PILLAR 3 REPORT 2019

National Australia Bank

Paul and Belinda Adams
Coastal Hydroponics
NAB customer

"Together with NAB's expertise and support in sourcing reliable export opportunities, Coastal Hydroponics is exploring global export markets and the prospect of installing innovative Cravo houses for the protected growing of their produce in the future."

Incorporating the requirements of APS 330
30 June 2019

National Australia Bank Limited ABN 12 004 044 937

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Section 1

Introduction

National Australia Bank Limited (NAB) is an Authorised Deposit-taking Institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act 1959* (Cth). This document has been prepared in accordance with the quarterly reporting requirements of APRA Prudential Standard APS 330 *Public Disclosure*.

APS 330 requires disclosure of information to the market relating to capital adequacy and risk management practices. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's (BCBS) framework for bank capital adequacy. In simple terms, the framework consists of three mutually reinforcing pillars as detailed below.

Pillar 1 **Minimum capital requirement**	**Pillar 2** **Supervisory review process**	**Pillar 3** **Market discipline**
Minimum requirements for the level and quality of capital	Management's responsibility for capital adequacy to support risks beyond the minimum requirements, including an Internal Capital Adequacy Assessment Process (ICAAP)	Disclosure to the market of qualitative and quantitative aspects of risk management, capital adequacy and various risk metrics

This document provides information about risk exposures, capital adequacy and liquidity of the Group, being NAB and its controlled entities.

Amounts are presented in Australian dollars unless otherwise stated, and have been rounded to the nearest million dollars ($m) except where indicated.

Capital Adequacy Methodologies

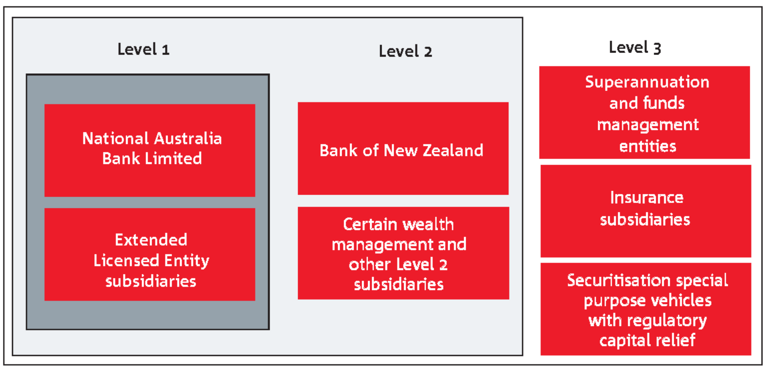
The following illustration sets out the Group's approach to measuring capital adequacy as at 30 June 2019.

Credit Risk	**Operational Risk**	**Non-traded Market Risk**	**Traded Market Risk**
Advanced Internal Ratings-Based Approach (IRB)	Advanced Measurement Approach (AMA)	Internal Model Approach (IMA)	Standardised and Internal Model Approach (IMA)

Bank of New Zealand (BNZ) is a wholly owned subsidiary of the Group and is a registered bank under the *Reserve Bank of New Zealand Act 1989*. BNZ is subject to capital adequacy requirements mandated by the Reserve Bank of New Zealand (RBNZ), under which BNZ applies the internal ratings-based approach. BNZ credit risk exposures consolidated in the Group exposures are calculated under RBNZ requirements.

Scope of Application

APRA measures capital adequacy by assessing financial strength at three levels as illustrated below.



Level 1 comprises NAB and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Level 2 comprises NAB and the entities it controls, excluding superannuation and funds management entities, insurance subsidiaries and securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation*. Level 2 controlled entities include BNZ and other financial entities such as broking, wealth advisory and leasing companies.

Level 3 comprises the consolidation of NAB and all of its subsidiaries.

This report applies to the Level 2 Group, headed by NAB, unless otherwise stated.

Section 2

Capital

Capital Adequacy [APS 330 Attachment C, Table 3a - f]

The following tables provide the risk-weighted assets (RWA) for each risk type.

