

Luxembourg Transparency Law – 2017 Half Year Financial Report

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

1 Half Year Results 2017

This Report must be read in conjunction with the Company's Half Year Results 2017, which have been published simultaneously with this Report. The Company's Half Year Results 2017 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 Results 2017 being collectively referred to as the "Half Year Financial Report").

2 Risks specific to the Group, including those related to general banking, economic and financial conditions

Set out below are the principal risks and uncertainties associated with the Company and its controlled entities (the Group). These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of any such risks occurring. In the event that one or more of these risks occur, the Group's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or become 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.

2.1 Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally not predictable and are often beyond the Group's direct control.

2.1.1 The Group may be adversely impacted by macro-economic and geopolitical risks and financial market conditions.

The majority of the Group's businesses operate in Australia and New Zealand (NZ), with branches located in Asia, the United Kingdom (UK) and the United States (US). The business activities of the Group are dependent on the nature and extent of banking and financial services and products required by its customers globally. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, market interest rates and macro-economic and financial market conditions and forecasts.

Domestic and international economic conditions and forecasts are influenced by a number of factors, such as economic growth rates, cost and availability of capital, central bank intervention, inflation and deflation rates and market volatility and uncertainty. Economic conditions may also be impacted by major shock events, such as natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

Volatility or uncertainty in credit, currency, commodity and equity markets, and adverse economic conditions have led to, and in the future may lead to:

- Increased cost of funding or lack of available funding.
- Deterioration in the value and liquidity of assets (including collateral).
- Inability to price certain assets.
- Increased likelihood of customer or counterparty default and credit losses (including the purchase and sale of protection as

part of hedging strategies).

- Higher provisions for bad and doubtful debts.
- Mark-to-market losses in equity and trading positions.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth, business revenues and earnings. In particular, the Group's wealth business earnings are highly dependent on asset values, particularly the value of listed equities, and therefore a fall in the value of its assets under management may reduce its earnings contribution to the Group.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

The following are examples of certain macro-economic and financial market conditions that are currently relevant to the Group and may adversely impact its financial performance and position:

- Below trend increases in real gross domestic product (GDP) and sub-target inflation have resulted in lower income growth globally. In advanced economies, this reflects slower productivity growth, the long-lasting impact of the global financial crisis and a lack of demand growth in key economies, such as Japan and the Eurozone. In Australia and NZ, income generation has been impacted by falling commodity prices, curbing the rate of growth in nominal GDP.
- Without sustained economic growth, high debt-to-income ratios present ongoing risks in the event of cyclical economic downturns. Particularly high debt burdens exist for government debt in advanced economies, non-financial institution corporate debt in emerging market economies (especially China and Brazil) and household sectors in Australia, NZ, Canada and parts of Western Europe. Higher government debt ratios in many advanced economies may also impact sovereign credit ratings. Any decrease in the sovereign credit rating of Australia may have an adverse impact on the Australian banks, including the Company. Likewise, any decrease in NZ's sovereign credit rating would be expected to impact credit ratings for the Group's businesses based in NZ.
- Weaknesses continue to exist in a number of European banks, and non-performing loans as a percentage of total assets remain high. The inter-connectedness of the global banking system means problems in the European banking system have the potential to create disruptions in global financial markets and to raise questions over the stability of particular banks around the world. In the past this has reduced market liquidity, which may negatively impact the Group's access to wholesale funding.
- As interest rates in developed economies are expected to gradually rise from historical lows, there is a risk that the valuation of a wide range of assets, from housing to government bonds, could fall sharply. Liquidity in those markets may also decrease unexpectedly and market volatility may increase. Previous periods of tightening monetary policy in the US have been associated with greater volatility in the volume and pricing of capital flows in emerging market economies. Several capital importing economies, including Australia and NZ, remain vulnerable to a sudden or marked change in US interest rates and expectations on the interest rate outlook.
- Continued economic growth in China is of particular importance to both Australia and NZ, with ongoing concerns that its rapid pace of growth could slow sharply. Chinese policy-makers have continued their reliance on an economic model based on high levels of investment and fast credit growth. Due to its export mix, Australia's economy is particularly exposed to a sudden downturn in Chinese investment or a substantial or sustained decline in the Chinese economy. In addition, the increasing level of bad debts in China poses a major risk to its banking system with potential flow on impacts to the availability of credit and liquidity, and to the broader Chinese economy.
- Previous sharp declines in commodity prices in both Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Certain regional areas were adversely affected by declines in dairy prices in both

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countries, as well as by the decline in prices for minerals, such as coal and iron ore, and oil and gas in Australia. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.

