**(429)**	(301)	**(397)**	(260)
Change in application of software capitalisation policy - continuing operations[2]	**-**	(950)	**-**	(806)
Change in application of software capitalisation policy - discontinued operations[2]	**-**	(106)	**-**	-
Foreign currency translation adjustments	**6**	2	**(1)**	-
Balance at end of year	**1,956**	1,890	**1,703**	1,705

(1) Refer to *Note 37 Discontinued operations* for further information.
(2) The 2020 balance includes a reduction of software assets balance following a change to the application of the software capitalisation policy. Refer to *Note 5 Operating expenses* for further details.

NOTE 22 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Goodwill allocation to cash-generating units

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

	Goodwill		Discount rate per annum	Terminal growth rate per annum
	2021	2020	2021	2021
	$m	$m	%	%
Cash generating unit				
Business and Private Banking	**68**	68	**9.0**	**3.4**
New Zealand Banking	**258**	258	**9.1**	**4.9**
Personal Banking	**1,512**	1,512	**9.0**	**3.4**
86 400[1]	**126**	-	**n/a**	**n/a**
Total goodwill	**1,964**	1,838	**n/a**	**n/a**

(1) The recoverable amount for 86 400 has been determined as a fair value less costs of disposal using the price paid in May 2021 (a Level 2 input) and transaction costs the Group incurred to purchase 86 400.

NOTE 23
OTHER ASSETS

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Accrued interest receivable	**635**	789	**537**	685
Prepayments	**278**	263	**238**	213
Receivables	**755**	952	**393**	872
Other debt instruments at amortised cost	**342**	345	**647**	-
Equity instruments at fair value through other comprehensive income	**120**	102	**38**	29
Investment in associates - MLC Life[1]	**472**	411	**477**	441
Securities sold not delivered	**4,274**	3,428	**3,727**	3,318
Other	**1,046**	808	**801**	606
Total other assets[2]	**7,922**	7,098	**6,858**	6,164

(1) Refer to table (b) in *Note 31 Interest in subsidiaries and other entities* for further details.
(2) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 24
PROVISIONS

Accounting policy

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is material.

Operational risk event losses

Provisions are recognised for non-lending losses which include losses arising from specific legal actions not directly related to amounts of principal outstanding for loans and advances, and losses arising from forgeries, fraud and the correction of operational issues.

Customer-related and payroll remediation

Provisions for customer-related and payroll remediation include provisions for potential refunds and other compensation to customers, payments to colleagues, as well as associated program costs.

Critical accounting judgements and estimates

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, customer-related remediation and litigation. The recognition and measurement of some of these provisions involves significant judgement about the existence of a present obligation, the likely outcome of various events and the related estimated future cash flows. If the future events are uncertain or where the outflows cannot be reliably measured a contingent liability is disclosed, refer to *Note 30 Commitments and contingent liabilities.*

Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

In relation to customer-related remediation, determining the amount of the provision requires the exercise of significant judgement. This includes forming a view on a number of different estimates, including the number of impacted customers, average refund per customer and the associated costs required to complete the remediation activities. The appropriateness of underlying assumptions is reviewed on a regular basis against actual experience and other available evidence, and adjustments are made to the provision where required.

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Employee entitlements	**1,093**	818	**968**	744
Operational risk event losses	**134**	348	**81**	326
Customer-related and payroll remediation	**1,231**	2,069	**1,221**	2,019
Other[1]	**376**	585	**350**	539
Total provisions	**2,834**	3,820	**2,620**	3,628

(1) Comparative information has been restated to align to the presentation in the current period.

NOTE 24 PROVISIONS (CONTINUED)

Reconciliation of movements in provisions

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Operational risk event losses				
Balance at beginning of year	**348**	292	**326**	214
Provisions made[1]	**75**	323	**23**	289
Payments out of provisions	**(215)**	(100)	**(194)**	(68)
Provisions no longer required and net foreign currency movements	**(74)**	(128)	**(74)**	(109)
Reclassified to held for sale[2]	**-**	(39)	**-**	-
Balance at end of year	**134**	348	**81**	326
Customer-related and payroll remediation				
Balance at beginning of year	**2,069**	2,092	**2,019**	2,068
Provisions made (continuing operations)	**109**	373	**143**	983
Provisions made (discontinued operations)	**143**	643	**143**	-
Payments out of provisions	**(1,041)**	(799)	**(1,035)**	(792)
Provisions no longer required[3]	**(49)**	(240)	**(49)**	(240)
Balance at end of year	**1,231**	2,069	**1,221**	2,019

(1) Amount includes provisions made in both continuing and discontinued operations.
(2) MLC Wealth's provision for operational risk event losses was reclassified to held for sale in the 2020 financial year. Refer to *Note 37 Discontinued operations* for further information.
(3) September 2021 full year amount relates to MLC Wealth-related provisions transferred to IOOF upon completion of the sale of MLC Wealth.

NOTE 25
OTHER LIABILITIES

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Accrued interest payable	**892**	1,283	**796**	1,105
Payables and accrued expenses	**1,100**	805	**626**	408
Securities purchased not delivered	**3,710**	3,536	**3,423**	3,491
Lease liabilities	**1,967**	1,555	**1,659**	1,319
Other	**1,457**	737	**1,421**	823
Total other liabilities[1]	**9,126**	7,916	**7,925**	7,146

(1) Comparative information has been restated to align to the presentation in the current period. Refer to *Note 1 Basis of preparation*.

NOTE 26
LEASES

Accounting policy

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. For leases of land and buildings where the Group is the lessee, the Group has elected not to separate non-lease components, and accounts for the lease and non- lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. Except for right-of-use assets measured in accordance with the standard's transition provisions, the right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently measured under the cost model and depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is reviewed for impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted using the Group’s incremental borrowing rate which is based on the Group’s funds transfer pricing curve. The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a lease modification that is not accounted for as a separate lease, there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. The Group does not include extension options in the measurement of the lease liability until such time that it is reasonably certain that the options will be exercised.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Where this is the case, the lease is a finance lease. All other leases are classified as operating leases.

Effect of leases on the balance sheets

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Right-of-use assets				
Property, plant and equipment				
Buildings	**1,691**	1,331	**1,381**	1,084
Technology	**50**	32	**45**	28
Total right-of-use assets	**1,741**	1,363	**1,426**	1,112
Additions to right-of-use assets during the period	**779**	480	**673**	411
Lease liabilities				
Other liabilities	**1,967**	1,555	**1,659**	1,319
Total lease liabilities	**1,967**	1,555	**1,659**	1,319

NOTE 26 LEASES (CONTINUED)

Effect of leases on the income statements

	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Depreciation				
Buildings[1]	**357**	433	**306**	383
Technology	**37**	32	**35**	30
Total depreciation on right-of-use assets	**394**	465	**341**	413
Interest				
Total interest expense on lease liabilities	**35**	31	**30**	26
Short-term lease expense				
Total short-term lease expense	**15**	49	**11**	44

(1) Comparative period includes one-off impairment charges to property-related assets.

Future cash flow effect of leases

The table below is a maturity analysis of future lease payments in respect of existing lease arrangements on an undiscounted basis.

	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Due within one year	**336**	362	**291**	317
Due after one year but no later than five years	**991**	840	**850**	697
Due after five years	**799**	515	**656**	439
Total future lease payments	**2,126**	1,717	**1,797**	1,453

The Group has committed to a number of future lease contracts in relation to new buildings across Australia. As these new leases become effective, the Group will recognise additional right-of-use assets and corresponding lease liabilities of approximately $567 million over the next five years.

CAPITAL MANAGEMENT

NOTE 27
CONTRIBUTED EQUITY

In accordance with the *Corporations Act 2001* (Cth), the Company does not have authorised capital and all ordinary shares have no par value. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are included within equity. Holders of ordinary shares are entitled to receive dividends as determined from time to time and are entitled to one vote, on a show of hands or on a poll, for each fully paid ordinary share held at shareholders' meetings. In the event of a winding-up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Issued and paid-up ordinary share capital				
Ordinary shares, fully paid	**43,247**	43,531	**42,461**	42,745
Other contributed equity				
National Income Securities	**-**	1,945	**-**	1,945
Total contributed equity	**43,247**	45,476	**42,461**	44,690

Reconciliation of movement in ordinary shares

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Balance at beginning of year	**43,531**	36,762	**42,745**	35,976
Shares issued:				
Institutional share placement	**-**	2,954	**-**	2,954
Retail share purchase plan	**-**	1,250	**-**	1,250
Conversion of convertible preference shares and convertible notes	**-**	750	**-**	750
Dividend reinvestment plan	**274**	976	**274**	976
Dividend reinvestment plan underwritten allotments	**-**	700	**-**	700
Transfer from equity-based compensation reserve	**79**	139	**79**	139
On-market purchase of shares for dividend reinvestment plan neutralisation	**(164)**	-	**(164)**	-
Share buy-back	**(486)**	-	**(486)**	-
Tax on deductible transaction costs	**13**	-	**13**	-
Balance at end of year	**43,247**	43,531	**42,461**	42,745

NOTE 27 CONTRIBUTED EQUITY (CONTINUED)

The number of ordinary shares on issue for the last two years at 30 September was as follows:

	Company	
	2021 No. '000	2020 No. '000
Ordinary shares, fully paid		
Balance at beginning of year	**3,290,093**	2,883,019
Shares issued:		
Institutional share placement	**-**	212,014
Retail share purchase plan	**-**	88,337
Conversion of convertible preference shares and convertible notes	**-**	35,141
Dividend reinvestment plan	**10,949**	39,745
Dividend reinvestment plan underwritten allotments	**-**	26,898
Bonus share plan	**1,058**	1,445
Share-based payments	**3,434**	3,494
Paying up of partly paid shares	**7**	-
On-market purchase of shares for dividend reinvestment plan neutralisation	**(6,173)**	-
Share buy-back	**(17,377)**	-
Total ordinary shares, fully paid	**3,281,991**	3,290,093
Ordinary shares, partly paid to 25 cents		
Balance at beginning of year	**19**	19
Paying up of partly paid shares	**(7)**	-
Total ordinary shares, partly paid to 25 cents	**12**	19
Total ordinary shares (including treasury shares)	**3,282,003**	3,290,112
Less: Treasury shares	**(6,005)**	(5,572)
Total ordinary shares (excluding treasury shares)	**3,275,998**	3,284,540

National Income Securities

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

NOTE 28
RESERVES

Accounting policy

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations, any offsetting gains or losses on net investment hedges and any associated tax effect are reflected in the foreign currency translation reserve.

The results and financial position of the Group entities that have a functional currency different from Australian dollars are translated into Australian dollars as follows:

- assets and liabilities are translated at the closing exchange rate at the balance sheet date
- income and expenses are translated at average exchange rates for the period
- all resulting exchange differences are recognised in the foreign currency translation reserve.

A cumulative credit balance in this reserve would not normally be regarded as available for payment of dividends until such gains are realised and recognised in the income statement on sale or disposal of the foreign operation.

Asset revaluation reserve

The asset revaluation reserve is used to record revaluation adjustments on land and buildings. When an asset is sold or disposed of the related balance in the reserve is transferred directly to retained profits.

Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve comprises fair value gains or losses associated with the effective portion of designated cash flow hedging instruments, net of tax. The cost of hedging reserve records fair value gains or losses associated with changes in forward points on forward contracts and changes in cross-currency basis on cross-currency swaps, that have been removed from hedge relationships and are amortised over the life of the hedge. The cumulative movements will reduce to nil by maturity of the hedging instrument.

Equity-based compensation reserve

The equity-based compensation reserve comprises the fair value of shares and rights provided to employees.

