



Monday, 6 February 2017

## **ASX ANNOUNCEMENT**

### **NAB December 2016 Quarter Pillar 3 Report**

National Australia Bank Limited (NAB) today released its December quarter Pillar 3 Report, as required under the Australian Prudential Regulation Authority Prudential Standard APS 330: Public Disclosure.

The Pillar 3 Report should be read in conjunction with the NAB Group's December 2016 ASX Trading Announcement. The report is attached to this announcement and available at:

<http://www.nab.com.au/about-us/shareholder-centre/regulatory-disclosures>

For further information:

#### **Media**

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

Jessica Forrest  
M: +61 (0) 457 536 958

#### **Investor Relations**

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

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

# 2017 PILLAR 3 REPORT

Incorporating the  
requirements of APS 330  
First Quarter Update as at  
31 December 2016

more  
than  
money



## **Table of Contents**

### **Section 1**

|              |   |
|--------------|---|
| Introduction | 1 |
|--------------|---|

### **Section 2**

|                      |   |
|----------------------|---|
| Scope of Application | 2 |
|----------------------|---|

### **Section 3**

|         |   |
|---------|---|
| Capital | 3 |
|---------|---|

### **Section 4**

|                       |   |
|-----------------------|---|
| Credit Risk Exposures | 4 |
|-----------------------|---|

### **Section 5**

|                             |   |
|-----------------------------|---|
| Credit Provision and Losses | 6 |
|-----------------------------|---|

### **Section 6**

|                |   |
|----------------|---|
| Securitisation | 8 |
|----------------|---|

### **Section 7**

|          |   |
|----------|---|
| Glossary | 9 |
|----------|---|

## Section 1

### Introduction

National Australia Bank Limited (ABN 12 004 044 937) (NAB) applies the Basel framework as a cornerstone of the NAB Group's risk management framework and capital strategy, and recognises that it is critical for achieving the NAB Group's strategic agenda.

In Australia, the Australian Prudential Regulation Authority (APRA) has regulatory responsibility for the implementation of the Basel Accord through the release of prudential standards.

This Pillar 3 Report is designed to provide the NAB Group's stakeholders with detailed information about the approach the NAB Group takes to manage risk and to determine capital adequacy, having regard to the operating environment. The report also addresses the requirements of APRA's *Prudential Standard APS 330: Public Disclosure (APS 330)*.

All figures in this report are in Australian dollars (AUD) unless otherwise noted. Disclosures in this report are based on the APRA Basel III standards that have applied since 1 January 2013, except for market risk Risk-Weighted Assets (RWA) that are calculated on a Basel 2.5 basis for each period presented.

#### Capital Ratio Summary

The NAB Group's Common Equity Tier 1 (CET1) capital ratio of 9.5% at 31 December 2016 is consistent with the NAB Group's objective of maintaining a strong capital position.

| Capital ratios (Level 2) | As at     |           |
|--------------------------|-----------|-----------|
|                          | 31 Dec 16 | 30 Sep 16 |
|                          | %         | %         |
| Common Equity Tier 1     | 9.5       | 9.8       |
| Tier 1                   | 11.9      | 12.2      |
| Total                    | 13.8      | 14.1      |

The NAB Group remains responsive to economic conditions and continues to maintain strong balance sheet settings. These settings enable the NAB Group to operate effectively through difficult market conditions and ensure that it is well positioned for future regulatory change and balance sheet growth.

#### 1.1 The NAB Group's Capital Adequacy Methodologies

The NAB Group operates in Australia, Asia, New Zealand, the United Kingdom and North America. The following table sets out the NAB Group's approach to the Basel Accord, as applied across the NAB Group as at 31 December 2016.

#### The NAB Group's Basel Methodologies<sup>1,2,3,4</sup>

| Methodology Approach            | Credit Risk  | Operational Risk | Non-Traded Market Risk | Traded Market Risk   |
|---------------------------------|--------------|------------------|------------------------|----------------------|
| National Australia Bank Limited | Advanced IRB | AMA              | IRRBB                  | Standardised and IMA |
| Bank of New Zealand             | Advanced IRB | AMA              | IRRBB                  | Standardised and IMA |

(1) IRB: Internal Ratings Based approach

(2) AMA: Advanced Measurement Approach

(3) IRRBB: Interest Rate Risk in the Banking Book

(4) IMA: Internal Models Approach

Bank of New Zealand (BNZ), the NAB Group's main operating subsidiary in New Zealand, is regulated by the Reserve Bank of New Zealand (RBNZ). Credit risk exposures consolidated in the NAB Group position are calculated under RBNZ requirements.

#### 1.2 APS 330 Disclosure Governance

The NAB Group's Disclosure and External Communications Policy defines Board and management accountabilities for APS 330 disclosure, including processes and practices to ensure the integrity and timeliness of prudential disclosures and compliance with NAB Group policies.

## Section 2

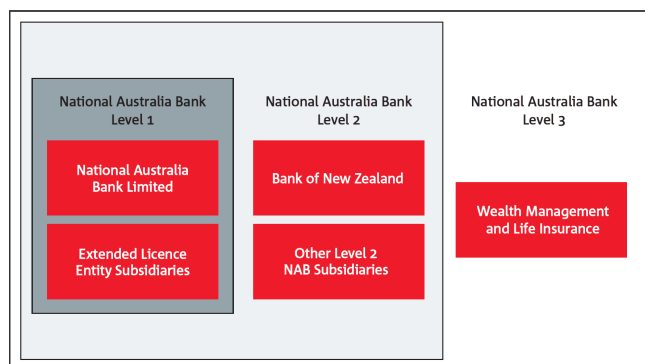
### Scope of Application

APRA measures the NAB Group's capital adequacy by assessing financial strength at three levels:

- Level 1: comprises NAB and its subsidiary entities approved by APRA as part of the Extended Licensed Entity (ELE)
- Level 2: comprises NAB and the entities it controls, subject to certain exceptions set out below
- Level 3: comprises the conglomerate NAB Group.

This report applies to the Level 2 consolidated group (the Level 2 Group).

### NAB Group Consolidation for Regulatory Purposes



The controlled entities in the Level 2 Group include BNZ and other financial entities (e.g. finance companies and leasing companies).

Wealth management and life insurance activities are excluded from the calculation of RWA and the related controlled entities are deconsolidated from the Level 2 Group for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities. National Wealth Management Holdings Limited (NWMH) has not been treated as part of the Level 2 Group for the purposes of this report.

The NAB Group is progressing with a transition to the revised Level 2 Group following a clarification of the ADI Level 2 Group definition by APRA.

In the interim period, CET1 Capital reflects the transition arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by NWMH.

In addition, certain securitisation special purpose vehicles (SPVs) to which assets have been transferred in accordance with APRA's requirements as set out in APS 120 have been deconsolidated from the Level 2 Group for the purposes of this disclosure. For regulatory purposes, credit risk is removed from the sold assets and there is no requirement to hold capital against them.

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

The following table provides the Basel Accord RWA and capital ratios for the Level 2 Group.

|                                                          | As at          |                |
|----------------------------------------------------------|----------------|----------------|
|                                                          | 31 Dec 16      | 30 Sep 16      |
|                                                          | RWA<br>\$m     | RWA<br>\$m     |
| <b>Credit risk <sup>(1)</sup></b>                        |                |                |
| <b>IRB approach</b>                                      |                |                |
| Corporate (including SME) <sup>(2)</sup>                 | 126,294        | 124,765        |
| Sovereign                                                | 1,606          | 1,596          |
| Bank                                                     | 11,544         | 11,269         |
| Residential mortgage                                     | 91,397         | 90,143         |
| Qualifying revolving retail                              | 3,913          | 3,925          |
| Retail SME                                               | 6,132          | 6,182          |
| Other retail                                             | 3,741          | 3,666          |
| <b>Total IRB approach</b>                                | <b>244,627</b> | <b>241,546</b> |
| <b>Specialised lending (SL)</b>                          | <b>57,256</b>  | <b>57,900</b>  |
| <b>Standardised approach</b>                             |                |                |
| Australian and foreign governments                       | -              | -              |
| Bank                                                     | -              | -              |
| Residential mortgage                                     | 2,649          | 2,706          |
| Corporate                                                | 4,352          | 4,219          |
| Other                                                    | 548            | 554            |
| <b>Total standardised approach</b>                       | <b>7,549</b>   | <b>7,479</b>   |
| <b>Other</b>                                             |                |                |
| Securitisation                                           | 3,441          | 3,435          |
| Credit Value Adjustment                                  | 12,344         | 13,871         |
| Central counterparty default fund contribution guarantee | 862            | 473            |
| Other <sup>(3)</sup>                                     | 3,978          | 6,806          |
| <b>Total other</b>                                       | <b>20,625</b>  | <b>24,585</b>  |
| <b>Total credit risk</b>                                 | <b>330,057</b> | <b>331,510</b> |
| <b>Market risk</b>                                       | 7,620          | 7,299          |
| <b>Operational risk</b>                                  | 37,500         | 37,500         |
| <b>Interest rate risk in the banking book</b>            | 13,174         | 12,136         |
| <b>Total risk-weighted assets</b>                        | <b>388,351</b> | <b>388,445</b> |

<sup>(1)</sup> RWA which are calculated in accordance with APRA's requirements under the Basel Accord are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.