- Changes in the political environment raise the risk that growth-promoting reforms may become more difficult to implement and increase market uncertainty, volatility and adverse economic conditions. Sudden changes in long-established economic policies can occur in less stable and more unpredictable geopolitical environments, potentially winding back the globalisation and market liberalisation trends that have underpinned global growth in recent decades. The economic agenda outlined during the campaign by US President Trump represents significant changes from recent US trade, tax and fiscal policies. The UK vote to leave the European Union (EU) has created significant political, social and macro-economic uncertainty. Post-exit arrangements between the UK and the EU on issues such as the UK's access to European markets, its regulatory environment and the free movement of capital and labour are still unknown. The extent, implementation and outcome of policy changes resulting from these political events and their impact on global trade, the broader economy of the affected countries and the financial markets globally, is uncertain. In addition, a series of general elections in key Eurozone countries during 2017, particularly the elections in France and Germany, could represent an added risk to the global business environment and increase market volatility.

2.1.2 The Group is subject to extensive regulation. Regulatory changes may adversely impact the Group's operations and financial performance and position.

The Group is highly regulated in Australia and in the other jurisdictions in which it operates, trades or raises funds, and is subject to supervision by a number of regulatory authorities and industry codes of practice.

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation 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 corporate structure and increasing demands on management, employees and information technology systems.

Examples of current and potential regulatory changes impacting the Group are set out below.

Implementation of the Basel Committee on Banking Supervision's (BCBS) reforms will continue over the coming years. The Australian Prudential Regulation Authority (APRA) has introduced prudential standards for BCBS Basel III requirements in Australia. These reforms have increased the quality and ratio of capital to risk weighted assets that the Group is required to maintain and the quality and proportion of assets that the Group is required to hold as high-quality liquid assets. Other BCBS key changes impacting the Group include:

- APRA's updated standard on liquidity, incorporating the net stable funding ratio, will take effect on 1 January 2018. This may impact the funding profiles and associated costs of participants in the Australian Banking industry, and NZ banks owned by Australian parent banks.
- APRA's revised securitisation framework will take effect from 1 January 2018. This may impact the amount of regulatory capital held industry-wide for securitisation exposures.
- The BCBS has announced its revised market risk framework, which is due to come into effect from 2019 globally. Domestically, APRA has advised the new market risk standard will not take effect before 2021. This may impact trading book capital requirements.
- APRA has also signalled its intention to implement a minimum leverage ratio requirement for Authorised Deposit-taking

Institutions (ADIs); this is not expected prior to 1 January 2018.

In NZ, the Reserve Bank of New Zealand (RBNZ) has implemented the Basel III Capital Adequacy Framework, as modified to reflect NZ conditions.

Other regulators have also implemented, or are in the process of implementing, Basel III and equivalent reforms.

Regulatory changes continue to be made by the BCBS as it focuses on improved consistency and comparability in banks' regulatory capital ratios. Themes driving the revision of standards include transparency, consistency and credibility. Draft proposals include revisions to the internal ratings based and standardised approaches for calculating regulatory capital and the introduction of a capital floor framework, with consultation on sovereign risk expected. In April 2016, the BCBS released the revised interest rate risk in the banking book framework. The BCBS is also expected to implement revisions to the operational risk capital framework. The full impact of the changes will not be known until the BCBS requirements are finalised and implemented by APRA or by other regulators. This may intersect with measures adopted as a result of the Australian Financial System Inquiry (FSI).

The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The FSI proposed measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. In October 2015, the Australian government confirmed its support for 43 of the 44 recommendations for the Australian financial system.

