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ASX Announcement

NAB releases Luxembourg Transparency Law disclosures

NAB will today lodge its "Luxembourg Transparency Law – 2015 Half Year Financial Report" (attached) with the Luxembourg *Commission de Surveillance du Secteur Financier* (CSSF), which is required as part of NAB's obligation to comply with Article 4 of the Luxembourg Law of 11 January 2008 relating to European Union reporting requirements. These reporting requirements apply to NAB as it has debt securities admitted to trading on the regulated market of the Luxembourg Stock Exchange and is subject to the supervision of the CSSF.

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Luxembourg Transparency Law – 2015 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 2015

This Report must be read in conjunction with the Company's Half Year Results 2015, which have been published simultaneously with this Report. The Company's Half Year Results 2015 and this Report have been filed with the CSSF and are stored with the Luxembourg Stock Exchange as Officially Appointed Mechanism (this Report and the Company's Half Year Results 2015 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 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's future financial performance and position. 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 Demerger and Initial Public Offering proposal

As announced on 7 May 2015, the Company is exploring the exit of its United Kingdom business via the public markets by way of a demerger and initial public offering (the Demerger and IPO). The Demerger and IPO proposal is subject to a significant number of uncertainties, including but not limited to a final decision from the Company to proceed with the proposal, approval of certain elements of the proposal by the board of the business to be demerged (Listco), approval from shareholders, approvals from regulators and the final terms of those approvals and general market conditions, particularly equity market conditions in the United Kingdom. As such the Demerger and IPO may not proceed at all, or proceed on a basis that is materially different to that outlined, including potentially as a demerger only with no coincident IPO. In the event that a Demerger proceeds, shareholders will receive interests in Listco the value of which is unknown and may be subject to material volatility. An interest in Listco will involve the risks that are applicable to Listco's business and may include additional risks not included in the description of the Company's risks. Details of these risks will be included in materials provided to shareholders in connection with the Demerger proposal. Further, in any event, as Listco is a considerably smaller entity than the Company, individual risks may have a more material effect on the value of any investment in Listco. Other risks associated with the execution of a transaction such as the Demerger and IPO are described below under the heading *"2.3.19 Certain strategic decisions, including acquisitions or divestments, may adversely impact the Group's financial performance and position"*, such as the reputational and economic risks to the Company associated with the provision of continued services and infrastructure to Listco.

To achieve the Demerger and IPO, the Company will provide capital support to Listco in relation to potential future legacy conduct costs not covered by existing provisions. The Company intends to demerge Listco in calendar year 2015. The capital support is capped at £1.7 billion, as determined by the Prudential Regulation Authority (PRA), provided that the demerger occurs within the intended timeframe. Any additional conduct provisions prior to that time would be deducted from the cap. The capped amount of this capital support is expected to be deducted from the Company's Common Equity Tier 1 levels at the time of separation, but may result in a capital release for the Company over time to the extent that conduct losses are less than the capped amount. To extent that conduct losses are greater than the capped amount, that additional amount will be borne by Listco, which may adversely impact its financial position and performance. In the event that the Demerger and IPO proposal does not proceed, the Company will continue to wholly own Listco and the Group will continue to be exposed, through Listco, to the risks of its business, including to all losses related to conduct matters. This would result in uncertainty in the level of regulatory capital that the Group is required to hold in respect of its United Kingdom banking business, and this level may materially increase from current levels.

In the event that the Demerger and IPO proposal proceeds on a basis that is materially different to that outlined, it could give rise to significant changes in the impact of the proposal on the Group's regulatory capital, including causing a reduction in its regulatory capital levels.

2.2 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.

2.2.1 The Group may be adversely impacted by macroeconomic risks and financial market conditions.

The Group conducts business across a range of jurisdictions including Australia, New Zealand, the United Kingdom, Europe, the United States and Asia. The business activities of the Group are dependent on the level 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 macroeconomic 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 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 NAB 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; and
- Increased cost of insurance or lack of available or suitable insurance.

