800 Bourke Street
Docklands VIC 3008
AUSTRALIA
www.nabgroup.com

Thursday, 3 May 2018

ASX ANNOUNCEMENT

NAB releases Luxembourg Transparency Law disclosures

NAB will today lodge its "Luxembourg Transparency Law – 2018 Half Year Financial Report" (attached) with the Luxembourg *Commission de Surveillance du Secteur Financier* (the 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.

For further information:

Media
Mark Alexander
M: +61 (0) 412 171 447

Investor Relations
Ross Brown
M: +61 (0) 417 483 549

Natalie Coombe
M: +61 (0) 477 327 540

Luxembourg Transparency Law – 2018 Half Year Financial Report

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

1 2018 Half Year Results

This Report must be read in conjunction with the Company's unaudited financial statements for the half year ended 31 March 2018, the notes thereto and the independent auditor review report and the report of the Company's directors, each provided in connection therewith (together, the Half Year Financial Statements), which have been published simultaneously with this Report. The 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').

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 these risks occurring. In the event that one or more of these risks materialise, the Group's reputation, business, operations, financial condition and future performance could be materially and adversely impacted.

Reputational damage may also 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. In an extreme scenario, these impacts may affect the viability of some or all of the Group's business activities.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or material. These may individually or in aggregate adversely impact the Group. Accordingly, no assurances or guarantees of future performance, profitability, distributions or returns of capital are given by the Group.

2.1 Risks specific to the banking and financial services industry

The nature and impact of these external risks are generally unpredictable and are 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 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 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, cost and availability of capital, central bank intervention, inflation and deflation rates, and market volatility and uncertainty. This 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.
- An increase of customer or counterparty default and credit losses.
- Higher provisions for credit impairment.
- Mark-to-market losses in equity and trading positions.
- Lack of available or suitable derivative instruments for hedging purposes.
- Lower growth in business revenues and earnings. In particular, the Group's wealth business earnings are highly dependent on asset values, mainly the value of listed equities.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

Economic conditions may also be impacted by climate change and major shock events, such as: natural disasters, war and terrorism, political and social unrest, and sovereign debt restructuring and defaults.

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

- Above-trend global growth is leading to lower unemployment rates and reduction in spare productive capacity. Low inflation allowed key central banks to keep their policy interest rates low by historical standards. However, tightening labour and product markets may result in rising price pressures, especially in the US.
- High debt levels and elevated asset prices pose increased risks in an environment of rising interest rates. This is due to the commencement or signalling of a winding down of monetary stimulus by several of the central banks. These risks will be magnified if a rise in US inflation and interest rates turns out to be faster than the gradual pace that markets currently expect. Increases in global bond yields could also affect Australian and NZ markets. The increased spread between bank bill rates and overnight indexed swap rates seen in recent months also adds to potential funding costs and it remains unclear how long market pricing will continue at these higher spreads.
- Large parts of the global economy are highly leveraged and increasingly vulnerable to the impact of interest rate increases. Government debt is exceptionally high across the big advanced economies, impacting on sovereign credit ratings and funding costs. While Australian and NZ government debt remains low by advanced economy benchmarks, any decreases in their sovereign credit ratings could have an adverse effect on Group businesses located in both countries. The high and growing corporate debt burdens in China may impact Australia and NZ as its business sector is the biggest purchaser of goods exports. The global economy is highly leveraged and as bond rates increase, it adds business risks in key export markets. Household debt is also at elevated levels across a range of emerging and advanced economies (including Australia and NZ).
- Low central bank policy rates and compressed risk premiums led investors to take on more risk in their search for yield. Large flows of capital have gone to riskier, lower rated borrowers making them vulnerable to higher interest rates and increases the risk that they are unable to service the debt.
- Capital flows back to the US could lead to lower exchange rates elsewhere, higher interest rates and credit downgrades in borrowing countries, especially if they are running current account deficits and have net foreign debt. Countries across Latin America, Africa, Asia and Eastern Europe appear vulnerable to movements in capital back toward the US as yields increase.
- Regulators warn that many valuations look stretched by either historical or conventional valuation standards. Prices for US equities, commercial real estate in the US and UK and homes in Pacific Rim metropolitan centres appear elevated. An increase in interest rates or a decrease in income could trigger declines in some of the collateral values.
- There are still pockets of concern throughout the global banking sector. Bank stresses still remain in parts of the Eurozone, especially in Italy, Spain and Portugal.