<sup>(2)</sup> Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.

<sup>(3)</sup> 'Other' includes non-lending asset exposure.

|                                 | As at     |           |
|---------------------------------|-----------|-----------|
|                                 | 31 Dec 16 | 30 Sep 16 |
|                                 | %         | %         |
| <b>Capital ratios (Level 2)</b> |           |           |
| Common Equity Tier 1            | 9.5       | 9.8       |
| Tier 1                          | 11.9      | 12.2      |
| Total                           | 13.8      | 14.1      |

|                           | As at       |             |             |             |
|---------------------------|-------------|-------------|-------------|-------------|
|                           | 31 Dec 16   | 30 Sep 16   | 30 Jun 16   | 31 Mar 16   |
|                           | \$m         | \$m         | \$m         | \$m         |
| Tier 1 Capital            | 46,037      | 47,336      | 41,901      | 42,535      |
| Total exposures           | 853,855     | 827,644     | 855,681     | 810,505     |
| <b>Leverage ratio (%)</b> | <b>5.4%</b> | <b>5.7%</b> | <b>4.9%</b> | <b>5.3%</b> |

## Section 4

## Credit Risk Exposures

**Total and Average Credit Risk Exposures [APS 330 Attachment C, Table 4a]**

This table provides the credit risk exposure subject to the Standardised and Advanced IRB approaches. The Level 2 Group has no credit risk exposures subject to the Foundational IRB Approach. For the Advanced IRB approach, Exposure at Default (EaD) is reported gross of specific provisions and partial write-offs. For the Standardised approach, EaD is reported net of any specific provision. Exposures exclude non-lending assets, securitisation and Credit Value Adjustment (CVA).

Gross credit risk exposure refers to the potential exposure as a result of a counterparty default prior to the application of credit risk mitigation. It is defined as the outstanding amount on drawn commitments plus a credit conversion factor on undrawn commitments on a given facility. For derivatives, exposure is defined as the mark-to-market plus a potential value of future movements. This table now includes total EaD net of eligible financial collateral (EFC). The average credit risk exposure is the sum of the gross credit risk exposure at the beginning of the reporting period plus the gross credit risk exposure at the end of the reporting period divided by two.

| Exposure type                      | As at 31 Dec 16           |                                      |                                  |                             |                           | 3 months ended<br>31 Dec 16         |
|------------------------------------|---------------------------|--------------------------------------|----------------------------------|-----------------------------|---------------------------|-------------------------------------|
|                                    | On-balance sheet exposure | Non-market related off-balance sheet | Market related off-balance sheet | Total exposure gross of EFC | Total exposure net of EFC | Average total exposure gross of EFC |
|                                    | \$m                       | \$m                                  | \$m                              | \$m                         | \$m                       | \$m                                 |
| <b>IRB approach</b>                |                           |                                      |                                  |                             |                           |                                     |
| Corporate (including SME)          | 140,004                   | 65,307                               | 78,692                           | 284,003                     | 222,234                   | 273,051                             |
| Sovereign                          | 64,541                    | 496                                  | 18,700                           | 83,737                      | 68,623                    | 82,100                              |
| Bank                               | 23,547                    | 4,376                                | 49,788                           | 77,711                      | 39,242                    | 69,681                              |
| Residential mortgage               | 313,240                   | 48,169                               | -                                | 361,409                     | 361,409                   | 359,620                             |
| Qualifying revolving retail        | 6,142                     | 5,661                                | -                                | 11,803                      | 11,803                    | 11,727                              |
| Retail SME                         | 12,380                    | 3,944                                | -                                | 16,324                      | 16,321                    | 16,305                              |
| Other retail                       | 3,430                     | 1,269                                | -                                | 4,699                       | 4,699                     | 4,657                               |
| <b>Total IRB approach</b>          | <b>563,284</b>            | <b>129,222</b>                       | <b>147,180</b>                   | <b>839,686</b>              | <b>724,331</b>            | <b>817,141</b>                      |
| <b>Specialised lending (SL)</b>    | <b>55,178</b>             | <b>10,742</b>                        | <b>845</b>                       | <b>66,765</b>               | <b>66,121</b>             | <b>66,888</b>                       |
| <b>Standardised approach</b>       |                           |                                      |                                  |                             |                           |                                     |
| Australian and foreign governments | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Bank                               | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Residential mortgage               | 4,560                     | 124                                  | -                                | 4,684                       | 4,627                     | 4,726                               |
| Corporate                          | 6,963                     | 565                                  | 71,573                           | 79,101                      | 11,820                    | 69,646                              |
| Other                              | 1,174                     | 1                                    | -                                | 1,175                       | 1,075                     | 1,179                               |
| <b>Total standardised approach</b> | <b>12,697</b>             | <b>690</b>                           | <b>71,573</b>                    | <b>84,960</b>               | <b>17,522</b>             | <b>75,551</b>                       |
| <b>Total exposure (EaD)</b>        | <b>631,159</b>            | <b>140,654</b>                       | <b>219,598</b>                   | <b>991,411</b>              | <b>807,974</b>            | <b>959,580</b>                      |

| Exposure type                      | As at 30 Sep 16                     |                                                    |                                            |                                      |                                    | 3 months ended<br>30 Sep 16               |
|------------------------------------|-------------------------------------|----------------------------------------------------|--------------------------------------------|--------------------------------------|------------------------------------|-------------------------------------------|
|                                    | On-<br>balance<br>sheet<br>exposure | Non-<br>market<br>related off-<br>balance<br>sheet | Market<br>related off-<br>balance<br>sheet | Total<br>exposure<br>gross of<br>EFC | Total<br>exposure<br>net of<br>EFC | Average total<br>exposure<br>gross of EFC |
|                                    | \$m                                 | \$m                                                | \$m                                        | \$m                                  | \$m                                | \$m                                       |
| <b>IRB approach</b>                |                                     |                                                    |                                            |                                      |                                    |                                           |
| Corporate (including SME)          | 137,853                             | 63,496                                             | 60,750                                     | 262,099                              | 215,497                            | 266,680                                   |
| Sovereign                          | 64,069                              | 537                                                | 15,856                                     | 80,462                               | 68,252                             | 85,028                                    |
| Bank                               | 23,151                              | 3,481                                              | 35,018                                     | 61,650                               | 37,754                             | 73,546                                    |
| Residential mortgage               | 308,642                             | 49,189                                             | -                                          | 357,831                              | 357,831                            | 356,085                                   |
| Qualifying revolving retail        | 5,907                               | 5,744                                              | -                                          | 11,651                               | 11,651                             | 11,664                                    |
| Retail SME                         | 12,476                              | 3,810                                              | -                                          | 16,286                               | 16,283                             | 16,300                                    |
| Other retail                       | 3,347                               | 1,267                                              | -                                          | 4,614                                | 4,614                              | 4,625                                     |
| <b>Total IRB approach</b>          | <b>555,445</b>                      | <b>127,524</b>                                     | <b>111,624</b>                             | <b>794,593</b>                       | <b>711,882</b>                     | <b>813,928</b>                            |
| <b>Specialised lending (SL)</b>    | <b>55,574</b>                       | <b>10,022</b>                                      | <b>1,415</b>                               | <b>67,011</b>                        | <b>66,399</b>                      | <b>67,383</b>                             |
| <b>Standardised approach</b>       |                                     |                                                    |                                            |                                      |                                    |                                           |
| Australian and foreign governments | -                                   | -                                                  | -                                          | -                                    | -                                  | -                                         |
| Bank                               | -                                   | -                                                  | -                                          | -                                    | -                                  | -                                         |
| Residential mortgage               | 4,636                               | 132                                                | -                                          | 4,768                                | 4,710                              | 4,850                                     |
| Corporate                          | 6,497                               | 545                                                | 53,148                                     | 60,190                               | 9,530                              | 63,324                                    |
| Other                              | 1,181                               | 1                                                  | -                                          | 1,182                                | 1,073                              | 1,192                                     |
| <b>Total standardised approach</b> | <b>12,314</b>                       | <b>678</b>                                         | <b>53,148</b>                              | <b>66,140</b>                        | <b>15,313</b>                      | <b>69,366</b>                             |
| <b>Total exposure (EaD)</b>        | <b>623,333</b>                      | <b>138,224</b>                                     | <b>166,187</b>                             | <b>927,744</b>                       | <b>793,594</b>                     | <b>950,677</b>                            |

