# PILLAR 3 REPORT

**as at 31 December 2021**

Incorporating the requirements of APS 330

National Australia Bank Limited ABN 12 004 044 937

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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 APRA Prudential Standard APS 330 *Public Disclosure*, which requires disclosure of information to the market to contribute to the transparency of financial markets and to enhance market discipline. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's framework for bank capital adequacy. The framework consists of three mutually reinforcing pillars.

| Pillar 1<br>Minimum capital requirement | Pillar 2<br>Supervisory review process | Pillar 3<br>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.

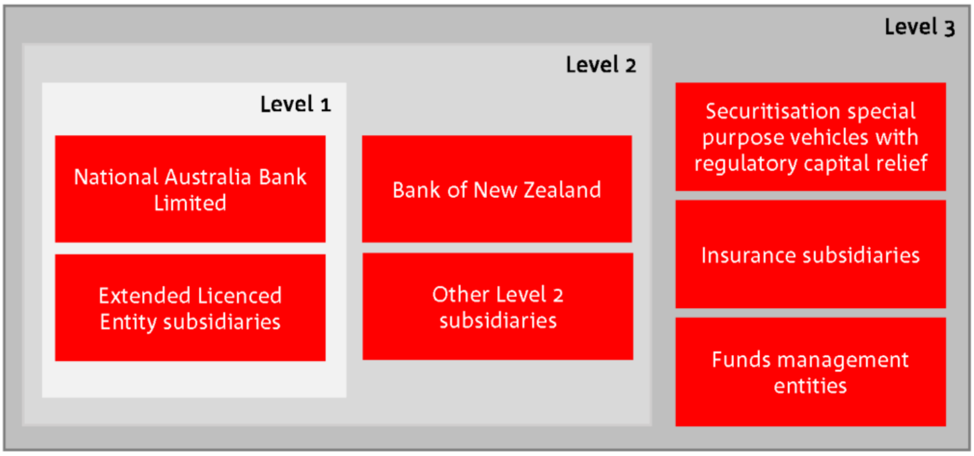
## Capital Adequacy Methodologies

The Group uses the following approaches to measure capital adequacy as at 31 December 2021.

| 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) | Internal Model Approach (IMA) and standard method |

## Scope of Application

APRA measures the Group's 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 securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation,* insurance subsidiaries and funds management entities. Level 2 controlled entities include Bank of New Zealand (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.

## Capital Adequacy [APS 330 paragraph 49 and Attachment C, Table 3a - f]

The following table provides the risk-weighted assets (RWA) for each risk type.

| | As at | |
|---|---|---|
| | 31 Dec 21 | 30 Sep 21 |
| | $m | $m |
| **Credit risk** | | |
| **Subject to IRB approach** | | |
| Corporate (including small and medium-sized enterprises (SME)) | 135,991 | 128,615 |
| Sovereign | 1,824 | 1,608 |
| Bank | 6,133 | 6,404 |
| Retail SME | 6,298 | 6,330 |
| Residential mortgage | 111,373 | 110,557 |
| Qualifying revolving retail | 2,220 | 2,206 |
| Other retail | 2,046 | 2,030 |
| **Total IRB approach** | **265,885** | **257,750** |
| **Specialised lending** | **59,287** | **58,870** |
| **Subject to standardised approach** | | |
| Corporate | 4,551 | 4,445 |
| Residential mortgage | 1,099 | 979 |
| Other | 422 | 419 |
| **Total standardised approach** | **6,072** | **5,843** |
| **Other** | | |
| Securitisation exposures | 6,256 | 5,602 |
| Credit valuation adjustment | 7,072 | 7,619 |
| Central counterparty default fund contribution guarantee | 87 | 108 |
| Other(1) | 12,717 | 12,249 |
| **Total other** | **26,132** | **25,578** |
| **Total credit risk** | **357,376** | **348,041** |
| **Market risk** | 10,534 | 9,644 |
| **Operational risk** | 47,415 | 47,866 |
| **Interest rate risk in the banking book** | 16,784 | 11,612 |
| **Total RWA** | **432,109** | **417,163** |

(1) Other consists of other assets, claims and exposures and overlay adjustments for regulatory prescribed methodology requirements. Other includes RWA of $67 million for equity exposures (30 September 2021: $67 million).