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- Risks are increasing across the banking sector in East Asia. The Chinese banks are exposed to highly geared corporates and real estate and there is uncertainty over the outlook for Chinese non-performing loans. The high property prices and positive credit growth to gross domestic product gaps that exist in China, Hong Kong and Singapore illustrate potential problems in the event of a negative shock to the region's economies. China's extensive and complex shadow banking sector presents added risks.
- Continued economic growth in China is important to Australia and NZ, with ongoing trade and investment exposure to any sharp slowdown in the rapid pace of Chinese economic growth. Due to its export mix, Australia's economy is especially exposed to a sudden downturn in Chinese investment in business, infrastructure or housing. In addition, the increasing level of bad debts in China pose a risk to its banking system with potential flow-on impacts to credit availability and liquidity, and to the broader Chinese economy.
- As commodity exporting economies, Australia and NZ are exposed to shifts in global commodity prices that can be sudden, sizeable and difficult to predict. Fluctuations in commodity markets can affect key economic variables like national income, tax receipts and exchange rates. Previous sharp declines in commodity prices in Australia and NZ were driven by sub-trend global growth constraining demand, combined with increases in commodity supply. Commodity price volatility remains substantial and the Group has sizeable exposures to commodity producing and trading businesses.
- Residential property prices in certain major metropolitan areas in Australia and NZ are high relative to standard affordability metrics. High levels of immigration have underpinned elevated levels of housing demand, supporting these property prices. If political platforms which have generally been pro-immigration shift, there is a risk that a significant decline in the level of immigration could lead to lower residential property prices.
- Geopolitical and trade risks remain, reflecting changes in domestic political environments. This could make growth-promoting reforms more difficult to implement, and implementation of trade policies that could increase market uncertainty, volatility and adverse economic conditions. Escalating trade tensions between the US and other major global economies are of concern. There is a risk that trade retaliation could spark a "trade war". International tensions remain a risk including those in the Korean Peninsula and South China Sea.

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

The Group is highly regulated in 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 entire banking and financial services system. 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. This may also result in changes in the viability of the Group's participation in certain markets, or the need to divest components of its operations.

Examples of current and potential regulatory changes impacting the Group are:

- Australian Prudential Regulation Authority (APRA) deferred finalising the capital components of the framework for the supervision of conglomerate groups, including the Group. The implementation is not expected prior to 2019.
- Implementation of the Basel Committee on Banking Supervision's (BCBS) reforms will continue in Australia and the Group's other jurisdictions. These reforms increase 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.
- In December 2017, the BCBS finalised the Basel III framework. APRA subsequently commenced consultation on revisions to the capital framework in response to the finalised Basel III framework. The consultation follows APRA's information paper on strengthening banking system resilience by establishing "unquestionably strong" capital ratios. The major Australian banks are expected to have Common Equity Tier 1 capital ratios of at least 10.5% by January 2020. Consultation will span 2018 and 2019 and includes amendments to: standardised and internal ratings-based approaches to credit risk, operational risk capital framework, and interest rate risk treatment in the banking book.
- In NZ, the Reserve Bank of New Zealand (RBNZ) is undertaking a review of the capital adequacy framework applying to registered banks incorporated in NZ. The aim is to identify a framework for setting capital requirements for NZ banks, while taking into account the current framework and international developments in bank capital requirements in light of the finalised Basel III framework. In December 2017, the RBNZ published its in-principle decisions on the definition of capital that included the removal of contingent capital instruments.

Other BCBS key changes impacting the Group that APRA is progressing include:

- Revised Large Exposures framework that will take effect from January 2019. This may impact large exposure limits, measurement and reporting.
- Standardised approach to counterparty credit risk that will take effect from July 2019 at the earliest. This may impact the amount of regulatory capital held for counterparty credit risk exposures.
- Consultation on a minimum leverage ratio requirement and revised leverage ratio exposure measurement methodology. This is expected to take effect from July 2019. The Group leverage ratio of 5.6% at 31 March 2018, based on current methodology, is above the proposed APRA minimum of 4%.
- Revised market risk framework that is due to come into effect from 2022 globally. Domestically, APRA advised timing will not be confirmed prior to global rules being finalised. This may impact trading book capital requirements.