	As at 30 Jun 19 $m	As at 31 Mar 19 $m
Credit risk[(1)]		
Subject to IRB approach		
Corporate (including Small and Medium Enterprises (SME))	124,073	124,352
Sovereign	1,388	1,351
Bank	10,553	10,444
Residential mortgage	106,718	105,979
Qualifying revolving retail	3,711	3,822
Retail SME	6,575	6,575
Other retail	3,351	3,334
Total IRB approach	**256,369**	**255,857**
Specialised lending	**60,523**	**59,506**
Subject to standardised approach		
Residential mortgage	1,588	1,645
Corporate	4,804	4,733
Other	501	483
Total standardised approach	**6,893**	**6,861**
Other		
Securitisation exposures	4,738	4,739
Credit Value Adjustment	9,503	9,061
Central counterparty default fund contribution guarantee	779	823
Other[(2)]	8,421	8,550
Total other	**23,441**	**23,173**
Total credit risk	**347,226**	**345,397**
Market risk	9,555	9,190
Operational risk[(3)]	41,530	40,945
Interest rate risk in the banking book	6,324	7,673
Total RWA	**404,635**	**403,205**

(1) *Assets that are not subject to specific risk-weights incorporate a scaling factor of 1.06 in accordance with APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk.*
(2) *Other includes non-lending assets and RWA overlay adjustments for regulatory prescribed methodology requirements.*
(3) *Operational Risk RWA excludes the $500m operational risk regulatory capital add-on (equivalent to $6.25 billion RWA) announced by APRA which is effective from 30 September 2019.*

The following tables provide the capital ratios and leverage ratios for the Level 2 Group.

Capital ratios	As at 30 Jun 19 %	As at 31 Mar 19 %
Common Equity Tier 1	10.4	10.4
Tier 1	12.5	12.5
Total	14.3	14.0

Leverage ratio	As at 30 Jun 19 $m	31 Mar 19 $m	31 Dec 18 $m	30 Sep 18 $m
Tier 1 capital	50,409	50,185	48,408	48,254
Total exposures	927,846	915,138	930,879	896,120
Leverage ratio (%)	**5.4%**	**5.5%**	**5.2%**	**5.4%**

Section 3

Credit Risk

Information presented in this section excludes credit risk information in respect of certain securitisation exposures and non-lending assets. In particular, it excludes information on third party securitisation exposures and own asset securitisations with capital relief which have separate disclosures in Section 4 *Securitisation*.

Exposure at default throughout this section represents credit risk exposures net of offsets for eligible financial collateral.

Credit Risk Exposures [APS 330 Attachment C, Table 4a]

The following table provides a breakdown of credit risk exposures between on and off-balance sheet. The table also includes average credit risk exposure, which is the simple average of the credit risk exposure at the beginning and end of the reporting period.

	As at 30 Jun 19				3 months ended 30 Jun 19
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	158,816	76,832	15,928	**251,576**	252,146
Sovereign	57,629	594	3,906	**62,129**	61,015
Bank	26,676	3,529	8,442	**38,647**	38,754
Residential mortgage	340,597	47,905	-	**388,502**	388,473
Qualifying revolving retail	5,378	5,432	-	**10,810**	10,907
Retail SME	13,698	4,140	-	**17,838**	17,862
Other retail	3,189	1,177	-	**4,366**	4,332
Total IRB approach	**605,983**	**139,609**	**28,276**	**773,868**	**773,489**
Specialised lending	**58,398**	**8,636**	**1,014**	**68,048**	**67,914**
Subject to standardised approach					
Residential mortgage	1,963	136	-	**2,099**	2,145
Corporate	7,623	582	3,691	**11,896**	11,718
Other	1,138	1	-	**1,139**	1,128
Total standardised approach	**10,724**	**719**	**3,691**	**15,134**	**14,991**
Total exposure (EaD)	**675,105**	**148,964**	**32,981**	**857,050**	**856,394**