The following tables provide the capital ratios and leverage ratio.

| | As at | |
|---|---|---|
| | 31 Dec 21 | 30 Sep 21 |
| **Capital ratios** | % | % |
| Common Equity Tier 1 | 12.4 | 13.0 |
| Tier 1 | 14.0 | 14.6 |
| Total | 18.1 | 18.9 |

| | As at | | | |
|---|---|---|---|---|
| | 31 Dec 21 | 30 Sep 21 | 30 Jun 21 | 31 Mar 21 |
| **Leverage ratio** | $m | $m | $m | $m |
| Tier 1 capital | 60,542 | 61,073 | 59,687 | 58,487 |
| Total exposures | 1,084,305 | 1,047,595 | 1,027,956 | 976,870 |
| **Leverage ratio (%)** | **5.6%** | **5.8%** | **5.8%** | **6.0%** |

This section excludes credit risk information in respect of securitisation exposures within the scope of APS 120 (which have separate disclosures in Section 4 *Securitisation*) and other assets, claims and exposures (including equity exposures). 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 31 Dec 21 | | | | 3 months ended 31 Dec 21 |
|---|---|---|---|---|---|
| **Exposure type** | **On-balance sheet $m** | **Non-market related off-balance sheet $m** | **Market related off-balance sheet $m** | **Total exposure at default $m** | **Average exposure at default $m** |
| **Subject to IRB approach** | | | | | |
| Corporate (including SME) | 178,070 | 93,874 | 23,160 | **295,104** | 290,285 |
| Sovereign | 162,471 | 2,017 | 21,996 | **186,484** | 180,433 |
| Bank | 16,541 | 1,547 | 9,787 | **27,875** | 28,152 |
| Retail SME | 12,317 | 4,686 | - | **17,003** | 16,952 |
| Residential mortgage | 364,129 | 57,137 | - | **421,266** | 416,688 |
| Qualifying revolving retail | 3,995 | 5,090 | - | **9,085** | 9,009 |
| Other retail | 1,899 | 975 | - | **2,874** | 2,858 |
| **Total IRB approach** | **739,422** | **165,326** | **54,943** | **959,691** | **944,377** |
| **Specialised lending** | **58,353** | **9,510** | **778** | **68,641** | **68,405** |
| **Subject to standardised approach** | | | | | |
| Corporate | 5,117 | 700 | 5,174 | **10,991** | 11,026 |
| Residential mortgage | 2,154 | 191 | - | **2,345** | 2,168 |
| Other | 1,189 | - | - | **1,189** | 1,173 |
| **Total standardised approach** | **8,460** | **891** | **5,174** | **14,525** | **14,367** |
| **Total exposure at default** | **806,235** | **175,727** | **60,895** | **1,042,857** | **1,027,149** |

| | As at 30 Sep 21 | | | | 3 months ended 30 Sep 21 |
|---|---|---|---|---|---|
| **Exposure type** | **On-balance sheet $m** | **Non-market related off-balance sheet $m** | **Market related off-balance sheet $m** | **Total exposure at default $m** | **Average exposure at default $m** |
| **Subject to IRB approach** | | | | | |
| Corporate (including SME) | 172,229 | 88,633 | 24,604 | **285,466** | 278,888 |
| Sovereign | 149,836 | 1,613 | 22,934 | **174,383** | 171,593 |
| Bank | 17,368 | 1,729 | 9,332 | **28,429** | 29,463 |
| Retail SME | 12,280 | 4,621 | - | **16,901** | 16,886 |
| Residential mortgage | 355,868 | 56,242 | - | **412,110** | 407,571 |
| Qualifying revolving retail | 3,655 | 5,277 | - | **8,932** | 9,066 |
| Other retail | 1,814 | 1,027 | - | **2,841** | 2,912 |
| **Total IRB approach** | **713,050** | **159,142** | **56,870** | **929,062** | **916,378** |
| **Specialised lending** | **58,403** | **8,669** | **1,098** | **68,170** | **67,651** |
| **Subject to standardised approach** | | | | | |
| Corporate | 4,891 | 745 | 5,424 | **11,060** | 10,576 |
| Residential mortgage | 1,738 | 253 | - | **1,991** | 1,784 |
| Other | 1,158 | - | - | **1,158** | 1,150 |
| **Total standardised approach** | **7,787** | **998** | **5,424** | **14,209** | **13,510** |
| **Total exposure at default** | **779,240** | **168,809** | **63,392** | **1,011,441** | **997,538** |