These regulatory changes may intersect with measures adopted from the Australian Financial System Inquiry (FSI) on improving resilience, efficiency and fairness of the banking system. APRA is responsible for implementing FSI recommendations on strengthening the resilience of the financial system.

The following FSI recommendations took effect, or are in consultation:

- From July 2016, APRA commenced raising the risk weight for Australian residential mortgages to an average of 25% for Authorised Deposit-taking Institutions (ADIs) accredited to use internal models. Mortgage risk weights are expected to be further revised through the consultation on proposed revisions to the capital framework.
- In July 2017, APRA released an information paper outlining the amount and timing of capital increases required for ADIs to achieve "unquestionably strong" capital ratios.
- In December 2017, the Australian Government Treasury released a draft bill to impose additional obligations on the design and distribution of financial products and product intervention powers for the Australian Securities and Investments Commission (ASIC). This includes intervention in product design and distribution if it believes significant consumer detriment may occur.

The Australian Government also recently consulted on or finalised a number of major regulatory reforms, including:

- Passing of legislation to extend and enhance APRA's powers to address crises affecting financial sector entities. The legislation confers broad powers on APRA to intervene in the operation of ADIs and, in some cases, their subsidiaries.
- Passing legislation to implement the Banking Executive Accountability Regime (BEAR). This legislation is intended to increase the responsibility and accountability of ADIs and their directors and senior executives. The regime will take effect for the Group from July 2018.

- Introduction of legislation to improve accountability in superannuation. There are also proposed changes to the superannuation prudential framework to lift operational governance practices of APRA-regulated superannuation trustees.
- Release of the report and public consultation on the 'Review into Open Banking in Australia', which is designed to increase access to banking products and data by customers and third parties. This, in addition to the passing of legislation to relax restrictions on the use of the term 'bank', will reduce the barriers to new entrants and increase competition.

Other areas of ongoing regulatory change and review include:

- Global reform initiatives including US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and Over The Counter derivative market reforms.
- The Productivity Commission of the Australian Government's inquiries into 'Competition in the Australian Financial System' and the competitiveness and efficiency of the superannuation industry.
- Supervisory actions to reinforce sound residential mortgage lending practices. In March 2017, APRA introduced a new supervisory measure instructing Australian banks to limit new residential interest-only mortgages to 30% of total new residential mortgage lending. The Australian Competition and Consumer Commission is also conducting an inquiry into residential mortgage product pricing. In April 2018, APRA announced plans to remove the investor loan growth benchmark introduced in 2014 (10%) and replace it with more permanent measures to strengthen lending standards.
- Changes to financial benchmarks, payments and privacy laws, accounting and reporting requirements, tax legislation and bank specific tax levies. This includes the major bank levy which became effective in July 2017, and similar levies that Australian State and Territory Governments may introduce.
- The RBNZ issued its revised Outsourcing Policy in September 2017 which focuses on services outsourced by NZ registered banks including services provided by parent banks offshore. Implementation of, and compliance with, the final policy may impact the Group's operations.
- Increasing supervision and regulation on anti-bribery and corruption, anti-money laundering, counter-terrorism financing and trade sanctions may result in changes to the anti-money laundering regulatory framework.
- An ongoing focus on financial advice, data quality and controls, conduct, governance and culture, conflicts of interest and management of life insurance claims.

The Australian Government established a Royal Commission into 'Misconduct in the Banking, Superannuation and Financial Services Industry'. A Royal Commission is 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. The Royal Commission is scheduled to conduct public hearings on a wide range of matters that relate to the business and operations of the Group, with a final report due by February 2019. The proceedings of the Royal Commission may have an adverse effect on the reputation of the Group. Any recommendation made by the Royal Commission, if implemented, may have an adverse impact on the Group's financial performance and prospects. Recommendations may also impact the viability of existing business models and remuneration structures, and may lead to increased political or regulatory scrutiny of the industry in NZ.