APRA has been given responsibility for implementing the FSI's recommendations in relation to strengthening the resilience of the financial system. From July 2016, APRA commenced raising the risk weight for Australian residential mortgages from approximately 16% to an intended average of 25% for ADIs accredited to use internal models. Implementation of further recommendations may result in impacts to regulation and legislation, risk weighted assets or capital ratios.

The Financial Stability Board issued the total loss-absorbing capacity standard in November 2015 for global systemically important banks (G-SIBs). While not a G-SIB, the Company could be required to meet higher capital levels as a domestic systemically important bank. This is in line with the FSI recommendation to implement a loss absorbing capacity framework, and also in accordance with emerging international practice. This may have implications for the nature and cost of the Group's capital.

The Australian Government Treasury is currently consulting regarding the FSI's recommendations that the Australian Securities and Investments Commission (ASIC) be given additional powers in relation to design and distribution obligations for financial products and the introduction of an industry funding model for ASIC. Legislation has been introduced to provide a professional standards framework for financial advisers, and to enshrine the objective of the superannuation system.

APRA has released final prudential standards associated with the governance and risk management components of the framework for the supervision of conglomerate groups, including the Group. These non-capital components become effective on 1 July 2017. APRA has deferred finalising the capital components of the framework, with implementation of any new requirements not expected prior to 2019.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include the US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Over The Counter derivative market reforms, which are being implemented globally, and additional prudential reforms including the RBNZ Outsourcing Policy. Further examples include conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices, including restrictions on the growth in investor lending, changes to accounting

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and reporting requirements, tax legislation, bank specific tax levies, financial benchmarks, and payments and privacy laws. There is increasing supervision and regulation with respect to anti-bribery and corruption, anti-money laundering, counter-terrorism financing and trade sanctions, and increased regulator expectation and focus in relation to a number of other areas including financial advice, data quality and controls, governance and culture, conflicts of interest and management of life insurance claims.

The full scope, timeline and impact of these current and potential inquiries and regulatory reforms, or how they will be implemented (if at all in some cases), is not known. Depending on the specific nature of any requirements and how they are enforced, they may have an adverse impact on the Group's business, operations, structure, compliance costs or capital requirements, and ultimately its financial performance and prospects.

2.1.3 The Group faces intense competition, which may adversely impact its financial performance and position.

There is substantial competition across the markets in which the Group operates. Increasing competition for customers can lead to compression in profit margins or loss of market share. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower costs and new operating models. Evolving industry trends and anticipated rapid changes in technology are likely to impact on customer needs and preferences. The Group may not predict these changes accurately or quickly enough, or have the resources and flexibility to adapt in sufficient time to keep pace with industry developments and to meet customer expectations. As a result, the Group's financial performance and competitive position may be adversely affected.

2.2 Risks specific to the Group

There are a number of risks which arise directly from the operations of the Group as a major participant in the banking and financial services industry and from the specific structure of the Group. The Group's financial performance and position have been, and in the future may continue to be, impacted by these risks, as set out below.

2.2.1 The Group is exposed to credit risk, which may adversely impact its financial performance and position.

Credit risk is the potential that a counterparty or customer will fail to meet its obligations to the Group in accordance with agreed terms. Lending activities account for most of the Group's credit risk, however other sources of credit risk also exist including the banking book, the trading book, and other financial instruments and loans, as well as the extension of commitments and guarantees and the settlement of transactions.

Major sub-segments within the Group's lending portfolio include residential housing loans, a material component of the Group's total gross loans and acceptances, and commercial real estate loans, the majority of these domiciled across Australia and NZ.

Adverse business or economic conditions, including deterioration in property valuations or prices of both residential and commercial property, declines in employment markets, volatility in the political environment or high levels of household debt in Australia and NZ, may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. The Group may be exposed to the increased risk of counterparty or customer default should interest rates rise above the record or near record lows of recent years. In particular, the Group's portfolio of interest-only loans across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be susceptible to losses in the event of a rise in interest rates or a decline in property prices. The Group may also be exposed to counterparty default in the event of a deterioration in apartment markets, through both retail lending and non-retail lending to property developers.