Luxembourg Transparency Law – 2015 Half Year Financial Report

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

- There is widespread market expectation that certain central banks may tighten their monetary policy to lift interest rates back to levels that appear more 'neutral' and nearer to historical norms and reduce quantitative easing, whilst other central banks are expected to keep interest rates low and undertake quantitative easing for a considerable time. A prolonged period of low interest rates carries the risk that market participants have taken on more risk than they expected in a 'search for yield', leaving them exposed to an earlier and more rapid than expected tightening in monetary policy. In the past, periods of tightening monetary policy in the United States have been associated with greater volatility in the volume and pricing of capital flows into emerging market economies. Several capital importing emerging market economies, such as Indonesia, remain particularly vulnerable to a sudden or marked change in United States interest rates and expectations on the interest rate outlook.
- Economic growth in Australia has remained moderate with falling commodity prices and a decline in mining investment weighing on demand. At the same time, subdued confidence across large parts of the economy has delayed the anticipated upturn in non-mining investment and labour demand. Lower interest rates and the depreciation in the Australian dollar will support growth but there remains uncertainty over the timing and extent of the upturn in non-mining sectors of the economy that is embedded in the forecasts of government authorities.
- Both Australia and New Zealand are increasingly integrated with Asian economies, resulting in a sizeable exposure in both of these economies to changes in the pace of economic growth in the Asian region, in particular China. The outlook for the Chinese economy is uncertain as the government is trying to re-balance the composition of growth toward a greater contribution from domestic consumption, with less reliance on export-driven foreign consumption and internal investment.
- As the United Kingdom economy has close trade links with other Western European nations, developments in the Eurozone influence the level of demand for United Kingdom goods and services. Some governments in the Eurozone are heavily indebted and politically unstable and uncertainty remains over the financial strength of the banking sector. Unemployment also remains exceptionally high in several Eurozone nations. Furthermore, continued difficulty in resolving structural problems may result in one or more Eurozone member states exiting the monetary union, resulting in uncertainty as to which countries constitute the currency union and the Eurozone more broadly in the long term.
- Outside the Eurozone, increases in the level of sovereign debt in a number of countries have generally been reflected in a downgrading in the rating of their external liabilities by the various rating agencies. Both the gross level of Japanese sovereign debt and its ratio to gross domestic product have received particular attention, and the importance of low interest rates for the sustainable funding of that debt has been widely recognised. Chinese growth has been reliant on rapid credit growth and the resulting build-up of corporate and local government debt owed to the shadow banking sector has raised particular concern.

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

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

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.

The Basel Committee on Banking Supervision's (BCBS) Basel III reforms are expected to be fully implemented by 2019 and are intended to strengthen the resilience of the banking sector. Implementation of these reforms will increase the quality and ratio of capital to risk weighted assets that the Group is required to maintain, will increase the quality and proportion of assets that the Group is required to hold as liquid assets, and is expected to increase compliance costs. In Australia, the Australian Prudential Regulation Authority's (APRA) revised capital requirements became effective from 1 January 2013, with additional requirements to take effect in future years as capital buffers and the leverage ratio are implemented. Revised liquidity requirements in Australia are taking effect progressively, with qualitative requirements having commenced on 1 January 2014, and liquidity coverage ratio requirements on 1 January 2015. New net stable funding ratio requirements are due to take effect from 1 January 2018. In New Zealand, the Reserve Bank of New Zealand (RBNZ) has implemented the Basel III capital adequacy framework as modified to reflect New Zealand conditions. The core Basel III capital adequacy ratios took effect as of 1 January 2013. Since 1 January 2014, the RBNZ has required most New Zealand incorporated banks, including Bank of New Zealand, to maintain a conservation buffer and the RBNZ also has the discretion to apply a countercyclical buffer of common equity. These reforms will require the Group to hold more liquid assets and reshape the balance sheet, both in terms of how the Group is funded and how it utilises those funds. Other regulators have also implemented or are in the process of implementing Basel III and equivalent reforms.