Debt instruments at fair value through other comprehensive income reserve

The reserve includes all changes in the fair value of investments in debt instruments that are measured at fair value through other comprehensive income, other than impairment losses, foreign exchange gains and losses, interest income and net of any related hedge accounting adjustments. The cumulative amount recognised in the reserve is transferred to profit or loss when the related asset is derecognised.

Equity instruments at fair value through other comprehensive income reserve

The Group has made an irrevocable election to measure certain investments in equity instruments that are not held for trading purposes at fair value through other comprehensive income. Changes in the fair value of these investments are recognised in this reserve, while dividends are recognised in profit or loss. The cumulative amount recognised in the reserve is transferred directly to retained profits when the related asset is derecognised.

NOTE 28 RESERVES (CONTINUED)

Reserves

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Foreign currency translation reserve	**288**	(38)	**(200)**	(243)
Asset revaluation reserve	**25**	26	**-**	-
Cash flow hedge reserve	**86**	307	**69**	346
Cost of hedging reserve	**(266)**	(396)	**(175)**	(264)
Equity-based compensation reserve	**136**	115	**136**	115
Debt instruments at fair value through other comprehensive income reserve	**266**	77	**266**	77
Equity instruments at fair value through other comprehensive income reserve	**15**	8	**3**	3
Total reserves	**550**	99	**99**	34

Foreign currency translation reserve

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Balance at beginning of year	**(38)**	20	**(243)**	(214)
Transfer from retained profits	**21**	-	**15**	-
Redemption of National Income Securities	**15**	-	**15**	-
Currency adjustments on translation of foreign operations, net of hedging	**301**	(36)	**27**	(7)
Transfer to the income statement on disposal or partial disposal of foreign operations[1]	**(11)**	(22)	**(14)**	(22)
Balance at end of year	**288**	(38)	**(200)**	(243)

(1) Partial disposals of foreign operations include returns of capital made by foreign branches.

NOTE 29
DIVIDENDS AND DISTRIBUTIONS

2021	Amount per share cents	Total amount $m
Final dividend determined in respect of the year ended 30 September 2020	**30**	**987**
Interim dividend determined in respect of the year ended 30 September 2021	**60**	**1,979**
Deduct: Bonus shares in lieu of dividend	**n/a**	**(27)**
Dividends paid by the Group during the year ended 30 September 2021	**n/a**	**2,939**
Add: Dividends paid to non-controlling interest in controlled entities	**n/a**	**4**
Dividends paid by the Group (before dividend reinvestment plan)	**n/a**	**2,943**

2020		
Final dividend determined in respect of the year ended 30 September 2019	83	2,393
Interim dividend determined in respect of the year ended 30 September 2020	30	895
Deduct: Bonus shares in lieu of dividend	n/a	(32)
Dividends paid by the Group during the year ended 30 September 2020	n/a	3,256
Add: Dividends paid to non-controlling interest in controlled entities	n/a	4
Dividends paid by the Group (before dividend reinvestment plan)	n/a	3,260

Dividends paid during 2021 were fully franked at a tax rate of 30% (2020: 30%).

NOTE 29 DIVIDENDS AND DISTRIBUTIONS (CONTINUED)

Final dividend

On 9 November 2021, the directors determined the following dividend:

	Amount per share cents	Total amount $m	Franked amount per share %
Final dividend determined in respect of the year ended 30 September 2021	67	**2,199**	100

The final 2021 ordinary dividend is payable on 15 December 2021. The Dividend Reinvestment Plan discount is nil, with no participation limit. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 September 2021 and will be recognised in subsequent financial reports.

Australian franking credits

The franking credits available to the Group at 30 September 2021 are estimated to be $1,024 million (2020: $1,017 million) after allowing for Australian tax payable in respect of the current reporting period's profit and the receipt of dividends recognised as a receivable at reporting date. Franking credits to be utilised as a result of the payment of the proposed final dividend are $942 million (2020: $423 million). NAB's franking account fluctuates during the year as a result of the timing of income tax instalment and dividend payments. While the franking account balance fluctuates during the year, a surplus is only required as at 30 June each year for the purpose of complying with Australian income tax legislation. Franking is not guaranteed. The extent to which future dividends on ordinary shares and distributions on frankable hybrids will be franked will depend on a number of factors, including capital management activities and the level of profits generated by the Group that will be subject to tax in Australia.

New Zealand imputation credits

NAB is able to attach available New Zealand imputation credits to dividends paid. As a result, New Zealand imputation credits of NZ$0.01 per share will be attached to the final 2021 ordinary dividend payable by the Company. New Zealand imputation credits are only relevant for shareholders who are required to file New Zealand income tax returns.

Distributions on other equity instruments

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
National Income Securities	**13**	39	**13**	39

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

UNRECOGNISED ITEMS

NOTE 30
COMMITMENTS AND CONTINGENT LIABILITIES

Accounting policy

The Group discloses certain items as contingent liabilities, as they are either possible obligations whose existence will be confirmed only by uncertain future events, or they are present obligations where a transfer of economic resources is not probable or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless an outflow of economic resources is remote.

Commitments

Financial assets are pledged as collateral predominantly under repurchase agreements with other banks. The financial assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary. Repurchase agreements that do not qualify for derecognition are reported in *Note 21 Financial asset transfers*.

Bank guarantees and letters of credit

The Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The Group has four principal types of guarantees:

- bank guarantees
- standby letters of credit
- documentary letters of credit
- performance-related contingencies.

The Group considers all bank guarantees and letters of credit as "at call" for liquidity management purposes because it has no control over when the holder might call upon the instrument.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Bank guarantees and letters of credit				
Bank guarantees	**4,166**	4,252	**4,421**	4,216
Standby letters of credit	**6,907**	3,272	**6,907**	3,272
Documentary letters of credit	**3,860**	3,313	**3,538**	3,016
Performance-related contingencies	**6,476**	9,789	**5,767**	9,203
Total bank guarantees and letters of credit	**21,409**	20,626	**20,633**	19,707

Clearing and settlement obligations

The Group is subject to a commitment in accordance with the rules governing clearing and settlement arrangements contained in the Australian Payments Network Regulations for the Australian Paper Clearing System, the Bulk Electronic Clearing System, the Consumer Electronic Clearing System and the High Value Clearing System which could result in a credit risk exposure and loss in the event of a failure to settle by a member institution. The Group also has a commitment in accordance with the Austraclear System Regulations and the Continuous Linked Settlement Bank Rules to participate in loss-sharing arrangements in the event that another financial institution fails to settle.

The Group is a member of various central clearing houses, most notably the London Clearing House (LCH) SwapClear and RepoClear platforms and the ASX Over-The-Counter Central Counterparty, which enables the Group to centrally clear derivative and repurchase agreement instruments respectively. As a member of these central clearing houses, the Group is required to make a default fund contribution. The exposure to risk associated with this commitment is reflected for capital adequacy purposes in the Group's Pillar 3 reporting. In the event of a default of another clearing member, the Group could be required to commit additional funds to the default fund contribution.

NOTE 30 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Credit-related commitments

Binding credit-related commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Credit-related commitments				
Binding credit commitments	**185,369**	173,656	**163,196**	153,090
Total credit-related commitments	**185,369**	173,656	**163,196**	153,090
Credit-related commitments by geographical location				
Australia	**147,506**	136,823	**146,662**	136,267
New Zealand	**21,328**	20,010	**-**	-
Other International	**16,535**	16,823	**16,534**	16,823
Total credit-related commitments	**185,369**	173,656	**163,196**	153,090

Parent entity guarantees and undertakings

The Company has provided the following guarantees and undertakings relating to entities in the Group. These guarantees and undertakings are not included in previous tables in the note:

- The Company will guarantee up to $27,733 million (2020: $28,141 million) of commercial paper issuances by National Australia Funding (Delaware) Inc. Commercial paper of $887 million (2020: $317 million) has been issued.
- The Company is responsible to its customers for any direct loss suffered as a result of National Nominees Limited failing to perform its obligations to the Company.
- The Company and MLC Wealth had both been granted a licence (the License) by the Safety, Rehabilitation and Compensation Commission (the Commission) to operate as self-insurers under the Commonwealth Government Comcare Scheme (the Commonwealth Scheme). The parties applied to the Commission to revoke MLC Wealth's License as MLC Wealth would instead be covered under the State-based scheme after the sale of MLC Wealth to IOOF. The Commission agreed to revoke MLC Wealth's License effective from the date of the sale. The Company still holds its License and continues to be self-insured under the Commonwealth Scheme. As required by legislation and the Commission, the Company has provided a guarantee in respect of any workers' compensation liabilities of employees of MLC Wealth in respect of injuries that arose before the completion of the sale.
- The Company has issued letters of support in respect of certain subsidiaries and associates in the normal course of business. The letters recognise that the Company has a responsibility to ensure that those subsidiaries and associates continue to meet their obligations.

Contractual commitments

Acquisition of Citigroup's Australian consumer business

On 9 August 2021 NAB announced it has entered into a Sale and Purchase Agreement with Citigroup to purchase Citigroup's Australian consumer business. The proposed acquisition, which remains subject to regulatory approvals, is structured primarily as an asset and liability transfer, with NAB to pay Citigroup cash for the net assets of Citigroup's Australian consumer business plus a premium of $250 million. Subject to the timing of regulatory approvals, completion is expected to occur by the middle of next calendar year.

NOTE 30 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Contingent liabilities

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

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

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

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

Legal proceedings

Bank Bill Swap Reference Rate US class action

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

In June 2021, NAB announced that it had agreed to settle the claims made against it in the class action. The settlement is without admission of liability and remains subject to negotiation and the execution of complete settlement terms and court approval. The terms of the settlement remain confidential.

United Kingdom matters

Eight separate claims focused on Tailored Business Loans (TBLs) have been commenced against NAB and Clydesdale Bank Plc (CYBG) by RGL Management Limited (a claims management company) (RGL) and law firm Fladgate LLP on behalf of customers of CYBG in the English Courts.

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

The claims were before the court for a procedural hearing in December 2020 following which a timetable was directed for the first and fourth claims to move forward to a second procedural hearing which occurred in October 2021. At that hearing the court made further directions to progress the first and fourth claims (the remaining claims are currently, or are expected to be, paused by agreement and court order). NAB has filed and served its defences to the first and fourth claims.

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

NOTE 30 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Regulatory activity, compliance investigations and associated proceedings

Anti-Money Laundering and Counter-Terrorism Financing program uplift and compliance issues

For some time NAB has been working to uplift and strengthen the Group's systems and processes to comply with AML and CTF requirements. The Group continues to the keep Australian Transaction Reports and Analysis Centre (AUSTRAC) and, where applicable, relevant foreign regulators informed of its progress. In addition to a general uplift in capability, the program of work aims to remediate specific known compliance issues and weaknesses. As this work progresses, further compliance issues may be identified and reported to AUSTRAC or equivalent foreign regulators, and additional uplifting and strengthening may be required.

The Group has reported a number of compliance issues to relevant regulators and has responded to a number of requests from regulators requiring the production of documents and information. Identified issues include certain weaknesses with the Group's implementation of 'Know Your Customer' (KYC) requirements; other financial crime risks; and certain systems and process issues that impacted transaction monitoring and reporting in some specific areas. In particular, the Group has identified issues with collection and verification of identity information and enhanced customer due diligence for non-individual customers. This is the subject of a dedicated remediation program that is underway.