The Group's large business lending market share in Australia and NZ exposes it to potential losses should adverse conditions be

experienced across this sector. Similarly, the Group has a large market share in the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks that may impact this sector, may have an adverse impact on the Group's financial performance and position. More specifically, the NZ dairy market has come under pressure due to a lower milk solid payout rate over 2015-16. While the current outlook for milk prices has improved, a sustained low milk price has the potential to increase bad and doubtful debts. The Australian dairy industry has also faced lower milk prices. The mining and oil and gas industries in Australia, as well as a number of sectors that service them, have been impacted by a slowdown in investment and a period of low commodity prices. Ongoing pressure in these sectors may also result in an increase in bad and doubtful debts.

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

2.2.2 The Group may suffer losses due to its exposure to operational risks.

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

Operational risks are a core component of doing business arising from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks cannot be fully mitigated, the Group determines an appropriate balance between accepting potential losses and incurring costs of mitigation.

An operational risk event may give rise to substantial losses, including financial loss, fines, penalties, personal injuries, reputational damage, loss of market share, theft of property, customer redress and litigation. Losses from operational risk events may adversely impact the Group's reputation and financial performance and position.

Examples of operational risk events include:

- Fraudulent or unauthorised acts by employees, contractors and external parties.
- Systems, technology and infrastructure failures, cyber incidents, including denial of service and malicious software attacks, or unauthorised access to customer or sensitive data.
- Process errors or failures arising from human error or inadequate design of processes or controls.
- Operational failures by third parties (including off-shored and outsourced service providers).
- Weaknesses in employment practices, including those with respect to diversity, discrimination and workplace health and safety.
- Deficiencies in product design or maintenance.
- Business disruption and property damage arising from events such as natural disasters, biological hazards or acts of terrorism.

In addition, the Group is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of any 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 strategic objectives.

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

2.2.3 The Group may be exposed to risk from non-compliance with laws or standards and other forms of misconduct, which may adversely impact its reputation and financial performance and position.

The Group is exposed to risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, regulatory standards, industry codes of conduct and Group policies and procedures. This may include detrimental practices, such as selling or unduly influencing customers to purchase inappropriate products and services, conducting inappropriate market practices or being a party to fraudulent transactions, non-adherence to fiduciary requirements or provision of financial advice which is inappropriate or not in the best interests of customers. If the Group's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, thereby allowing such risks to eventuate, then the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, unenforceability of contracts such as loans, guarantees and other security documents, or enforced suspension of operations or loss of licence to operate all or part of the Group's businesses. This may adversely impact the Group's reputation and financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, and at times government, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into alleged manipulation of financial benchmarks and markets. In Australia, such investigations include an industry-wide review by ASIC into participants in the bank bill swap reference rate (BBSW) market. Following this review, ASIC commenced Federal Court proceedings against the Company and two other market participants. The Company, together with a number of other banks, has been named as a defendant in a class action complaint filed in the US District Court for the Southern District of New York regarding alleged conduct concerning BBSW. The complaint references the proceedings brought by ASIC. The potential outcome of these court actions and investigations are uncertain at this time. It is possible that other class actions could arise in connection with BBSW or other conduct matters.

ASIC is also conducting an industry-wide investigation into advice fees paid by customers pursuant to ongoing service arrangements with financial advice firms, including the Company. The Group is investigating whether customers who have paid to receive ongoing services have been provided with the agreed services in accordance with the relevant service agreements and the Group's standards. NAB is co-operating with ASIC to agree a methodology for investigating and assessing this matter. The outcomes of the investigation are uncertain at this time.

In January 2017, the Group's superannuation trustee, NULIS Nominees (Australia) Ltd (NULIS), commissioned an independent assurance review in accordance with additional conditions on its financial service licence. As agreed with ASIC, the scope of the review will cover NULIS's risk management procedures, processes for implementing product changes, disclosure and reporting to members, and conflicts management procedures.

Since September 2014, the Australian Senate Economics References Committee has been conducting an inquiry into aspects of the financial advice industry, including potential unethical or misleading financial advice and compensation processes for consumers impacted by that advice. This inquiry has been re-formed in the

current Parliament, utilising previous hearings and submissions from the previous Parliament, and is due to report by 30 June 2017.