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

The following table provides information on asset quality.

| | As at 31 Dec 21 | | | 3 months ended 31 Dec 21 | |
|---|---|---|---|---|---|
| | 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) | 648 | 319 | 379 | 6 | 21 |
| Retail SME | 97 | 326 | 64 | 7 | 10 |
| Residential mortgage | 270 | 3,238 | 92 | 7 | 10 |
| Qualifying revolving retail | - | 21 | - | 16 | 13 |
| Other retail | 4 | 35 | 3 | 5 | 6 |
| **Total IRB approach** | **1,019** | **3,939** | **538** | **41** | **60** |
| **Specialised lending** | **138** | **81** | **77** | **9** | **6** |
| **Subject to standardised approach** | | | | | |
| Corporate | 19 | 4 | 23 | (1) | 1 |
| Residential mortgage | 16 | 18 | 5 | - | - |
| **Total standardised approach** | **35** | **22** | **28** | **(1)** | **1** |
| **Total** | **1,192** | **4,042** | **643** | **49** | **67** |
| Additional regulatory specific provisions | | | 1,338 | | |
| **Total regulatory specific provisions** | | | **1,981** | | |
| | | | | | |
| **General reserve for credit losses** | | | **3,287** | | |

| | As at 30 Sep 21 | | | 3 months ended 30 Sep 21 | |
|---|---|---|---|---|---|
| | 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) | 691 | 334 | 396 | 20 | 50 |
| Retail SME | 93 | 323 | 65 | 15 | 14 |
| Residential mortgage | 291 | 3,818 | 95 | 7 | 13 |
| Qualifying revolving retail | - | 22 | - | 19 | 15 |
| Other retail | 5 | 36 | 4 | 10 | 11 |
| **Total IRB approach** | **1,080** | **4,533** | **560** | **71** | **103** |
| **Specialised lending** | **142** | **85** | **75** | **(8)** | **7** |
| **Subject to standardised approach** | | | | | |
| Corporate | 19 | 2 | 24 | - | 2 |
| Residential mortgage | 17 | 23 | 5 | - | - |
| **Total standardised approach** | **36** | **25** | **29** | **-** | **2** |
| **Total** | **1,258** | **4,643** | **664** | **63** | **112** |
| Additional regulatory specific provisions | | | 1,444 | | |
| **Total regulatory specific provisions** | | | **2,108** | | |
| | | | | | |
| **General reserve for credit losses** | | | **3,271** | | |

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

The following table provides the net movement in exposures securitised by the Group, and any gain or loss recognised on the sale of assets by the Group to securitisation special purpose vehicles.

| | 3 months ended 31 Dec 21 | | | |
|---|---|---|---|---|
| | Group originated capital relief | Group originated funding only | Group originated internal RMBS | Gain or loss on sale |
| **Underlying asset** | **$m** | **$m** | **$m** | **$m** |
| Residential mortgage | (118) | (56) | 12,421 | - |

| | 3 months ended 30 Sep 21 | | | |
|---|---|---|---|---|
| | Group originated capital relief | Group originated funding only | Group originated internal RMBS | Gain or loss on sale |
| **Underlying asset** | **$m** | **$m** | **$m** | **$m** |
| Residential mortgage | (139) | (168) | 1,828 | - |