In June 2021, NAB announced that AUSTRAC had identified serious concerns with the NAB Designated Business Group's (NAB DBG) compliance with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 and the Anti-Money Laundering and Counter-Terrorism Financing Rules 2007. AUSTRAC advised NAB that it was AUSTRAC's view that there was "potential serious and ongoing non-compliance" with customer identification procedures, ongoing customer due diligence and compliance with Part A of the Group's AML and CTF program. These concerns were referred to AUSTRAC's enforcement team and it initiated a formal enforcement investigation. AUSTRAC advised NAB that it had not made any decision about whether or not enforcement action would be taken and further, that it was not considering civil penalty proceedings, at that stage, and that this decision was "reflective of the work undertaken" by NAB to date. NAB has not been notified of any change to this position, however the AUSTRAC investigation is ongoing. AUSTRAC's referral to its enforcement team followed regular engagement by NAB with AUSTRAC over a long period of time. AUSTRAC has a wide range of enforcement options available to it, including civil penalty orders, enforceable undertakings, infringement notices and remedial directions. The Group is fully cooperating with AUSTRAC's investigation and continuing with its efforts to uplift its financial crime capabilities in parallel.

The potential outcome and total costs associated with these investigations and remediation processes for specific issues identified to date, and for any issues that may be identified in the future, remain uncertain.

Banking matters

A number of reviews into banking-related matters are being carried on across the Group, both internally and in some cases by regulatory authorities, including matters where:

- incorrect fees were applied in connection with certain products
- customers may not have been provided notice of increases to loan repayments within the timeframe required by the National Credit Code
- incorrect interest rates were applied in relation to certain products, including home lending products on conversion from interest only to principal and interest and/or from fixed interest to variable interest rates
- there were issues in delivering electronic statements, and other notices enclosed with those statements, capturing customer consent to receive electronic statements and inconsistencies with recording statement preferences
- business term lending facilities were not amortising in accordance with approved facilities; and
- various responsible lending matters.

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

Incorrect charging of periodical payment fees

On 24 February 2021, ASIC commenced Federal Court proceedings against NAB alleging that NAB failed to comply with a number of provisions of the ASIC Act and the Corporations Act in relation to the incorrect charging of periodical payment fees including misleading or deceptive conduct and unconscionable conduct. NAB filed its response to ASIC's claim on 28 April 2021. The potential outcomes and total costs associated with the matter remain uncertain.

Payroll matters

In December 2019, NAB announced an end-to-end Payroll Review examining internal pay processes and compliance with pay-related obligations under Australian employment laws. The review has identified a range of issues and a remediation program is being undertaken. Provisions have been taken and a number of payments have been made. In addition to the costs associated with the remediation program, there remains the potential for further developments regarding these issues, including possible enforcement action or other legal actions. The final outcome and total costs associated with this matter remain uncertain.

NOTE 30 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The Wage Inspectorate Victoria and the NSW Employee Relations have been undertaking investigations in relation to the long service leave entitlements of NAB's casual employees. In October 2021, NAB commenced action in the Federal Court seeking a declaration about the proper interpretation of relevant provisions of the Fair Work Act (Cth), in order to clarify the situation. In October 2021, the Wage Inspectorate Victoria commenced a prosecution in the Victorian Magistrate's Court with respect to this matter. The final outcome and total costs associated with this matter remain uncertain.

Wealth - Adviser service fees

In 2015, ASIC commenced an industry-wide investigation into financial advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including entities within the Group. Under the service arrangements, customers paid an adviser service fee to receive ongoing financial review services. In some instances, customers did not receive the agreed services or, in other cases, there may not be sufficient evidence that the agreed services were provided or that customers were adequately informed of their ability to terminate the service fee. NAB is undertaking a remediation program in relation to this matter for JBWere and the various advice businesses, which were operated by the Group prior to completion of the MLC Wealth Transaction discussed below, including MLC Advice (formerly known as NAB Financial Planning) and NAB Advice Partnerships. While the businesses of MLC Advice and NAB Advice Partnerships have been sold to IOOF pursuant to the MLC Wealth Transaction discussed below, NAB has retained the companies that operated the advice business, such that the Group has retained all liabilities associated with the conduct of these businesses pre-completion of the MLC Wealth Transaction. JBWere is not within the scope of the MLC Wealth Transaction.

Payments with respect to MLC Advice are now largely complete. NAB Advice Partnerships has commenced making accelerated remediation payments to potentially impacted customers for remediation.

JBWere has identified its potentially impacted customers and will commence making remediation payments where appropriate. JBWere continues to assess for remaining clients whether there is evidence to demonstrate that agreed financial review services were provided.

The total ongoing advice fees received within the period 2009-2018 are estimated to be approximately $1.3 billion for NAB Advice Partnerships. With respect to JBWere, the ongoing advice fees in-scope for remediation is approximately $80 million. While the Group has taken provisions in relation to these matters based on current information, there remains the potential for further developments and the potential outcomes and total costs associated with these matters remain uncertain.

Wealth - Advice review

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

Further, a number of other investigations into the historic activities of the advice business are being carried out by the Group, including reviews of the implementation of financial advice provided by MLC Advice relating to reinvestment decisions.

While the MLC Advice and NAB Advice Partnerships businesses relevant to these matters have been sold to IOOF pursuant to the MLC Wealth Transaction discussed below, NAB has retained the companies that operated the advice business, such that the Group has retained all liabilities associated with the conduct of these businesses pre-completion of the MLC Wealth Transaction. The potential outcomes and total costs associated with these matters remain uncertain.

Contractual commitments

MLC Wealth Transaction

On 31 May 2021, NAB completed the sale of MLC Wealth, comprising its advice, platforms, superannuation and investments, and asset management businesses to IOOF.

As part of the MLC Wealth Transaction, NAB has provided IOOF with indemnities relating to certain pre-completion matters, including:

- a remediation program relating to workplace superannuation (including matters where some employer superannuation plans and member entitlements were not correctly set up in the administration systems, and matters relating to disclosure and administration of certain features of the super product such as insurance and fees)
- breaches of anti-money laundering laws and regulations
- regulatory fines and penalties; and
- certain litigation and regulatory investigations (including the NULIS and MLCN class actions described below).

NOTE 30 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

NAB also provided covenants and warranties in favour of IOOF. A breach or triggering of these contractual protections may result in NAB being liable to IOOF. NAB and IOOF are reassessing certain provisions for pre-completion matters as part of the completion accounts process, which may involve increases to such provisions.

As part of the MLC Wealth Transaction, the Group retained the companies that operated the advice business, such that the Group has retained all liabilities associated with the conduct of that business pre-completion.

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

The final financial impact associated with the MLC Wealth Transaction remains uncertain and subject to finalisation of the completion accounts process and other contingencies outlined.

NULIS and MLCN - class actions

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

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

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

The potential outcomes and total costs associated with these matters remain uncertain. While NULIS and MLCN are no longer part of the Group following completion of the MLC Wealth Transaction, NAB remains liable for the costs associated with, and retains conduct of, these matters pursuant to the terms of the MLC Wealth Transaction.

OTHER DISCLOSURES

NOTE 31
INTEREST IN SUBSIDIARIES AND OTHER ENTITIES

Accounting policy

Investments in controlled entities

Controlled entities are all those entities (including structured entities) to which the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is transferred to the Group. Entities are deconsolidated from the date that control ceases. The effects of transactions between entities within the Group are eliminated in full upon consolidation. External interests in the equity and results of entities that are controlled by the Group are shown as 'non-controlling interests in controlled entities' in the equity section of the consolidated balance sheet.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. The Group's investments in associates are accounted for using the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well-defined objective which is created through contractual arrangement. Depending on the Group's power over the relevant activities of the structured entities and its exposure to and ability to influence its own returns, it may or may not consolidate the entity.

Unconsolidated structured entities refer to all structured entities that are not controlled by the Group. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions or for specific investment opportunities.

Interests in unconsolidated structured entities include, but are not limited to, debt and equity investments, guarantees, liquidity arrangements, commitments, fees from investment structures, and derivative instruments that expose the Group to the risks of the unconsolidated structured entities. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and cross currency swaps) and positions where the Group:

- creates rather than absorbs variability of the unconsolidated structured entity
- provides administrative, trustee or other services as agent to third party managed structured entities.

Involvement is considered on a case by case basis, taking into account the nature of the structured entity's activities. This excludes involvement that exists only because of typical customer-supplier relationships.

(a) Investment in controlled entities

The following table presents the material controlled entities as at 30 September 2021. Investment vehicles holding life policyholder assets are excluded from the list below:

Entity name	Ownership %	Incorporated / formed in
National Australia Bank Limited		Australia
National Equities Limited	100	Australia
National Australia Group (NZ) Limited	100	New Zealand
Bank of New Zealand	100	New Zealand

Changes to material controlled entities

On 31 May 2021, National Wealth Management Holdings Limited was sold to IOOF.

Significant restrictions

Subsidiary companies that are subject to prudential regulation are required to maintain minimum capital and other regulatory requirements that may restrict the ability of these entities to make distributions of cash or other assets to the parent company. These restrictions are managed in accordance with the Group's normal risk management policies set out in *Note 19 Financial risk management* and capital adequacy requirements in *Note 35 Capital adequacy*.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

The RBNZ has implemented a restriction on 31 March 2021 allowing New Zealand banks to pay dividends up to a maximum of 50 per cent of prior financial year earnings and has outlined its expectations that banks will exercise prudence in determining dividends. This has the effect of restricting NAB's ability to access cash by way of dividends from its wholly owned subsidiary, BNZ. The restriction imposed by the RBNZ will remain in place until 1 July 2022, subject to economic conditions at that time.

(b) Investment in associates

The Group's investments in associates include a 20% interest in MLC Life, a provider of life insurance products in Australia. Set out below is the summarised financial information of MLC Life based on its financial information (and not the Group's 20% share of those amounts) and a reconciliation of that information to the equity-accounted carrying amount as at 30 September:

	2021 $m	2020 $m
Summarised income statement of MLC Life		
Revenue	**1,585**	1,549
Net loss for the period	**(222)**	(167)
Total comprehensive income for the period	**(222)**	(167)
Reconciliation to the Group's share of loss		
MLC Life's net loss for the period	**(222)**	(167)
Prima facie share of loss at 20%	**(44)**	(34)
Less: Amortisation of intangible assets recognised at acquisition, net of tax	**-**	(3)
Group's share of loss for the period	**(44)**	(37)
Summarised balance sheet of MLC Life		
Total assets	**7,746**	6,810
Total liabilities	**4,954**	4,327
Net assets	**2,792**	2,483
Reconciliation to the Group's investment in MLC Life		
Prima facie share of net assets at 20%	**558**	497
Add intangible assets recognised at acquisition, net of deferred tax	**-**	128
Accumulated impairment losses	**(86)**	(214)
Group's carrying amount of the investment in MLC Life	**472**	411

There was no dividend received from MLC Life during the 2021 financial year (2020: $nil). The Group made additional capital contributions to MLC Life, in proportion to its 20% shareholding, totalling $106 million during the 2021 financial year (2020: $138 million).

Significant restrictions

Assets in a statutory fund of MLC Life can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of that fund, or to make profit distributions when solvency and capital adequacy requirements of the *Life Insurance Act 1995* (Cth) are met. This may impact MLC Life's ability to transfer funds to the Group in the form of dividends. In addition, in certain circumstances the payment of dividends may require approval by APRA.

Transactions

As part of a long-term commercial arrangement with Nippon Life and MLC Life, the Group refers certain bank customers to MLC Life. Under a financial services agreement and certain linked arrangements, the Group provides MLC Life with certain financial services on an arm's length basis, including custody, transactional banking facilities, fixed income, commodity and currency services.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

(c) Consolidated structured entities

The Group has interests in the following types of consolidated structured entities:

Type	Details
Securitisation	The Group engages in securitisation activities for funding, liquidity and capital management purposes. The Group principally packages and sells residential mortgage loans as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income after all payments to investors and costs related to the program have been met. The note holders only have recourse to the pool of assets. The Group is considered to hold the majority of the residual risks and benefits of the vehicles. All relevant financial assets continue to be held on the Group balance sheet, and a liability is recognised for the proceeds of the funding transaction. The Group provides liquidity facilities to the securitisation vehicles. The facilities can only be drawn to manage the timing mismatch of cash inflows from securitised loans and cash outflows due to investors. The liquidity facility limit as at 30 September 2021 is $1,063 million.
Covered bonds	The Group is entitled to any residual income after all payments due to covered bonds investors and costs related to the program have been met. The covered bond holders have dual recourse to the Group and the covered pool assets. Housing loans are assigned to a bankruptcy remote structured entity to provide security for the obligations payable on the covered bonds issued by the Group.