In October 2015, the Group began contacting certain groups of customers where there was a concern that they may have received non-compliant advice since 2009. The outcomes and total costs associated with this work are uncertain. The Group is also aware that two plaintiff law firms have advertised that they are investigating claims on behalf of the Group's customers who have suffered losses as a result of financial advice received from the Group's advisers. No formal action has yet been taken against the Group in this regard.

Provisions held in respect of conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of subjective judgement based on, where appropriate, external professional advice. Risks and uncertainties remain in relation to these assumptions and the ultimate costs of redress to the Group. These factors mean that the eventual costs of conduct and compliance-related matters may differ materially from those estimated and further provisions may be required, adversely impacting the Group's reputation and financial performance and position.

2.2.4 Disruption of technology systems or breaches of data security may adversely impact the Group's operations, reputation and financial performance and position.

Most of the day-to-day operations of the Group are computer-based, and therefore the reliability and security of the Group's information technology systems and infrastructure are essential to its business. Technology risk may arise from events including a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, a breach of data security, or other forms of cyber-attack or physical attack. These events may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, reputation damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact the Group's reputation and financial performance and position.

The rapid evolution of technology in the financial services industry and the increased expectation of customers for internet and mobile services on demand, expose the Group to new challenges in these areas.

The Group processes, stores and transmits large amounts of personal and confidential information through its computer systems and networks. The Group invests significant resources in protecting the confidentiality and integrity of this information. However, threats to information security are constantly evolving and techniques used to perpetrate cyber-attacks are becoming increasingly sophisticated. The Group may not be able to anticipate a security threat, or be able to implement effective measures to prevent or minimise the resulting damage. An information security breach may result in operational disruption, regulatory enforcement actions, financial losses, theft or loss of customer data, or breach of applicable privacy laws, all of which may adversely impact the Group's reputation and financial performance and position.

As with other business activities, the Group uses select external providers (both in Australia and overseas) to continue to develop and provide its technology solutions. There is increasing regulatory and public scrutiny of outsourced and off-shored activities and their associated risks, such as the appropriate management and control of confidential data. The failure of any external providers to perform their obligations to the Group or the failure of the Group to appropriately manage those providers, may adversely impact the Group's reputation and financial performance and position.

2.2.5 Transformation and change programs across the Group may not deliver some or all of their anticipated benefits.

The Group has invested significantly in change across the organisation, including technology and infrastructure transformation. There is a risk that these programs may not realise some or all of the anticipated benefits. The Group also continues to pursue business

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process improvement initiatives and invest in technology to achieve its strategic objectives, meet changing customer expectations and respond to competitive pressures. These process changes may increase operational and compliance risks, which may adversely impact the Group's reputation and financial performance and position.

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

Preparation of the Group's financial statements requires management to make estimates and assumptions and to exercise judgement in applying relevant accounting policies, each of which may directly impact the reported amounts of assets, liabilities, income and expenses. Some areas involving a higher degree of judgement, or where assumptions are significant to the financial statements, include the estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

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

2.2.7 Litigation and contingent liabilities arising from the Group's business conduct may adversely impact its reputation and financial performance and position.

Entities within the Group may be involved from time to time in legal proceedings arising from the conduct of their business. The aggregate potential liability and costs in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's reputation and financial performance and position.

Refer to 'Notes to the Consolidated Financial Statements', *Note 14 Contingent Liabilities* on page 80 in the Half Year Results 2017 for details in relation to the Group's material legal proceedings and contingent liabilities.

2.2.8 Insufficient capital may adversely impact the Group's operations and financial performance and position.

Capital risk is the risk that the Group does not have sufficient capital and reserves to meet prudential standard requirements, achieve its strategic plans and objectives, cover the risks to which it is exposed, or protect against unexpected losses. The Group is required in all jurisdictions in which it undertakes regulated activities to maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations.

Prudential capital requirements (and proposed changes to these requirements), including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit the Group's ability to manage capital across the entities within the Group, pay dividends or distributions on shares and hybrid instruments, or may require the Group to raise or use more capital of higher quality, or to restrict balance sheet growth. Additionally, if the information or the assumptions upon which assessments of capital requirements are made prove to be inaccurate, this may adversely impact the Group's operations and financial performance and position.