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

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

| | As at 31 Dec 21 | | | As at 30 Sep 21 | | |
|---|---|---|---|---|---|---|
| | 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 | 382 | 1,159 | **1,541** | 145 | 1,508 | **1,653** |
| Warehouse facilities | 15,973 | 7,820 | **23,793** | 13,292 | 7,075 | **20,367** |
| Securities | 8,814 | - | **8,814** | 8,201 | - | **8,201** |
| Derivatives | - | 60 | **60** | - | 68 | **68** |
| **Total** | **25,169** | **9,039** | **34,208** | **21,638** | **8,651** | **30,289** |

The Group had $477 million of derivative exposures to third party securitisation vehicles held in the trading book as at 31 December 2021 (30 September 2021: $513 million).

The Liquidity Coverage Ratio (LCR) presented in the disclosure template below is based on the simple average of daily LCR observations, excluding non-business days. There were 63 daily LCR observations or data points used in calculating the average for the current quarter and 66 observations in the previous quarter.

The Group's LCR increased to 132% for the three months ended 31 December 2021, primarily as a result of holding additional liquid assets. The increase in liquid assets was attributed to an increase in deposits held with central banks, in preparation for a phase-out of the Committed Liquidity Facility (CLF) during the 2022 calendar year. Net cash outflows increased by $2 billion primarily as a result of increased outflows on retail deposits and small business customer deposits.

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

| | | 3 months ended | | | |
|---|---|---|---|---|---|
| | | 31 Dec 21 | | 30 Sep 21 | |
| | | Unweighted value (average)[1] $m | Weighted value (average) $m | Unweighted value (average)[1] $m | Weighted value (average) $m |
| **Liquid assets, of which:** | | | **200,009** | | **190,916** |
| 1 | High-quality liquid assets (HQLA)[2][3] | | 166,527 | | 162,905 |
| 2 | Alternative liquid assets (ALA)[3] | | 30,896 | | 26,859 |
| 3 | Reserve Bank of New Zealand (RBNZ) securities[2][3] | | 2,586 | | 1,152 |
| **Cash outflows** | | | | | |
| 4 | Retail deposits and deposits from small business customers | 260,126 | 27,252 | 246,545 | 26,088 |
| 5 | of which: stable deposits | 116,002 | 5,800 | 110,371 | 5,519 |
| 6 | of which: less stable deposits | 144,124 | 21,452 | 136,174 | 20,569 |
| 7 | Unsecured wholesale funding | 192,194 | 92,111 | 190,660 | 92,720 |
| 8 | of which: operational deposits (all counterparties) and deposits in networks for cooperative banks | 98,729 | 24,682 | 94,944 | 23,736 |
| 9 | of which: non-operational deposits (all counterparties) | 76,687 | 50,651 | 79,812 | 53,080 |
| 10 | of which: unsecured debt | 16,778 | 16,778 | 15,904 | 15,904 |
| 11 | Secured wholesale funding[3] | | 3,831 | | 3,295 |
| 12 | Additional requirements | 196,732 | 36,181 | 192,948 | 35,806 |
| 13 | of which: outflows related to derivatives exposures and other collateral requirements | 14,908 | 14,908 | 14,833 | 14,833 |
| 14 | of which: outflows related to loss of funding on debt products | - | - | - | - |
| 15 | of which: credit and liquidity facilities | 181,824 | 21,273 | 178,115 | 20,973 |
| 16 | Other contractual funding obligations | 1,591 | 820 | 1,423 | 754 |
| 17 | Other contingent funding obligations | 57,258 | 4,247 | 55,311 | 4,040 |
| **18** | **Total cash outflows** | | **164,442** | | **162,703** |
| **Cash inflows** | | | | | |
| 19 | Secured lending | 24,642 | 2,763 | 27,477 | 1,705 |
| 20 | Inflows from fully performing exposures | 17,770 | 9,603 | 19,279 | 10,823 |
| 21 | Other cash inflows | 883 | 883 | 914 | 914 |
| **22** | **Total cash inflows** | **43,295** | **13,249** | **47,670** | **13,442** |
| **23** | **Total liquid assets** | | **200,009** | | **190,916** |
| **24** | **Total net cash outflows** | | **151,193** | | **149,261** |
| **25** | **Liquidity Coverage Ratio (%)** | | **132%** | | **128%** |