(d) Unconsolidated structured entities

The Group has interests in the following types of unconsolidated structured entities:

Type	Details
Securitisation	The Group engages with third party (client) securitisation vehicles by providing warehouse facilities, liquidity support and derivatives. The Group invests in residential mortgage and asset-backed securities.
Other financing	The Group provides tailored lending to limited recourse single purpose vehicles which are established to facilitate asset financing for clients. The assets are pledged as collateral to the Group. The Group engages in raising finance for leasing assets such as aircraft, trains, shipping vessels and other infrastructure assets. The Group may act as a lender, arranger or derivative counterparty to these vehicles. Other financing transactions are generally senior, secured self-liquidating facilities in compliance with Group credit lending policies. Regular credit and financial reviews of the borrowers are conducted to ensure collateral is sufficient to support the Group's maximum exposures.
Investment funds	The Group has direct interests in unconsolidated investment funds. The Group's interests include holding units and receiving fees for services. The Group's interest in unconsolidated investment funds is immaterial.

NOTE 31 INTEREST IN SUBSIDIARIES AND OTHER ENTITIES (CONTINUED)

The table below shows the carrying value and maximum exposure to loss of the Group's interests in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2021	2020	2021	2020	2021	2020
	$m	$m	$m	$m	$m	$m
Loans and advances	**15,857**	13,401	**3,461**	4,947	**19,318**	18,348
Debt instruments	**6,889**	7,194	**-**	-	**6,889**	7,194
Total carrying value of assets in unconsolidated structured entities	**22,746**	20,595	**3,461**	4,947	**26,207**	25,542
Commitment / contingencies	**8,892**	8,392	**-**	20	**8,892**	8,412
Total maximum exposure to loss in unconsolidated structured entities	**31,638**	28,987	**3,461**	4,967	**35,099**	33,954

Exposure to loss is managed as part of the Group's Risk Management Framework. The Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Consequently, the Group has presented these measures rather than the total assets of the unconsolidated structured entities. Refer to *Note 19 Financial risk management* for further details. Income earned from interests in unconsolidated structured entities primarily result from interest income, mark-to-market movements and fees and commissions.

The majority of the Group's exposures are senior investment grade, but in some limited cases, the Group may be required to absorb losses from unconsolidated structured entities before other parties because the Group's interests are subordinated to others in the ownership structure. The table below shows the credit quality of the Group's exposures in unconsolidated structured entities:

	Group					
	Securitisations		Other financing		Total	
	2021	2020	2021	2020	2021	2020
	$m	$m	$m	$m	$m	$m
Senior investment grade	**22,694**	20,388	**888**	1,228	**23,582**	21,616
Investment grade	**48**	206	**1,442**	1,812	**1,490**	2,018
Sub-investment grade	**4**	1	**1,131**	1,907	**1,135**	1,908
Total[(1)]	**22,746**	20,595	**3,461**	4,947	**26,207**	25,542

(1) Of the total, $26,032 million (2020: $25,422 million) represents the Group's interest in senior notes and $175 million in subordinated notes (2020: $120 million).

NOTE 32
RELATED PARTY DISCLOSURES

The Group provides a range of services to related parties including the provision of banking facilities and standby financing arrangements. Other dealings include granting loans and accepting deposits, and the provision of finance. These transactions are normally entered into on terms equivalent to those that prevail on an arm's length basis in the ordinary course of business.

Other transactions with controlled entities may involve leases of properties, plant and equipment, provision of data processing services or access to intellectual or other intangible property rights. Charges for these transactions are normally on an arm's length basis and are otherwise on the basis of equitable rates agreed between the parties. The Company also provides various administrative services to the Group, which may include accounting, secretarial and legal. Fees may be charged for these services.

Loans made to subsidiaries are generally entered into on terms equivalent to those that prevail on an arm's length basis, except that there are often no fixed repayment terms for the settlement of loans between parties. Outstanding balances are unsecured and are repayable in cash.

The Company may incur costs on behalf of controlled entities in respect of customer-related remediation, regulatory activity, compliance investigations and associated proceedings. Refer to *Note 30 Commitments and contingent liabilities* for further information in respect of these matters.

Subsidiaries

The table below shows the aggregate amounts receivable / (payable) from subsidiaries for the years ended 30 September:

	Company	
	2021	2020
	$m	$m
Balance at beginning of year	**380**	(1,247)
Net cash (inflows) / outflows	**(434)**	1,486
Net foreign currency translation movements and other amounts receivable	**(29)**	141
Balance at end of year	**(83)**	380

The table below shows material transactions with subsidiaries for the years ended 30 September:

	Company	
	2021	2020
	$m	$m
Net interest (expense)	**(1,713)**	(1,743)
Dividend revenue	**1,752**	1,294

Superannuation plans

The following payments were made to superannuation plans sponsored by the Group:

	Group		Company	
	2021	2020	2021	2020
Payment to:	$m	$m	$m	$m
National Australia Bank Group Superannuation Fund A	**251**	243	**251**	243
Other[1]	**12**	16	**8**	8

(1) Comparative information has been restated to align to the presentation in the current period.

Transactions between the Group and superannuation plans sponsored by the Group were made on commercial terms and conditions.

NOTE 32 RELATED PARTY DISCLOSURES (CONTINUED)

Key Management Personnel

KMP are the directors and senior executives of the Group who have authority and responsibility for planning, directing and controlling the activities of both NAB and the Group. Details of KMP are set out in Section 5.1 and Section 6.2 of the *Remuneration report* of the *Report of the Directors*.

Remuneration

Total remuneration of KMP is included within total personnel expenses in *Note 5 Operating expenses*. The total remuneration is as follows:

	Group	
	2021	2020[1]
	$	$
Short-term benefits		
Cash salary	**17,689,685**	16,146,764
Variable reward cash	**8,321,343**	69,183
Non-monetary	**1,155,255**	592,623
Post-employment benefits		
Superannuation	**448,262**	420,756
Other long-term benefits		
Other long-term benefits	**187,772**	173,623
Equity-based benefits		
Shares	**1,769,389**	1,467,630
Performance rights	**6,749,724**	2,520,742
Other		
Other remuneration	**870,000**	2,497,237
Special duties	**-**	224,764
Total	**37,191,430**	24,113,322

(1) The 2020 comparative amount has been adjusted for Angela Mentis' annual leave entitlement accrual arising from changes in BNZ's leave policy and an additional amount for motor vehicle benefits, and Ross McEwan as fringe benefits tax was not payable on certain amounts associated with his relocation to Australia.

Performance rights and shareholdings of KMP are set out in the *Remuneration report* included in the *Report of the Directors*.

Loans to KMP and their related parties

During the reporting period, loans made to KMP and other related parties of the Group and Company were $34 million (2020: $8 million). Loans made to directors of NAB are made in the ordinary course of business on terms equivalent to those that prevail in arm's length transactions. Loans to Executives (including Executives acting on an interim basis) may be made on similar terms and conditions generally available to other employees of the Group. Loans may be secured or unsecured depending on the nature of the lending product advanced. As at 30 September 2021, the total loan balances outstanding were $45 million (2020: $22 million).

No amounts were written off in respect of any loans made to directors or other KMP of the Group and Company during the current or prior reporting period.

Further details regarding loans advanced to KMP of the Group and Company are included in the *Remuneration report* of the *Report of the Directors*.

NOTE 33
REMUNERATION OF EXTERNAL AUDITOR

	Group		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
EY Australia				
Audit services	**11,442**	12,971	**9,409**	10,138
Audit-related services	**5,275**	5,792	**4,829**	4,278
Taxation-related services	**45**	60	**45**	60
Non-audit services	**-**	26	**-**	26
Total Australia	**16,762**	18,849	**14,283**	14,502
EY Overseas				
Audit services	**4,206**	4,163	**1,969**	2,083
Audit-related services	**647**	606	**267**	283
Taxation-related services	**124**	-	**124**	-
Non-audit services	**-**	6	**-**	-
Total Overseas	**4,977**	4,775	**2,360**	2,366
Total Australia and Overseas	**21,739**	23,624	**16,643**	16,868
Services for non-consolidated trusts of which a Group entity is a trustee, manager or responsible entity and non-consolidated Group superannuation funds	**1,134**	3,274	**-**	-
Total remuneration paid to the external auditor	**22,873**	26,898	**16,643**	16,868

The Joint Parliamentary Committee inquiry into the Regulation of Auditing in Australia highlighted the disparity and lack of comparability of the external auditor fee remuneration disclosure for ASX Listed Corporates. ASIC are proposing four categories to define external auditor services as the basis of the proposed future disclosure requirements which are set out below.

Auditor's remuneration - ASIC disclosures

	Group		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
EY Australia - consolidated entities				
Audit services for the statutory financial report of the parent and any of its' controlled entities	**11,442**	12,971	**9,409**	10,138
Assurance services that are required by legislation to be provided by the external auditor	**213**	299	**121**	126
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**5,062**	5,409	**4,707**	4,068
Other services	**45**	170	**45**	170
Total Australia	**16,762**	18,849	**14,282**	14,502
EY Overseas - consolidated entities				
Audit services for the statutory financial report of the parent and any of its' controlled entities	**4,206**	4,163	**1,969**	2,083
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**647**	606	**267**	283
Other services	**124**	6	**124**	-
Total Overseas	**4,977**	4,775	**2,360**	2,366
Total Australia and Overseas	**21,739**	23,624	**16,642**	16,868
EY Australia and Overseas - non-consolidated entities				
Other assurance and agreed-upon-procedures under other legislation or contractual arrangements	**1,134**	2,754	**-**	-
Other services	**-**	520	**-**	-
Total remuneration paid to the external auditor for the non-consolidated entities	**1,134**	3,274	**-**	-
Total remuneration paid to the external auditor	**22,873**	26,898	**16,642**	16,868

For a description of the Board Audit Committee's pre-approval policies and procedures, refer to the NAB 2021 Corporate Governance Statement which is available online at www.nab.com.au/about-us/corporate-governance. Further details of the audit-related and taxation-related services provided by EY to the Group during 2021 and the fees paid or due and payable for those services are set out in the *Report of the Directors*.

NOTE 34
EQUITY-BASED PLANS

Accounting policy

The value of shares and rights provided to employees are measured by reference to their grant date fair value. The grant date fair value of each share is determined by the market value of NAB shares and is generally a five-day weighted average share price. The grant date fair value of shares and rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.

With the exception of general employee shares in Australia, the expense for each tranche of shares or rights granted is recognised in the income statement on a straight-line basis, adjusted for forfeitures, over the vesting period for the shares or rights. The expense for general employee shares in Australia is recognised in the income statement in the year the shares are granted as they are not subject to forfeiture. A corresponding increase is recorded in the equity-based compensation reserve.

Critical accounting judgements and estimates

The key estimates and inputs used in the Black-Scholes model vary depending on the award and type of security granted. They include the NAB share price at the time of the grant, exercise price of the rights (which is nil), the expected volatility of NAB's share price, the risk-free interest rate and the expected dividend yield on NAB shares for the life of the rights. When estimating expected volatility, historic daily share prices are analysed to arrive at annual and cumulative historic volatility estimates (which may be adjusted for any abnormal periods or non-recurring significant events). Trends in the data are analysed to estimate volatility movements in the future for use in the numeric pricing model. The simulated version of the Black-Scholes model takes into account both the probability of achieving market performance conditions and the potential for early exercise of vested rights.

