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institution) may be required (pursuant to an agreement with the US Internal Revenue Service ("**IRS**") or under applicable law) to request certain information from Holders or beneficial owners of NAB Capital Notes 2, which information may be provided to the IRS, and to withhold US tax on some portion of payments made after 31 December 2018 with respect to NAB Capital Notes 2 if such information is not provided or if payments are made to certain foreign financial institutions that have not entered into a similar agreement with the IRS (and are not otherwise required to comply with the FATCA regime under applicable laws or are otherwise exempt from complying with the requirement to enter into a FATCA agreement with the IRS). If NAB or any other person is required to withhold amounts under or in connection with FATCA from any payments made in respect of NAB Capital Notes 2, Holders and beneficial owners of NAB Capital Notes 2 will not be entitled to receive any gross up or additional amounts to compensate them for such withholding. This description is based on guidance issued to date by the IRS, including recently issued regulations. Future guidance may affect the application of FATCA to NAB Capital Notes 2.

6.2 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 Group. These risks and uncertainties are not listed in order of significance and it is not possible to determine the likelihood of any such risks occurring. In the event that one or more of these risks occur, the Group's business, operations, financial condition and future performance may be adversely impacted.

There may be other risks faced by the Group that are currently unknown or are deemed immaterial, but which may subsequently become known or become material. These may individually or in aggregate adversely impact the Group'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.

6.2.1 Risks specific to the banking and financial services industry

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

(a) 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 UK, 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.
- Increased cost of insurance, lack of available or suitable insurance, or failure of the insurance underwriter.

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:

- The US Federal Reserve has begun to tighten its monetary policy, signalling its intention to gradually lift interest rates back to levels that appear more 'neutral' and nearer to historical norms. Some central banks are expected to keep interest rates low and undertake quantitative easing for a considerable time, whilst other central banks have moved to short-term negative interest rates in an attempt to prevent economic growth from slowing. The recent 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 tightening in monetary policy. As interest rates in developed economies rise gradually from historical lows, there is a risk that the valuation of a wide range of assets could fall sharply. Liquidity in those markets also may reduce unexpectedly. 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 in emerging market economies. Several capital importing economies, such as Australia and New Zealand, remain vulnerable to a sudden or marked change in United States interest rates and expectations on the interest rate outlook.

- Global economic and trade growth remains sluggish and has underperformed against forecasts, which has been weighing particularly on emerging market economies. It reflects a combination of weaker commodity prices, increased foreign currency debt by private non-financial corporates, capital outflows out of key economies, and the subdued pace of expansion in the volume of world trade.
- 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, and there remains uncertainty over the timing and extent of such an upturn. In New Zealand, the sharp fall in global prices for major dairy products, one of the country's biggest export sectors, has had an adverse effect on export earnings and national income. The negative effect of lower dairy prices on aggregate farm incomes in regions that are heavily reliant on the dairy industry may still lead to potentially significant adverse impacts on growth, investment and employment.
- Both Australia and New Zealand are increasingly integrated with Asian economies, resulting in more susceptibility in both of these economies to changes in the pace and composition of economic growth in the Asian region, particularly China. Uncertainty over the extent to which Chinese growth has already slowed, or over any continued slowdown, combined with the recent devaluation of the Chinese currency and falls in Chinese stock prices, continues to cause volatility in global markets. China is the dominant global market for key Australian export products, as well as an increasingly important source of services exports and foreign investment. A sharper than forecast downturn in those parts of the Chinese economy that import minerals and energy commodities from Australia, may put further downward pressure on global commodity prices and volumes shipped from Australia to China. A downturn in the Chinese economy may also have a negative impact on demand for Australian property.
- As the UK economy has close trade links with other Western European nations, developments in the Eurozone influence the level of demand for UK goods and services. In February 2016, the British government negotiated a new settlement for UK's membership of the European Union. On 23 June 2016, a referendum will be held in the United Kingdom to determine whether or not the United Kingdom should remain a member of the European Union. As the European Union contains major UK economic partners and many aspects of UK law emanate from the European Union (including aspects of banking regulation), any renegotiation of the terms of UK membership or UK exit from the European Union could have significant economic effects.
- 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. Concerns regarding the continuing financial crisis in Greece and its possible exit from the Eurozone may disrupt financial markets and weaken consumer demand in the European Union, the United States, and other parts of the world.
- 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 or negative 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.

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

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

Regulations vary across jurisdictions, and are designed to protect the interests of depositors, policy holders, security holders, and the banking and financial services system as a whole. Changes to laws and regulations or changes to regulatory policy or interpretation can be unpredictable, are beyond the Group's control, and may not be harmonised across the jurisdictions in which the Group operates. Regulatory change may result in significant capital and compliance costs, changes to corporate structure and increasing demands on management, employees and information technology systems.