	As at 31 Mar 19				3 months ended 31 Mar 19
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	158,729	76,663	17,324	**252,716**	247,320
Sovereign	55,424	472	4,004	**59,900**	63,426
Bank	26,365	3,346	9,150	**38,861**	37,704
Residential mortgage	340,230	48,214	-	**388,444**	388,495
Qualifying revolving retail	5,512	5,491	-	**11,003**	11,178
Retail SME	13,534	4,351	-	**17,885**	17,909
Other retail	3,106	1,191	-	**4,297**	4,356
Total IRB approach	**602,900**	**139,728**	**30,478**	**773,106**	**770,388**
Specialised lending	**57,780**	**9,137**	**863**	**67,780**	**67,749**
Subject to standardised approach					
Residential mortgage	2,043	147	-	**2,190**	2,203
Corporate	7,374	597	3,569	**11,540**	12,461
Other	1,115	1	-	**1,116**	1,118
Total standardised approach	**10,532**	**745**	**3,569**	**14,846**	**15,782**
Total exposures (EaD)	**671,212**	**149,610**	**34,910**	**855,732**	**853,919**

Credit Provisions and Losses [APS 330 Attachment C, Table 4b - c]

The following table provides information on asset quality.

	As at 30 Jun 19			3 months ended 30 Jun 19	
	Impaired facilities	Past due facilities ≥90 days	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	1,094	214	527	72	57
Residential mortgage	315	2,858	87	15	12
Qualifying revolving retail	-	50	-	50	42
Retail SME	76	169	46	6	7
Other retail	5	62	5	25	26
Total IRB approach	**1,490**	**3,353**	**665**	**168**	**144**
Specialised lending	**172**	**83**	**58**	**1**	**6**
Subject to standardised approach					
Residential mortgage	8	29	4	-	-
Corporate	1	1	7	1	-
Total standardised approach	**9**	**30**	**11**	**1**	**-**
Total	**1,671**	**3,466**	**734**	**170**	**150**
Additional regulatory specific provisions			1,280		
Total regulatory specific provisions			**2,014**		
General reserve for credit losses			**2,048**		

	As at 31 Mar 19			3 months ended 31 Mar 19	
	Impaired facilities	Past due facilities ≥90 days	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	1,008	173	511	99	25
Residential mortgage	306	2,656	85	9	20
Qualifying revolving retail	-	52	-	46	43
Retail SME	75	158	45	7	10
Other retail	5	60	4	27	26
Total IRB approach	**1,394**	**3,099**	**645**	**188**	**124**
Specialised lending	**161**	**79**	**63**	**3**	**1**
Subject to standardised approach					
Residential mortgage	8	27	3	-	1
Corporate	1	1	6	-	-
Total standardised approach	**9**	**28**	**9**	**-**	**1**
Total	**1,564**	**3,206**	**717**	**191**	**126**
Additional regulatory specific provisions			1,212		
Total regulatory specific provisions			**1,929**		
General reserve for credit losses			**2,037**		

Section 4

Securitisation

Recent Securitisation Activity [APS 330 Attachment C, Table 5a]

The following table provides the amount of assets sold by the Group to securitisation special purpose vehicles (SPVs) and any gain or loss on sale.

	3 months ended 30 Jun 19			
	Group originated capital relief	Group originated funding only	Group[(1)] originated internal	Recognised gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgage	-	-	10,224	-

(1) *Internal residential mortgage-backed securities are issued and held internally for contingent liquidity purposes.*

	3 months ended 31 Mar 19			
	Group originated capital relief	Group originated funding only	Group originated internal	Recognised gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgage	-	-	8,700	-

Securitisation Exposures Retained or Purchased [APS 330 Attachment C, Table 5b]

The following table provides the amount of securitisation exposures held in the banking book, broken down between on and off-balance sheet exposures.