While market performance conditions are incorporated into the grant date fair values, non-market conditions are not taken into account when determining the fair value and expected time to vesting of shares and rights. Instead, non-market conditions are taken into account by adjusting the number of shares and rights included in the measurement of the expense so that the amount recognised in the income statement reflects the number of shares or rights that actually vest.

Under the Group's employee equity plans, employees of the Group are awarded shares and rights. An employee's right to participate in a plan is often dependent on their performance or the performance of the Group, and shares and rights awarded under the plans are often subject to service and / or performance conditions.

Generally, a right entitles its holder to be allocated one share when the right vests and is exercised. However, under certain bespoke plans, a right entitles its holder to be allocated a number of shares equal to a predetermined value on vesting and exercise of the right.

The Board determines the maximum total value of shares or rights offered under each plan having regard to the rules of the relevant plan and, where required, the method used in calculating the fair value per security. Under ASX Listing Rules, shares and rights may not be issued to NAB directors under an employee equity plan without specific shareholder approval.

Under the terms of most offers, there is a period during which shares are held on trust for the employee they are allocated to and cannot be dealt with, or rights granted to an employee cannot be exercised, by that employee. There may be forfeiture or lapse conditions which apply to shares or rights allocated to an employee (as described below), including as a result of the employee ceasing employment with the Group during those periods or conduct standards not being met. Shares allocated to employees are eligible for any cash dividends paid by NAB on those shares from the time those shares are allocated to the trustee on their behalf. Rights granted to employees are not eligible for any cash dividends paid by NAB. In some limited circumstances, there may be a cash equivalent payment made in the event that rights vest.

The table below sets out details of the Group's employee equity plans that are offered on a regular basis. As noted above, the Group also offers bespoke plans in certain circumstances, including in connection with material transactions, as a retention mechanism and to encourage the achievement of certain specific business growth targets.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition/ Retention awards	General employee shares
Description	A proportion of an employee's annual VR is provided in equity and is deferred for a specified period. The deferred amount and the deferral period is commensurate with the level of risk and responsibility within a role. VR was referred to as 'short-term incentive' before the: • 2018 financial year, for members of the Executive Leadership Team and other Accountable Persons • 2019 financial year for all other employees.	LTVRs (including prior year Long-term Incentive (LTI) grants) are awarded to encourage long-term decision-making critical to creating long-term value for shareholders through the use of challenging long-term performance hurdles.	Provided to enable the buy-out of equity or other incentives from an employee's previous employment.	Offered to key individuals in roles where retention is critical over the medium-term (generally between 2 and 3 years).	Shares up to a target value of $1,000 are offered to eligible employees.
Eligibility	Certain permanent employees based in Australia, New Zealand, the United Kingdom and the United States having regard to their individual performance and the performance of the Group.	The Group CEO and Executive Leadership Team were previously eligible to receive LTI grants except for the 2018 financial year. The Group CEO and Executive Leadership Team are now eligible to receive LTVR.	Provided on a case by case basis, with the recommendation of the People & Remuneration Committee and the approval of the Board.	Provided on a case by case basis, with the recommendation of the People & Remuneration Committee and the approval of the Board.	Prior to 2019, permanent employees based in Australia, Asia, New Zealand, the United Kingdom and the United States were eligible to participate. From 2019, only permanent employees in Australia were eligible to participate.
Type of equity-based payment	Generally shares. However, deferred rights are granted to: • the Group CEO and other members of the Executive Leadership Team (except in respect of 2018 when shares were granted) and other Accountable Persons • other employees for jurisdictional or regulatory reasons.	Performance rights.	Generally shares. However, rights are also granted for jurisdictional reasons.	Generally shares. However, rights are also granted for jurisdictional reasons.	Shares.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	Variable reward (VR)	Long-term variable reward (LTVR)	Commencement awards	Recognition/ Retention awards	General employee shares
Service conditions and performance hurdles	Deferred shares or rights are forfeited or lapsed during the vesting period if: • the employee resigns • the employee does not meet conduct standards • the employee's employment with the Group is terminated, subject to certain exclusions.	During the vesting period, all of an executive's performance rights will lapse on the executive's resignation from the Group and a pro rata portion will lapse on cessation of employment in other circumstances. Performance rights will also lapse if conduct standards or performance hurdles are not met. The Board has absolute discretion to determine vesting or lapsing outcomes for the performance rights.	Shares or rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares or rights are subject to restrictions and certain forfeiture or lapsing conditions, including forfeiture or lapsing on resignation from the Group or if conduct standards are not met.	Shares are subject to restrictions on dealing for three years and, in Australia and Asia, are not subject to forfeiture. In New Zealand, the United Kingdom and the United States, the shares are effectively forfeited if the employee resigns or is dismissed from the Group before the end of the 3-year restriction period.
Vesting, performance or deferral period	Defined period to align with the level of risk and impact of the role on business performance and results or to meet regulatory requirements. The vesting period will generally be between 1 and 7 years.	Defined period set at time of grant, generally between 4 and 5 years.	Defined period set at time of grant, based on satisfactory evidence of foregone awards from previous employment.	Defined period set at time of grant.	3 years.
Exercise period (only applicable for rights)	If the applicable conditions are met, deferred rights will vest and each right will be automatically exercised. n/a for share grants.	Performance rights will be automatically exercised if they vest.	If the applicable conditions are met, rights will vest and each right will be automatically exercised. n/a for share grants.	If the applicable conditions are met, rights will vest and each right will be automatically exercised. n/a for share grants.	n/a
Board discretion	The Board regularly reviews Group performance for risk, reputation, conduct and performance considerations and has the ability to: • Extend the vesting, performance or deferral period beyond the original period for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and, in certain circumstances, other employees. • Forfeit or lapse the deferred shares or rights. • Clawback the deferred shares or rights for the Group CEO, other members of the Executive Leadership Team, other Accountable Persons and in certain circumstances, other employees. In addition, the Board generally has discretion to determine the treatment of unvested shares and rights at the time a change of control event occurs. Vesting of shares and rights will not be automatic or accelerated and the Board will retain discretion in relation to the vesting outcome including absolute discretion to forfeit all shares and rights.				n/a

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

Employee share plan

	2021		2020	
	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $	Fully paid ordinary shares granted during the year No.	Weighted average grant date fair value $
Employee share plans				
Variable reward deferred shares	**1,399,188**	21.76	1,686,075	26.86
Commencement and recognition shares	**530,881**	23.79	433,537	21.36
General employee shares	**1,164,526**	23.00	1,041,183	25.38

The closing market price of NAB shares at 30 September 2021 was $27.83 (2020: $17.75). The volume weighted average share price during the year ended 30 September 2021 was $24.93 (2020: $19.92).

Rights movements

	2021	2020
Number of rights		
Opening balance as at 1 October	**1,776,614**	2,794,858
Granted(1)	**1,878,890**	456,144
Forfeited(1)	**(489,130)**	(984,769)
Exercised	**(520,603)**	(489,619)
Closing balance as at 30 September	**2,645,771**	1,776,614
Exercisable as at 30 September	**3,986**	-

(1) Where rights have been allocated or forfeited to a predetermined value, the total number granted or forfeited has been estimated using a share price of $24.93, being the volume weighted average share price of NAB shares during the financial year ended 30 September 2021.

NOTE 34 EQUITY-BASED PLANS (CONTINUED)

	2021		2020	
	Outstanding at 30 Sep No.	Weighted average remaining life months	Outstanding at 30 Sep No.	Weighted average remaining life months
Terms and conditions				
Market hurdle	**1,590,967**	**35**	741,323	25
Non-market hurdle[1]	**913,357**	**7**	875,305	8
Individual hurdle[1]	**141,447**	**26**	159,986	30

(1) Where rights have been allocated or forfeited to a predetermined value, the total number granted or forfeited has been estimated using a share price of $24.93, being the volume weighted average share price of NAB shares during the financial year ended 30 September 2021.

Information on fair value calculation

The table below shows the significant assumptions used as inputs into the grant date fair value calculation of rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The table also shows a 'no hurdle' value for rights that do not have any market-based performance hurdles attached. The 'no hurdle' value is calculated as the grant date fair value of the rights, and in most instances is adjusted for expected dividends over the vesting period.

	2021	2020
Weighted average values		
Contractual life (years)	**4.0**	4.0
Risk-free interest rate (per annum)	**0.31%**	0.64%
Expected volatility of share price	**30%**	16%
Closing share price on grant date	**$24.90**	$26.24
Dividend yield (per annum)	**5.00%**	6.30%
Fair value of rights with a market hurdle	**$11.50**	$10.07
Fair value of rights without a market hurdle	**$19.01**	$22.84
Expected time to vesting (years)	**3.79**	3.73

NOTE 35
CAPITAL ADEQUACY

As an ADI, NAB is subject to regulation by APRA under the authority of the *Banking Act 1959* (Cth). APRA has set minimum Prudential Capital Requirements (PCR) for ADIs consistent with the Basel Committee on Banking Supervision capital adequacy framework. PCR are expressed as a percentage of total risk-weighted assets. APRA requirements are summarised below:

CET1 capital	Tier 1 capital	Total capital
CET1 capital ranks behind the claims of depositors and other creditors in the event of winding-up of the issuer, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111.	CET1 capital plus Additional Tier 1 capital. Additional Tier 1 capital comprises high quality components of capital that satisfy the following essential characteristics: • provide a permanent and unrestricted commitment of funds • are freely available to absorb losses • rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer • provide for fully discretionary capital distributions.	Tier 1 capital plus Tier 2 capital. Tier 2 capital comprises other components of capital that, to varying degrees, do not meet the requirements of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

An ADI must hold a capital conservation buffer above the PCR for CET1 capital. The capital conservation buffer is 2.5% of the ADI's total risk-weighted assets. As a Domestic Systemically Important Bank (D-SIB) in Australia, the Group is also required to hold an additional buffer of 1% in CET1 capital. In addition, APRA requires the Group to hold a countercyclical capital buffer set on a jurisdictional basis. The requirement is currently set to zero for Australia.

APRA may determine a higher PCR for an ADI and may change an ADI's PCR at any time. A breach of the required ratios under APRA's prudential standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital.

Regulatory capital requirements are measured on a Level 1 and Level 2 basis. Level 1 comprises NAB and Extended Licenced Entities approved by APRA. Level 2 comprises NAB and its controlled entities, excluding superannuation and funds management entities, insurance and securitisation special purpose vehicles which meet APRA's requirements for capital relief.

Capital ratios are monitored against internal capital targets that are set by the Board over and above minimum capital requirements set by APRA.

The Group remained well capitalised during the year to September 2021, with a CET1 capital ratio of 13.00% as at 30 September 2021.

