

Thursday, 2 May 2024

ASX ANNOUNCEMENT

NAB releases Luxembourg Transparency Law disclosures

NAB will today lodge its “Luxembourg Transparency Law – 2024 Half Year Report” (attached) with the Luxembourg *Commission de Surveillance du Secteur Financier* (CSSF), which is required as part of NAB’s obligation to comply with Article 4 of the Luxembourg Law of 11 January 2008 relating to European Union reporting requirements. These reporting requirements apply to NAB as it has debt securities admitted to trading on the regulated market of the Luxembourg Stock Exchange and is subject to the supervision of the CSSF.

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The release of this announcement was authorised by Nathan Goonan, Group Chief Financial Officer.

Luxembourg Transparency Law – 2024 Half Year Report

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

2024 Half Year Results

This Report must be read in conjunction with the Company's [unaudited] financial statements for the half year ended 31 March 2024, the notes thereto, the independent auditor review report and the report of the Company's directors, each provided in connection therewith (together, the Half Year Financial Statements), which have been published simultaneously with this Report. The Company's Half Year Financial Statements and this Report have been filed with the CSSF and are stored with the Luxembourg Stock Exchange as the Officially Appointed Mechanism (this Report and the Company's Half Year Financial Statements being collectively referred to as the 'Half Year Financial Report').

Risks specific to the Group

Set out below are the principal risks and uncertainties associated with the Company and its controlled entities (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 materialises, 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 unknown or deemed immaterial, but which may subsequently become known or material. These may individually, or in aggregate, adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

1. Strategic Risk

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

1.1 Strategic initiatives may fail to be executed, may not deliver all anticipated benefits, or may otherwise 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 primarily focus on customers, technology, digital and data assets, infrastructure, business improvement, cultural transformation, regulatory compliance, and changes to associated controls, and may have dependencies on external suppliers or partners. There is a risk that these programs may not realise some or all of their anticipated benefits and outcomes. These programs may also increase operational, compliance, and other risks, and new or existing risks may not be appropriately assessed or controlled.

The Group's strategy includes Environmental, Social or Governance (ESG) related initiatives, including a climate strategy and various obligations, targets and goals. Setting and achieving the Group's sector decarbonisation targets and managing risks including climate change-related financial risks and other ESG-related risks, targets, and goals are influenced by the Group's customers, policy makers, the emerging ESG-related regulatory

and disclosure environment and other stakeholders.

Any failure by the Group to deliver in accordance with its strategy, or to deliver strategic programs effectively, may result in material losses to the Group, reputational damage, or a failure to achieve anticipated benefits, and ultimately, may materially and adversely impact the Group's operations and financial performance and position.

1.2 The Group faces a rapidly changing external environment.

The Group operates in a dynamic macro-economic environment. The impact of slowing global and domestic economic growth, increases to unemployment rates and elevated interest rates, and falling consumer confidence can reduce demand for credit, adversely impacting Group revenue, or increase the risk of defaults, adversely impacting the Group's financial performance. In addition, Group expense plans may be at risk due to continued inflationary pressures, particularly with respect to employee remuneration and technology costs. External economic and geopolitical impacts may be further affected by election results in major economies in 2024, including the United States.

There is also substantial competition across the markets in which the Group operates. The Group faces competition from established financial services providers and other parties, including foreign banks and non-bank competitors, such as fintechs, Buy Now Pay Later (BNPL) providers, digital platforms and large global technology companies, some of which have lower costs, or operating and business models, technology platforms or products that differ from or are more competitive than the Group's and some of which are subject to less regulatory oversight. In particular, there are some financial services providers focused on the business banking segment with investment in improved customer experiences. This, along with existing threats to business banking market share from the Group's major competitors, poses a risk to the Group's position in that segment.

An increasing number of non-regulated credit providers – 'private credit' – are competing with the regulated banking sector through provision of debt and other products to customers across personal, business and institutional segments. As a growing and unregulated sector, it is yet to be fully understood how the private credit sector will perform in periods of more acute financial stress and instability and the potential transmission effects back into the regulated banking sector.

In addition, evolving industry trends, technology changes, and environmental factors have impacted, and may continue to 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 in which technologies, including those that may impact the financial services industry, continue to evolve at a rapid pace.

Other trends and recent regulatory and legislative developments that may impact the Group include, but are not limited to:

- Increased focus on digital, data and analytics capabilities with the objective of creating easy and seamless customer experiences. The rapid development and deployment of artificial intelligence (AI) capabilities has emerged as a key strategic consideration. Inadequate or lack of adoption of AI within business processes could pose a strategic disadvantage to the Group relative to its competitors who deploy AI tools and could result in unwanted financial and non-financial consequences for the Group. AI regulation is developing globally and its impact on the Group's business is currently unknown.
- Increased demand for green or sustainability-related products or increased lending to assist customers in achieving their ESG-related performance objectives, for example, sustainability-linked loans, or, correspondingly, increased scrutiny of products or lending or other activities that are perceived to be inconsistent with the ESG-related performance objectives of the Group or its stakeholders.
- Continued competitive pressures in home lending, particularly

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as the loans of customers of the Group continue to revert to variable rate loans as fixed rate periods expire on loans entered into at historically low rates in recent years. This increases the risk that customers will refinance outside the Group.