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

The Basel Committee on Banking Supervision's ("**BCBS**") Basel III reforms will continue over the coming years. APRA has introduced prudential standards implementing the Basel III requirements in Australia progressively since 1 January 2013. Implementation of these reforms has increased the quality and ratio of capital to risk weighted assets that the Group is required to maintain and the quality and proportion of assets that the Group is required to hold as high quality liquid assets ("**HQLA**"). Some key changes impacting the Group include:

- The final APRA standard on the net stable funding ratio ("**NSFR**") is proposed to be implemented by January 2018. Depending on APRA's interpretation, compliance with NSFR may impact the funding profiles and associated costs of participants in the Australian Banking industry.
- Revisions to the securitisation framework are expected in January 2018. This may impact the amount of regulatory capital held industry-wide for securitisation exposures.

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- In January 2016, the BCBS announced its revised market risk framework, which is due to come into effect on 1 January 2019 globally. This may impact trading book capital requirements for complex products.

In New Zealand, the Reserve Bank of New Zealand has implemented the Basel III framework, as modified to reflect New Zealand conditions. These reforms may require the Group to hold more HQLA 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.

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

The FSI was charged with examining how Australia's financial system could be positioned to best meet the country's evolving needs and support its economic growth. The FSI proposed measures to improve the resilience, efficiency and fairness of the banking system, with respect to matters including superannuation and retirement, regulatory processes, innovation, payments and data, and measures to improve outcomes for consumers. The Australian government released its response to the FSI on 20 October 2015, and confirmed its support for all but one of the 44 recommendations for the Australian financial system. In its response, the Australian government has given APRA the responsibility of implementing recommendations impacting the financial sector regulatory framework. This may result in impacts to regulation and legislation, risk weighted assets or capital ratios.

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

In May 2014, APRA clarified the definition of entities to be included in the composition of a Level 2 ADI, which will remove over time the capital benefit the Group gains from debt on the National Wealth Management Holdings Limited balance sheet.

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

The United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) instituted major changes to United States banking and financial institution regulatory regimes. These changes include additional supervisory requirements and prudential standards for certain foreign banking organisations, such as NAB, and their affiliates. 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, including NAB.

Over The Counter ("**OTC**") derivative market reforms are being implemented globally. In the United States, implementation is through the Dodd-Frank Act. In Australia, ASIC has implemented phased derivative transaction reporting requirements, which commenced in October 2013. ASIC now mandates central clearing of derivatives for Australian ADIs. In broad alignment with international standards, APRA has proposed risk mitigation requirements for instances where central clearing is not achievable. These requirements, which include a margin (collateral) to be held for non-centrally cleared derivatives, are expected to be introduced from September 2016. In Europe, the European Market Infrastructure Regulation 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.

FATCA requires certain foreign financial institutions to provide information regarding United States account holders to the United States tax authorities. The Australian and New Zealand governments, as well as some governments of other countries in which the Group operates, have entered into or have agreed to enter into intergovernmental agreements with the United States government, and have enacted or are considering enacting law in respect of FATCA. If they comply with the requirements of such agreements, foreign financial institutions in such jurisdictions will generally be exempt from withholding under FATCA. Non-compliance with these requirements may subject the Group to a 30% withholding tax applied on certain amounts derived from United States sources, and certain payments attributable to such amounts.

In addition to the aforementioned changes, other areas of ongoing regulatory change and review include additional prudential and conduct reforms, supervisory actions to reinforce sound residential mortgage lending practices including restrictions on the growth in investor lending, changes to accounting and reporting requirements, tax legislation, bank specific tax levies, anti-money laundering / counter-terrorism financing regulations, payments and privacy laws. There has also been increased regulator expectations and focus in relation to a number of other areas including financial advice, data quality and controls, governance and risk culture, conflicts of interest and management of life insurance claims.

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

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

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

6.2.2 Risks specific to the Group

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

(a) 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 2016 represented approximately 56.9% of gross loans and acceptances.
- Commercial real estate loans, which at 31 March 2016 represented approximately 11.6% of gross loans and acceptances, with the majority of these domiciled in Australia. The Group's residual UK commercial real estate assets continue to be managed as a loan run-off portfolio.