## Section 5

## Credit Provision and Losses

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

The following tables set out information on credit risk provision by Basel Accord asset class, excluding non-lending assets and securitisation exposures. Definitions of impairment and past due facilities are based on APS 220: Credit Quality. This standard also provides guidance for provisioning, estimated future credit losses and the General Reserve for Credit Losses.

| Exposure type                            | As at 31 Dec 16                    |                                 |                                    | 3 months ended<br>31 Dec 16     |                               |
|------------------------------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|-------------------------------|
|                                          | Impaired facilities <sup>(1)</sup> | Past due facilities<br>≥90 days | Specific provisions <sup>(2)</sup> | Charges for specific provisions | Net write-offs <sup>(3)</sup> |
|                                          | \$m                                | \$m                             | \$m                                | \$m                             | \$m                           |
| <b>IRB approach</b>                      |                                    |                                 |                                    |                                 |                               |
| Corporate (including SME)                | 2,183                              | 229                             | 643                                | 176                             | 15                            |
| Sovereign                                | -                                  | -                               | -                                  | -                               | -                             |
| Bank                                     | -                                  | -                               | -                                  | -                               | -                             |
| Residential mortgage                     | 367                                | 1,514                           | 97                                 | 17                              | 27                            |
| Qualifying revolving retail              | -                                  | 62                              | -                                  | 42                              | 34                            |
| Retail SME                               | 78                                 | 86                              | 43                                 | 6                               | 9                             |
| Other retail                             | 3                                  | 51                              | 2                                  | 26                              | 24                            |
| <b>Total IRB approach</b>                | <b>2,631</b>                       | <b>1,942</b>                    | <b>785</b>                         | <b>267</b>                      | <b>109</b>                    |
| <b>Specialised lending (SL)</b>          | <b>213</b>                         | <b>139</b>                      | <b>105</b>                         | <b>5</b>                        | <b>5</b>                      |
| <b>Standardised approach</b>             |                                    |                                 |                                    |                                 |                               |
| Australian and foreign governments       | -                                  | -                               | -                                  | -                               | -                             |
| Bank                                     | -                                  | -                               | -                                  | -                               | -                             |
| Residential mortgage                     | 8                                  | 8                               | 3                                  | -                               | -                             |
| Corporate                                | 1                                  | 1                               | 6                                  | -                               | -                             |
| Other                                    | -                                  | -                               | -                                  | -                               | -                             |
| <b>Total standardised approach</b>       | <b>9</b>                           | <b>9</b>                        | <b>9</b>                           | <b>-</b>                        | <b>-</b>                      |
| <b>Total</b>                             | <b>2,853</b>                       | <b>2,090</b>                    | <b>899</b>                         | <b>272</b>                      | <b>114</b>                    |
| <b>General reserve for credit losses</b> |                                    |                                 | <b>2,367</b>                       |                                 |                               |

<sup>(1)</sup> Impaired facilities includes \$nil million of restructured loans (September 2016: \$nil million).

Corporate (incl SME) impaired facilities includes \$762 million (NZ\$792 million) of BNZ dairy exposures currently assessed as no loss based on security held. (September 2016: \$785 million (NZ\$823 million)).

Impaired facilities includes \$6 million of gross impaired loans at fair value (September 2016: \$14 million).

<sup>(2)</sup> Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation. For regulatory reporting collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures, are treated as regulatory specifics and total \$413 million (September 2016: \$411 million). This value is in addition to the \$899 million of specific provisions (September 2016: \$712 million) shown above. Specific provisions includes \$5 million (September 2016: \$6 million) of specific provisions on gross impaired loans at fair value.

<sup>(3)</sup> Net write-offs includes net write-offs of fair value loans.

| Exposure type                            | As at 30 Sep 16               |                                           |                               | 3 months ended<br>30 Sep 16                  |                   |
|------------------------------------------|-------------------------------|-------------------------------------------|-------------------------------|----------------------------------------------|-------------------|
|                                          | Impaired<br>facilities<br>\$m | Past due<br>facilities<br>≥90 days<br>\$m | Specific<br>provisions<br>\$m | Charges for<br>specific<br>provisions<br>\$m | Write-offs<br>\$m |
| <b>IRB approach</b>                      |                               |                                           |                               |                                              |                   |
| Corporate (including SME)                | 1,978                         | 181                                       | 487                           | 151                                          | 23                |
| Sovereign                                | -                             | -                                         | -                             | -                                            | -                 |
| Bank                                     | -                             | -                                         | -                             | -                                            | -                 |
| Residential mortgage                     | 371                           | 1,470                                     | 90                            | 24                                           | 28                |
| Qualifying revolving retail              | -                             | 64                                        | -                             | 54                                           | 41                |
| Retail SME                               | 86                            | 91                                        | 47                            | 16                                           | 7                 |
| Other retail                             | 3                             | 51                                        | 2                             | 23                                           | 32                |
| <b>Total IRB approach</b>                | <b>2,438</b>                  | <b>1,857</b>                              | <b>626</b>                    | <b>268</b>                                   | <b>131</b>        |
| <b>Specialised lending (SL)</b>          | <b>194</b>                    | <b>110</b>                                | <b>78</b>                     | <b>25</b>                                    | <b>10</b>         |
| <b>Standardised approach</b>             |                               |                                           |                               |                                              |                   |
| Australian and foreign governments       | -                             | -                                         | -                             | -                                            | -                 |
| Bank                                     | -                             | -                                         | -                             | -                                            | -                 |
| Residential mortgage                     | 9                             | 8                                         | 3                             | -                                            | -                 |
| Corporate                                | 1                             | -                                         | 5                             | (27)                                         | 1                 |
| Other                                    | -                             | -                                         | -                             | -                                            | (1)               |
| <b>Total standardised approach</b>       | <b>10</b>                     | <b>8</b>                                  | <b>8</b>                      | <b>(27)</b>                                  | <b>-</b>          |
| <b>Total</b>                             | <b>2,642</b>                  | <b>1,975</b>                              | <b>712</b>                    | <b>266</b>                                   | <b>141</b>        |
| <b>General reserve for credit losses</b> |                               |                                           | <b>2,475</b>                  |                                              |                   |

## Section 6

## Securitisation

## Third Party Securitisation Exposures [APS 330 Attachment C, Table 5b]

The following two tables provide information about assets that the Level 2 Group manages as securitisations (predominantly for third party clients) where the exposures are risk weighted under APS 120. These tables do not provide information on Level 2 Group assets that have been sold to securitisations whether or not the assets are risk weighted under APS 120. The table below breaks down the securitisation exposures by type of facility as defined in the Glossary.

| Securitisation exposure type          | As at 31 Dec 16  |                   |               | As at 30 Sep 16  |                   |               |
|---------------------------------------|------------------|-------------------|---------------|------------------|-------------------|---------------|
|                                       | On-balance sheet | Off-balance sheet | Total         | On-balance sheet | Off-balance sheet | Total         |
|                                       | \$m              | \$m               | \$m           | \$m              | \$m               | \$m           |
| Liquidity facilities                  | 70               | 1,715             | 1,785         | 119              | 1,613             | 1,732         |
| Warehouse facilities                  | 8,390            | 2,492             | 10,882        | 9,680            | 1,720             | 11,400        |
| Credit enhancements                   | -                | 19                | 19            | 2                | 17                | 19            |
| Derivative transactions               | 168              | -                 | 168           | 221              | -                 | 221           |
| Securities                            | 9,269            | -                 | 9,269         | 8,264            | -                 | 8,264         |
| Credit derivatives transactions       | -                | -                 | -             | -                | -                 | -             |
| Other                                 | -                | -                 | -             | -                | -                 | -             |
| <b>Total securitisation exposures</b> | <b>17,897</b>    | <b>4,226</b>      | <b>22,123</b> | <b>18,286</b>    | <b>3,350</b>      | <b>21,636</b> |

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

This table provides information about new securitisation facilities provided in three months to reporting period.

| Securitisation exposure type         | Notional amount of facilities provided |                          |
|--------------------------------------|----------------------------------------|--------------------------|
|                                      | 3 months ended 31 Dec 16               | 3 months ended 30 Sep 16 |
|                                      | \$m                                    | \$m                      |
| Liquidity facilities                 | 168                                    | 19                       |
| Warehouse facilities                 | 496                                    | 5                        |
| Credit enhancements                  | -                                      | -                        |
| Derivative transactions              | 21                                     | 51                       |
| Securities                           | 1,412                                  | 393                      |
| Credit derivatives transactions      | -                                      | -                        |
| Other                                | -                                      | -                        |
| <b>Total new facilities provided</b> | <b>2,097</b>                           | <b>468</b>               |