	As at 30 Jun 19			As at 31 Mar 19		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
Securitisation exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Liquidity facilities	98	2,362	**2,460**	72	2,236	**2,308**
Warehouse facilities	9,382	2,855	**12,237**	8,831	2,828	**11,659**
Securities	9,204	-	**9,204**	9,685	-	**9,685**
Derivatives	98	43	**141**	51	46	**97**
Total	**18,782**	**5,260**	**24,042**	**18,639**	**5,110**	**23,749**

The Group had $456 million of derivative exposures held in the trading book subject to Internal Model Approach (IMA) (default risk) under APS 116 *Capital Adequacy: Market Risk* as at 30 June 2019 (31 March 2019: $417 million).

Section 5

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) presented in the disclosure template below is based on a simple average of daily LCR outcomes excluding weekends.

There have been no material movements in the average LCR between the three months ended 31 March 2019 and 30 June 2019.

Liquidity Coverage Ratio Disclosure Template [APS 330 Attachment F, Table 20]

		3 months ended			
		30 Jun 19 61 data points		31 Mar 19 62 data points	
		Total unweighted value (average) $m[(1)]	Total weighted value (average) $m	Total unweighted value (average) $m[(1)]	Total weighted value (average) $m
Liquid assets, of which:			**140,610**		**140,436**
1	High-quality liquid assets (HQLA)[(2)]	n/a	85,323	n/a	85,872
2	Alternative liquid assets (ALA)	n/a	51,947	n/a	51,805
3	Reserve Bank of New Zealand (RBNZ) securities[(2)]	n/a	3,340	n/a	2,759
Cash outflows					
4	Retail deposits and deposits from small business customers	195,270	22,992	191,876	22,449
5	of which: stable deposits	59,111	2,956	58,424	2,921
6	of which: less stable deposits	136,159	20,036	133,452	19,528
7	Unsecured wholesale funding	126,889	63,358	128,300	64,314
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	54,223	14,514	53,733	14,416
9	of which: non-operational deposits (all counterparties)	58,422	34,600	59,870	35,201
10	of which: unsecured debt	14,244	14,244	14,697	14,697
11	Secured wholesale funding	n/a	880	n/a	231
12	Additional requirements	167,609	32,219	170,156	32,382
13	of which: outflows related to derivatives exposures and other collateral requirements	16,426	16,426	17,046	17,046
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	151,183	15,793	153,110	15,336
16	Other contractual funding obligations	1,001	589	1,003	591
17	Other contingent funding obligations	72,085	5,036	71,936	5,059
18	**Total cash outflows**	**n/a**	**125,074**	**n/a**	**125,026**
Cash inflows					
19	Secured lending	59,942	957	61,354	1,402
20	Inflows from fully performing exposures	23,014	13,026	23,302	13,220
21	Other cash inflows	1,161	1,161	2,220	2,220
22	**Total cash inflows**	**84,117**	**15,144**	**86,876**	**16,842**
23	**Total liquid assets**		**140,610**		**140,436**
24	**Total net cash outflows**		**109,930**		**108,184**
25	**Liquidity Coverage Ratio (%)**		**128%**		**130%**

(1) *Unweighted inflow and outflow values are outstanding balances maturing or callable within 30 days.*

(2) *Weighted values are calculated after applying caps to the NZD liquid asset holdings in excess of NZD LCR of 100%.*