- Increased competition for customer deposits in the context of an elevated interest rate environment, with the risk of further increases to the Group's cost of funds relative to its competitors.
- Ongoing growth of the broker market and the risk of disintermediating customer relationships (inclusive of increasing use of brokers in the commercial business lending market).
- The evolving and increasingly complex payments landscape, including increasing use of digital payments, new payments infrastructures and emerging technology, and shift away from traditional payment methods. To this end, the Australian Government is consulting on proposed changes to the Payments Systems (Regulation) Act 1998 to address new payments-related risks following the release of its Strategic Plan for Australia's Payments System in June 2023.
- The Reserve Bank of Australia (RBA) proposes to enhance the competitiveness, efficiency and safety of Australia's debit card market, including expectations for tokenisation of payment cards and storage of primary account numbers in the Australian market. AusPayNet is working with the industry to meet the RBA's expectations including developing more specific tokenisation standards, if required. Standardisation of tokenised dual network debit cards will improve portability for both scheme and proprietary tokens to reduce the friction for merchants that wish to switch payment service providers. If the RBA were to request a deviation from the current Payment Card Industry Data Security Standard regarding the storage of Primary Account Numbers (PANs) the additional compliance impact would need to be assessed.
- The continued consumer and institutional adoption of cryptocurrencies and other digital assets. The rate of digital asset adoption, digital asset product creation (for example, stable coins and decentralised finance) and government responses are expected to influence the future of the sector and its impact on the Group. The RBA has completed a research project exploring central bank digital currency (CBDC) use cases and identified legal, regulatory, technical and operational issues warranting further consideration in future research. The RBA's review of these matters remains ongoing. Regulation of digital assets is nascent, but emerging, across all markets in which the Group operates, which may increase the Group's costs, or require the Group to invest in resources to adapt its products or systems to new technologies. The Australian Prudential Regulation Authority (APRA) has announced it will consult on the prudential treatment for crypto-assets in 2024, which is expected to come into effect in 2025.
- The commencement of a market study into competition for personal banking services in NZ by the NZ Commerce Commission. The NZ Commerce Commission's final report, which will set out its findings on factors that may affect competition for the supply and acquisition of personal banking services, including bank profitability, and any recommendations, is due to be released in August 2024.
- The continued implementation of the Consumer Data Right (CDR), known as 'Open Banking', in the Australian banking sector. The CDR seeks to increase competition and innovation between service providers by mandating and standardising the sharing of certain consumer and business customer data and data relating to their products and services. Where large global technology companies choose to participate in the CDR, there is potential for these companies to access more data which may increase their competitiveness including in other sectors, such as financial services.
- The New Zealand (NZ) Government's decision to establish a CDR in NZ and for banking to be the first sector designated

under the legislation. Consultation on an exposure draft of the Customer and Product Data Bill closed in July 2023. The adoption of Open Banking in NZ is designed to increase competition in the NZ banking industry, and may increase compliance costs for established institutions, including Bank of New Zealand (BNZ) and may limit BNZ's ability to charge for access to payments or data.

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

1.3 Risks may arise from pursuing acquisitions and divestments.

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

Pursuit of corporate opportunities inherently involves transaction risks, including the risk that the Group over-values an acquisition or investment, or under-values a divestment, as well as exposure to reputational damage or regulatory intervention. 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.

Risks related to the Company's acquisition of Citigroup's Australian consumer business which completed on 1 June 2022 are ongoing.

The Company continues to rely on Citigroup's regional shared technology infrastructure for transitional services (and will do so through the transition period), as well as Citigroup's support for data migration activities after the development of technology systems within the Group. There is a risk that as the integration project and the development of technology systems within the Group continues, costs may be higher than anticipated, more internal resourcing is required than anticipated, or that key employees, customers, suppliers, or other stakeholders required for a successful transition, will not be retained. Additionally, there is a risk that the timeline for the integration is extended, which may result in further costs being incurred by the Company.

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

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

The Company completed the sale of its advice, platforms, superannuation and investments and asset management businesses to IOOF Holdings in May 2021, now named Insignia Financial (MLC Wealth Transaction). As part of the MLC Wealth Transaction, the Company provided Insignia Financial with indemnities relating to certain pre-completion matters, including a remediation program relating to workplace superannuation

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matters, breaches of anti-money laundering laws and regulations, regulatory fines and penalties, and certain litigation and regulatory investigations. The Company also provided covenants and warranties in favour of Insignia Financial. A breach or triggering of these contractual protections may result in the Company being liable to Insignia Financial.

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

On 17 November 2022, the Company announced its intention to exit its custody business, NAB Asset Servicing. The exit is expected to be effected through the transfer of all of NAB Asset Servicing's clients to alternative custody providers over a period of approximately three years. The transfer of all clients over a relatively short period is a complex exercise that is subject to operational/transitional risks that will need to be managed carefully. There is a risk that this does not occur to plan, and that there may be a potential adverse impact on the Group if not managed appropriately.

On 14 December 2023, the Company announced that it had entered into an agreement with Jarden Wealth and Asset Management Holdings Limited (Jarden Wealth) to combine the Company's and Jarden Wealth's NZ wealth advice and asset management businesses into a newly formed entity FirstCape Limited (FirstCape) in which the Company, Jarden Wealth, and Funds advised by Pacific Equity Partners will be the shareholders (FirstCape Transaction). Under the FirstCape Transaction, the Company will retain a shareholding of 45% in FirstCape. The FirstCape Transaction completed on 30 April 2024. As part of the FirstCape Transaction, the Group provided FirstCape with certain indemnities and warranties relating to certain pre-completion matters and contractual covenants. A breach or triggering of these contractual protections may result in the Group being liable to FirstCape.

2. Credit Risk

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

2.1 A protracted period of elevated interest rates may result in deterioration in the Group's credit risk profile in the short term through accelerated increases in defaulted loans.

The increase in interest rates over the last 18-months to combat inflationary pressures has resulted in minor increases in arrears in the home loan and small business portfolios. A protracted period of elevated interest rates may continue to increase household and business financial stress across Australia and NZ, particularly for those customers who are highly geared and/or facing reduced income due to weaker economic activity. This may drive an increase in corporate and business bankruptcies, job losses and higher unemployment. Sectors exposed to changes in household discretionary spending (including retail trade, tourism, hospitality, and personal services) are particularly vulnerable to financial stress in the event of modifications to consumer spending behaviour.

The heightened credit risk in affected sectors and elevated levels of household and business financial stress may result in an increase in losses if customers default on their loan obligations and/or if higher capital requirements are applied for the Group through an increase in the probability of default.

2.2 Extreme weather events, and longer-term changes in climate conditions coupled with transition risk may lead to rising customer defaults.