Adverse business or economic conditions, including deterioration in property valuations or prices of both residential and commercial property, 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 across retail and non-retail segments, in addition to the residential investor mortgage portfolio, may be particularly 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 the increased risk of counterparty or customer default should interest rates rise above the record 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 sectors, particularly the dairy sector in New Zealand. As a consequence, volatility in commodity prices, foreign exchange rate movements, climatic events (including drought), disease, export restrictions, quarantine restrictions, introduction of pathogens and pests, and other risks that may impact this sector, may have an adverse impact on the Group's financial performance and position. More specifically, the New Zealand dairy market has come under pressure due to a lower milk solid payout rate. The prevailing low payout environment has potential to drive an increase in bad and doubtful debts. In Australia, the mining, oil and gas industries, as well as a number of sectors that service them, have been impacted by a slowdown in mining investment and a fall in commodity prices. Ongoing pressure in these sectors may also result in an increase in bad and doubtful debts.

The Group provides for losses in relation to loans, advances and other assets. Estimating losses in the loan portfolio is, by its very nature, uncertain.

The accuracy of these estimates depends on many factors, including general economic conditions, forecasts and assumptions, and involves complex modelling and judgements. If the information or the assumptions upon which assessments are made prove to be inaccurate, the provisions for credit impairment may need to be revised. This may adversely impact the Group's financial performance and position.

(b) 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 arising from the day-to-day operational activities of the Group as well as strategic projects and business change initiatives. Given that operational risks

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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.
- Business disruption and property damage arising from events such as natural disasters, biological hazards or acts of terrorism.

In addition, the Group is dependent on its ability to retain and attract key management and operating personnel. The unexpected loss of any key resources, or the inability to attract personnel with suitable experience, may adversely impact the Group's ability to operate effectively and efficiently, or to meet strategic objectives.

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.

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

The Group is exposed to compliance risk arising from failure or inability to comply with applicable laws, regulations, licence conditions, standards and codes. 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 and financial performance and position.

The Group has ongoing discussions with key regulators on industry-wide issues and matters specific to the Group. The global banking and financial services industry is increasingly subject to information requests, scrutiny and investigations by its conduct based regulators, and at times government, which have led to a number of international firms facing high profile enforcement actions, including substantial fines, for breaches of laws or regulations. Regulators globally are continuing their investigation into manipulation of financial benchmarks and markets. In Australia, such investigations include examining potential wrongdoing in the bank bill swap reference rate. NAB has co-operated with ASIC and responded to ASIC's inquiries. ASIC has commenced proceedings against NAB and two other market participants. Industry-wide investigations by ASIC and the Australian Competition and Consumer Commission (ACCC) into potential wrongdoing in relation to Spot FX trading are continuing. NAB is co-operating with ASIC and the ACCC and is responding to their inquiries. The potential outcome of the investigations is uncertain at this time.

When carrying out its day-to-day business activities, the Group advocates customer fairness and seeks to act in the best interests of its customers and their desired outcomes. Risk may still arise through inappropriate conduct by employees or contractors in breach of Group policy, regulatory standards, and industry codes of conduct. This may include detrimental practices, such as selling or unduly influencing customers to purchase inappropriate products and services, conducting inappropriate market practices, non-adherence to fiduciary requirements or provision of financial advice which is inappropriate or not in the best interests of customers. Since September 2014, the Australian Senate Economics References Committee (the Committee) has been engaged in 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's final report is due by 31 August 2016.

In October 2015, the Group began contacting customers who may have received non-compliant advice since 2009, to assess the appropriateness of that advice and identify if those customers have suffered loss as a result and would therefore warrant compensation. The outcomes and total costs associated with this work are uncertain. The Group 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.

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

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

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

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

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

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

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

The Group has invested significantly in its enterprise-wide technology and infrastructure transformation, including the upgrade of its Australian core banking platform. As many of these newly delivered capabilities are deployed across the Group, there is a risk that their implementation may not realise some or all of the anticipated benefits. The Group also continues to pursue business process improvement initiatives and invest in technology in order to achieve its strategic objectives, meet ongoing customer expectations and respond to competitive pressures. As these changes are being undertaken in an environment of economic uncertainty and increased regulatory activity and scrutiny, operational and compliance risks are increased, which may adversely impact the Group's reputation and financial performance and position.

(f) 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 estimates used in the calculation of provisions (including those pertaining to conduct-related matters), the valuation of goodwill and intangible assets, and the fair value of financial instruments.

If the judgements, estimates and assumptions used by the Group in preparing its consolidated financial statements are subsequently found to be incorrect, there could be a significant loss to the Group beyond that anticipated or provided for, which may adversely impact the Group's financial performance and position.

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

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

Refer to 'Notes to the Consolidated Financial Statements', *Note 14 – Contingent Liabilities* in the 2016 Half Year Results and NAB's ASX announcement dated 7 June 2016 relating to claims against NAB resulting from ASIC's industry-wide bank bill swap rate investigation for details in relation to the Group's material legal proceedings and contingent liabilities.