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

This table may include assets which are sold to securitisation SPVs (1) which issue securities which meet the Reserve Bank of Australia's repurchase eligibility criteria; (2) which otherwise do not result in significant risk transfer and are considered on-balance sheet for regulatory purposes; or (3) in which significant risk transfer has taken place and which are considered off-balance sheet for regulatory purposes. The Level 2 Group may retain an exposure to securitisation SPVs which are considered off-balance sheet for regulatory purposes.

| Underlying asset <sup>(1)</sup> | 3 months ended 31 Dec 16                             |                                                        |                                 | 3 months ended 30 Sep 16                             |                                                        |                                 |
|---------------------------------|------------------------------------------------------|--------------------------------------------------------|---------------------------------|------------------------------------------------------|--------------------------------------------------------|---------------------------------|
|                                 | Amount securitised during period directly originated | Amount securitised during period indirectly originated | Recognised gain or loss on sale | Amount securitised during period directly originated | Amount securitised during period indirectly originated | Recognised gain or loss on sale |
|                                 | \$m                                                  | \$m                                                    | \$m                             | \$m                                                  | \$m                                                    | \$m                             |
| Residential mortgage            | 2,899                                                | -                                                      | -                               | 2,942                                                | -                                                      | -                               |
| Credit cards                    | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Auto and equipment finance      | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Commercial loans                | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Other                           | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| <b>Total underlying asset</b>   | <b>2,899</b>                                         | <b>-</b>                                               | <b>-</b>                        | <b>2,942</b>                                         | <b>-</b>                                               | <b>-</b>                        |

<sup>(1)</sup> The amount securitised during the period is securitisation undertaken for funding purposes, where no significant risk transfer has occurred.

## Section 7

## Glossary

| Term                                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ABCP                                     | Asset-Backed Commercial Paper being a form of commercial paper that is collateralised by other financial assets. It is a short-term debt instrument created by an issuing party (typically a bank or other financial institution).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Additional regulatory provisions         | That portion of collective provisions covering facilities where any assessment of probability of default or loss would give rise to a reasonable expectation that the facilities in question will need in the short term to be subject to a write-down or write-off, or assessment for impairment on an individual facility basis.                                                                                                                                                                                                                                                                                                                                                                                               |
| ADI                                      | Authorised Deposit-taking Institution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Advanced IRB approach (IRB)              | The Advanced Internal Ratings Based (IRB) approach refers to the processes employed by the NAB Group to estimate credit risk. This is achieved through the use of internally developed models to assess potential credit losses using the outputs from the PD, LGD and EaD models.                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| AMA                                      | Advanced Measurement Approach (AMA) is the risk estimation process used for the NAB Group's operational risk. It combines internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| APRA                                     | Australian Prudential Regulation Authority.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| APS                                      | Prudential Standards issued by APRA applicable to ADIs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Basel Accord                             | The Basel regulatory framework (which includes Basel II, Basel 2.5 and Basel III) is the global benchmark for assessing banks' capital adequacy. The guidelines are aimed at promoting a more resilient banking system through the development of capital adequacy standards that are more accurately aligned with the individual risk profile of institutions, by offering greater flexibility for supervisors to recognise and encourage the use of more sophisticated risk management techniques.                                                                                                                                                                                                                             |
| Board                                    | Board of Directors of NAB.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Capital adequacy                         | Capital adequacy is the outcome of identifying and quantifying the major risks the NAB Group is exposed to, and the capital that the NAB Group determines as an appropriate level to hold for these risks, as well as its strategic and operational objectives, including its target credit rating.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Central Counterparty (CCP)               | A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Common Equity Tier 1 (CET1) Capital      | Common Equity Tier 1 (CET1) Capital is recognised as 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 common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - 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 derivative transactions           | In relation to securitisation exposures, credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the NAB Group, usually through the use of credit default swaps.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Credit enhancements                      | Credit enhancements are arrangements in which the NAB Group holds a securitisation exposure that is able to absorb losses in the pool, providing credit protection to investors or other parties to the securitisation. A first loss credit enhancement is available to absorb losses in the first instance. A second loss credit enhancement is available to absorb losses after first loss credit enhancements have been exhausted.                                                                                                                                                                                                                                                                                            |
| Credit Value Adjustment (CVA)            | A capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Derivative transactions                  | In relation to securitisation exposures, derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transactions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| EaD                                      | Exposure at Default (EaD) is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the NAB Group would incur in the event of a default. It is used in the calculation of RWA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| ELE                                      | The Extended Licensed Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in <i>Prudential Standard APS 222 Associations with Related Entities</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Eligible financial collateral            | Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach is limited to the collateral items detailed in <i>Attachment H of APS 112</i> . Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment.                                                                                                                                                                                                                                                                                                                        |
| Fair value                               | The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Foundation IRB (FIRB)                    | Foundation Internal Ratings Based (FIRB) approach refers to an alternative approach to advanced IRB defined under the Basel Accord where a Group develops its own PD models and seeks approval from its regulator to use these in the calculation of regulatory capital, and the regulator provides a supervisory estimate for LGD and EaD.                                                                                                                                                                                                                                                                                                                                                                                      |
| General Reserve for Credit Losses (GRCL) | The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under APS 220 - Credit Quality. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the NAB Group's collective provision for accounting purposes. |
| GRCL calculation methodology             | The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to reflect losses expected as a result of future events that are not recognised in the NAB Group's collective provision for accounting purposes. All collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, are reported as additional regulatory specific provisions.                                                                                                           |
| IFRS                                     | International Financial Reporting Standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| IMA                                      | Internal Model Approach (IMA) describes the approach used in the assessment of traded market risk. The NAB 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.                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| Term                                  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impaired facilities                   | Impaired facilities consist of:<br>- Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue<br>- Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and<br>- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.<br>- Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off). |
| IRB approach                          | The internal ratings based (IRB) approach refers to the processes employed by the NAB Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.                                                                                                                                                                                                                                                                                                                 |
| IRRBB                                 | Interest rate risk in the banking book.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Level 2 Group                         | The Level 2 Group, being NAB and the entities it controls subject to certain exceptions set out in <i>Section 2 Scope of Application</i> of this report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Level 3 conglomerate Group            | Contains APRA-regulated entities with material operations across more than one APRA-regulated industry and/or unregulated entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Leverage Ratio                        | The Leverage Ratio is a simple, transparent, non-risk based supplementary measure that use exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's <i>Prudential Standard APS110: Capital Adequacy</i> .                                                                                                                                                                                                                                                                                                                                                                           |
| LGD                                   | Loss Given Default (LGD) is 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. It is used in the calculation of RWA.                                                                                                                                                                                                                                                                                                                                                                                                    |
| Liquidity Coverage Ratio (LCR)        | LCR is a new measure announced as part of the Basel III liquidity reforms that came into force on 1 January 2015. The ratio measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the NAB Group's liquidity needs for a 30 day calendar liquidity stress scenario.                                                                                                                                                                                                                                                            |
| Liquidity facilities                  | Liquidity facilities are provided by the NAB Group to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV (asset liquidity facilities), or to cover the inability of the SPV to roll over ABCP (standby liquidity facilities).                                                                                                                                                                                                                                                                                                        |
| NAB                                   | National Australia Bank Limited ABN 12 004 044 937.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| NAB Group                             | NAB and its controlled entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Net write-offs                        | Write-offs on loans at amortised cost and Fair Value loans net of recoveries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Past due facilities ≥ 90 days         | Past due facilities ≥ 90 days consist of 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| PD                                    | Probability of Default (PD) is an estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations to the NAB Group in the next 12 months.                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Qualifying revolving retail exposures | For the purposes of regulatory reporting, credit cards are referred to as qualifying revolving retail.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Regulatory capital                    | Regulatory capital is the total capital held by the NAB Group as a buffer against potential losses arising from the business the NAB Group operates in. Unlike economic capital, it is calculated based on guidance and standards provided by the NAB Group's regulators, including APRA. It is designed to support stability in the banking system and protect depositors.                                                                                                                                                                                                                                                                      |
| Risk-Weighted Assets (RWA)            | A quantitative measure of the NAB Group's 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.                                                                                                                                                                                                                                                                                                                                                                                              |
| Securities                            | Securities include the purchase of securitisation debt securities for either trading or banking book purposes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Securitisation                        | Structured finance technique which involves pooling, packaging cash-flows and converting financial assets into securities that can be sold to investors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| SME                                   | Small and medium sized enterprises.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Specific provisions                   | Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Standardised approach                 | Standardised refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution 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 Common Equity Tier 1 (CET1) Capital and instruments issued by the NAB Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy: Measurement of Capital                                                                                                                                                                                                                                                                                                                                                                                                                |
| Tier 1 Capital ratio                  | Tier 1 Capital as defined by APRA 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.                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Tier 2 Capital ratio                  | Tier 2 Capital as defined by APRA divided by RWA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Total Capital                         | Total capital is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Total Capital ratio                   | Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Warehouse facilities                  | Warehouse facilities are lending facilities provided by the NAB Group to an SPV 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.                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Write-offs                            | Write-offs represent credit losses in accordance with accounting rules.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |





# 2017 PILLAR 3 REPORT

Incorporating the  
requirements of APS 330  
First Quarter Update as at  
31 December 2016

more  
than  
money



## Table of Contents

### Section 1

|              |   |
|--------------|---|
| Introduction | 1 |
|--------------|---|

### Section 2

|                      |   |
|----------------------|---|
| Scope of Application | 2 |
|----------------------|---|

### Section 3

|         |   |
|---------|---|
| Capital | 3 |
|---------|---|

### Section 4

|                       |   |
|-----------------------|---|
| Credit Risk Exposures | 4 |
|-----------------------|---|

### Section 5

|                             |   |
|-----------------------------|---|
| Credit Provision and Losses | 6 |
|-----------------------------|---|

### Section 6

|                |   |
|----------------|---|
| Securitisation | 8 |
|----------------|---|

### Section 7

|          |   |
|----------|---|
| Glossary | 9 |
|----------|---|

## Section 1

### Introduction

National Australia Bank Limited (ABN 12 004 044 937) (NAB) applies the Basel framework as a cornerstone of the NAB Group's risk management framework and capital strategy, and recognises that it is critical for achieving the NAB Group's strategic agenda.

In Australia, the Australian Prudential Regulation Authority (APRA) has regulatory responsibility for the implementation of the Basel Accord through the release of prudential standards.

This Pillar 3 Report is designed to provide the NAB Group's stakeholders with detailed information about the approach the NAB Group takes to manage risk and to determine capital adequacy, having regard to the operating environment. The report also addresses the requirements of APRA's *Prudential Standard APS 330: Public Disclosure (APS 330)*.

All figures in this report are in Australian dollars (AUD) unless otherwise noted. Disclosures in this report are based on the APRA Basel III standards that have applied since 1 January 2013, except for market risk Risk-Weighted Assets (RWA) that are calculated on a Basel 2.5 basis for each period presented.

#### Capital Ratio Summary

The NAB Group's Common Equity Tier 1 (CET1) capital ratio of 9.5% at 31 December 2016 is consistent with the NAB Group's objective of maintaining a strong capital position.

| Capital ratios (Level 2) | As at     |           |
|--------------------------|-----------|-----------|
|                          | 31 Dec 16 | 30 Sep 16 |
|                          | %         | %         |
| Common Equity Tier 1     | 9.5       | 9.8       |
| Tier 1                   | 11.9      | 12.2      |
| Total                    | 13.8      | 14.1      |

The NAB Group remains responsive to economic conditions and continues to maintain strong balance sheet settings. These settings enable the NAB Group to operate effectively through difficult market conditions and ensure that it is well positioned for future regulatory change and balance sheet growth.

#### 1.1 The NAB Group's Capital Adequacy Methodologies

The NAB Group operates in Australia, Asia, New Zealand, the United Kingdom and North America. The following table sets out the NAB Group's approach to the Basel Accord, as applied across the NAB Group as at 31 December 2016.

#### The NAB Group's Basel Methodologies<sup>1,2,3,4</sup>

| Methodology Approach            | Credit Risk  | Operational Risk | Non-Traded Market Risk | Traded Market Risk   |
|---------------------------------|--------------|------------------|------------------------|----------------------|
| National Australia Bank Limited | Advanced IRB | AMA              | IRRBB                  | Standardised and IMA |
| Bank of New Zealand             | Advanced IRB | AMA              | IRRBB                  | Standardised and IMA |

(1) IRB: Internal Ratings Based approach

(2) AMA: Advanced Measurement Approach

(3) IRRBB: Interest Rate Risk in the Banking Book

(4) IMA: Internal Models Approach

Bank of New Zealand (BNZ), the NAB Group's main operating subsidiary in New Zealand, is regulated by the Reserve Bank of New Zealand (RBNZ). Credit risk exposures consolidated in the NAB Group position are calculated under RBNZ requirements.

#### 1.2 APS 330 Disclosure Governance

The NAB Group's Disclosure and External Communications Policy defines Board and management accountabilities for APS 330 disclosure, including processes and practices to ensure the integrity and timeliness of prudential disclosures and compliance with NAB Group policies.

## Section 2

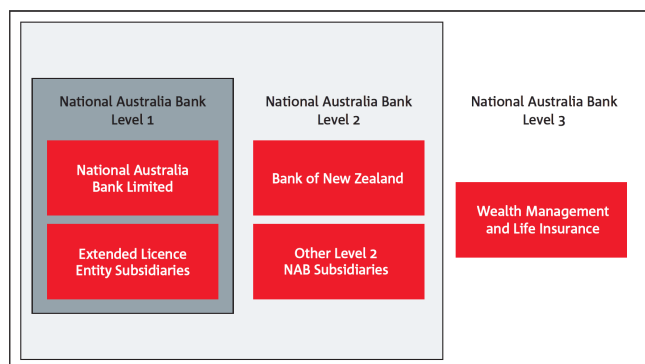
### Scope of Application

APRA measures the NAB Group's capital adequacy by assessing financial strength at three levels:

- Level 1: comprises NAB and its subsidiary entities approved by APRA as part of the Extended Licensed Entity (ELE)
- Level 2: comprises NAB and the entities it controls, subject to certain exceptions set out below
- Level 3: comprises the conglomerate NAB Group.

This report applies to the Level 2 consolidated group (the Level 2 Group).

### NAB Group Consolidation for Regulatory Purposes



The controlled entities in the Level 2 Group include BNZ and other financial entities (e.g. finance companies and leasing companies).

Wealth management and life insurance activities are excluded from the calculation of RWA and the related controlled entities are deconsolidated from the Level 2 Group for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities. National Wealth Management Holdings Limited (NWMH) has not been treated as part of the Level 2 Group for the purposes of this report.

The NAB Group is progressing with a transition to the revised Level 2 Group following a clarification of the ADI Level 2 Group definition by APRA.

In the interim period, CET1 Capital reflects the transition arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by NWMH.

In addition, certain securitisation special purpose vehicles (SPVs) to which assets have been transferred in accordance with APRA's requirements as set out in APS 120 have been deconsolidated from the Level 2 Group for the purposes of this disclosure. For regulatory purposes, credit risk is removed from the sold assets and there is no requirement to hold capital against them.

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

The following table provides the Basel Accord RWA and capital ratios for the Level 2 Group.

|                                                          | As at          |                |
|----------------------------------------------------------|----------------|----------------|
|                                                          | 31 Dec 16      | 30 Sep 16      |
|                                                          | RWA<br>\$m     | RWA<br>\$m     |
| <b>Credit risk <sup>(1)</sup></b>                        |                |                |
| <b>IRB approach</b>                                      |                |                |
| Corporate (including SME) <sup>(2)</sup>                 | 126,294        | 124,765        |
| Sovereign                                                | 1,606          | 1,596          |
| Bank                                                     | 11,544         | 11,269         |
| Residential mortgage                                     | 91,397         | 90,143         |
| Qualifying revolving retail                              | 3,913          | 3,925          |
| Retail SME                                               | 6,132          | 6,182          |
| Other retail                                             | 3,741          | 3,666          |
| <b>Total IRB approach</b>                                | <b>244,627</b> | <b>241,546</b> |
| <b>Specialised lending (SL)</b>                          | <b>57,256</b>  | <b>57,900</b>  |
| <b>Standardised approach</b>                             |                |                |
| Australian and foreign governments                       | -              | -              |
| Bank                                                     | -              | -              |
| Residential mortgage                                     | 2,649          | 2,706          |
| Corporate                                                | 4,352          | 4,219          |
| Other                                                    | 548            | 554            |
| <b>Total standardised approach</b>                       | <b>7,549</b>   | <b>7,479</b>   |
| <b>Other</b>                                             |                |                |
| Securitisation                                           | 3,441          | 3,435          |
| Credit Value Adjustment                                  | 12,344         | 13,871         |
| Central counterparty default fund contribution guarantee | 862            | 473            |
| Other <sup>(3)</sup>                                     | 3,978          | 6,806          |
| <b>Total other</b>                                       | <b>20,625</b>  | <b>24,585</b>  |
| <b>Total credit risk</b>                                 | <b>330,057</b> | <b>331,510</b> |
| <b>Market risk</b>                                       | 7,620          | 7,299          |
| <b>Operational risk</b>                                  | 37,500         | 37,500         |
| <b>Interest rate risk in the banking book</b>            | 13,174         | 12,136         |
| <b>Total risk-weighted assets</b>                        | <b>388,351</b> | <b>388,445</b> |

<sup>(1)</sup> RWA which are calculated in accordance with APRA's requirements under the Basel Accord are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.