The following risks relating to climate change, combined with changes to future insurance affordability and availability, may result in increased losses from customer defaults, and may ultimately have an adverse impact on the Company's financial performance and position:

- Increasing number of extreme weather events (including substantial rainfall or drought).
- Increasing weather volatility and longer-term changes in climatic conditions.
- Climate-related transition risks as the global economy transitions to low-carbon alternatives.

Some customers have faced significant challenges from extreme weather events such as Cyclone Jasper, the wettest tropical cyclone in Australian history, in Queensland (2023), the floods in NZ (2023), and severe flooding events in Eastern Australia in 2021 and 2022 and North-Eastern Australia in 2023, which caused property damage for customers across the home and business lending portfolios. While not resulting in material increases in customer defaults, the rising severity and prevalence of these events pose a significant risk to the credit portfolio in the medium term.

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

Residential housing loans and commercial real estate loans in Australia and NZ constitute a material component of the Group's total gross loans and acceptances.

The Group may have higher credit risk, or experience higher credit losses, to the extent its loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. For example, the Group's credit risk and credit losses can increase if borrowers who engage in similar activities are uniquely or disproportionately affected by extreme weather events, economic or market conditions, or by regulation, such as regulation related to climate change. A deterioration in economic conditions or real estate values in Australia and NZ, could result in higher credit losses and costs.

Residential and commercial real estate prices in Australia and NZ increased for some years up until 2021 but experienced a decline in 2022 following the central banks' moves to increase interest rates. Residential real estate prices stabilised in 2023, with most markets recording price increases and recovering most of the declines recorded in 2022. When the value of residential or commercial real estate used as collateral (including in business lending) reduces below the value of the loan, the Group is exposed to losses in the event of any customer default. This may, in turn, impact the Group's financial performance and position and returns to investors. The most significant impact, in the event of default, is likely to come through residential mortgage customers in high loan-to-value-ratio brackets.

2.4 Adverse business conditions in Australia and NZ, in the agricultural and other sectors, may give rise to increasing customer defaults.

The Group has a large market share among lenders to the Australian and NZ agricultural sectors. These sectors may be negatively impacted by several factors, including:

- Vulnerability to labour constraints.
- Trade restrictions and tariffs.
- Volatility in commodity prices (particularly agricultural product prices).
- Foreign exchange rate movements.
- Changes in consumer preference.
- Disease and introduction of pathogens and pests (e.g., the threat of a local foot and mouth disease outbreak and spread in Australia of the varroa mite – impacting European honeybees).
- Export and quarantine restrictions.
- Supply chain constraints and increasing supply chain producer responsibility, traceability, and transparency requirements.
- Extreme weather events (including substantial rainfall or

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drought), increasing weather volatility and longer term changes in climate conditions.

- Expectations related to management of other nature-related risks such as deforestation, including both the environmental impacts and potential exposure from any illegal deforestation.

Adverse business conditions (including supply chain disruptions, labour constraints and rising input costs, volatile commodity and energy prices, and the impact of rapid technological change) may also lead to stress in certain other sectors such as construction, wholesale trade and manufacturing.

2.5 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. Movements in interest rates can affect prepayment assumptions and thus fair value. Market declines and increased volatility could negatively impact the value of such financial instruments and cause the Group to incur losses.

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

Most of the Group's businesses operate in Australia and NZ, with additional operations located in Asia, the United Kingdom, France and the US. Levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates, and other economic and financial market conditions and forecasts.

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 modern slavery and nature-related risks), 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).
- The inability to price certain assets.
- Environmental conditions and social and governance issues impacting the risk and return profile and/or value of customers' security or business operations.
- An increase in customer or counterparty default and credit losses.
- Higher provisions for credit impairment.
- Mark-to-market losses in equity and trading positions, including the Company's high-quality liquid asset (HQLA) portfolios.
- A 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, cyber-attacks, political and social unrest, banking instability, and sovereign debt restructuring and defaults.

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

- Global economic growth is forecast to slow in 2024 before a modest improvement in 2025, with growth across this period expected to be below its historic long-term average. Weaker economic conditions reflect the impact of tight monetary policy and lending standards, particularly in advanced economies, along with energy disruptions in Europe and

weak growth rates in China. The risk of recessions in one or more major economies in 2024 remains.

- The scale of policy rate increases over the past two years has elevated rates to levels that are restrictive of economic activity. Potential delays in the path of rate cuts back to neutral levels may expose imbalances or weaknesses in balance sheets, including those of financial institutions, and asset markets, that have built up over time. Risk of contagion due to financial system instability remains an ongoing concern for the Group due to the interdependency of financial market participants. Where concerns over the viability of financial institutions arise, it can trigger contagion fears, potentially destabilising global markets and, in turn, negatively affecting economic activity.
- China is a major trading partner for Australia and NZ, with export incomes and business investment exposed to changes in China's economic growth and trade policies. China's economy continues to face substantial headwinds, with growth forecast to slow in 2024, reflecting subdued household consumption, slowing demand for its exports and weakness in the property sector in China. This could negatively impact the global economy generally, and the Australian and NZ economies in particular. Although diplomatic tensions between the Chinese and Australian governments have eased since mid-2022, the risk of trade restrictions being imposed on Australian exports remains. Such restrictions could have a negative impact on the Group's customers and may give rise to increasing levels of customer defaults.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable, and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income tax receipts and exchange rates. Commodity price volatility remains substantial and, given the Group's sizeable exposures to commodity producing and trading businesses, this volatility poses a credit risk to the Group.
- Ongoing geopolitical instability, such as the Russia-Ukraine and Israeli-Palestinian conflicts, has negatively impacted, and could continue to negatively impact, the global and Australian economies, including by causing supply chain disruptions, rising prices for oil and other commodities, volatility in capital markets and foreign currency exchange rates, rising interest rates and heightened cybersecurity risks. Prices may remain elevated for an extended period, which would negatively impact most businesses and households, and may lead to increased credit losses for the Group.
- Other geopolitical risks continue to present uncertainty to the global economic outlook, with negative impacts on consumption and business investment. Tensions between China and the United States (along with other countries), including in relation to Taiwan and the South China Sea and China's trade and technology policies, as well as disruptions to trade through the Red Sea and the potential for widening conflict in Eastern Europe and the Middle East (including Israel-Iran), could impact global economic growth and global supply chains. Similarly, geopolitical tensions in the Asia-Pacific region could increase as a result of the AUKUS pact or other similar agreements.

