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ASX ANNOUNCEMENT

NAB 2024 First Quarter Pillar 3 Report

National Australia Bank Limited (NAB) today released its 2024 First Quarter Pillar 3 Report, as required under the Australian Prudential Regulation Authority Prudential Standard APS 330 *Public Disclosure*.

The report is attached to this announcement and available at:

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

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The release of this announcement was authorised by Nathan Goonan, Group Chief Financial Officer.

**national
australia
bank**



Pillar 3 Report as at 31 December 2023

Incorporating the requirements of APS 330

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Table of contents

Section 1 Introduction	2
Section 2 Capital	3
Section 3 Credit risk	4
Section 4 Securitisation	7
Section 5 Liquidity Coverage Ratio	8
Glossary	9

Introduction

National Australia Bank Limited (NAB) is an Authorised Deposit-taking Institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act 1959* (Cth). This document has been prepared in accordance with APRA Prudential Standard APS 330 *Public Disclosure*. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's framework for bank capital adequacy on market discipline, and to contribute to the transparency of financial markets.

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

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

Capital adequacy methodologies

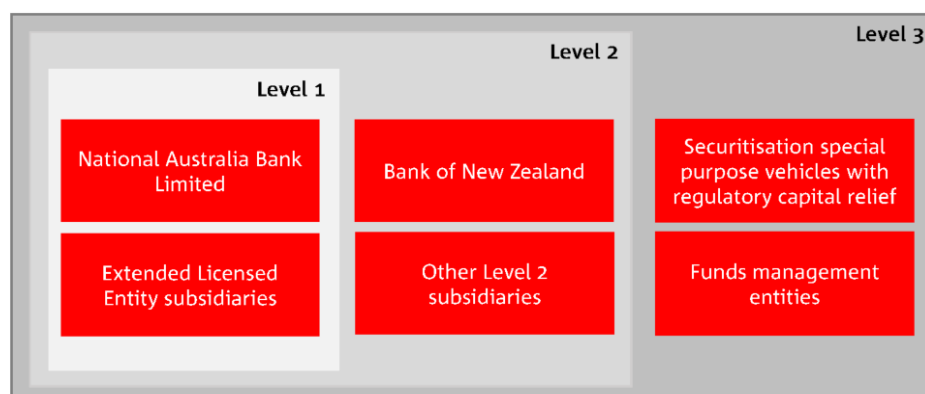
The Group uses the following approaches to measure capital adequacy as at 31 December 2023.

Credit risk	Operational risk	Non-traded market risk	Traded market risk
Internal Ratings-based Approach (IRB) ⁽¹⁾	Standardised Measurement Approach (SMA)	Internal Model Approach (IMA)	Internal Model Approach (IMA) and standard method

(1) The Group has received IRB accreditation from APRA and applies the advanced IRB, foundation IRB, supervisory slotting and standardised approaches to different portfolios. Risk-weighted assets (RWA) and expected loss for the Group's banking subsidiary regulated by the Reserve Bank of New Zealand (RBNZ), Bank of New Zealand (BNZ), are calculated using RBNZ prudential requirements, with the exception of scaling factors and the capital floor which are applied under APRA requirements. BNZ has received IRB accreditation from the RBNZ and applies the internal rating-based approach, supervisory slotting estimates and standardised approach to different portfolios.

Scope of application

APRA measures the Group's capital adequacy by assessing financial strength at three levels as illustrated below.



Level 1 comprises NAB and its subsidiaries that have been approved by APRA as part of its Extended Licensed Entity.

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

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

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

Capital

Capital adequacy

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

	As at	
	31 Dec 23	30 Sep 23
	\$m	\$m
Credit risk		
Subject to advanced IRB approach		
Corporate (including small and medium-sized enterprises (SME))	105,951	103,466
Retail SME	10,253	10,200
Residential mortgage	104,274	103,898
Qualifying revolving retail	2,744	2,664
Other retail	1,833	1,819
Subject to foundation IRB approach		
Corporate	22,243	22,694
Sovereign	1,620	1,496
Financial institution	19,509	20,839
Total IRB approach	268,427	267,076
Specialised lending	2,529	2,332
Subject to standardised approach		
Corporate	4,962	5,461
Residential mortgage	6,491	6,589
Other retail	6,060	5,988
Other ⁽¹⁾	4,406	4,671
Total standardised approach	21,919	22,709
RBNZ regulated banking subsidiary	52,860	53,026
Other		
Securitisation exposures	5,878	5,332
Credit valuation adjustment	4,535	5,079
Total other	10,413	10,411
Total credit risk	356,148	355,554
Market risk	11,180	8,811
Operational risk	42,352	41,178
Interest rate risk in the banking book	21,779	29,463
Total RWA	431,459	435,006