In December 2014, the BCBS released final revisions to the securitisation framework to take effect in January 2018, and a further consultation of the review of the trading book capital requirements. This may impact the amount of regulatory capital held industry wide for securitisation exposures and the trading book capital requirements for complex products respectively. These developments are expected to be followed by further regulatory changes as the BCBS focuses on improved consistency and comparability in banks' regulatory capital ratios. Revised Pillar 3 disclosure requirements were released by the BCBS in January 2015. The standardised approaches to credit, market and operational risks are under review, along with the capital floor framework. The full impact of the changes will not be known until the BCBS requirements are finalised and / or implemented by APRA or by other regulators across the Group. This may intersect with the Australian Financial System Inquiry (FSI), discussed below.

The Group has been identified as a Domestic Systemically Important Bank (D-SIB) under APRA's framework for D-SIBs and is therefore subject to a one per cent higher loss absorbency requirement, effective from January 2016. In addition, in May 2014, APRA clarified the definition of entities to be included in the composition of a Level 2 Authorised Deposit-taking Institution (ADI), which is expected to remove over time the capital benefit the Group gains from debt on the National Wealth Management Holdings Limited balance sheet. APRA has also now released final prudential standards associated with its framework for the supervision of conglomerate groups, including the Group. However, the implementation of the prudential standards relating to conglomerates has been deferred until the Australian Government's response to the FSI is known.

The United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) instituted major changes to the United States banking and financial institutions regulatory regimes. This includes additional supervisory requirements and prudential standards for non-United States banking organisations, and their affiliates, with a United States banking presence and total global consolidated assets of at least US$50 billion (which includes the Company). The legislation and its implementing regulations include, among other things, additional capital, liquidity and risk management requirements. The Dodd-Frank Act also contains the Volcker Rule, which prohibits proprietary trading and the sponsorship of, and investment in, hedge, private equity or other similar funds by certain foreign banking organisations like the Company. Certain requirements under the Dodd-Frank Act have yet to become effective, and their specific impact on the Group's businesses and in the markets in which it operates continues to be assessed as part of implementation of the requirements.

Over The Counter (OTC) derivative market reforms are being implemented in the United States through the Dodd-Frank Act, and in other countries including Australia and in Europe. During 2013, the Australian Securities and Investments Commission released rules and relevant regulatory guides for derivative transaction reporting and the licensing of derivative trade repositories. Derivative transaction reporting requirements for the Company in Australia commenced in October 2013. The reporting obligations are being phased in for various classes of entity. Following a consultation in 2014, the Australian Government announced that it will mandate central clearing in Australia; consultation on the Ministerial determination and regulations for central clearing will occur during 2015. The Australian government has also committed to reforms to provide for centralised execution of standardised OTC derivatives on exchanges or electronic platforms, but has not yet recommended mandatory platform trading. The Council of Financial Regulators is expected to address this issue in a forthcoming market assessment in 2015. In Europe, the European Market Infrastructure Regulation (EMIR) has introduced new requirements to improve transparency and reduce the risks associated with the derivatives market, which are being progressively implemented. Where there is variation in the scope and implementation timeframes for OTC reforms across jurisdictions, there may be added costs and complexity in achieving regulatory compliance for the Group.

The Foreign Account Tax Compliance Act (FATCA) requires certain foreign financial institutions to provide information regarding United States account holders to the United States tax authorities. Non-compliance with FATCA may subject a foreign financial institution to a 30% withholding tax applied on certain amounts derived from United States sources and certain payments attributable to such amounts. On 28 April 2014, the Australian Government entered into an intergovernmental agreement with the government of the United States in respect of FATCA, and has since enacted implementing legislation to give effect to the agreement. On 12 June 2014, the New Zealand government entered into an intergovernmental agreement with the government of the United States in respect of FATCA, and has since enacted implementing legislation to give effect to the agreement. The governments of some other countries in which the Group operates have entered into or have agreed to enter into intergovernmental agreements with the government of the United States, and have enacted or are considering enacting law in respect of FATCA. Under such agreements, foreign financial institutions in such jurisdictions will generally be exempt from withholding under FATCA if they comply with requirements imposed by the relevant jurisdictions.