3. Market Risk

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

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

3.1 The Group is exposed to credit spread risk.

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Credit spread risk is the risk that the Group may suffer losses from adverse movements in credit spreads, including increases in credit spreads resulting from financial markets instability. This is a significant risk in the Group's trading and banking books.

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

The Group's banking book houses HQLAs which form the majority of the Group's liquidity portfolio required for managing the Group's liquidity risk. While the Group hedges the interest rate risk on this portfolio, it is subject to credit spread risk through changes in spreads on its holdings of semi-government bonds. These positions can give rise to material profit and loss volatility within the Group's Treasury portfolio during periods of adverse credit spread movements. Positions in residential mortgage-backed securities that arise through the Group's warehousing, underwriting, and syndication operations also form part of the banking book and are exposed to changes in credit spreads.

3.2 The Group is exposed to interest rate risk.

The Group's financial performance and capital position are impacted by changes in interest rates.

The Group's trading book is exposed to changes in the value of securities and derivatives as a result of changes in interest rates. The Group's trading book accumulates interest rate risk when the Group provides interest rate hedging solutions for customers, holds interest rate risk in anticipation of customer requirements, or undertakes market-making activity in fixed income securities or interest rate derivatives. The level of volatility in interest rate markets has increased in the post-pandemic period after a broadening of inflationary pressures saw major central banks unwind stimulus and rapidly tighten monetary policy. Market conditions remain volatile in response to ongoing geopolitical risk and with market prices factoring in interest rate cuts as inflation has, in all likelihood, passed its peak.

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, 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.

3.3 The Group is exposed to foreign exchange risk.

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

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

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

The Group's financial statements are prepared and presented in Australian dollars unless otherwise stated, 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.

3.4 The Group is exposed to market risk should it be unable to sell down its underwriting risk.

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

4. Capital, Funding and Liquidity Risk

4.1 The Group is exposed to funding and 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, 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, 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.

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. The final maturity dates of the Additional and Supplementary Allowance of the drawn Term Funding Facility (TFF) (a three-year facility established by the Reserve Bank of Australia (RBA) to support lending to the Group's customers) are concentrated during 2024, with final maturity by June 2024 for all participating Authorised Deposit-taking Institutions (ADIs) including the Group. (The Initial Allowance matured in 2023.) The Group relies on offshore wholesale funding to support its funding and liquidity position. Periods of heightened market volatility may limit the Group's access to this funding source. Disruption in global 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. This may increase the cost of obtaining funds, reduce the tenor of available 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.

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

Capital risk is the risk that the Group does not hold sufficient capital and reserves to cover exposures and to protect against unexpected losses. Capital is the cornerstone of the Group's financial strength. It supports the Group'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.

Current regulatory changes that could present a risk to the Group's capital position include loss-absorbing requirements for Domestic Systemically Important Banks, which include the Group.

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These changes require an increase to total capital by 4.5% of risk weighted assets (RWA) by 1 January 2026, with an interim increase by 3% of RWA which came into effect on 1 January 2024. These requirements are expected to be satisfied primarily through the issue of additional Tier 2 Capital which will further increase the Group's funding costs due to the higher cost of Tier 2 Capital issuance relative to senior debt.

On 21 September 2023, Australian Prudential Regulatory Authority (APRA) released a Discussion Paper outlining potential options for, and seeking feedback from stakeholders on, improving the effectiveness of Additional Tier 1 (AT1) capital in Australia. APRA intends to follow this with a formal consultation in the first half of calendar year 2024 on any proposed amendments to prudential standards. Changes to the requirements for AT1 capital may impact the Group's capital position.

In addition, revisions to the Reserve Bank of New Zealand capital requirements (to be phased in by 2028) will require the Group to hold more capital in NZ.

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

4.3 A downgrade in the Group's credit ratings or outlook 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 other market factors (e.g., ESG-related factors), or changes in a 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 its 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 its peers may also adversely impact the Group's competitive position and financial performance and position.

5. Operational Risk

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

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

Most of the Group's operations depend on technology and therefore the reliability, resilience, and security of the Group's (and its third-party vendors') information technology systems and infrastructure are essential to the effective operation of the Group's business and consequently to its financial performance and position. The reliability, security 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 against the Group or its external providers including suppliers of cloud services to the Group.

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

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

adversely impact the Group's speed and agility in the delivery of change and innovation.

In addition, any such disruption may adversely affect the trust that internal and external stakeholders have in the Group's ability to protect key information (such as customer and employee records) and infrastructure. This may in turn affect the Group's reputation, which may result in loss of customers, a reduction in share price, ratings downgrades and regulatory censure or penalties.

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

The Group collects, processes, stores, and transmits large amounts of personal and confidential information through its people, technology systems and networks and the technology systems and networks of its external service providers. Threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are increasingly sophisticated. In addition, the number, nature, and resources of adverse actors that could pose a cyber threat to the Group is growing, including individual cybercriminals, criminal or terrorist syndicate networks and large sophisticated foreign governments with significant resources and capabilities.

There is a risk that the Group's efforts to improve its technology systems and networks and its information security policies, procedures and controls may not be adequate to address these threats. While the Group participates in internal and external reviews and testing and is subject to regulatory oversight, which collectively help to identify weaknesses and areas for improvement, remediation of weaknesses is sometimes difficult to complete in a timely manner due to the complex technology environment (including third party involvement) and the rapidly evolving nature of the threats, which leads to the continuing emergence of new vulnerabilities.

As cyber threats continue to evolve, the Group may be required to expend significant additional resources to continue to modify or enhance its layers of defence or to investigate and remediate any information security vulnerabilities.