2.2.9 The Group's funding and liquidity position may be adversely impacted by dislocation in global capital markets.

Funding risk is the risk that the Group is unable to raise short- and long-term funding to support its ongoing operations, strategic plans and objectives. The Group accesses domestic and global capital markets as well as raising customer deposits to help fund its businesses. Dislocation in any of these capital markets, or a reduced appetite from investors to hold the Group's securities or customers to deposit funds with the bank, may adversely affect the Group's ability to access funds or require the Group to access funds at a higher cost or on unfavourable terms.

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 borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operating expenses and taxes. 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 result in the Group drawing upon its committed liquidity facility with the Reserve Bank of Australia. This may adversely impact the Group's profitability and financial performance and position.

2.2.10 A significant downgrade in the Group's credit ratings may adversely impact its cost of funds, market access and competitive position.

Credit ratings are an opinion on the general creditworthiness of a borrower and may be an important reference for 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 for sovereign governments in countries in which the Group conducts business. Review activity is based on a number of factors, including the Group's financial strength and outlook, the strength of the Group's operations and processes, the assumed level of government support for the Group in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies.

A downgrade in the credit ratings within the Group or of the Group's securities, or a downgrade in 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 the capital markets. This may also cause a deterioration of the liquidity position and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. A downgrade to the Group's credit ratings relative to peers could also adversely impact the Group's competitive position.

2.2.11 Changes in interest rates may adversely impact the Group's financial performance and position.

Interest rate risk is the risk to the Group's financial performance and position caused by changes in interest rates. As interest rates and yield curves change over time, including negative interest rates in countries in which the Group operates, the Group may be exposed to a loss in earnings and economic value due to the interest rate profile of its balance sheet. In the banking industry, such exposure commonly arises from the mismatch between the maturity profile of a bank's lending portfolio compared to its deposit portfolio (and other funding sources). Interest rate risk also includes the risk arising out of customers' demands for interest rate-related products with various repricing profiles. It is also possible that both short- and long-term interest rates may change in a way that the Group has not correctly anticipated, and this may have an adverse impact on the Group's financial performance and position.

2.2.12 The Group is exposed to foreign exchange and translation risk, which may adversely impact its financial performance and position.

Foreign exchange and translation risk arises from the impact of currency movements on the value of the Group's cash flows, profits and losses, and assets and liabilities as a result of participation in global financial markets and international operations.

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in a number of different currencies. The Group's businesses may therefore be affected by a change in currency exchange rates, a full or partial break-up of the Eurozone, or a

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change in the reserve status of any of these currencies. Any unfavourable movement in foreign exchange rates may adversely impact the Group's financial performance and position.

The Group's financial statements are prepared and presented in Australian Dollars, and any 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.

2.2.13 The Group may suffer significant losses from its trading activities.

Traded market risk is the risk of losses arising from trading activities, including proprietary trading, undertaken by the Group. Losses can arise from a change in the value of positions in financial instruments or their hedges due to adverse movements in market prices. Any significant losses from such trading activities may adversely impact the Group's financial performance and position.

2.2.14 Damage to the Group's reputation may adversely impact its financial performance and position.

The Group's reputation may be damaged by the actions, behaviour or performance of the Group, its employees, affiliates, suppliers, intermediaries, counterparties or customers, or the financial services industry generally. Heightened media and political scrutiny of the Australian banking industry have the potential to damage the long term reputation of the banking industry, or lead to further government intervention or inquiries into the sector. For example, there have been proposals within the Australian Parliament, led primarily by the Opposition Labor Party, for a Royal Commission (a formal public inquiry that can only be instigated by the executive branch of the Australian Government and is directed by a terms of reference set by the Government) or similar form of inquiry to investigate Australian banks. Proposed terms of reference have not been released, but the scope of inquiry may include issues such as misconduct in the Australian financial services industry, treatment of customers, power of regulators, and the impact of culture, ethical standards and business structures on the behaviour of financial services institutions.