Section 6

Glossary

Term	Description
Additional regulatory specific provisions	In line with APRA's July 2017 guidance "Provisions for regulatory purposes and AASB 9 Financial Instruments", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as GRCL.
Additional Tier 1 capital	Additional Tier 1 capital comprises high quality components of capital that satisfy the following essential characteristics: - provide a permanent and unrestricted commitment of funds - are freely available to absorb losses - rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer - provide for fully discretionary capital distributions.
ADI	Authorised Deposit-taking Institution.
Advanced Internal Ratings-Based approach (IRB)	The process used to estimate credit risk through the use of internally developed models to assess potential credit losses using the outputs from the PD, LGD and EaD models.
Advanced Measurement Approach (AMA)	The risk estimation process used for operational risk, combining internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
Alternative Liquid Assets (ALA)	Assets that qualify for inclusion in the numerator of the LCR in jurisdictions where there is insufficient supply of HQLA in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency in the LCR framework. The CLF provided by the RBA to ADIs is treated as an ALA in the LCR.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
BCBS	Basel Committee on Banking Supervision.
BNZ	Bank of New Zealand.
Central Counterparty (CCP)	A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, thereby insuring the future performance of open contracts.
CET1 capital ratio	CET1 capital divided by RWA.
Committed Liquidity Facility (CLF)	A facility provided by the RBA to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Corporate (including SME)	Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.
Credit Value Adjustment (CVA)	A capital charge to reflect potential mark-to-market losses due to counterparty migration risk for bilateral over-the-counter derivative contracts.
Default fund	Clearing members' funded or unfunded contributions towards, or underwriting of, a CCP's mutualised loss sharing arrangements.
Eligible Financial Collateral (EFC)	Under the standardised approach, EFC is the amount of cash collateral, netting and eligible bonds and equities. Under the IRB approach, EFC is limited to the collateral items detailed in APS 112 *Capital Adequacy*: *Standardised Approach to Credit Risk*. Recognition of EFC is subject to the minimum conditions detailed in APS 112.
Exposure at Default (EaD)	An estimate of the credit exposure amount an ADI may be exposed consequent to default of an obligor. EaD is presented net of EFC.
Extended Licensed Entity	The ADI and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in APS 222 *Associations with Related Entities*.
General Reserve for Credit Losses (GRCL)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 *Credit Quality*. The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provision on default no loss assets. Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
Group	NAB and its controlled entities.
High-quality Liquid Assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian semi-government and Commonwealth government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Impaired facilities	Impaired facilities consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and interest - Non-retail loans which are contractually past due and / or there is sufficient doubt about the ultimate collectability of principal and interest - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred - Unsecured portfolio managed facilities that are 180 days past due (if not written off).
Internal Model Approach (IMA) - Non-traded Market Risk	The approach used in the assessment of non-traded market risk. The Group uses, under approval from APRA, the IMA to calculate interest rate risk in the banking book for all transactions in the banking book.
Internal Model Approach (IMA) - Traded Market Risk	The approach used in the assessment of traded market risk. The Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the standardised approach.
Level 2 Group	NAB and the entities it controls excluding superannuation and funds management entities, insurance subsidiaries and securitisation SPVs to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation*.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based supplementary measure to supplement the RWA based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Loss Given Default (LGD)	An estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net write-offs	Write-offs, net of recoveries.

Term	Description
Past due facilities ≥ 90 days	Well-secured assets that are more than 90 days past due and portfolio managed facilities that are not well secured and between 90 and 180 days past due.
Probability of Default (PD)	An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.
Qualifying revolving retail	Revolving exposures to individuals less than $100,000, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this asset class.
RBA	Reserve Bank of Australia.
RBNZ	Reserve Bank of New Zealand.
Risk-weighted Assets (RWA)	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Securitisation exposures	Securitisation exposures include the following exposure types: - liquidity facilities: facilities provided to securitisation vehicles for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV or to cover the inability of the SPV to roll-over securities due to market disruption - warehouse facilities: lending facilities provided to securitisation vehicles for the financing of exposures in a pool. These may be on a temporary basis pending the issue of securities or on an on-going basis - credit enhancements: protection provided against credit losses to parties holding a securitisation exposure - securities: holding of debt securities issued by securitisation vehicles - derivatives: derivatives provided to securitisation vehicles, other than credit derivatives.
SME	Small and medium sized enterprises.
Specific provision for credit impairment	The provision assessed on an individual basis in accordance with Australian Accounting Standard AASB 9 *Financial Instruments*.
SPV	Special purpose vehicle.
Standardised approach	An alternative approach to the assessment of credit, operational and traded market risk whereby an ADI uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Tier 1 capital	Tier 1 capital comprises CET1 capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by RWA.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by RWA.
Write-offs	A reduction in the carrying amount of loans and advances at amortised cost and fair value where there is no reasonable expectation of recovery of a portion or the entire exposure.