The Group may also 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 may also inadvertently retain information which is not specifically required or is not permitted by legislation, thus increasing the impact of a potential data breach or non-compliance. A successful cyber-attack could persist for an extended period before being detected and, following detection, it could take considerable time for the Group to obtain full and reliable information about the cybersecurity incident and the extent, amount and type of information compromised. During an investigation, the Group may not necessarily know the full effects of the incident or how to remediate it, and actions and decisions that are taken or made to mitigate risk may further increase the costs and other negative consequences of the incident. Moreover, the Group may be required to disclose information about a cybersecurity event before it has been resolved or fully investigated. Additionally, 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. While the Group negotiates comprehensive risk-based controls with its service providers, it is limited in its ability to monitor and control the security protocols that service providers implement on a day-to-day basis. 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 or employee data, a breach of privacy laws, regulatory enforcement actions, civil penalties, customer or employee 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. For example, some large Australian organisations have experienced significant cyber-attacks in recent years leading to intense public reactions and increased political and regulatory focus.

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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.

Generative AI is an emerging area of risk. Additionally, while AI has potential to support significant service advances for customers, it also has potential to assist, enable and enhance existing methods for criminals to perpetrate fraud, scams, and cyber threats against the Company and its customers.

The Group's use of AI and machine learning technologies is also subject to risks that algorithms and datasets are flawed or may be insufficient and could increase the risk of unintended deficiencies and could result in inaccurate or ineffective decisions, predictions or analysis, and give rise to potential ethical and social risks associated with its use (e.g., unintended discrimination, bias and disinformation).

5.3 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, and on 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, reputation and the timeliness and accuracy of its statutory and prudential reporting.

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

5.4 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 appropriate actions and inputs from its employees, agents, and external providers. The Group is exposed to operational risk due to process or human error, including incorrect or incomplete data capture and records maintenance, incorrect or incomplete documentation to support activities, inadequate design of processes or controls, or incorrect reporting. The Group uses select external providers (in Australia and overseas) to provide services to the Group and is exposed to similar risks arising from such failures in the operating environment of its external providers.

The materialisation of any of these risks could lead to direct financial loss, loss of customer, employee or commercially sensitive data, regulatory penalties, and reputational damage.

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

The Group is dependent on its ability to attract and retain key executives, employees, and Board members with a deep understanding of banking and technology, who are qualified to execute the Group's strategy, including the technology transformation the Group is undertaking to meet the changing needs of its customers. Potential weaknesses in employment practices, including diversity, anti-discrimination, workplace flexibility, payroll compliance, workplace health and safety and employee wellbeing, together with a competitive labour market for critical skills, are sources of operational risk that can impact the Group's ability to attract and retain qualified personnel with the requisite knowledge, skills and capability. The effective management of psychosocial risk (including relating to workplace factors such as customer aggression, workload issues or poor change management) is an area of focus within the Group to support employee wellbeing and retain talent. It is also an area of increasing regulatory scrutiny and reputational risk.

The Group's capacity to attract and retain key talent, in addition to providing attractive career opportunities, also depends on its ability to adequately and appropriately respond to changes (internal or external) as well as design and implement effective remuneration and talent structures. This may be constrained by several factors, including by regulatory requirements (particularly in the highly regulated financial services sector).

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

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

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

The Group has branches and office buildings across Australia and NZ in locations that are prone to extreme weather events, as described under section 2.2, with NZ locations also prone to earthquakes.

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

The Group has operations in India and Vietnam conducting a range of essential business functions and processes including transaction processing and technology development. Disruption to these centres may have a material impact on the Group's operations.

Geopolitical risks continue to present uncertainty to the Group's operations. Tensions between the United States and China, including in relation to Taiwan, the Russia-Ukraine and Israeli-Palestinian conflicts and China's trade and technology policies, continue to persist, which could impact the Group's operations adversely, for example through disruption to global supply chains and availability of talent.

External events, such as extreme weather, natural disasters, biological hazards, and acts of terrorism may also 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 compromise the Group's ability to provide a safe workplace for its personnel and/or lead to reputational damage. The environment the Group is operating in has become more complex and more uncertain and could create operational risks that are yet to be identified.

6. Sustainability Risk

Sustainability risk is the risk that ESG-related events or conditions arise that could negatively impact the sustainability, resilience, risk and return profile, value, or reputation of the Group or its customers and suppliers. Inadequate management of ESG risks by the Group or its customers may expose the Group to other potential risks across risk categories such as strategic, credit, compliance, conduct, operational risk and capital, funding and liquidity risk.

6.1 Physical and transition risks arising from climate change, other environmental impacts and nature-related risks 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 environmental impacts such as land contamination and other nature-related risks such as deforestation, biodiversity loss and ecosystem degradation, may affect water security, 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.

Globally, an increasing number of countries are prone to, and have experienced, acute physical climate events. In Australia and

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NZ these have included drought conditions, bushfires over summer periods, and severe floods. Extreme weather events are expected to increase globally and locally in frequency and severity, which may have adverse macroeconomic impacts. The impact of extreme weather events can take time to be fully realised and be widespread, extending beyond residents, businesses, and primary producers in highly impacted areas, to supply chains in other cities and towns relying on agricultural and other products from within these areas. The impact of these losses on the Group may be exacerbated by a decline in the value and liquidity of assets held as collateral and the extent to which these assets are insured or insurable, which may impact the Group's ability to recover its funds when loans default.

Climate-related transition risks are 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, and/or the Group's products or services that serve those customers. Furthermore, management of transition risk is more challenging given the presence of social risks such as modern slavery in relevant supply chains e.g., input materials and equipment required to support the low carbon transition.

NZ also faces geological risk associated with major earthquakes and certain areas of Australia have also more recently experienced some earthquake-related damage.

Nature-related risks (caused by impacts and dependencies on nature), such as deforestation and illegal land clearing, and biodiversity loss and ecosystem degradation, may disrupt business activities and supply chains, and may cause business impacts including contributing to raw material and/or commodity price volatility, stranded assets, changes in customer demand and changes in the regulatory environment (e.g., the decline of bee populations which provide pollination services to agriculture, the collapse of fishing or agricultural yields, and a decrease in air, water or soil quality).