A risk event, such as a compliance breach, fraud or an operational or technology failure, may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to the Company's share price. In addition, the event may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk of reputational damage may be heightened by the continuing growth and use of social media.

Reputational damage may adversely impact the Group's ability to attract and retain customers or employees in the short- and long-term and the ability to pursue new business opportunities. It may result in a higher risk premium being applied to the Group, and impact the cost of funding, its operations, or its financial condition. It may also result in regulators requiring the Group to hold additional capital, pay fines or incur additional costs, including costs to undertake remedial action. Damage to the Group's reputation may also adversely impact the Group's financial performance and position.

2.2.15 Failure to sell down underwriting risk may result in losses to the Group.

As financial intermediaries, members of the Group underwrite or guarantee many 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 suffer losses if it fails to sell down some or all of this risk to other market participants.

2.2.16 A failure of the Group's risk management framework may adversely impact its reputation and financial performance and position.

The Group operates within a risk management framework that is based on a Three Lines of Defence model, and which is the totality of systems, structures, policies, processes and people that manage all material internal and external sources of identified material risk.

As with any risk management strategy, there is no guarantee that this framework is sufficient to mitigate known risks or to identify or address changing or new and emerging risks. As such, any ineffectiveness or inadequacy in the risk management framework and its implementation may adversely impact the Group's reputation and financial performance and position.

2.2.17 Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's reputation and financial performance and position.

There is a risk that the assumptions underlying the Group's strategic decisions are (or prove to be) incorrect, or that the conditions underpinning those strategic decisions may change. The Group may not have the resources or flexibility to adapt quickly (or at all) to such change. In addition, any one or more of the Group's strategic initiatives may prove to be too difficult or costly to execute effectively.

The Group regularly considers a range of corporate opportunities including acquisitions, divestments and joint ventures. Opportunities that are pursued may change the Group's risk profile and capital structure, and inherently come with transaction risks including over-valuation of an acquisition (or under-valuation of a divestment), and exposure to reputational and financial risks.

Other risks may arise through the integration or separation of a business, including failure to realise expected synergies, disruption to operations, diversion of management resources or higher than expected costs. In addition, the Group may have ongoing exposures to divested businesses, including through the provision of continued services and infrastructure (such as the transitional services being provided to CYBG PLC (CYBG) and MLC Limited) or the retention of liabilities, including through warranties and indemnities in sale agreements such as the Conduct Indemnity Deed with CYBG. Refer to 'Notes to the Consolidated Financial Statements', '(iii) UK conduct issues and the Conduct Indemnity Deed', *Note 14 Contingent Liabilities* on page 80 in the Half Year Results 2017.

These factors may adversely impact the Group's reputation and financial performance and position.

2.2.18 Risks specific to the NAB Wealth (MLC Limited) life insurance transaction.

In addition to the risks described above, the following are specific risks associated with the MLC life insurance transaction.

On 3 October 2016, the Company completed the sale of 80% of MLC Limited to Nippon Life Insurance Company (Nippon Life).

The Company agreed to take certain actions to establish MLC Limited as a standalone entity. The implementation program forms part of the recognised loss on sale. As this work has yet to be completed, there is a risk that implementation costs ultimately prove higher than anticipated. In addition, the Company gave certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction. A breach of these covenants or warranties, or the triggering of an indemnity, may result in the Company being liable to Nippon Life.

As part of the transaction, the Company entered into long term agreements in relation to the distribution of life insurance products and the continued use of the MLC brand by MLC Limited. The duration and nature of these agreements give rise to certain risks. For example, changes in regulation or the commercial environment in the future may impact the attractiveness or commercial viability of these long-term agreements, and exclusivity and non-compete arrangements may limit future opportunities for the Company.

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

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

(a) The Company's unaudited financial statements and the notes thereto for the half year ended 31 March 2017 contained in the Half Year Results 2017, which have been prepared in accordance with the requirements of the *Corporations Act 2001 (Cth)*, Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and

(b) The Half Year Results 2017 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 4th day of May 2017:



Andrew Thorburn
Group Chief Executive Officer



Gary Lenton
Group Chief Financial Officer