<sup>(2)</sup> Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.

<sup>(3)</sup> 'Other' includes non-lending asset exposure.

|                                 | As at     |           |
|---------------------------------|-----------|-----------|
|                                 | 31 Dec 16 | 30 Sep 16 |
|                                 | %         | %         |
| <b>Capital ratios (Level 2)</b> |           |           |
| Common Equity Tier 1            | 9.5       | 9.8       |
| Tier 1                          | 11.9      | 12.2      |
| Total                           | 13.8      | 14.1      |

|                           | As at       |             |             |             |
|---------------------------|-------------|-------------|-------------|-------------|
|                           | 31 Dec 16   | 30 Sep 16   | 30 Jun 16   | 31 Mar 16   |
|                           | \$m         | \$m         | \$m         | \$m         |
| Tier 1 Capital            | 46,037      | 47,336      | 41,901      | 42,535      |
| Total exposures           | 853,855     | 827,644     | 855,681     | 810,505     |
| <b>Leverage ratio (%)</b> | <b>5.4%</b> | <b>5.7%</b> | <b>4.9%</b> | <b>5.3%</b> |

## Section 4

## Credit Risk Exposures

**Total and Average Credit Risk Exposures [APS 330 Attachment C, Table 4a]**

This table provides the credit risk exposure subject to the Standardised and Advanced IRB approaches. The Level 2 Group has no credit risk exposures subject to the Foundational IRB Approach. For the Advanced IRB approach, Exposure at Default (EaD) is reported gross of specific provisions and partial write-offs. For the Standardised approach, EaD is reported net of any specific provision. Exposures exclude non-lending assets, securitisation and Credit Value Adjustment (CVA).

Gross credit risk exposure refers to the potential exposure as a result of a counterparty default prior to the application of credit risk mitigation. It is defined as the outstanding amount on drawn commitments plus a credit conversion factor on undrawn commitments on a given facility. For derivatives, exposure is defined as the mark-to-market plus a potential value of future movements. This table now includes total EaD net of eligible financial collateral (EFC). The average credit risk exposure is the sum of the gross credit risk exposure at the beginning of the reporting period plus the gross credit risk exposure at the end of the reporting period divided by two.

| Exposure type                      | As at 31 Dec 16           |                                      |                                  |                             |                           | 3 months ended<br>31 Dec 16         |
|------------------------------------|---------------------------|--------------------------------------|----------------------------------|-----------------------------|---------------------------|-------------------------------------|
|                                    | On-balance sheet exposure | Non-market related off-balance sheet | Market related off-balance sheet | Total exposure gross of EFC | Total exposure net of EFC | Average total exposure gross of EFC |
|                                    | \$m                       | \$m                                  | \$m                              | \$m                         | \$m                       | \$m                                 |
| <b>IRB approach</b>                |                           |                                      |                                  |                             |                           |                                     |
| Corporate (including SME)          | 140,004                   | 65,307                               | 78,692                           | 284,003                     | 222,234                   | 273,051                             |
| Sovereign                          | 64,541                    | 496                                  | 18,700                           | 83,737                      | 68,623                    | 82,100                              |
| Bank                               | 23,547                    | 4,376                                | 49,788                           | 77,711                      | 39,242                    | 69,681                              |
| Residential mortgage               | 313,240                   | 48,169                               | -                                | 361,409                     | 361,409                   | 359,620                             |
| Qualifying revolving retail        | 6,142                     | 5,661                                | -                                | 11,803                      | 11,803                    | 11,727                              |
| Retail SME                         | 12,380                    | 3,944                                | -                                | 16,324                      | 16,321                    | 16,305                              |
| Other retail                       | 3,430                     | 1,269                                | -                                | 4,699                       | 4,699                     | 4,657                               |
| <b>Total IRB approach</b>          | <b>563,284</b>            | <b>129,222</b>                       | <b>147,180</b>                   | <b>839,686</b>              | <b>724,331</b>            | <b>817,141</b>                      |
| <b>Specialised lending (SL)</b>    | <b>55,178</b>             | <b>10,742</b>                        | <b>845</b>                       | <b>66,765</b>               | <b>66,121</b>             | <b>66,888</b>                       |
| <b>Standardised approach</b>       |                           |                                      |                                  |                             |                           |                                     |
| Australian and foreign governments | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Bank                               | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Residential mortgage               | 4,560                     | 124                                  | -                                | 4,684                       | 4,627                     | 4,726                               |
| Corporate                          | 6,963                     | 565                                  | 71,573                           | 79,101                      | 11,820                    | 69,646                              |
| Other                              | 1,174                     | 1                                    | -                                | 1,175                       | 1,075                     | 1,179                               |
| <b>Total standardised approach</b> | <b>12,697</b>             | <b>690</b>                           | <b>71,573</b>                    | <b>84,960</b>               | <b>17,522</b>             | <b>75,551</b>                       |
| <b>Total exposure (EaD)</b>        | <b>631,159</b>            | <b>140,654</b>                       | <b>219,598</b>                   | <b>991,411</b>              | <b>807,974</b>            | <b>959,580</b>                      |

| Exposure type                      | As at 30 Sep 16           |                                      |                                  |                             |                           | 3 months ended<br>30 Sep 16         |
|------------------------------------|---------------------------|--------------------------------------|----------------------------------|-----------------------------|---------------------------|-------------------------------------|
|                                    | On-balance sheet exposure | Non-market related off-balance sheet | Market related off-balance sheet | Total exposure gross of EFC | Total exposure net of EFC | Average total exposure gross of EFC |
|                                    | \$m                       | \$m                                  | \$m                              | \$m                         | \$m                       | \$m                                 |
| <b>IRB approach</b>                |                           |                                      |                                  |                             |                           |                                     |
| Corporate (including SME)          | 137,853                   | 63,496                               | 60,750                           | 262,099                     | 215,497                   | 266,680                             |
| Sovereign                          | 64,069                    | 537                                  | 15,856                           | 80,462                      | 68,252                    | 85,028                              |
| Bank                               | 23,151                    | 3,481                                | 35,018                           | 61,650                      | 37,754                    | 73,546                              |
| Residential mortgage               | 308,642                   | 49,189                               | -                                | 357,831                     | 357,831                   | 356,085                             |
| Qualifying revolving retail        | 5,907                     | 5,744                                | -                                | 11,651                      | 11,651                    | 11,664                              |
| Retail SME                         | 12,476                    | 3,810                                | -                                | 16,286                      | 16,283                    | 16,300                              |
| Other retail                       | 3,347                     | 1,267                                | -                                | 4,614                       | 4,614                     | 4,625                               |
| <b>Total IRB approach</b>          | <b>555,445</b>            | <b>127,524</b>                       | <b>111,624</b>                   | <b>794,593</b>              | <b>711,882</b>            | <b>813,928</b>                      |
| <b>Specialised lending (SL)</b>    | <b>55,574</b>             | <b>10,022</b>                        | <b>1,415</b>                     | <b>67,011</b>               | <b>66,399</b>             | <b>67,383</b>                       |
| <b>Standardised approach</b>       |                           |                                      |                                  |                             |                           |                                     |
| Australian and foreign governments | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Bank                               | -                         | -                                    | -                                | -                           | -                         | -                                   |
| Residential mortgage               | 4,636                     | 132                                  | -                                | 4,768                       | 4,710                     | 4,850                               |
| Corporate                          | 6,497                     | 545                                  | 53,148                           | 60,190                      | 9,530                     | 63,324                              |
| Other                              | 1,181                     | 1                                    | -                                | 1,182                       | 1,073                     | 1,192                               |
| <b>Total standardised approach</b> | <b>12,314</b>             | <b>678</b>                           | <b>53,148</b>                    | <b>66,140</b>               | <b>15,313</b>             | <b>69,366</b>                       |
| <b>Total exposure (EaD)</b>        | <b>623,333</b>            | <b>138,224</b>                       | <b>166,187</b>                   | <b>927,744</b>              | <b>793,594</b>            | <b>950,677</b>                      |

## Section 5

## Credit Provision and Losses

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

The following tables set out information on credit risk provision by Basel Accord asset class, excluding non-lending assets and securitisation exposures. Definitions of impairment and past due facilities are based on APS 220: Credit Quality. This standard also provides guidance for provisioning, estimated future credit losses and the General Reserve for Credit Losses.