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

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

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

- Environmental issues – such as climate change, deforestation and illegal land clearing, biodiversity loss, ecosystem degradation, and pollution. Supervisory and regulatory guidance and requirements for banks are increasingly focusing on ESG risks, as regulators seek to understand and manage system-wide impacts such as those arising from climate-related risks. This focus is quickly evolving to broader environmental issues, such as nature-related risks, as the links between nature and economic prosperity and societal wellbeing are becoming better understood. This has been a particular focus of the Task Force on Nature-related Financial Disclosures, whose recommendations were released in September 2023, and the development of which has been supported by the Australian and United Kingdom governments.
- 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, indigenous land rights and cultural heritage, and animal welfare,

including any such potential impacts on these matters from a customer's operations and/or projects.

- Governance issues – such as bribery and corruption, tax avoidance, greenwashing and other false or misleading environmental or sustainability claims, poor governance, lack of transparency, supply chain traceability, and not fulfilling accountabilities.

Performance against corporate ESG commitments are being more closely monitored by external stakeholders as their understanding of issues (and their associated risks) like climate change, human rights, responsible supply chain management and due diligence increases. Globally, and particularly in Australia, regulators have strengthened their policy guidance in relation to sustainability-related disclosures and governance practices, with particular emphasis on greenwashing. Consumer and fair-trading issues in relation to environmental and sustainability claims are a 2023-24 compliance and enforcement priority of the Australian Competition and Consumer Commission (ACCC), aimed at improving the integrity of environmental and sustainability claims and to protect consumers from greenwashing. Effective regulatory frameworks underpinning sustainable finance continues to be a key theme and strategic priority of the Australian Securities and Investments Commission (ASIC) in 2024. Australian regulators (in particular, ASIC) have continued to increase enforcement activity in relation to sustainability-related disclosures, and ASIC has stated that misleading conduct in relation to sustainable finance, including greenwashing is one of its key enforcement priorities for 2024.

ESG due diligence requirements may become mandatory in some jurisdictions in which the Group operates, placing increasing demands on the Group's processes and capability to manage, monitor and address ESG risks. The impacts associated with climate change-related legislative and regulatory initiatives, customer requirements and the transition to a low carbon economy, including meeting new regulatory expectations, retrofitting of assets, energy efficient and low carbon investments, purchasing carbon credits or paying carbon taxes, may result in operational changes and additional expenditures that could adversely affect the Group and/or its customers.

The Group's reputation and business prospects may also be damaged if it does not, or is perceived not to, effectively prepare for the potential business and operational opportunities and risks associated with climate change, including through the development and marketing of effective and competitive products and services designed to address clients' climate risk-related needs. These risks include negative market perception, reduced market share and regulatory and litigation consequences associated with greenwashing claims or driven by association with clients, industries or products that may be inconsistent with the Group's stated positions on climate change issues.

Failure by the Group to:

- comply with the ESG-related requirements or standards, including emerging ESG-related disclosure requirements arising from the release of the International Sustainability Standards Board's Sustainability and Climate disclosure standards, enacted through amendments to the Corporations Act 2001 (Cth) and accounting standards in Australia and similar legislative updates in other jurisdictions;
- meet ESG-related voluntary commitments, goals and targets set by the Group, or Group ESG-related policy requirements;
- meet community and stakeholder expectations in relation to ESG;
- apply appropriate ESG standards to its customers, or to entities in the Group's supply chain; or
- appropriately make representations about its ESG-related products and performance,

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

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may result in regulatory fines or penalties, including litigation or regulatory action related to greenwashing. Risk also exists due to well-funded and strategic private litigants actively seeking opportunities to take litigation action in Australia.

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

7. Conduct Risk

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

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

Organisational culture can greatly influence individual and group behaviours. Poor culture can expose an organisation and lead to customer harm, financial loss and detriment. The behaviours that could expose the Group to conduct risk include:

- Failure to design products and services that are transparent, accessible, and easy for the Group's customers to understand.
- Unmanaged conflicts of interest that could influence behaviour that is not in the customer's best interest.
- Non-adherence to applicable learning and competency training requirements.
- Selling, providing, or unduly influencing customers to purchase or receive products or services that may not meet their existing needs or that place the customer at risk of future hardship.
- Use of AI that is inappropriate or inconsistent with community and customer expectations, or the overreliance on algorithmic outcomes without adequate human supervision.
- Making representations to customers about products or services of the Group which are inaccurate, misleading, or deceptive, including representations which may mislead customers on the extent to which the Group's practices are environmentally friendly, sustainable, or ethical.
- Being a party to fraud.
- Failure to identify and appropriately manage customer communications, hardship cases and debt collection.
- Failure to protect customers from fraud or scams when banking through digital channels or failure to respond adequately to customers impacted by external fraud or scams.
- Non-adherence to applicable requirements or providing financial advice which is not appropriate or in a customer's interests.
- Delays in appropriately escalating regulatory and compliance issues.
- Failure to resolve issues and remediate customers in a timely manner and in accordance with community expectations.
- Failure to deliver on product and service commitments.
- Failure to remediate ineffective business processes and stop re-occurrence of issues in a timely manner.
- Failure to act in accordance with the Group's Code of Conduct or Financial Markets Conduct Policy.

If the Group's conduct related controls were to fail significantly, be

designed inappropriately, or not meet legal or regulatory requirements or community expectations, then the Group may be exposed to, among other things:

- 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 terms which are deemed to be in contravention of Unfair Contract Terms legislation within standard form contracts such as loans, guarantees, and other security documents, which could possibly result in civil and/or monetary penalties.
- 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-related 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 and can result in customer harm, financial loss and detriment.

8. Compliance Risk

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

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

Supervision and regulation of financial crime and enforcement of anti-bribery and corruption (ABC), anti-money laundering and counter-terrorism financing (AML/CTF) laws have increased in recent years.