NOTE 36
NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net profit attributable to owners of NAB to net cash provided by / (used in) operating activities

	Group		Company	
	2021	**2020**	**2021**	**2020**
	$m	**$m**	**$m**	**$m**
Net profit / (loss) attributable to owners of NAB	**6,364**	2,559	**5,063**	(527)
Add / (deduct) non-cash items in the income statement:				
(Increase) / decrease in interest receivable	**159**	218	**149**	194
Increase / (decrease) in interest payable	**(347)**	(915)	**(277)**	(770)
Increase / (decrease) in unearned income and deferred net fee income	**(47)**	(234)	**(12)**	(227)
Fair value movements on assets, liabilities and derivatives held at fair value	**(505)**	(3,186)	**515**	(2,548)
Increase in provisions	**1,165**	2,027	**1,040**	1,898
Equity-based compensation recognised in equity or reserves	**100**	74	**100**	74
Impairment losses on non-financial assets	**16**	424	**89**	2,578
Impairment losses on financial assets	**2**	-	**2**	-
Credit impairment charge / (write-back)	**(148)**	2,821	**(150)**	2,521
Depreciation and amortisation expense	**1,088**	2,184	**878**	1,655
(Increase) / decrease in other assets	**258**	(387)	**450**	(705)
Increase / (decrease) in other liabilities	**267**	(57)	**226**	(118)
Increase / (decrease) in income tax payable	**29**	(331)	**2**	(401)
(Increase) / decrease in deferred tax assets	**661**	(836)	**445**	(833)
Increase / (decrease) in deferred tax liabilities	**27**	(15)	**(3)**	143
Operating cash flow items not included in profit	**(8,222)**	29,537	**(14,269)**	29,190
Investing or financing cash flows included in profit				
Loss on sale of controlled entities, before income tax	**19**	-	**19**	-
(Gain) / loss on sale of associates and joint ventures, before income tax	**(11)**	-	**7**	-
(Gain) on sale of other debt and equity instruments	**(121)**	-	**(121)**	-
(Gain) / loss on sale of property, plant, equipment and other assets	**5**	9	**(22)**	-
Net cash provided by / (used in) operating activities	**759**	33,892	**(5,869)**	32,124

NOTE 36 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Group				Company			
	Bonds, notes and subordinated debt		Other debt issues	Lease liabilities	Bonds, notes and subordinated debt		Other debt issues	Lease liabilities
	At fair value	At amortised cost			At fair value	At amortised cost		
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at 1 October 2019	25,998	143,258	6,482	-	6,414	137,599	6,482	-
Cash flows								
Proceeds from issue	552	14,444	1,100	-	-	12,939	1,100	-
Repayments	(4,140)	(30,384)	(649)	(322)	(573)	(29,227)	(649)	(278)
Non-cash changes								
Opening lease liabilities on adoption of AASB 16	-	-	-	1,425	-	-	-	1,204
Additions to lease liabilities	-	-	-	473	-	-	-	404
Conversion of convertible preference shares and convertible notes	-	-	(750)	-	-	-	(750)	-
Fair value changes, including fair value hedge adjustments	342	512	-	-	204	450	-	-
Foreign currency translation and other adjustments	(404)	(1,446)	8	(21)	(200)	(1,464)	8	(11)
Balance at 30 September 2020	22,348	126,384	6,191	1,555	5,845	120,297	6,191	1,319
Cash flows								
Proceeds from issue	**713**	**12,385**	**2,365**	**-**	**-**	**10,053**	**2,365**	**-**
Repayments	**(4,054)**	**(26,008)**	**(1,731)**	**(383)**	**(191)**	**(24,622)**	**(1,731)**	**(337)**
Non-cash changes								
Additions to lease liabilities	**-**	**-**	**-**	**789**	**-**	**-**	**-**	**678**
Fair value changes, including fair value hedge adjustments	**(247)**	**(2,096)**	**-**	**-**	**2**	**(1,660)**	**-**	**-**
Foreign currency translation and other adjustments	**(344)**	**(1,511)**	**6**	**6**	**(86)**	**(1,567)**	**6**	**(1)**
Balance at 30 September 2021	**18,416**	**109,154**	**6,831**	**1,967**	**5,570**	**102,501**	**6,831**	**1,659**

NOTE 36 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash and liquid assets and amounts due from other banks (including reverse repurchase agreements and short-term government securities) net of amounts due to other banks that are readily convertible to known amounts of cash within three months.

Cash and cash equivalents as shown in the cash flow statement is reconciled to the related items on the balance sheet as follows:

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Assets				
Cash and liquid assets[1]	**50,832**	64,560	**50,336**	63,555
Treasury and other eligible bills	**871**	1,607	**-**	-
Due from other banks (excluding mandatory deposits with supervisory central banks)	**25,296**	31,806	**16,001**	28,363
Total cash and cash equivalent assets	**76,999**	97,973	**66,337**	91,918
Liabilities				
Due to other banks	**(39,118)**	(35,932)	**(35,875)**	(33,112)
Total cash and cash equivalents	**37,881**	62,041	**30,462**	58,806

(1) Comparative information includes cash and liquid assets held in MLC Wealth. Refer to *Note 37 Discontinued* operations.

Non-cash financing and investing activities

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
New share issues				
Dividend reinvestment plan	**274**	976	**274**	976
Conversion of convertible preference shares and convertible notes	**-**	750	**-**	750

The Dividend Reinvestment Plan discount is nil (2020: nil), with no participation limit.

NOTE 37
DISCONTINUED OPERATIONS

Accounting policy

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, and is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the income statement and statement of comprehensive income.

Sale of MLC Wealth discontinued operation

On 31 August 2020, the Group entered into an agreement for the sale of 100% of MLC Wealth, including the advice, platforms, superannuation and investments, and asset management businesses, to IOOF. The total consideration for the sale was $1,440 million, comprising $1,240 million in cash and $200 million in equity-linked subordinated notes issued by IOOF. Management concluded that MLC Wealth met the criteria to be classified as a discontinued operation as at 30 September 2020. An impairment of the goodwill attributable to MLC Wealth of $199 million was recognised within the 'net loss from discontinued operations' for the year ended 30 September 2020.

The transaction completed on 31 May 2021 and a loss on the sale based on the net assets at completion of $50 million was recognised within the "net loss from discontinued operations". The final financial outcome of the sale remains subject to the finalisation of the completion accounts process and other contingencies associated with the sale. Refer to *Note 30 Commitments and contingent liabilities* for further information.

MLC Life discontinued operation

Amounts presented in the life insurance discontinued operation related to the Group's life insurance business. The Group disposed of 80% of its investment in MLC Life to Nippon Life Insurance Company in 2016. The amounts presented in September 2021 and 2020 relate to a re-assessment of customer-related remediation provisions associated with the MLC Life business.

Analysis of net loss from discontinued operations

	Group	
	2021	**2020**
	$m	**$m**
MLC Wealth discontinued operation		
Net operating income	**749**	1,258
Operating expenses	**(695)**	(1,194)
MLC reportable segment profit before tax	**54**	64
MLC Wealth-related items[(1)]	**(175)**	(1,308)
Income tax benefit	**53**	340
Net loss related to MLC Wealth	**(68)**	(904)
Loss on sale / impairment of goodwill	**(50)**	(199)
Net loss from MLC Wealth discontinued operation	**(118)**	(1,103)
MLC Life discontinued operation		
Net profit / (loss) from MLC Life discontinued operation	**14**	168
Net loss from discontinued operations	**(104)**	(935)
Attributable to owners of NAB	**(107)**	(939)
Attributable to non-controlling interests	**3**	4

(1) Primarily relates to customer-related and payroll remediation, MLC Wealth separation costs, the impact of the change in the application of the software capitalisation policy and changes in the provision for litigation.

NOTE 37 DISCONTINUED OPERATIONS (CONTINUED)

Cash flows provided by / (used in) discontinued operations[1]

	Group	
	2021	2020
	$m	$m
MLC Wealth discontinued operation		
Net cash provided by / (used in) operating activities	**(724)**	(728)
Net cash provided by / (used in) investing activities[2]	**(396)**	27
Net cash provided by / (used in) financing activities	**(374)**	(71)
Net cash inflows / (outflows) from MLC Wealth discontinued operation	**(1,494)**	(772)
MLC Life discontinued operation		
Net cash provided by / (used in) operating activities	**(50)**	(98)
Net cash inflows / (outflows) from life insurance business discontinued operation	**(50)**	(98)

(1) Includes cash outflows of $402 million representing cash and cash equivalents of MLC Wealth at time of disposal.
(2) Group received $1,240 million of cash consideration on the sale of MLC Wealth, which is included in *Note 36 Notes to the statement of cash flows.*

Non-current assets and disposal group held for sale

As at 30 September 2021, the Company had assets held for sale of $nil (2020: $1,837 million which represented NAB's investment in NWMH in 2020).

The major classes of assets and liabilities included in the MLC Wealth disposal group as at 30 September 2020 are summarised below:

	Group
	2020
	$m
MLC Wealth disposal group[1]	
Assets	
Cash and liquid assets	172
Other financial assets	226
Deferred tax assets	91
Property, plant and equipment	1
Goodwill and other intangibles	827
Other assets	162
Assets held for sale	1,479
Liabilities	
Provisions	96
Deferred tax liabilities	6
Other liabilities	119
Liabilities directly associated with assets held for sale	221

(1) Amounts are shown net of inter-company balances.

As at 30 September 2021, the fair value of total assets in the disposal group held for sale is $nil (2020: $1,479 million) and the fair value of total liabilities in the disposal group held for sale is $nil (2020: $221 million). These fair values were categorised within Level 2 of the fair value hierarchy.

NOTE 38
ACQUISITION OF SUBSIDIARY

The Group acquired 86 400 to accelerate the growth of its digital bank, UBank, by combing UBank's established customer base and brand with 86 400's technology and innovation capability thereby enabling the Group to develop a leading digital bank that can attract and retain customers at scale and pace.

Prior to December 2020, the Group paid $29 million to acquire an 18.3% voting equity interest in 86 400. On 19 May 2021 the Group acquired the remaining equity interest for $216 million (cash consideration).

At acquisition the 18.3% investment was revalued to $45 million and the revaluation gain was recognised in other operating income. A total of $5.8 million in transaction costs have been incurred by the Group in respect of the acquisition and recognised within other operating expenses.

Prior to the completion date for the acquisition of 86 400, the Group provided a $300 million secured financing facility to 86 400, negotiated on arms-length terms. This facility allowed 86 400 to sell $227 million in loans to NAB over the period prior to completion. This transaction was accounted for separately from the acquisition of 86 400.

$126 million of goodwill was recognised on acquisition date. This goodwill is supported by 86 400's team experience and technology platform to deliver the next generation of simple, fast and mobile banking solutions. No impairment was recognised at 30 September 2021. Goodwill as at the acquisition date was determined as follows:

	Group 2021 $m
Consideration for the acquisition	
Cash	216
Fair value of previously held equity interest	45
Total consideration	261

	Group 2021 $m
Assets and liabilities acquired	
Total assets	772
Total liabilities	511
Net assets	261
Goodwill	126

NOTE 39
EVENTS SUBSEQUENT TO REPORTING DATE

There are no items, transactions or events of a material or unusual nature that have arisen in the interval between 30 September 2021 and the date of this report that, in the opinion of the directors, have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

The directors of National Australia Bank Limited declare that:

(a) in the opinion of the directors, the financial statements and the notes thereto as set out on pages 85 to 191 and the additional disclosures included in the audited pages of the *Remuneration report*, comply with Australian Accounting Standards (including the Australian Accounting Interpretations), International Financial Reporting Standards as stated in *Note 1 Basis of preparation* to the financial statements, and the *Corporations Act 2001* (Cth);

(b) in the opinion of the directors, the financial statements and notes thereto give a true and fair view of the financial position of NAB and the Group as at 30 September 2021, and of the performance of NAB and the Group for the year ended 30 September 2021;

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

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* (Cth).

Dated this 9th day of November 2021 and signed in accordance with a resolution of the directors.

Philip Chronican
Chair

Ross McEwan
Group Chief Executive Officer

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

Report on the Audit of the Financial Report

Opinion

We have audited the Financial Report of National Australia Bank Limited (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company balance sheets as at 30 September 2021;
- the Group consolidated and Company income statements, statements of comprehensive income, statements of changes in equity and statements of cash flow for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies, and
- the Directors' declaration.

In our opinion the accompanying Financial Report is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's and the Group's financial position as at 30 September 2021 and of their financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards*) (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current year. These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. The key audit matters identified below, unless otherwise stated, relate to both the Company and the Group.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the Financial Report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Report.