The Financial Stability Board issued the total loss-absorbing capacity (TLAC) standard in November 2015 for global systemically important banks. APRA could implement a loss absorbing capacity framework in accordance with emerging international practice. At this stage, APRA is yet to issue guidance on how TLAC might be implemented but indicated that consultation is expected to commence in 2018.

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 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 reputation, financial performance and prospects.

2.1.3 The Group faces intense competition, which may adversely impact its financial performance and competitive 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 may impact 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 meet customer expectations.

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 are, 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 reputation, financial performance and position.

Credit risk is the potential that a 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. Other sources of credit risk also exist in: banking and trading books, other financial instruments and loans, extension of commitments and guarantees, and transaction settlements.

The Group's lending portfolio includes residential housing loans, a material component of the Group's total gross loans and acceptances, and commercial real estate loans (largely in Australia and NZ). Credit risk may increase with adverse business or economic conditions (including deterioration in property valuations or prices of residential and commercial property), decline in employment markets, political environment volatility, or high levels of household debt in Australia and NZ.

The Group may also 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 and 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 deterioration in the market for apartments, through 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 and reputational damage should adverse conditions be experienced by customers in the non-retail segment. Similarly, the Group has a large market share in the Australian and NZ agricultural sectors, particularly the dairy sector in NZ. Volatility in commodity prices, foreign exchange rate movements, disease and introduction of pathogens and pests, export and quarantine restrictions and other risks may adversely impact these sectors and the Group's financial performance and position.

Key sources of potential credit risk include:

- The Retail Trade sector is confronting challenges that may impact the ability of some retail traders and owners of retail property to meet their credit obligations. These include low household income growth, international entrants, and the growth of online channels.
- Climate change may present risks arising from: extreme weather events that affect property or business operations, the effect of new laws and government policies designed to mitigate climate change, and impacts on certain customer segments as the economy transitions to renewable and low-emission technology. One of the consequences of these factors is the risk of the Group and its customers holding stranded assets.

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- The NZ dairy market was under financial pressure due to lower milk solid payouts in 2015/16. While milk prices have improved, it is expected that some level of financial pressure will continue for a period of time across this sector. The Australian dairy industry also faced lower milk prices and industry disruption.
- The mining, oil and gas industries in Australia, as well as a number of sectors that service them, were impacted by a slowdown in investment and a period of low commodity prices in key segments. This continues to present the risk of an increase in credit impairment charges.

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, which may adversely impact its reputation, financial performance and position.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic and 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, property or information, customer redress, litigation, and 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. Social media may also influence perceptions of the Group. 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 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, climate change, 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 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.

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 compliance risk and misconduct, which may adversely impact its reputation, and financial performance and position.

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 internal policies, standards, procedures and frameworks. 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 or illegal 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, then the Group may be exposed to:

- Fines, public censure, litigation, settlements and restitution to customers.
- Increased power of regulators or other stakeholders.
- Unenforceability of contracts such as loans, guarantees and other security documents.
- Enforced suspension of operations, amendments to licence conditions or loss of licence to operate all or part of the Group's businesses.

This may adversely impact the Group's reputation, and financial performance and position.

Significant regulatory change and public scrutiny of the global financial services industry by conduct based regulators (including ASIC), and at times government, is driving increased minimum standards and customer expectations. This led to a number of domestic and international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Refer to 'Notes to the Consolidated Financial Statements', *Note 14 Contingent Liabilities* on page 78 in the *2018 Half Year Results* for details on regulatory compliance investigations and reviews, and court proceedings brought by regulators against the Group. The potential outcome of these court proceedings, investigations and reviews remain uncertain at this time, and it is possible that class actions could arise in relation to these matters.

In addition to matters disclosed in the *2018 Half Year Results* (as referenced above), ASIC is also conducting the following investigations and reviews:

- 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 services licence. As agreed with ASIC, the scope of the review covered NULIS' risk management procedures, processes for implementing product changes, disclosure and reporting to members, and conflicts management procedures. The first and second phase Interim Review findings and NULIS' responses were submitted to ASIC.
- Conduct-related issues, including responsible lending, loan application fraud, interest rate setting and consumer credit insurance sales processes. ASIC reviewed lending practices in the home loan sector and commenced legal proceedings in March 2017 against another Australian bank for alleged contraventions of the responsible lending provisions of the National Consumer Credit Protection Act 2009.