(h) Insufficient capital may adversely impact the Group's operations and financial performance and position.

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

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maintain minimum levels of capital and reserves relative to the balance sheet size and risk profile of its operations. Any changes to capital adequacy requirements, including regulatory changes arising from the BCBS capital adequacy reforms or in response to the recommendations of the FSI, may limit the Group's ability to manage capital across the entities within the Group, or may require it to raise or use more higher quality capital. 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.

(i) 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 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 and financial performance and position.

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

Credit ratings are an opinion on the general creditworthiness of an obligor and may be an important reference for market participants in evaluating the Group and its products, services and securities.

Credit rating agencies conduct ongoing review activities which can result in changes to credit rating settings and outlooks for the Group or for sovereign governments in countries in which the Group conducts business. Review activity is based on a number of factors, including the Group's financial strength and outlook, the strength of the Group's operations and processes, the assumed level of government support for the Group in a crisis and the strength of that government, and the condition of the financial services industry and of the markets generally. Credit ratings may also be affected by changes in the rating methodologies used by the agencies.

A downgrade in the credit ratings within the Group or of the Group's securities, or a downgrade in the sovereign rating of one or more of the countries in which the Group operates, may increase the Group's 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.

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

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

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

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

The Group's ownership structure includes investment in overseas subsidiaries and associates and exposures from known foreign currency transactions (such as repatriation of capital and dividends from off-shore subsidiaries). The Group also conducts business outside of Australia and transacts with customers, banks and other counterparties in 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.

(m) A material reduction in the fair value of an equity investment held by the Group may adversely impact its financial performance.

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, regulatory, 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 of the Group.

(n) 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.

(o) 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, has recently had poor lapse and claims experience and lower underlying investment income. This may adversely impact the Group's financial performance and position.

(p) 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. The risk of reputational damage may be heightened by the continuing growth and use of social media.

Following the Demerger and CYBG Institutional Offer, any unexpected performance of CYBG and its controlled entities over the near term may adversely impact the Group's reputation.

A risk event, such as a compliance breach or an operational or technology failure, may expose the Group to direct losses as a result of litigation, fines and penalties, remediation costs or loss of key personnel as well as potential impacts to NAB'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.

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

(q) 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.

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

The Group operates within a risk management framework 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 changing or new and emerging risks. As such, any ineffectiveness or inadequacy in the risk management framework and its implementation may adversely impact the Group's reputation and financial performance and position.

(s) 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 which, in turn, 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 financial risks associated with ongoing exposure to a divested business. For example, this may occur through the provision of continued services and infrastructure, or the retention of liabilities or credit exposures, as is the case with the demerger of CYBG. Ongoing credit exposures may also have adverse capital impacts on the Group.

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.

(t) Risks specific to the MLC life insurance transaction.

In addition to the risks described in Section 6.2.2(s), the following are specific risks associated with the MLC life insurance transaction.

As announced on 28 October 2015, NAB has agreed to sell 80% of MLC to Nippon Life. The transaction is subject to certain conditions, including regulatory approvals, establishment of the life insurance business as a standalone entity, extraction of the investment business from MLC and finalisation of certain agreements. The transaction may not proceed, or may be delayed, if certain contractual conditions cannot be satisfied.

NAB has agreed to take certain actions to establish MLC as a standalone entity. One-off post tax costs of approximately $440 million are expected to be incurred in implementing the transaction. While NAB has undertaken detailed work to quantify these costs, there is a risk that such costs could be higher than what has been anticipated by NAB.

In addition, NAB has given certain covenants, warranties and indemnities in favour of Nippon Life in connection with the transaction. A breach of these covenants and warranties may result in NAB being liable to Nippon Life.

As part of the transaction, NAB will enter into certain long term arrangements. These include: (1) a 20 year distribution agreement under which NAB will distribute MLC life insurance products through its various channels, (2) a shareholders deed with respect to NAB's retained 20% share in MLC (with that shareholders deed continuing while NAB holds shares in MLC), and (3) a 10-year brand licence agreement for MLC to continue to have use of the MLC brand. The duration and nature of these arrangements give rise to certain risks. For example, changes in regulation or the commercial environment in the future may impact the attractiveness or commercial viability of these long term arrangements, and exclusivity and non-compete arrangements may limit future opportunities for NAB.

In addition, if the transaction is completed, Nippon Life will own the majority of the shares in MLC and be entitled to appoint a majority of its directors. NAB will retain 20% ownership of MLC but will not be in a position to direct the strategy or operations of MLC, or manage the costs and risks involved.