Why significant	How our audit addressed the key audit matter

Provision for credit impairment

Why significant

As described in Note 17 *Provision for credit impairment on loans at amortised cost* and Note 19 *Financial risk management*, the provision for credit impairment is determined in accordance with Australian Accounting Standard – AASB 9 *Financial Instruments* (AASB 9).

This was a key audit matter due to the value of the provision, and the degree of judgment and estimation uncertainty associated with the provision calculation.

Key areas of judgment included:

- the application of the impairment requirements of AASB 9 within the Company's and the Group's expected credit loss methodology;
- the identification of exposures with a significant deterioration in credit quality;
- assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis); and
- the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios.

How our audit addressed the key audit matter

We assessed the alignment of the Group's expected credit loss model and its underlying methodology against the requirements of AASB 9, with consideration of ongoing COVID-19 impacts and related industry responses.

We assessed the following for exposures evaluated on a collective basis and overlays:

- significant modelling and macroeconomic assumptions, including the reasonableness of forward-looking information and scenarios;
- the basis for and data used to determine overlays; and
- sensitivity of collective provisions to changes in modelling assumptions.

We involved our actuarial specialists to test the mathematical accuracy of the model and to consider key assumptions.

We examined a sample of exposures assessed on an individual basis by:

- assessing the reasonableness and timeliness of internal credit quality assessments based on the borrowers' particular circumstances; and
- evaluating the associated provisions by assessing the reasonableness of key inputs into the calculation, with particular focus on the impact of COVID-19 on high-risk industries, work out strategies, collateral values, and the value and timing of recoveries.

In conjunction with our IT specialists, we assessed the effectiveness of relevant controls relating to the:

- capture of data, including loan origination and transactional data, ongoing internal credit quality assessments, storage of data in data warehouses, and interfaces with the models; and
- expected credit loss models, including functionality, ongoing monitoring/validation and model governance.

We considered the processes used to identify and assess climate-related risks associated with the Company's and the Group's provision for credit impairment.

We considered the adequacy and appropriateness of the disclosures related to credit impairment within the Financial Report.

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Why significant	How our audit addressed the key audit matter

Provisions for customer-related remediation and associated costs, regulatory compliance matters and legal proceedings

As detailed in Note 24 *Provisions* and Note 30 *Commitments and contingent liabilities*, the Company and the Group have recorded provisions and/or made disclosures in relation to matters requiring customer remediation, regulatory compliance investigations (including from ASIC and AUSTRAC) and any associated legal proceedings.

This was a key audit matter due to the significant judgment required to determine a reliable estimate of the provision.

Key areas of judgment included the:

- decision whether to recognise a provision and/or disclose a contingent liability, including whether there is a present obligation as a result of a past event and whether sufficient information existed to allow a provision to be reliably measured;
- assumptions used to estimate the customer-related remediation payments, including refund rates and average compensation amounts; and
- costs required to complete the remediation programs.

We developed an understanding of the Company's and the Group's processes for identifying potential regulatory compliance matters and customer-related remediation obligations.

We held discussions with management, reviewed Board of Directors and Board committee minutes, reviewed correspondence with regulators and attended Board Audit Committee and Board Risk and Compliance Committee meetings.

We discussed ongoing and potential legal matters with management, including General Counsel, the Money Laundering Reporting Officer and the Chief Risk Officer, and considered the need to obtain external legal confirmations.

We assessed key assumptions used to estimate the customer-related remediation amounts, including consideration of industry and historical trends and compensation experience to date. We also reviewed and assessed legal advice where applicable.

We evaluated the adequacy of the costs recognised with reference to the status of each program and costs incurred to date.

For those matters where the Company and the Group determined that either a present obligation as a result of a past event does not exist, or where a sufficiently reliable estimate of the amount of the obligation cannot be made and for which no provisions have been recognised, we assessed the appropriateness of this conclusion.

We considered the adequacy and appropriateness of the disclosures within the Financial Report related to the provisions and/or related contingent liability disclosure.

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Why significant	How our audit addressed the key audit matter
Information Technology (IT) systems and controls over financial reporting	
A significant part of the Company's and the Group's financial reporting process is primarily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information. A fundamental component of these IT controls is ensuring that risks relating to inappropriate user access management, unauthorised program changes and IT operating protocols are addressed.	We focused on those IT systems and controls that are significant to the Group's financial reporting process. We involved our IT specialists, as audit procedures over IT systems and controls require specific expertise. We assessed the design and tested the operating effectiveness of the Company's and the Group's IT controls, including those related to user access, change management and data integrity. Where we identified design and/or operating deficiencies in the IT control environment, our procedures included the following: ▶ we assessed the integrity and reliability of the systems and data related to financial reporting; and ▶ where automated procedures were supported by systems with identified deficiencies, we assessed alternative controls that were not reliant on the IT control environment.

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Why significant	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The Group has recognised goodwill of $1,964 million on its balance sheet. During the year, goodwill was recognised arising from the acquisition of 86 400. A new cash generating unit (CGU) was created for the purposes of impairment testing with $126 million of goodwill attributed to it. As detailed in Note 22 *Goodwill and other intangible assets*, the Group performs an annual impairment assessment, or more frequently, if there is an indication that goodwill may be impaired. This involves a comparison of the carrying value of the CGU to which the goodwill has been attributed with its recoverable amount. The recoverable amount was determined using fair value less cost of disposal for the 86 400 CGU and a value in use basis for the other CGUs. The determination of value in use incorporated a range of assumptions, including: ▶ future cash flows; ▶ discount rate; and ▶ terminal growth rate. The impairment assessment of goodwill was a key audit matter due to the degree of estimation uncertainty associated with the assumptions applied in the impairment assessment.	We assessed whether the value in use calculation methodology used by the Group for the impairment assessment of goodwill was in accordance with the requirements of Australian Accounting Standards. We assessed the appropriateness of the CGUs identified to which goodwill has been allocated. We agreed the forecast cash flows to the most recent Board or management-approved cash flow forecasts and assessed the accuracy of the historical forecasts by performing a comparison of recent forecasts to actual results. We involved our valuation specialists to assess the key assumptions, including discount rates, terminal growth rates and growth assumptions, used in the impairment assessment with reference to comparable companies and to test the mathematical accuracy of the impairment models. We assessed whether the fair value less cost of disposal determined for the 86 400 CGU was in accordance with the requirements of Australian Accounting Standards. We considered market capitalisation of the business and recent trading history relative to net assets and benchmarked the implied valuations to comparable company valuation multiples. We considered the disclosures within the Financial Report related to the impairment assessment of goodwill.

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

The Directors are responsible for the other information. The other information comprises the information included in the Company’s Annual Financial Report for the year ended 30 September 2021 but does not include the Financial Report and our auditor’s report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the Financial Report, the Directors are responsible for assessing the Company’s and Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Financial Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the Financial Report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Building a better working world

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 52 to 84 of the Report of the Directors for the year ended 30 September 2021.

In our opinion, the Remuneration Report of National Australia Bank Limited for the year ended 30 September 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Sarah Lowe
Partner
Melbourne

9 November 2021

Twenty largest registered fully paid ordinary shareholders of the Company as at 15 October 2021

	Number of shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	784,355,688	23.90
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	496,630,362	15.13
CITICORP NOMINEES PTY LIMITED	272,306,042	8.30
NATIONAL NOMINEES LIMITED	122,060,970	3.72
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	73,544,878	2.24
BNP PARIBAS NOMS PTY LTD <DRP>	43,799,170	1.33
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	36,639,050	1.12
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	21,900,294	0.67
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	11,154,789	0.34
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	9,175,654	0.28
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	7,628,653	0.23
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	6,195,386	0.19
ARGO INVESTMENTS LIMITED	5,934,685	0.18
MILTON CORPORATION LIMITED	4,880,441	0.15
BNP PARIBAS NOMS (NZ) LTD <DRP>	4,845,665	0.15
AMP LIFE LIMITED	4,744,764	0.14
CPU SHARE PLANS PTY LTD	4,400,856	0.13
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	4,029,164	0.12
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	3,731,360	0.11
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	2,972,650	0.09
Total	**1,920,930,521**	**58.53**

Substantial shareholders

The following organisations have disclosed a substantial shareholding notice to ASX. As at 15 October 2021, the Company has received no further update in relation to these substantial shareholdings.

Name	Number of shares	% of voting power
BlackRock Group(1)	177,651,034	6.02%
The Vanguard Group, Inc(2)	191,802,827	6.00%

(1) Substantial shareholding as at 18 March 2020, as per notice lodged on 20 March 2020.
(2) Substantial shareholding as at 27 May 2020, as per notice lodged on 1 June 2020.

Distribution of fully paid ordinary shareholdings

	Number of shareholders	% of holders	Number of shares	% of shares
Range (number)				
1 – 1,000	367,359	59.61	129,138,013	3.93
1,001 – 5,000	192,890	31.30	437,502,955	13.33
5,001 – 10,000	34,649	5.62	241,112,912	7.35
10,001 – 100,000	20,851	3.38	420,456,224	12.81
100,001 and over	480	0.08	2,053,783,649	62.58
Total	**616,229**	**100**	**3,281,993,753**	**100**
Less than marketable parcel of $500	16,078		114,571	

Voting rights

Each ordinary shareholder present at a general meeting (whether in person or by proxy or representative) is entitled to one vote on a show of hands or, on a poll, one vote for each fully paid ordinary share held. Holders of partly paid shares voting on a poll are entitled to a number of votes based upon the proportion that the amount of capital call and paid up on the shares bears to the total issue price of the shares.

SHAREHOLDER INFORMATION (CONTINUED)

Official quotation

Fully paid ordinary shares of the Company are quoted on the ASX.

The Group has also issued:

- NAB Capital Notes 2, NAB Capital Notes 3, NAB Capital Notes 5, NAB Subordinated Notes 2, covered bonds and residential mortgage backed securities which are quoted on the ASX.
- Medium-term notes and covered bonds which are quoted on the Luxembourg Stock Exchange.
- Medium-term notes and subordinated notes which are quoted on the Euro MTF market.
- Undated subordinated floating rate notes which are quoted on the London Stock Exchange.
- Medium-term notes which are quoted on the NZX Debt Market.
- Medium-term notes and covered bonds which are quoted on the SIX Swiss Exchange.
- Medium-term notes which are quoted on the Taipei Exchange.

Unquoted securities

NAB has the following unquoted securities on issue as at 31 October 2021:

- 11,958 partly paid ordinary shares, of which there are 17 holders
- 1,866,363 rights, of which there are 50 holders (see page 37 of this report for further details).

Chair

Mr Philip Chronican
BCom (Hons), MBA (Dist), GAICD, SF Fin

Group Chief Executive Officer and Managing Director

Mr Ross McEwan CBE
BBus

Group Chief Financial Officer

Mr Gary Lennon BEc (Hons), FCA

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Company Secretary

Mrs Louise Thomson BBus (Dist), FGIA

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Social Impact

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Email: social.impact@nab.com.au

Shareholder Centre website

The Group's website at www.nab.com.au/shareholder has a dedicated separate section where shareholders can gain access to a wide range of information, including copies of recent announcements, annual financial reports as well as extensive historical information.

Shareholder information line

There is a convenient 24 hours a day, 7 days a week automated service. To obtain the current balance of your securities and relevant payment details, telephone 1300 367 647 (Australia) or +61 3 9415 4299 (outside Australia).

These services are secured to protect your interests. In all communications with the Share Registry, please ensure you quote your Securityholder Reference Number (SRN), or in case of broker sponsored shareholders, your Holder Identification Number (HIN).