| Exposure type                            | As at 31 Dec 16                    |                                 |                                    | 3 months ended<br>31 Dec 16     |                               |
|------------------------------------------|------------------------------------|---------------------------------|------------------------------------|---------------------------------|-------------------------------|
|                                          | Impaired facilities <sup>(1)</sup> | Past due facilities<br>≥90 days | Specific provisions <sup>(2)</sup> | Charges for specific provisions | Net write-offs <sup>(3)</sup> |
|                                          | \$m                                | \$m                             | \$m                                | \$m                             | \$m                           |
| <b>IRB approach</b>                      |                                    |                                 |                                    |                                 |                               |
| Corporate (including SME)                | 2,183                              | 229                             | 643                                | 176                             | 15                            |
| Sovereign                                | -                                  | -                               | -                                  | -                               | -                             |
| Bank                                     | -                                  | -                               | -                                  | -                               | -                             |
| Residential mortgage                     | 367                                | 1,514                           | 97                                 | 17                              | 27                            |
| Qualifying revolving retail              | -                                  | 62                              | -                                  | 42                              | 34                            |
| Retail SME                               | 78                                 | 86                              | 43                                 | 6                               | 9                             |
| Other retail                             | 3                                  | 51                              | 2                                  | 26                              | 24                            |
| <b>Total IRB approach</b>                | <b>2,631</b>                       | <b>1,942</b>                    | <b>785</b>                         | <b>267</b>                      | <b>109</b>                    |
| <b>Specialised lending (SL)</b>          | <b>213</b>                         | <b>139</b>                      | <b>105</b>                         | <b>5</b>                        | <b>5</b>                      |
| <b>Standardised approach</b>             |                                    |                                 |                                    |                                 |                               |
| Australian and foreign governments       | -                                  | -                               | -                                  | -                               | -                             |
| Bank                                     | -                                  | -                               | -                                  | -                               | -                             |
| Residential mortgage                     | 8                                  | 8                               | 3                                  | -                               | -                             |
| Corporate                                | 1                                  | 1                               | 6                                  | -                               | -                             |
| Other                                    | -                                  | -                               | -                                  | -                               | -                             |
| <b>Total standardised approach</b>       | <b>9</b>                           | <b>9</b>                        | <b>9</b>                           | <b>-</b>                        | <b>-</b>                      |
| <b>Total</b>                             | <b>2,853</b>                       | <b>2,090</b>                    | <b>899</b>                         | <b>272</b>                      | <b>114</b>                    |
| <b>General reserve for credit losses</b> |                                    |                                 | <b>2,367</b>                       |                                 |                               |

<sup>(1)</sup> Impaired facilities includes \$nil million of restructured loans (September 2016: \$nil million).

Corporate (incl SME) impaired facilities includes \$762 million (NZ\$792 million) of BNZ dairy exposures currently assessed as no loss based on security held. (September 2016: \$785 million (NZ\$823 million)).

Impaired facilities includes \$6 million of gross impaired loans at fair value (September 2016: \$14 million).

<sup>(2)</sup> Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation. For regulatory reporting collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures, are treated as regulatory specifics and total \$413 million (September 2016: \$411 million). This value is in addition to the \$899 million of specific provisions (September 2016: \$712 million) shown above. Specific provisions includes \$5 million (September 2016: \$6 million) of specific provisions on gross impaired loans at fair value.

<sup>(3)</sup> Net write-offs includes net write-offs of fair value loans.

| Exposure type                            | As at 30 Sep 16            |                                        |                            | 3 months ended<br>30 Sep 16            |                   |
|------------------------------------------|----------------------------|----------------------------------------|----------------------------|----------------------------------------|-------------------|
|                                          | Impaired facilities<br>\$m | Past due facilities<br>≥90 days<br>\$m | Specific provisions<br>\$m | Charges for specific provisions<br>\$m | Write-offs<br>\$m |
| <b>IRB approach</b>                      |                            |                                        |                            |                                        |                   |
| Corporate (including SME)                | 1,978                      | 181                                    | 487                        | 151                                    | 23                |
| Sovereign                                | -                          | -                                      | -                          | -                                      | -                 |
| Bank                                     | -                          | -                                      | -                          | -                                      | -                 |
| Residential mortgage                     | 371                        | 1,470                                  | 90                         | 24                                     | 28                |
| Qualifying revolving retail              | -                          | 64                                     | -                          | 54                                     | 41                |
| Retail SME                               | 86                         | 91                                     | 47                         | 16                                     | 7                 |
| Other retail                             | 3                          | 51                                     | 2                          | 23                                     | 32                |
| <b>Total IRB approach</b>                | <b>2,438</b>               | <b>1,857</b>                           | <b>626</b>                 | <b>268</b>                             | <b>131</b>        |
| <b>Specialised lending (SL)</b>          | <b>194</b>                 | <b>110</b>                             | <b>78</b>                  | <b>25</b>                              | <b>10</b>         |
| <b>Standardised approach</b>             |                            |                                        |                            |                                        |                   |
| Australian and foreign governments       | -                          | -                                      | -                          | -                                      | -                 |
| Bank                                     | -                          | -                                      | -                          | -                                      | -                 |
| Residential mortgage                     | 9                          | 8                                      | 3                          | -                                      | -                 |
| Corporate                                | 1                          | -                                      | 5                          | (27)                                   | 1                 |
| Other                                    | -                          | -                                      | -                          | -                                      | (1)               |
| <b>Total standardised approach</b>       | <b>10</b>                  | <b>8</b>                               | <b>8</b>                   | <b>(27)</b>                            | <b>-</b>          |
| <b>Total</b>                             | <b>2,642</b>               | <b>1,975</b>                           | <b>712</b>                 | <b>266</b>                             | <b>141</b>        |
| <b>General reserve for credit losses</b> |                            |                                        | <b>2,475</b>               |                                        |                   |

## Section 6

## Securitisation

## Third Party Securitisation Exposures [APS 330 Attachment C, Table 5b]

The following two tables provide information about assets that the Level 2 Group manages as securitisations (predominantly for third party clients) where the exposures are risk weighted under APS 120. These tables do not provide information on Level 2 Group assets that have been sold to securitisations whether or not the assets are risk weighted under APS 120. The table below breaks down the securitisation exposures by type of facility as defined in the Glossary.

| Securitisation exposure type          | As at 31 Dec 16  |                   |               | As at 30 Sep 16  |                   |               |
|---------------------------------------|------------------|-------------------|---------------|------------------|-------------------|---------------|
|                                       | On-balance sheet | Off-balance sheet | Total         | On-balance sheet | Off-balance sheet | Total         |
|                                       | \$m              | \$m               | \$m           | \$m              | \$m               | \$m           |
| Liquidity facilities                  | 70               | 1,715             | 1,785         | 119              | 1,613             | 1,732         |
| Warehouse facilities                  | 8,390            | 2,492             | 10,882        | 9,680            | 1,720             | 11,400        |
| Credit enhancements                   | -                | 19                | 19            | 2                | 17                | 19            |
| Derivative transactions               | 168              | -                 | 168           | 221              | -                 | 221           |
| Securities                            | 9,269            | -                 | 9,269         | 8,264            | -                 | 8,264         |
| Credit derivatives transactions       | -                | -                 | -             | -                | -                 | -             |
| Other                                 | -                | -                 | -             | -                | -                 | -             |
| <b>Total securitisation exposures</b> | <b>17,897</b>    | <b>4,226</b>      | <b>22,123</b> | <b>18,286</b>    | <b>3,350</b>      | <b>21,636</b> |

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

This table provides information about new securitisation facilities provided in three months to reporting period.

| Securitisation exposure type         | Notional amount of facilities provided |                |
|--------------------------------------|----------------------------------------|----------------|
|                                      | 3 months ended                         | 3 months ended |
|                                      | 31 Dec 16                              | 30 Sep 16      |
|                                      | \$m                                    | \$m            |
| Liquidity facilities                 | 168                                    | 19             |
| Warehouse facilities                 | 496                                    | 5              |
| Credit enhancements                  | -                                      | -              |
| Derivative transactions              | 21                                     | 51             |
| Securities                           | 1,412                                  | 393            |
| Credit derivatives transactions      | -                                      | -              |
| Other                                | -                                      | -              |
| <b>Total new facilities provided</b> | <b>2,097</b>                           | <b>468</b>     |

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

This table may include assets which are sold to securitisation SPVs (1) which issue securities which meet the Reserve Bank of Australia's repurchase eligibility criteria; (2) which otherwise do not result in significant risk transfer and are considered on-balance sheet for regulatory purposes; or (3) in which significant risk transfer has taken place and which are considered off-balance sheet for regulatory purposes. The Level 2 Group may retain an exposure to securitisation SPVs which are considered off-balance sheet for regulatory purposes.

| Underlying asset <sup>(1)</sup> | 3 months ended 31 Dec 16                             |                                                        |                                 | 3 months ended 30 Sep 16                             |                                                        |                                 |
|---------------------------------|------------------------------------------------------|--------------------------------------------------------|---------------------------------|------------------------------------------------------|--------------------------------------------------------|---------------------------------|
|                                 | Amount securitised during period directly originated | Amount securitised during period indirectly originated | Recognised gain or loss on sale | Amount securitised during period directly originated | Amount securitised during period indirectly originated | Recognised gain or loss on sale |
|                                 | \$m                                                  | \$m                                                    | \$m                             | \$m                                                  | \$m                                                    | \$m                             |
| Residential mortgage            | 2,899                                                | -                                                      | -                               | 2,942                                                | -                                                      | -                               |
| Credit cards                    | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Auto and equipment finance      | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Commercial loans                | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| Other                           | -                                                    | -                                                      | -                               | -                                                    | -                                                      | -                               |
| <b>Total underlying asset</b>   | <b>2,899</b>                                         | <b>-</b>                                               | <b>-</b>                        | <b>2,942</b>                                         | <b>-</b>                                               | <b>-</b>                        |

<sup>(1)</sup> The amount securitised during the period is securitisation undertaken for funding purposes, where no significant risk transfer has occurred.