The United Kingdom Financial Services Banking Reform Act 2013 (the Banking Reform Act) has wide ranging implications, substantially enacting the recommendations of the Independent Commission on Banking. A key inclusion in the Banking Reform Act gives effect to structural reforms aimed at 'ring-fencing' retail banks of a certain size from investment and wholesale banking operations, and capitalising each separately. Retail ring-fencing must be implemented by 1 January 2019. Other key requirements include imposing higher standards of conduct on the banking industry, depositor preference in the event a bank enters insolvency, and introducing more onerous primary loss absorbing capacity requirements. These requirements may impact the structure and operation of the Group's United Kingdom business.

The Australian Government's FSI released its final report in December 2014, and submissions for subsequent consultation were due by 31 March 2015. 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 final report made 44 recommendations for the Australian financial system. These include amending capital requirements to increase the capital levels of Australian ADIs, raising average internal ratings based mortgage risk weights for credit risk, and implementing a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice. The FSI has also proposed other 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. The implementation of any of these recommendations is a matter for Australian Government regulators to consider within the scope of their mandates. Given the results of the FSI inquiry are unknown, there is a risk that the Group's capital position may not be adequate to meet any increased capital requirements resulting from the Australian Government's response to the FSI, or any other regulatory changes that may arise in respect of Basel proposals outlined elsewhere in this section. In such circumstances, the Group may be required to raise further capital.

Future of Financial Advice (FOFA) reforms set certain standards and obligations in relation to the provision of financial advice to retail investors. The FOFA reforms became mandatory on 1 July 2013. On 19 March 2014, the Australian Government introduced the Corporations Amendment (Streamlining Future of Financial Advice) Bill 2014 (the Bill), which proposed a package of changes to FOFA to reduce the compliance costs and regulatory burden on the financial services sector, including removing the requirement to opt-in to ongoing adviser services every two years and to provide a general advice exemption from the ban on conflicted remuneration. The Bill is yet to be passed. Regulations which became effective on 1 July 2014 incorporated many of the changes proposed by the Bill, however, these streamlining regulations were disallowed by the Senate in November 2014. Some have subsequently been reinstated by the Corporations Amendment (Revising Future of Financial Advice) Regulation 2014, which commenced on 16 December 2014. There remains some uncertainty as to whether the Bill will pass.

The Australian Government is also undertaking a review of competition policy to ensure there is an effective competition framework that promotes a strong and innovative business sector and better outcomes for consumers across the Australian economy. The implementation of any recommendations from this review will also ultimately be a decision for the Australian Government and its agencies and the impact on the Group of this review remains unclear.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, anti-money laundering / counter-terrorism financing regulations, payments, privacy laws and increased supervisory expectations around data quality and controls.

The full effect of these current and potential regulatory reforms on the Group's operations, capital requirements, business and prospects, or how any of the proposals discussed above 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 operations, structure, compliance costs or capital requirements and ultimately its financial performance and position.

2.2.3 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. The Group faces competition from established financial services providers as well as new market entrants, including foreign banks and non-bank competitors with lower cost operating models. Increasing competition for customers can lead to compression in profit margins, increased advertising and other related expenses, decreased customer loyalty or loss of market share. As technology evolves and customer needs and preferences change, there is an increased risk of disruptive innovation or a failure by the Group to introduce new products or services to keep pace with industry developments and meet customer expectations. The Group's financial performance and position may be adversely affected by competitive market conditions and industry trends.

2.3 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.