Principal Share Register

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Email: nabservices@computershare.com.au
Website: www.investorcentre.com/au

United Kingdom Share Register

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United Kingdom

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Fax: +44 370 703 6101

Email: nabgroup@computershare.co.uk
Website: www.investorcentre.com/au

United States ADR Depositary, Transfer Agent and Registrar contact details for NAB ADR holders:

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American Stock Transfer & Trust Company Operations Center
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Brooklyn, NY 11219
USA
Toll-free number: +1 866 706 0509
Direct Dial: +1 718 921 8137
Email: db@amstock.com

Contact details for NAB ADR brokers & institutional investors:

US Tel: +1 212 250 9100
UK Tel: +44 207 547 6500
Email: adr@db.com

Term Used	Description
12-month expected credit losses (ECL)	The portion of lifetime expected credit losses that represent the expected losses arising from default events that could occur within 12 months of the reporting date.
86 400	86 400 refers to 86 400 Holdings Limited, the holding company of the 86 400 banking business, acquired by the Group in May 2021.
90+ days past due (DPD) and gross impaired assets to GLAs	Loans and advances 90+ DPD but not impaired and impaired assets expressed as a percentage of gross loans and acceptances. Calculated as the sum of 'Loans and advances past due but not impaired (past due over 90 days)' and 'Gross impaired assets', divided by gross loans and acceptances.
AASB	Australian Accounting Standards Board.
Accountable Person	An accountable person for the purposes of the *Banking Act 1959* (Cth).
ADI	Authorised Deposit-taking Institution.
ADR	American Depositary Receipt.
AGM	Annual General Meeting.
AML	Anti-Money Laundering.
APRA	Australian Prudential Regulation Authority.
APRA self-assessment	The Group undertook a self-assessment into governance, accountability and culture in June 2018 at the request of the Australian Prudential Regulation Authority (APRA). The self-assessment identified shortcomings in aspects of the Group's approach to non-financial risk management, with particular focus on operational, compliance and conduct risks. The Group voluntarily published the self-assessment report which identified 26 actions to deliver structural, procedural and cultural changes.
APS	Prudential Standards issued by APRA applicable to ADIs.
ASIC	Australian Securities and Investments Commission.
ASX	Australian Securities Exchange Limited (or the market operated by it).
AUSTRAC	Australian Transaction Reports and Analysis Centre.
Available stable funding (ASF)	The portion of an ADI's capital and liabilities expected to be reliably provided over a one-year time horizon.
Average equity (adjusted)	Average equity adjusted to exclude non-controlling interests and other equity instruments.
Average interest earning assets	The average balance of assets held by the Group over the period that generate interest income.
Bank levy	A levy imposed under the *Major Bank Levy Act 2017* (Cth) on ADIs with total liabilities of more than $100 billion.
Basel III	Basel III is a global regulatory framework designed to increase the resilience of banks and banking systems and was effective for ADIs from 1 January 2013.
BBSW	Bank Bill Swap Rate.
BNZ	Bank of New Zealand.
Business lending	Lending to non-retail customers including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Cash earnings	Cash earnings is defined as net profit attributable to owners of NAB from continuing operations, adjusted for the items NAB considers appropriate to better reflect the underlying performance of the Group. Cash earnings for the September 2021 full year have been adjusted for the following: • distributions • hedging and fair value volatility • amortisation of acquired intangible assets • acquisition, integration and transaction costs.
Cash return on equity (cash ROE)	Cash earnings after tax expressed as a percentage of average equity (adjusted).
CGU	Cash-generating unit.
Citigroup	Citigroup Pty Limited and Citigroup Overseas Investment Corporation.
CO_2-e (carbon dioxide equivalent)	The common unit of measure for the expression of Greenhouse Gas (GHG) emissions. Each unit of GHG has a different global warming potential. Therefore, all greenhouse gases are converted back to tonnes (tCO_2-e) of carbon dioxide equivalent to enable consistent comparison and measurement.
Committed Liquidity Facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.

Term Used	Description
Common Equity Tier 1 (CET1) capital	CET1 capital ranks behind the claims of depositors and other creditors in the event of winding-up of the issuer, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. CET1 capital consists of the sum of paid-up ordinary share capital, retained profits and certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Common Equity Tier 1 capital ratio	CET1 capital divided by risk-weighted assets.
Company	National Australia Bank Limited (NAB) ABN 12 004 044 937.
Continuing operations	Continuing operations are the components of the Group which are not discontinued operations.
Core assets	Represents gross loans and advances including acceptances, financial assets at fair value, and other debt instruments at amortised cost.
Customer deposits	The sum of interest bearing, non-interest bearing and term deposits (including retail and corporate deposits).
Customer Funding Index (CFI)	Customer deposits (excluding certain short dated institutional deposits used to fund liquid assets) divided by core assets.
CTF	Counter-Terrorism Financing.
CYBG	Virgin Money UK PLC (formerly CYBG PLC).
Deferred STI shares	Deferred STI shares form part of the Short-term incentives (STI) equity-based plan. They are NAB ordinary shares, allocated at no charge to the employee, in respect of prior year performance, which provide dividend income to the employee from allocation.
Dilutive potential ordinary share	A financial instrument or other contract that may entitle its holder to ordinary shares and which would have the effect of decreasing earnings per share. For the Group, these include convertible preference shares, convertible notes and shares issued under employee incentive schemes.
Discontinued operations	Discontinued operations are a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, which is part of a single coordinated plan for disposal.
Distributions	Payments to holders of equity instruments other than ordinary shares such as National Income Securities.
EaR	Earnings at risk.
Earnings per share (EPS) - basic	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis), divided by the weighted average number of ordinary shares.
Earnings per share (EPS) - diluted	Calculated as net profit attributable to ordinary equity holders of the parent (statutory basis) or cash earnings (cash earnings basis), divided by the weighted average number of ordinary shares, after adjusting both earnings and the weighted average number of ordinary shares for the impact of dilutive potential ordinary shares.
Economic adjustments (EA)	Economic adjustments form part of the provision for credit impairment derived from reasonable and supportable forecasts of potential future conditions (forward looking information) that are not captured within the underlying credit provision. They incorporate general macro-economic forward looking information (for example, GDP, unemployment and interest rates).
Environmental reporting year	Environmental reporting period from 1 July to 30 June. Aligned with the *National Greenhouse and Energy Reporting Act 2007* (Cth).
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Fair value (for the purposes of equity awards set out in the Remuneration Report)	The value of the awards provided are measured by reference to the grant date fair value of the shares and performance rights provided to employees. The grant date fair value of each share is determined by the market value of NAB shares, and is generally a five-day weighted average share price. The fair value of the shares and performance rights with market performance hurdles is determined using a simulated version of the Black-Scholes model.
Forward looking adjustments (FLA)	Forward looking adjustments reflect part of the provision for credit impairment derived from reasonable and supportable forecasts of potential future conditions (forward looking information) that are not otherwise captured within the underlying credit provision or the EA. They incorporate more targeted sector-specific forward looking information.
Full-time equivalent employees (FTE)	Includes all full-time, part-time, temporary, fixed term and casual employee equivalents, as well as agency temporary employees and external contractors either self-employed or employed by a third party agency. Note: this excludes consultants, IT professional services, outsourced service providers and non-executive directors.

Term Used	Description
Greenhouse gas (GHG) emissions	Gaseous pollutants released into the atmosphere that amplify the greenhouse effect. Gases responsible include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
Gross Domestic Product (GDP)	GDP is the market value of finished goods and services produced within a country in a given period of time.
Gross loans and acceptances (GLAs)	Total loans, advances and acceptances, including unearned and deferred fee income, excluding associated provisions for expected credit losses. Calculated as the sum of 'Acceptances', 'Loans and advances at fair value' and 'Loans and advances at amortised cost'.
Group	NAB and its controlled entities.
Hedging and fair value volatility	This volatility represents timing differences between the unrealised gains or losses recognised over the term of the transactions and the ultimate economic outcome which will only be realised in the future. This volatility arises primarily from fair value movements relating to trading derivatives held for risk management purposes; fair value movements relating to assets, liabilities and derivatives designated in hedge relationships; and fair value movements relating to assets and liabilities designated at fair value.
High-quality liquid assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Housing lending	Mortgages secured by residential properties as collateral.
IFRS	International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).
Impaired assets	Consist of: • Retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest. • Non-retail loans which are contractually past due and / or there is sufficient doubt exists about the ability to collect principal and interest in a timely manner. • Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. • Unsecured portfolio managed facilities that are 180 days past due (if not written off).
Internal ratings-based (IRB)	The process used to estimate credit risk through the use of internally developed models to assess potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Key Management Personnel (KMP)	KMP are the directors of NAB and senior executives of the Group who have authority and responsibility of planning, directing and controlling activities of both NAB and the Group.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Lifetime expected credit losses (ECL)	The ECL that results from all possible default events over the expected life of a financial instrument.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
MLC Life	MLC Limited.
MLC Wealth	MLC Wealth was the Group's Wealth division which provided superannuation, investments, asset management and financial advice to retail, corporate and institutional clients, supported by several brands including MLC, Plum and investment brands under MLC Asset Management. The sale of MLC Wealth to IOOF Holdings Ltd completed on 31 May 2021.
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB risk management	Management of interest rate risk in the banking book, wholesale funding and liquidity requirements and trading market risk to support the Group's franchises.
Net interest margin (NIM)	Net interest income derived on a cash earnings basis expressed as a percentage of average interest earning assets.
Net Promoter Score (NPS)	Net Promoter® and NPS® are registered trademarks, and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld. Net Promoter Score measures the likelihood of a customer's recommendation to others for retail or business banking.
Net Stable Funding Ratio (NSFR)	A ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF).
Official Cash Rate	Official Cash Rate is an interest rate set by the Reserve Bank of New Zealand.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.

Term Used	Description
Required stable funding (RSF)	The amount of stable funding an ADI is required to hold measured as a function of the liquidity characteristics and residual maturities of the various assets held by an ADI, including off-balance sheet exposures.
Risk-weighted assets	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RMBS	Residential Mortgage Backed Securities.
Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017 by the Governor-General of the Commonwealth of Australia to conduct a formal public inquiry into Australian financial institutions.
Securitisation	Structured finance technique which involves pooling and packaging cash flow converting financial assets into securities that can be sold to investors.
Senior executives	The Executive Leadership Team, excluding the Group CEO.
Short-term incentive (STI)	An 'at risk' opportunity for individuals to receive an annual performance-based reward. The actual STI reward that an individual will receive in any particular year will reflect both business and individual performance.
SME	Small and medium-sized enterprises.
Stable Funding Index (SFI)	Term Funding Index (TFI) plus Customer Funding Index (CFI).
Standardised approach	An alternative approach to the assessment of credit risk whereby an ADI uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk-weighted assets.
Statutory net profit	Net profit attributable to owners of NAB.
Statutory return on equity	Statutory earnings after tax expressed as a percentage of average equity (adjusted), calculated on a statutory basis.
Structured entity	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). A structured entity may take the form of a corporation, trust, partnership or unincorporated entity. Structured entities are often created with legal arrangements that impose strict limits on the activities of the structured entity.
Term Funding Index (TFI)	Term wholesale funding (with remaining maturity to first call date greater than 12 months), including Term Funding Facility (TFF) drawdowns divided by core assets.
Tier 1 capital	Tier 1 capital comprises CET1 capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital comprises other components of capital that, to varying degrees, do not meet the requirements as Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Top quartile engagement	Top quartile comparison is based upon Glint's client group (domestic and global, from all industries).
Total average assets	The average balance of assets held by the Group over the period, adjusted for discontinued operations.
Total capital	Tier 1 capital plus Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.
Treasury shares	Shares issued to meet the requirements of employee incentive schemes which have not yet been distributed.
Underlying profit / loss	Underlying profit / loss is a performance measure used by NAB. It represents cash earnings / loss before various items, including income tax expense and the credit impairment charge. It is not a statutory financial measure and is not presented in accordance with Australian Accounting Standards.
VaR	Value at Risk.
Weighted average number of ordinary shares	The number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

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