**Section 7**
**Glossary**

| <b>Term</b>                              | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ABCP                                     | Asset-Backed Commercial Paper being a form of commercial paper that is collateralised by other financial assets. It is a short-term debt instrument created by an issuing party (typically a bank or other financial institution).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Additional regulatory provisions         | That portion of collective provisions covering facilities where any assessment of probability of default or loss would give rise to a reasonable expectation that the facilities in question will need in the short term to be subject to a write-down or write-off, or assessment for impairment on an individual facility basis.                                                                                                                                                                                                                                                                                                                                                                                               |
| ADI                                      | Authorised Deposit-taking Institution.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Advanced IRB approach (IRB)              | The Advanced Internal Ratings Based (IRB) approach refers to the processes employed by the NAB Group to estimate credit risk. This is achieved through the use of internally developed models to assess potential credit losses using the outputs from the PD, LGD and EaD models.                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| AMA                                      | Advanced Measurement Approach (AMA) is the risk estimation process used for the NAB Group's operational risk. It combines internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| APRA                                     | Australian Prudential Regulation Authority.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| APS                                      | Prudential Standards issued by APRA applicable to ADIs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Basel Accord                             | The Basel regulatory framework (which includes Basel II, Basel 2.5 and Basel III) is the global benchmark for assessing banks' capital adequacy. The guidelines are aimed at promoting a more resilient banking system through the development of capital adequacy standards that are more accurately aligned with the individual risk profile of institutions, by offering greater flexibility for supervisors to recognise and encourage the use of more sophisticated risk management techniques.                                                                                                                                                                                                                             |
| Board                                    | Board of Directors of NAB.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Capital adequacy                         | Capital adequacy is the outcome of identifying and quantifying the major risks the NAB Group is exposed to, and the capital that the NAB Group determines as an appropriate level to hold for these risks, as well as its strategic and operational objectives, including its target credit rating.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Central Counterparty (CCP)               | A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Common Equity Tier 1 (CET1) Capital      | Common Equity Tier 1 (CET1) Capital is recognised as 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 common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under APS111 - 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 derivative transactions           | In relation to securitisation exposures, credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the NAB Group, usually through the use of credit default swaps.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Credit enhancements                      | Credit enhancements are arrangements in which the NAB Group holds a securitisation exposure that is able to absorb losses in the pool, providing credit protection to investors or other parties to the securitisation. A first loss credit enhancement is available to absorb losses in the first instance. A second loss credit enhancement is available to absorb losses after first loss credit enhancements have been exhausted.                                                                                                                                                                                                                                                                                            |
| Credit Value Adjustment (CVA)            | A capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Derivative transactions                  | In relation to securitisation exposures, derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transactions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| EaD                                      | Exposure at Default (EaD) is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the NAB Group would incur in the event of a default. It is used in the calculation of RWA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| ELE                                      | The Extended Licensed Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in <i>Prudential Standard APS 222 Associations with Related Entities</i> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Eligible financial collateral            | Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach is limited to the collateral items detailed in <i>Attachment H of APS 112</i> . Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment.                                                                                                                                                                                                                                                                                                                        |
| Fair value                               | The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Foundation IRB (FIRB)                    | Foundation Internal Ratings Based (FIRB) approach refers to an alternative approach to advanced IRB defined under the Basel Accord where a Group develops its own PD models and seeks approval from its regulator to use these in the calculation of regulatory capital, and the regulator provides a supervisory estimate for LGD and EaD.                                                                                                                                                                                                                                                                                                                                                                                      |
| General Reserve for Credit Losses (GRCL) | The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under APS 220 - Credit Quality. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the NAB Group's collective provision for accounting purposes. |
| GRCL calculation methodology             | The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to reflect losses expected as a result of future events that are not recognised in the NAB Group's collective provision for accounting purposes. All collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, are reported as additional regulatory specific provisions.                                                                                                           |
| IFRS                                     | International Financial Reporting Standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| IMA                                      | Internal Model Approach (IMA) describes the approach used in the assessment of traded market risk. The NAB 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.                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| Term                                  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Impaired facilities                   | Impaired facilities consist of:<br>- Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue<br>- Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and<br>- Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.<br>- Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off). |
| IRB approach                          | The internal ratings based (IRB) approach refers to the processes employed by the NAB Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.                                                                                                                                                                                                                                                                                                                 |
| IRRBB                                 | Interest rate risk in the banking book.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Level 2 Group                         | The Level 2 Group, being NAB and the entities it controls subject to certain exceptions set out in <i>Section 2 Scope of Application</i> of this report.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Level 3 conglomerate Group            | Contains APRA-regulated entities with material operations across more than one APRA-regulated industry and/or unregulated entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Leverage Ratio                        | The Leverage Ratio is a simple, transparent, non-risk based supplementary measure that use exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's <i>Prudential Standard APS110: Capital Adequacy</i> .                                                                                                                                                                                                                                                                                                                                                                           |
| LGD                                   | Loss Given Default (LGD) is 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. It is used in the calculation of RWA.                                                                                                                                                                                                                                                                                                                                                                                                    |
| Liquidity Coverage Ratio (LCR)        | LCR is a new measure announced as part of the Basel III liquidity reforms that came into force on 1 January 2015. The ratio measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the NAB Group's liquidity needs for a 30 day calendar liquidity stress scenario.                                                                                                                                                                                                                                                            |
| Liquidity facilities                  | Liquidity facilities are provided by the NAB Group to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV (asset liquidity facilities), or to cover the inability of the SPV to roll over ABCP (standby liquidity facilities).                                                                                                                                                                                                                                                                                                        |
| NAB                                   | National Australia Bank Limited ABN 12 004 044 937.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| NAB Group                             | NAB and its controlled entities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Net write-offs                        | Write-offs on loans at amortised cost and Fair Value loans net of recoveries.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Past due facilities ≥ 90 days         | Past due facilities ≥ 90 days consist of 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| PD                                    | Probability of Default (PD) is an estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations to the NAB Group in the next 12 months.                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Qualifying revolving retail exposures | For the purposes of regulatory reporting, credit cards are referred to as qualifying revolving retail.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Regulatory capital                    | Regulatory capital is the total capital held by the NAB Group as a buffer against potential losses arising from the business the NAB Group operates in. Unlike economic capital, it is calculated based on guidance and standards provided by the NAB Group's regulators, including APRA. It is designed to support stability in the banking system and protect depositors.                                                                                                                                                                                                                                                                      |
| Risk-Weighted Assets (RWA)            | A quantitative measure of the NAB Group's 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.                                                                                                                                                                                                                                                                                                                                                                                              |
| Securities                            | Securities include the purchase of securitisation debt securities for either trading or banking book purposes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Securitisation                        | Structured finance technique which involves pooling, packaging cash-flows and converting financial assets into securities that can be sold to investors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| SME                                   | Small and medium sized enterprises.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Specific provisions                   | Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Standardised approach                 | Standardised refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution 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 Common Equity Tier 1 (CET1) Capital and instruments issued by the NAB Group that meet the criteria for inclusion as Addition Tier 1 capital set out in APS111 - Capital Adequacy: Measurement of Capital                                                                                                                                                                                                                                                                                                                                                                                                                |
| Tier 1 Capital ratio                  | Tier 1 Capital as defined by APRA 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.                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Tier 2 Capital ratio                  | Tier 2 Capital as defined by APRA divided by RWA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Total Capital                         | Total capital is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Total Capital ratio                   | Total capital ratio is the sum of Tier 1 capital and Tier 2 capital, as defined by APRA, divided by risk-weighted assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Warehouse facilities                  | Warehouse facilities are lending facilities provided by the NAB Group to an SPV 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.                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Write-offs                            | Write-offs represent credit losses in accordance with accounting rules.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |



