



ASX ANNOUNCEMENT

Tuesday, 15 October 2019

APRA consults on Prudential Standard APS111 Capital Adequacy

National Australia Bank Limited (NAB) today noted the Australian Prudential Regulation Authority's (APRA) consultation on proposed changes to Prudential Standard APS111: Capital Adequacy (APS111). On a pro forma basis, the proposed changes are not expected to impact the amount of capital required to be held by the NAB Group.

The consultation proposes a number of amendments and clarifications. The most significant change proposed relates to the treatment of equity investments in subsidiaries for the purpose of calculating Level 1 regulatory capital.

Under the current standard, NAB applies a 400 per cent risk weight at Level 1 for equity investments in banking and insurance subsidiaries, including the Bank of New Zealand (BNZ). Equity exposures include all forms of regulatory capital, including intra-group Additional Tier 1 and Tier 2 securities. Under the proposed standard, a revised risk weight of 250 per cent would apply to individual equity investments up to a value of 10 per cent of Level 1 Common Equity Tier 1 (CET1), with any additional amount over the 10 per cent threshold deducted from Level 1 CET1 capital.

As at 31 March 2019, NAB's Level 1 and Level 2 CET1 ratios were 10.64% and 10.40%, respectively. Under the proposed standard, there is minimal impact on NAB's Level 1 CET1 ratio and NAB's Level 2 CET1 ratio would be unchanged. BNZ has NZ\$1.4 billion of Additional Tier 1 and Tier 2 securities issued to NAB. Replacement of these intra-group securities with externally issued instruments over time could reduce Level 1 capital requirements. NAB continues to expect to achieve APRA's 'Unquestionably Strong' CET1 benchmark of at least 10.5% at both levels by 1 January 2020.

The consultation forms part of a series of proposed revisions to the capital adequacy framework for the Australian banking system. The ultimate impact to the NAB Group will be subject to finalisation of the proposed changes, as well as any changes to NAB's investment in BNZ, including as a result of the Reserve Bank of New Zealand's Capital Review which is expected to be finalised in December 2019.

APRA's consultation process for APS111 completes on 31 January 2020, with APRA intending to finalise the changes in early 2020 and implement the revised standard from 1 January 2021.

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