On 29 April 2022, the Company entered into an enforceable undertaking (EU) with the Australian Transaction Reports and Analysis Centre (AUSTRAC) to address AUSTRAC's concerns with the Group's compliance with certain AML and CTF requirements. Under the terms of the EU, the Company and the relevant members of the Group are required to:

- Complete a Remedial Action Plan (RAP) approved by AUSTRAC.
- Address, to AUSTRAC's satisfaction, any deficiencies or concerns with activities in the RAP identified by AUSTRAC.

In May 2022, the Company appointed an external auditor (as required under the EU). The Company obtains interim reports from the external auditor on a quarterly basis and an annual basis. The external auditor will provide a final report to the Company for the period up to 31 March 2025.

The Company has completed more than three-quarters of its required activities under the RAP. A number of these activities require review by the External Auditor, and some of the more complex activities under the RAP have longer timeframes for completion. The Company continues to oversee delivery of the RAP commitments through dedicated EU Governance forums. The Group continues to investigate and remediate a number of known AML/CTF compliance issues and weaknesses, including in accordance with the EU. As this work progresses, further compliance issues may be identified and reported to AUSTRAC or equivalent foreign regulators, and additional enhancements of the Group's systems and processes may be required.

A negative outcome to any investigation or remediation process, or a failure to comply with the EU, may adversely impact the Group's reputation, business operations, financial position, and results.

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As a bank engaged in global finance and trade, the Group faces risks relating to compliance with AML/CTF, ABC and financial sanctions laws across multiple jurisdictions. Undetected failure of internal controls, or the ineffective remediation of compliance issues could lead to breaches of AML/CTF and/or ABC obligations or sanctions violations, resulting in potentially significant monetary and regulatory penalties, which, in turn, may adversely impact the Group's reputation, financial performance, and position.

The risks of sanctions violations are increased in the context of additional, wide ranging economic sanctions and export controls imposed in 2022 and 2023 as a result of the Russia-Ukraine conflict. This includes rising expectations from regulators concerning export control due diligence by financial institutions, as well as the continued attempts by those subject to sanctions to evade and circumvent their impact. Refer to 'Notes to the Consolidated Financial Statements' Note 13 *Commitments and contingent liabilities*, on page 79 in the Group's 2024 Half Year Results, 'Regulatory activity, compliance investigations and associated proceedings – AML and CTF program uplift and compliance issues' for more information.

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

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

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

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

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

A negative outcome to regulatory investigations or litigation involving the Group may impact the Group's reputation, divert management time from operations, and affect the Group's financial performance and position, profitability, and returns to investors. Refer to 'Notes to the Consolidated Financial Statements' Note 13 *Commitments and contingent liabilities* on pages 78-80 in the Group's 2024 Half Year Results for details in relation to certain current legal and regulatory proceedings, compliance reviews and associated remediation, and other contingent liabilities which may impact the Group.

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

Globally, the financial services and banking industries are subject to significant and increasing levels of regulatory change, reviews

and political scrutiny, including in Australia, NZ and other countries where the Group has, or is intending to establish, offshore operations.

Examples of regulatory change in other jurisdictions that may directly or indirectly impact the Group's Australian operations include changes relating to the Group of 20 (G20) regulation of over-the-counter derivative products, potential updates to the Foreign Exchange Global Code, U.K. and European market abuse regulations, European Union directives relating to Corporate Sustainability Reporting and Corporate Sustainability Due Diligence and the French Duty of Vigilance legislation. The pace, volume, and complexity of change may also expose the Group to the increased risk of failure to adequately identify all applicable regulatory changes. Changes to laws and regulations or their interpretation and application can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates.

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

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

The Group is in the process of implementing key regulatory changes that have yet to take effect. These include Operational Risk Management (CPS 230) and Public Disclosure (APS 330). Other notable changes which have taken effect recently include the Financial Accountability Regime Act 2023, Recovery and Exit Planning (CPS 190), Resolution Planning (CPS 900) and the Compensation Scheme of Last Resort (which facilitates payment of compensation for eligible consumers who have received a determination from the Australian Financial Claims Authority that remains unpaid).

The Australian Government is progressing its Strategic Plan for the Payments System (including the decommissioning of the Bulk Electronic Clearing System by June 2030), as well as its initial Data and Digital Government Strategy and the 2023-2030 Australian Cyber Security Strategy (which proposes to introduce Advanced Encryption Standards (AES) by 2025). The Australian Government introduced the Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023 to Parliament in late November 2023 and was referred to the Senate Economics Legislation Committee for review. The Committee's report recommends the bill be passed. If passed, it will partially implement the Australian Government's response to the review of the RBA, including by reinforcing the RBA's independence from the Australian Government and removing the RBA's power to determine the lending policy of private banks. The Group will be subject to significant regulatory and process changes as the Australian Government finalises and implements its strategic policy priorities and digitalisation agenda in the period ahead.

Ongoing and proposed regulatory changes, reviews and inquiries relevant to the Group include changes to liquidity and capital requirements (APS 111 & APS 210), operational resilience (including cyber security CPS 234), market risk capital reform, CDR reforms (expansion to non-bank lenders, action initiation, and consent), crypto assets (prudential treatment, licensing and custody), governance, vulnerability (including hardship, domestic violence, accessible and inclusive banking and regional branch closures), financial claims scheme, personal property securities framework reform, market abuse or conduct-related regulations, changes to securities law, changes to financial benchmarks, derivatives reform (including the ASIC Derivative Transaction Reporting Rules), modification of legislation applicable to deposit

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takers in NZ, payments, data quality, protection and privacy law reforms, competition inquiries (ACCC Retail Deposits Inquiry and Treasury Review of Competition Policy Settings), financial crime legislation (including de-banking), accounting, disclosure and reporting requirements (financial, sustainability and climate risk, reportable situations, complaints and remuneration), bankruptcy and personal and corporate insolvency, human rights, modern slavery, tax reform, clearing systems and the Australian Securities Exchange CHES replacement.

Current consumer-centric regulatory changes expected in 2024 and/or 2025 include updates to the Banking Code of Practice, regulation for BNPL products and financial advice reforms following the Quality of Advice Review. Regulatory priorities may also direct or influence the manner in which the Group is currently meeting its obligations to customers.

With increasing evidence of consumers experiencing financial distress and difficulty due to cost-of-living pressures, ASIC expects lenders to work constructively with their customers to find a sustainable solution in the period ahead. ASIC is currently conducting an industry review on the approach to financial hardship in home lending. NAB is participating in the review. ASIC has initiated civil penalty proceedings against other financial institutions in relation to failures to respond to customer hardship notices within the time required by law. In addition, ASIC's strategic priority to take action to address poor product design and distribution and poor consumer outcomes is expected to drive both issuers' and distributors' focus on the application of the 'reasonable steps' obligations to ensure financial products are appropriately distributed to their respective target markets.

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

Examples of specific reviews and regulatory reforms currently relevant to the Group, and which present a potential material regulatory risk include those set out below.

- The Financial Markets (Conduct of Institutions) Amendment Act 2022 (CoFI Act) will create an oversight and licensing regime for regulating conduct in the banking, non-bank deposit taking and insurance sectors in NZ. The CoFI Act is expected to come into force in early 2025.
- Legislation remains before Parliament to enable 'write access' or 'action initiation' within the CDR regime which may present additional cyber and fraud risks in the CDR ecosystem, if passed. Governance mechanisms including accountabilities, controls, and frameworks are still evolving and, under the Open Banking regime, customer data may be shared with, and received from, a broader range of stakeholders. Significant Group resources and management time have been, and will continue to be, utilised to implement and progress Open Banking (including supporting the CDR to mature in the banking sector). There are instances where the Group is not yet compliant with CDR requirements and is working to rectify these issues. The ACCC is kept informed of progress and publishes the status of these issues along with those of other financial institutions.
- The ACCC has completed its inquiry into the market for the supply of retail deposit products. The inquiry looked at matters including the interest rates paid by ADIs for retail deposits, how the interest rates are set between retail deposit products and lending products (including home loans), decisions made in light of changes to the RBA target cash rate, the extent of competition in the market for retail deposit products and how deposit products are a source of funding for the supply of credit. The ACCC released its report on 15 December 2023 and the Australian Government is considering the findings with a response to be released in 2024.
- Globally, regulators increasingly expect that the financial services industry, including banks, will play a more substantive role in protecting customers from scams and other fraudulent activity. While recognising the potential for regulatory change to address the impact of scams, the

Group continues to proactively educate its customers about scams and further enhance its systems and processes to detect and protect customers and the Group from scams and fraud. In this way, the Group seeks to mitigate the risk to customers from scam or fraud activity that may be difficult for the Group to anticipate or control. The Australian Government has consulted on new mandatory industry codes in relation to scam activity, which, if introduced, will be applicable to banks, telecommunication providers and digital communications platforms. Although no government policy or position in relation to a contingent reimbursement scheme has been promulgated in Australia, the Group's strategic planning and enhancement of systems and processes will also prepare it for expected regulatory change in this regard. Given the considerable growth in industry and customer losses from scams and fraud, the potential costs associated with control failures and transfer of risk from the customer may be significant.

- Possible revisions to the AML/CTF Regime are currently under consultation with the Australian Attorney General's department. The potential changes may include regulation for additional entities within Australia, some of whom will be customers of the Company. The impact of any revised legislation is uncertain.
- New Base Erosion and Profit Shifting rules (Pillar Two model rules) have been released by The Organisation for Economic Co-operation and Development that are designed to ensure that multinational enterprises pay a minimum tax of 15% on income arising in each jurisdiction. The rules will come into effect for the Company globally commencing 2025. The rules are complex and will require global implementation resulting in increased compliance costs. Substantial changes will be required to existing tax operations with a focus on an increase in global data analytics capabilities.
- Proposed ESG-related regulatory regimes, including increasing obligations relating to modern slavery, human rights, sustainable finance, climate, and other sustainability risk-related prudential guidance, and regulatory and disclosure requirements. These include:
 - The climate-related disclosures regime under the Financial Markets Conduct Act 2013 in NZ, which requires mandatory climate-related reporting from 2024, and the expected introduction in 2025 of similar requirements under (i) the Corporations Act 2001 (Cth) and the AASB Standards in Australia and (ii) the Corporate Sustainability Reporting Directive in the European Union.
 - Regulatory guidance on green and sustainable product labelling published by the ACCC and ASIC in Australia, the Financial Conduct Authority in the United Kingdom and similar regulators in other jurisdictions.
 - Guidelines and regulations related to managing various human rights obligations like discrimination, diversity, equity, inclusion and modern slavery. For example, guidance provided by the Australian Human Rights Commission on how companies can meet the positive duty to eliminate sex discrimination in the workplace.
 - The final recommendations and guidance published by the Taskforce on Nature-related Financial Disclosures in 2023.
 - Expansion of modern slavery and sustainability due diligence requirements in Australia, NZ and the European Union.

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

Depending on the specific nature of the regulatory change requirements and how and when they are implemented or enforced, they may have an adverse impact on the Group's

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business, operations, structure, compliance costs or capital requirements, and ultimately its competitiveness, reputation, financial performance, or financial position.

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

Preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income, expenses and the disclosure of contingent liabilities. 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 arising from business acquisitions.

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.

9. Responsibility statement of the persons responsible for the Company in relation to the Company's financial statements made in accordance with Article 34(2)(c) of the Luxembourg Law of 11 January 2008 relating to transparency requirements, as amended.

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

- (a) The Company's reviewed, consolidated financial statements and the notes thereto for the half year ended 31 March 2024 as contained in the Company's 2024 Half Year Report have been prepared in accordance with the requirements of the *Corporations Act 2001* (Cth), Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- (b) The Company's 2024 Half Year Report and this Report include:
 - (i) a fair review of the development and performance of the business and position of the Group; and
 - (ii) a description of the principal risks and uncertainties faced by the Group.

Dated this 2nd day of May 2024:



Andrew Irvine
Group Chief Executive Officer



Nathan Goonan
Group Chief Financial Officer