Relative to its Australian-based banking peers, the Group's business model and portfolio mix is notable for the high proportion of business and commercial real estate lending and the location of banking subsidiaries in the United Kingdom and the United States.

The risks specific to the Group are set out below.

2.3.1 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, which at 31 March 2015 represented approximately 57.6% of gross loans and acceptances.
- Commercial real estate loans, which at 31 March 2015 represented approximately 10.4% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's United Kingdom commercial real estate loan run-off portfolio continues to be managed separately from the rest of the Group's banking activities in the United Kingdom.
- The Group's United Kingdom banking business (excluding the United Kingdom's commercial real estate loan run-off portfolio), represented approximately 9.5% of gross loans and acceptances at 31 March 2015.

Adverse business or economic conditions, including a deterioration in property valuations, employment markets or the political environment, may result in failure by counterparties and customers to meet their obligations in accordance with agreed terms. The Group's portfolio of interest-only loans may be particularly susceptible to losses in the event of a decline in residential property prices. These conditions may be prompted by events outside the Group's core markets, such as the current instability in the continental European political and financial environment. This may adversely impact the financial performance and position of the Group.

The Group may also be exposed to the increased risk of counterparty or customer default should interest rates rise above the record lows, or near record lows, of recent years.

The Group's large business lending market share in Australia and New Zealand 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 New Zealand agricultural sector (particularly, in New Zealand, the dairy sector). 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 results. In addition with a slowdown in mining investment and a fall in commodity prices in Australia, a number of sectors servicing the mining industry, as well as the mining industry itself, have come under pressure.

The Group provides for losses incurred in relation to loans, advances and other assets. Estimating losses incurred 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 proves to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

2.3.2 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 or reputational risk.

Operational risks are a core component of doing business as they arise 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 financial performance and position.

Examples of operational risk events include:

- Fraudulent or unauthorised acts by employees, contractors and external parties seeking to misappropriate funds or gain unauthorised access to customer or sensitive data;
- Systems, technology and infrastructure failures, or cyber incidents, including denial of service and malicious software attacks;
- 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; and
- Business disruption and property damage arising from external 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.

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.

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

The Group is exposed to compliance risk arising from failure or inability to comply with laws, regulations, licence conditions, standards and codes applicable to the Group, and related internal policies. If the Group's compliance controls were to fail significantly, be set inappropriately, or not meet legal or regulatory expectations, the Group may be exposed to fines, public censure, litigation, settlements, restitution to customers, regulators or other stakeholders, 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, corporate structure, 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, 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 manipulation of financial benchmarks. In Australia this includes examining potential wrongdoing in the bank bill swap reference rate and foreign exchange markets.

Risk may arise through inappropriate conduct by employees in breach of Group policy and evolving regulatory standards, such as selling or coercing customers into inappropriate products and services, conducting inappropriate market practices, non-adherence to fiduciary requirements or provision of inappropriate financial advice. Since September 2014, the 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. The Committee is due to report by 1 February 2016. The Company is 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.

In common with the wider United Kingdom retail banking sector, Clydesdale Bank PLC (Clydesdale) continues to deal with complaints and redress issues arising out of: historic sales of payment protection insurance, the sale of certain historic interest rate hedging products to small and medium-sized businesses, and other conduct-related matters. Since 1 April 2013, Clydesdale has been regulated by the Financial Conduct Authority (FCA) and the PRA. Proactive regulation of conduct related matters by the FCA may impact the manner in which the Group's United Kingdom operations deal with, and the ultimate extent of, conduct related customer redress and associated costs. For further details in relation to ongoing United Kingdom conduct matters that are material to the Group, refer to 'Notes to the Consolidated Financial Statements', *Note 14 - Contingent Liabilities* in the Half Year Results 2015.

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 financial performance and position of the Group.