Provisions held for conduct and litigation matters are based on a number of assumptions derived from a combination of past experience, forecasts, industry comparison and the exercise of subjective judgement based on (where appropriate) external professional advice. 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 reputation, operations, and financial performance and position.

Most of the day-to-day operations of the Group are based on technology, 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 an array of factors including: complexity within the technology environment, a failure of these systems to operate effectively, an inability to restore or recover such systems in acceptable timeframes, failure to keep technology up-to-date, a breach of data security, or other forms of cyber-attack or physical attack. These factors may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, adverse impact on speed and agility in the delivery of change and innovation, reputational damage, litigation, loss or theft of customer data, or regulatory investigations and penalties. These risks 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 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 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 (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 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, joint ventures and investments. 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 damage and financial risks.

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', Note 14 *Contingent Liabilities* on page 79 in the *2018 Half Year Results* under the heading *UK conduct issues and the Conduct Indemnity Deed*.

2.2.6 Transformation and change programs across the Group may not deliver some or all of their anticipated benefits and may adversely impact the Group's reputation, and financial performance and position.

The Group invests significantly in change across the organisation, including technology, infrastructure and cultural 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 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, compliance and other risks, which may adversely impact the Group's reputation, and financial performance and position. There is also no guarantee that the Group's risk management framework will be effective in accurately identifying and addressing these risks.

2.2.7 The Group may be exposed to losses if critical accounting judgements and estimates are subsequently found to be incorrect, which may adversely impact the Group's reputation, and financial performance and position.

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 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 reputation and financial performance and position.

2.2.8 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.

Refer to 'Notes to the Consolidated Financial Statements', *Note 14 Contingent Liabilities* on page 78 in the *2018 Half Year Results* for details in relation to the Group's material legal proceedings and contingent liabilities.

2.2.9 Insufficient capital may adversely impact the Group's reputation, operations and financial performance and position.

Capital risk is the risk that the Group does not have sufficient capital and reserves to meet prudential requirements, achieve 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 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 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.

2.2.10 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 reduced investor and customer appetite to hold the Group's securities or place deposit funds, may adversely affect the Group's ability to access funds or require access to 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 reputation, financial performance and position.

2.2.11 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. Credit ratings may be affected by operational and market factors, and 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.

2.2.12 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 did not correctly anticipate.

2.2.13 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 due to 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, or a 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.

2.2.14 The Group may suffer significant losses from its trading activities, which may adversely impact the Group's reputation, financial performance and position.

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. This includes changes in interest rates, foreign exchange rates, commodity and equity prices, and credit spreads.

2.2.15 Failure to sell down underwriting risk may result in losses to the Group and adversely impact its reputation, and financial performance and position.

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 suffer losses if it fails to sell down some or all of this risk to other market participants.

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

In addition to the risks described above, a number of specific risks exist in connection with the MLC life insurance transaction.

In connection with the sale of 80% of MLC Limited to Nippon Life Insurance Company (Nippon Life), the Company gave certain covenants, warranties and indemnities in favour of Nippon Life, a breach or triggering of which may result in the Company being liable to Nippon Life. The Company also 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, including that changes in the regulatory or commercial environment may impact the commercial attractiveness of these agreements and limit future opportunities for the Company through non-compete arrangements.

The Company agreed to take certain actions to establish MLC Limited as a standalone entity, including data migration and the development of technology systems. As this work is yet to be completed, there is a risk that implementation costs may ultimately prove higher than anticipated.

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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 2018 as contained in the Company's Half Year Financial Statements, which have been prepared in accordance with the requirements of the *Corporations Act* 2001 (Cth), Australian Accounting Standards and Australian Accounting Interpretations of the Australian Accounting Standards Board give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and

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

(i) a fair review of the development and performance of the business and position of the Group; and

(ii) a description of the principal risks and uncertainties faced by the Group.

Dated this 3rd day of May 2018:

Andrew Thorburn
Group Chief Executive Officer

Gary Lennon
Group Chief Financial Officer