(1) Other subject to the standardised approach consists of cash items in the process of collection, premises and other fixed assets, and all other exposures, and includes \$103 million for equity exposures (30 September 2023: \$103 million).

The following tables provide the capital ratios and leverage ratio.

	As at	
	31 Dec 23	30 Sep 23
	%	%
Capital ratios		
Level 2 Common Equity Tier 1	12.0	12.2
Level 2 Tier 1	13.9	14.2
Level 2 Total	19.6	19.9
Level 1 Common Equity Tier 1	11.7	12.1
Level 1 Tier 1	13.9	14.4
Level 1 Total	20.0	20.7

	As at			
	31 Dec 23	30 Sep 23	30 Jun 23	31 Mar 23
	\$m	\$m	\$m	\$m
Leverage ratio				
Tier 1 capital	60,181	61,726	59,259	60,595
Total exposures	1,190,152	1,183,323	1,192,746	1,189,150
Leverage ratio (%)	5.1%	5.2%	5.0%	5.1%

Credit risk

Credit risk exposures

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

Exposure type	As at 31 Dec 23				3 months ended
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	31 Dec 23
	\$m	\$m	\$m	\$m	Average exposure at default \$m
Subject to advanced IRB approach					
Corporate (including SME)	170,014	24,488	2,850	197,352	195,662
Retail SME	16,773	7,709	-	24,482	24,376
Residential mortgage	338,851	58,108	-	396,959	395,015
Qualifying revolving retail	4,236	5,212	-	9,448	9,362
Other retail	1,369	327	-	1,696	1,677
Subject to foundation IRB approach					
Corporate	21,732	12,814	6,045	40,591	41,220
Sovereign	164,555	806	17,408	182,769	177,780
Financial institution	28,320	18,495	19,148	65,963	68,762
Total IRB approach	745,850	127,959	45,451	919,260	913,854
Specialised lending	2,136	875	123	3,134	2,988
Subject to standardised approach					
Corporate	5,900	1,527	4,279	11,706	12,495
Residential mortgage	15,504	1,277	-	16,781	16,820
Other retail	5,453	3,216	-	8,669	8,620
Other	6,205	-	-	6,205	6,574
Total standardised approach	33,062	6,020	4,279	43,361	44,509
RBNZ regulated banking subsidiary	115,199	15,593	3,146	133,938	134,827
Total exposure at default	896,247	150,447	52,999	1,099,693	1,096,178

Credit risk (cont.)

Exposure type	As at 30 Sep 23				3 months ended 30 Sep 23
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
	\$m	\$m	\$m	\$m	\$m
Subject to advanced IRB approach					
Corporate (including SME)	167,499	23,965	2,509	193,973	192,991
Retail SME	16,674	7,596	-	24,270	24,146
Residential mortgage	335,094	57,978	-	393,072	391,327
Qualifying revolving retail	4,019	5,257	-	9,276	9,251
Other retail	1,345	313	-	1,658	1,638
Subject to foundation IRB approach					
Corporate	23,239	12,179	6,430	41,848	42,308
Sovereign	154,376	836	17,580	172,792	181,801
Financial institution	30,679	19,275	21,605	71,559	70,434
Total IRB approach	732,925	127,399	48,124	908,448	913,896
Specialised lending	2,050	713	78	2,841	2,699
Subject to standardised approach					
Corporate	6,211	1,903	5,171	13,285	12,568
Residential mortgage	15,494	1,365	-	16,859	16,919
Other retail	5,342	3,228	-	8,570	8,767
Other	6,943	-	-	6,943	7,585
Total standardised approach	33,990	6,496	5,171	45,657	45,839
RBNZ regulated banking subsidiary	114,367	17,490	3,859	135,716	134,245
Total exposure at default	883,332	152,098	57,232	1,092,662	1,096,679

Credit risk (cont.)