2.3.4 Disruption of technology systems or breaches of data security may adversely impact the Group's operations, reputation and financial 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 form of cyber-attack. These events may be wholly or partially beyond the control of the Group. Such events may result in disruption to operations, reputation damage and litigation, loss or theft of customer data, or regulatory investigations and penalties. This may adversely impact the Group's 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 of customer data, or breach of applicable privacy laws, all of which may adversely impact the Group's reputation, 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, including, for example, 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, financial performance and position.

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

The Group is continuing to progress its enterprise-wide technology and infrastructure transformation including the upgrade of its core banking platform. It is also pursuing other operating model and process improvements. These initiatives aim to reduce operational complexity and operational risk however, due to the scale and complexity of these projects, the Group's risk profile has increased for the near future. Changes of this magnitude require the Group to invest significant management attention and resources, which may divert attention away from normal business activities and other ongoing projects. Additionally, as changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are magnified, which may impact the reputation and financial condition of the Group. There is also a risk that implementation may not be completed within expected timeframes or budget, or that such changes do not deliver some or all of their anticipated benefits.

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

The 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 valuation of provisions, including conduct-related matters, the valuation of goodwill and intangible assets, and the fair value of financial instruments.

Effective 1 October 2014, the Group adopted the requirements of Australian Accounting Standards Board (AASB) 9 'Financial Instruments'. Refer to 'Notes to the Consolidated Financial Statements', *Note 1 – Principal Accounting Policies* in the 2015 Half Year Results for transitional impacts of the application of AASB 9.

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 could have an adverse effect on the Group's reputation, results of operations, financial condition or prospects.

2.3.7 Litigation and contingent liabilities arising from the Group's business conduct may adversely impact its reputation, 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 in respect thereof cannot be accurately assessed. Any material legal proceedings may adversely impact the Group's reputation, financial performance and position.

Refer to 'Notes to the Consolidated Financial Statements', *Note 14 - Contingent Liabilities* in the Half Year Results 2015 for details in relation to the Group's material legal proceedings and contingent liabilities.

2.3.8 Insufficient capital may adversely impact the Group's operations, 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. Any changes, including regulatory changes arising from the Basel 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 or may require it to raise or use more, or higher quality, capital. Although the exact timing and quantum is uncertain, APRA has indicated that it may be willing to act "sooner rather than later" to implement higher capital requirements in response to the FSI recommendations, with a focus on mortgage risk weights. Such changes may adversely impact the Group's operations, financial performance and position.

2.3.9 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 Australian banking sector accesses domestic and global capital markets to help fund its businesses. Any dislocation in these funding markets, or a reduction in investor appetite for holding the Group's securities, 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 cost of the Group's borrowings, 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, financial performance and position.

2.3.10 A significant downgrade in the Group's credit ratings may adversely impact its borrowing costs, market access and competitive position.

Credit ratings are an important reference for market participants in evaluating the Group and its products, services and securities.

Credit rating agencies conduct ongoing review activity 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 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. For example, in October 2014 Standard and Poor's Ratings Services revised its credit rating assessment criteria for hybrid instruments issued by banks across the Asia-Pacific region (excluding Japan), which led to a one notch downgrade of NAB's Tier 1 hybrid instruments.

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 borrowing costs or limit its access to the capital markets. A downgrade may also 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.

2.3.11 Changes in interest rates may 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, 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.

2.3.12 The Group's exposure to defined benefit pension fund risk may adversely impact its financial performance and position.

Defined benefit pension fund risk is the risk that, at any point in time, a pension scheme is in deficit, meaning that the assets available to the scheme are at a value below its current and future pension obligations. Changes in the level of pension deficit also result in volatility for the Group's regulatory capital position, as a deficit amount results in a direct reduction in the Group's Common Equity Tier 1 Capital.

The Group's principal exposure to defined benefit pension fund risk is in the United Kingdom, where its defined benefit scheme was closed to new members from 1 January 2004. Refer to the 2015 Half Year Results for the latest published position in relation to this scheme at 31 March 2015.