(1) Unweighted inflow and outflow values are outstanding balances maturing or callable within 30 days.
(2) Weighted values exclude New Zealand dollar (NZD) liquid asset holdings in excess of NZD LCR of 100%, reflecting liquidity transferability considerations. The amount excluded during the three months to 31 December 2021 and 30 September 2021 was on average $5 billion and $7 billion respectively.
(3) Disclosed on a weighted basis only, consistent with the disclosure template prescribed by APS 330.

| 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 general reserve for credit losses. |
| Additional Tier 1 capital | Additional Tier 1 capital comprises high quality components of capital that satisfy the following characteristics:<br>- provide a permanent and unrestricted commitment of funds<br>- are freely available to absorb losses<br>- rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer<br>- 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 probability of default, loss given default and exposure at default 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 Liquidity Coverage Ratio in jurisdictions where there is insufficient supply of high-quality liquid assets in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency in the Liquidity Coverage Ratio framework. The Committed Liquidity Facility and Term Funding Facility provided by the Reserve Bank of Australia to ADIs are treated as ALAs in the Liquidity Coverage Ratio. |
| APRA | Australian Prudential Regulation Authority. |
| APS | Prudential Standards issued by APRA applicable to ADIs. |
| Banking book | Exposures not contained in the trading book. |
| 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 risk-weighted assets. |
| Committed Liquidity Facility (CLF) | A facility provided by the Reserve Bank of Australia to certain ADIs to assist them in meeting the Basel III liquidity requirements. APRA has announced that the CLF will be reduced to zero by the end of 2022 subject to financial market conditions. The CLF reduction is expected to be offset by ADIs increasing holdings of high-quality liquid assets. |
| 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 valuation 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 central counterparty'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 Internal Ratings-based 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 outstanding if a customer defaults. EaD is presented net of eligible financial collateral. |
| Extended Licensed Entity | The ADI and any APRA approved subsidiaries 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 provisions for facilities in default but for which no loss is expected (which are reported as additional regulatory specific provisions). 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 government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*. |

| Term | Description |
|---|---|
| Impaired facilities | Impaired facilities consist of:<br>- retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest<br>- unsecured portfolio managed facilities that are 180 days past due (if not written off)<br>- non-retail loans which are contractually past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner<br>- off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. |
| 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 standard method. |
| 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 risk-weighted assets 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 high-quality liquid assets 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. |
| 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. For eligible COVID-19 payment deferrals granted in respect of otherwise performing loans, the counting of days past due is stopped when the repayment deferral is granted in accordance with APRA guidance. Past due facilities do not include impaired facilities. |
| 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. |
| 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. |
| RMBS | Residential mortgage-backed securities. |
| Securitisation exposures | Securitisation exposures include the following exposure types:<br>- 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 securitisation vehicle or to cover the inability of the securitisation vehicle to roll-over securities due to market disruption.<br>- 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.<br>- securities: holding of debt securities issued by securitisation vehicles.<br>- derivatives: derivatives provided to securitisation vehicles, other than for credit risk mitigation purposes. |
| 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*. |
| Standardised approach | An alternative approach to the assessment of credit risk which uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk-weighted assets. |
| Standard method | The standard method for market risk applies supervisory risk-weights to positions arising from trading activities. |
| Term Funding Facility (TFF) | A facility provided by the Reserve Bank of Australia to certain ADIs to support lending to Australian businesses. The facility closed to new drawdowns of funding on 30 June 2021. |
| 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 risk-weighted assets. |
| 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. |

| Term | Description |
|---|---|
| Total capital ratio | Total capital divided by risk-weighted assets. |
| Trading book | Positions in financial instruments, including derivatives and other off-balance sheet instruments, that are held either with a trading intent or to hedge other elements of the trading book. |
| 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. |