Credit provisions and losses

The following table provides information on asset quality.

Exposure type	As at 31 Dec 23		3 months ended 31 Dec 23	
	Non- performing exposures	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
	\$m	\$m	\$m	\$m
Subject to advanced IRB approach				
Corporate (including SME)	2,361	286	21	6
Retail SME	968	106	8	10
Residential mortgage	3,472	53	7	12
Qualifying revolving retail	61	-	19	17
Other retail	63	3	12	14
Subject to foundation IRB approach				
Corporate	14	12	-	-
Financial institution	26	10	-	-
Total IRB approach	6,965	470	67	59
Specialised lending	-	-	-	-
Subject to standardised approach				
Corporate	26	3	-	-
Residential mortgage	129	5	2	1
Other retail	77	-	20	17
Total standardised approach	232	8	22	18
RBNZ regulated banking subsidiary	1,004	70	10	12
Total	8,201	548	99	89

Exposure type	As at 30 Sep 23		3 months ended 30 Sep 23	
	Non- performing exposures	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
	\$m	\$m	\$m	\$m
Subject to advanced IRB approach				
Corporate (including SME)	2,255	275	53	25
Retail SME	951	105	16	8
Residential mortgage	3,307	54	1	8
Qualifying revolving retail	57	-	19	21
Other retail	63	3	7	11
Subject to foundation IRB approach				
Corporate	14	12	(1)	-
Financial institution	25	10	-	-
Total IRB approach	6,672	459	95	73
Specialised lending	-	-	-	21
Subject to standardised approach				
Corporate	23	4	-	-
Residential mortgage	139	4	(1)	-
Other retail	71	-	18	17
Total standardised approach	233	8	17	17
RBNZ regulated banking subsidiary	1,087	72	14	11
Total	7,992	539	126	122

Provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified were \$4,107 million as at 31 December 2023 (30 September 2023: \$4,380 million).

Securitisation

Recent securitisation activity

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

Underlying asset	3 months ended 31 Dec 23			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgages	(115)	(174)	625	-

Underlying asset	3 months ended 30 Sep 23			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgages	(129)	(179)	(204)	-

Securitisation exposures retained or purchased

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

Securitisation exposure type	As at 31 Dec 23			As at 30 Sep 23		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Liquidity facilities	240	1,048	1,288	258	1,007	1,265
Warehouse facilities	17,060	5,930	22,990	16,476	5,846	22,322
Securities	9,179	-	9,179	7,329	-	7,329
Derivatives	-	20	20	-	54	54
Total	26,479	6,998	33,477	24,063	6,907	30,970

The Group had \$501 million of derivative exposures to third party securitisation vehicles held in the trading book as at 31 December 2023 (30 September 2023: \$324 million).

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) for the three months ended 31 December 2023 and 30 September 2023 presented in the disclosure template below is based on a simple average of daily LCR outcomes, excluding non-business days. There were 63 daily LCR data points used in calculating the average for the current quarter and 65 in the previous quarter.

Average LCR for the three months ended 31 December 2023 remained stable at 140%, as a decrease of \$4.4 billion in average liquid assets was offset by a reduction of \$2.9 billion in average net cash outflows.

The decrease in liquid assets was mainly attributable to repayment of the initial allowance of the Term Funding Facility (TFF) in the previous quarter, reflected through lower central bank deposits and repurchase agreements in the current quarter. This was partially offset by an increase in holdings of Australian government bonds and RBNZ securities.

The reduction in average net cash outflows was largely due to:

- there not being any repayments of the TFF in the current quarter, whereas repayments of the initial allowance were modelled in the 30 days prior to payment in the previous quarter.
- increased lending inflows.

This reduction was partially offset by an increase in short term funding outflows.