Asset values and liabilities are affected by a number of factors, including the discount rate used to calculate the liability net present value, the long-term inflation assumption, actuarial assumptions (including mortality and morbidity rates) and the value of the investment portfolio.

A deficit may increase the amount that members of the Group are obliged to contribute to the scheme and adversely impact the Group's performance and position.

2.3.13 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, profit and loss, 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 different currencies, most frequently Australian, New Zealand and United States Dollars, British Pounds and Euros. 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 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.

2.3.14 A material reduction in the fair value of an equity investment held by the Group may adversely impact its financial performance and position.

The Group carries equity investments in its banking book at fair value. Fair value represents mark to market valuations derived from market prices, independent valuations and methodologies or other valuation techniques. The fair value of an equity investment may be impacted by factors such as economic, operational, currency and market risk. A material reduction in the fair value of an equity investment in the Group's banking book may adversely impact the financial performance and position of the Group.

2.3.15 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.

2.3.16 The Group is exposed to life insurance risk, which may adversely impact its financial performance and position.

Life insurance risk is the potential for losses when life insurance claims and other outgoings exceed those anticipated in the premiums collected and underlying investment income earned. Life insurance risk may arise due to inadequate or inappropriate underwriting, inadequate reserving, poor business claims management, product design or pricing processes or investment profit, all of which may adversely impact the financial performance and position of the Group. It also includes lapse risk, where a policy lapses before the upfront costs have been recouped from profit margins.

Provisions for mortality and morbidity claims are an estimate of the expected ultimate cost of such claims based on actuarial and statistical projections, rather than an exact calculation of liability. Provisions are affected by a range of factors, including unforeseen diseases or epidemics. Changes in any of these factors would necessitate a change in estimates of projected ultimate cost. Losses may occur when the experience of mortality and morbidity claims compares adversely to that assumed when pricing life insurance policies.

The Australian life insurance industry, in which the Group is a participant, is currently experiencing poor lapse and claims experience and lower underlying investment income. This may continue to adversely impact the Group's financial performance and position.

2.3.17 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. Should the Demerger and IPO proceed, any adverse performance of Listco may adversely impact the Group's reputation. A risk event, such as a compliance breach or an operational or technology failure, may adversely affect the perceptions of the Group held by the public, shareholders, investors, customers, regulators or ratings agencies. The risk event itself 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. 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 also impact the cost of funding, its operations, or its financial condition.

2.3.18 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.

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

There is a risk that the assumptions on which the Group's strategic decisions are based are, or may prove to be, incorrect or that the conditions underpinning those strategic decisions may 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 examines a range of corporate opportunities (including acquisitions, divestments and joint ventures) and evaluates these opportunities against strategic priorities and risk appetite and considers their ability to enhance the Group's financial performance, position or prospects.

Any corporate opportunity that is pursued may change the Group's risk profile and capital structure. Changes to the Group's risk profile or capital structure may contribute to negative sentiment or a negative impact on the Group's credit ratings.

Risks associated with the execution of a transaction may result from an over-valuation of an acquisition or joint venture, or an under-valuation of a divestment or joint venture. There may be reputational and economic risks associated with ongoing exposure to a divested business, for example through the provision of continued services and infrastructure, or the retention of liabilities.

Other risks may also arise through the Group's integration or separation of a business including failure to realise expected synergies, loss of customers, disruption to operations, application of additional regulation, diversion of management resources or higher than expected costs. Once commenced or executed, corporate actions or other strategic initiatives may be unable to be reversed. These factors may adversely impact the Group's financial performance and position.

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

The Group operates within a risk management framework comprising systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and mitigate risks.

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

Luxembourg Transparency Law – 2015 Half Year Financial Report

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 Executive, Finance and Strategy 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 2015 contained in the Half Year Results 2015, 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 2015 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 7th day of May 2015:

Andrew Thorburn
Group Chief Executive Officer

Craig Drummond
Group Executive, Finance and Strategy