Liquidity Coverage Ratio disclosure template

	3 months ended			
	31 Dec 23		30 Sep 23	
	Unweighted value (average) ⁽¹⁾	Weighted value (average)	Unweighted value (average) ⁽¹⁾	Weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets, of which:		205,117		209,561
1 High-quality liquid assets (HQLA) ⁽²⁾⁽³⁾		204,317		209,354
2 Alternative liquid assets (ALA) ⁽³⁾		-		-
3 Reserve Bank of New Zealand (RBNZ) securities ⁽²⁾⁽³⁾		800		207
Cash outflows				
4 Retail deposits and deposits from small business customers	277,073	29,861	273,980	29,947
5 of which: stable deposits	120,565	6,028	116,860	5,843
6 of which: less stable deposits	156,508	23,833	157,120	24,104
7 Unsecured wholesale funding	177,377	82,764	177,563	82,299
8 of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	84,980	21,245	86,162	21,540
9 of which: non-operational deposits (all counterparties)	77,511	46,633	78,261	47,619
10 of which: unsecured debt	14,886	14,886	13,140	13,140
11 Secured wholesale funding ⁽³⁾		8,431		10,701
12 Additional requirements	208,488	38,651	204,959	38,693
13 of which: outflows related to derivatives exposures and other collateral requirements	8,641	8,640	8,155	8,154
14 of which: outflows related to loss of funding on debt products	-	-	-	-
15 of which: credit and liquidity facilities	199,847	30,011	196,804	30,539
16 Other contractual funding obligations	1,131	1,131	81	81
17 Other contingent funding obligations	76,707	5,374	73,935	5,219
18 Total cash outflows		166,212		166,940
Cash inflows				
19 Secured lending (e.g. reverse repos)	42,428	3,700	49,216	3,898
20 Inflows from fully performing exposures	23,095	13,695	20,121	11,788
21 Other cash inflows	2,027	2,025	1,590	1,589
22 Total cash inflows	67,550	19,420	70,927	17,275
23 Total liquid assets		205,117		209,561
24 Total net cash outflows		146,792		149,665
25 Liquidity Coverage Ratio (%)		140%		140%

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

(2) Weighted values exclude New Zealand dollar (NZD) liquid asset holdings in excess of NZD LCR of 100%, reflecting liquidity transferability considerations. The amount excluded during the three months to 31 December 2023 and 30 September 2023 was on average \$9.0 billion and \$9.2 billion respectively.

(3) Disclosed on a weighted basis only, consistent with the disclosure template prescribed by APS 330.

Glossary

Additional Tier 1 capital

Comprises high quality components of capital that satisfy the following characteristics:

- provide a permanent and unrestricted commitment of funds.
- are freely available to absorb losses.
- rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer.
- provide for fully discretionary capital distributions.

ADI

Authorised Deposit-taking Institution.

Advanced Internal Ratings-based (Advanced IRB) approach

The approach used by the Group, under approval from APRA, to calculate the capital requirement for credit risk, which utilises the outputs of internally developed models for probability of default, loss given default and exposure at default.

Alternative liquid assets (ALA)

Assets that qualify for inclusion in the numerator of the Liquidity Coverage Ratio in jurisdictions where there is insufficient supply of high-quality liquid assets in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency. The Term Funding Facility is treated as ALAs.

APRA

Australian Prudential Regulation Authority.

APS

Prudential Standards issued by APRA applicable to ADIs.

Bank of New Zealand (BNZ)

Bank of New Zealand, a banking subsidiary regulated by the Reserve Bank of New Zealand.

Banking book

Exposures not contained in the trading book.

CET1 capital ratio

CET1 capital divided by risk-weighted assets.

Common Equity Tier 1 (CET1) capital

The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 'Capital Adequacy: Measurement of Capital'.

Corporate

Corporations, partnerships, proprietorships, public sector entities and any other credit exposure not elsewhere classified.

Credit valuation adjustment (CVA)

A capital charge to reflect potential mark to-market losses due to counterparty migration risk for bilateral over-the-counter derivative contracts.

Default

Default occurs when a loan obligation is contractually 90 days or more past due, or when it is considered unlikely that the credit obligation will be paid in full without remedial action, such as realisation of security.

Eligible financial collateral (EFC)

Under the standardised approach, eligible financial collateral is the amount of cash collateral, netting and eligible bonds and equities. Under the Internal Ratings-based Approach, EFC is limited to the collateral items detailed in APS 112 'Capital Adequacy: Standardised Approach to Credit Risk'. Recognition of EFC is subject to the minimum conditions detailed in APS 112.

Exposure at default (EaD)

An estimate of the credit exposure amount outstanding if a customer defaults. EaD is presented net of eligible financial collateral, except where indicated.

Extended Licensed Entity

The ADI and any APRA approved subsidiaries assessed as effectively part of a single 'stand-alone' entity, as defined in APS 222 'Associations with Related Entities'.

Foundation Internal Ratings-based (Foundation IRB) approach

An approach to calculate the capital requirement for credit risk, which utilises the outputs of internally developed models for probability of default, and supervisory estimates for loss given default and exposure at default.

Group

NAB and its controlled entities.

High-quality liquid assets (HQLA)

Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 'Liquidity'.

Internal Model Approach (IMA) - Non-traded Market Risk

The approach used by the Group, under approval from APRA, to calculate the capital requirement for non-traded market risk. The IMA is used to calculate interest rate risk in the banking book for transactions in the banking book.

Internal Model Approach (IMA) - Traded Market Risk

The approach used by the Group, under approval from APRA, to calculate the capital requirement for traded market risk. The IMA is used to calculate general market risk for transactions in the trading book, other than those covered by the standard method.

Leverage ratio

Tier 1 capital divided by exposures as defined by APS 110 'Capital Adequacy'. It is a non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

Liquidity Coverage Ratio (LCR)

A metric that measures the adequacy of high-quality liquid assets available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.

Loss given default (LGD)

An estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default.

NAB

National Australia Bank Limited ABN 12 004 044 937.

Net write-offs

Write-offs, net of recoveries.

Non-performing exposures

Exposures which are in default aligned to the definition in APS 220 'Credit Risk Management'.

Probability of default (PD)

An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.

Qualifying revolving retail

Revolving exposures to individuals less than \$100,000, unsecured and unconditionally cancellable by the Group.

RBNZ

Reserve Bank of New Zealand.

Risk-weighted assets (RWA)

A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.

RMBS

Residential mortgage-backed securities.

Securitisation exposures

Include the following exposure types:

- liquidity facilities: facilities provided to securitisation vehicles for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the securitisation vehicle or to cover the inability of the securitisation vehicle to roll-over securities due to market disruption.
- warehouse facilities: lending facilities provided to securitisation vehicles for the financing of exposures in a pool. These may be on a temporary basis pending the issue of securities or on an on-going basis.
- securities: holding of debt securities issued by securitisation vehicles.
- derivatives: derivatives provided to securitisation vehicles, other than for credit risk mitigation purposes.

SME

Small and medium-sized enterprises.

Specific provision for credit impairment

The provision assessed on an individual basis in accordance with Australian Accounting Standard AASB 9 'Financial Instruments'.

SPV

Special purpose vehicle.

Standard method

An alternative approach used to calculate the capital requirement for traded market risk, which applies supervisory risk-weights to positions arising from trading activities.

Standardised approach

An alternative approach used to calculate the capital requirement for credit risk, which utilises regulatory prescribed risk-weights based on external ratings and/or the application of specific regulator defined metrics to determine risk-weighted assets.

Standardised Measurement Approach (SMA)

An approach used to calculate the capital requirement for operational risk based on a business indicator, a financial statement proxy of operational risk exposure.

Term Funding Facility (TFF)

A facility provided by the Reserve Bank of Australia to certain ADIs to support lending to Australian businesses. The facility closed to new drawdowns of funding on 30 June 2021.

Tier 1 capital

The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

Tier 1 capital ratio

Tier 1 capital divided by risk-weighted assets.

Tier 2 capital

Includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Total capital

The sum of Tier 1 capital and Tier 2 capital.

Total capital ratio

Total capital divided by risk-weighted assets.

Trading book

Positions in financial instruments, including derivatives and other off-balance sheet instruments, that are held either with a trading intent or to hedge other elements of the trading book.

Write-offs

A reduction in the carrying amount of loans and advances at amortised cost and fair value where there is no reasonable expectation of recovery of a portion or the entire exposure.

