

Friday, 16 August 2024

ASX ANNOUNCEMENT

NAB 2024 Third Quarter Pillar 3 Report

National Australia Bank Limited (NAB) today released its 2024 Third 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.



Pillar 3 Report

as at 30 June 2024

Incorporating the requirements of APS 330

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Introduction

National Australia Bank Limited (NAB or the Company) 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

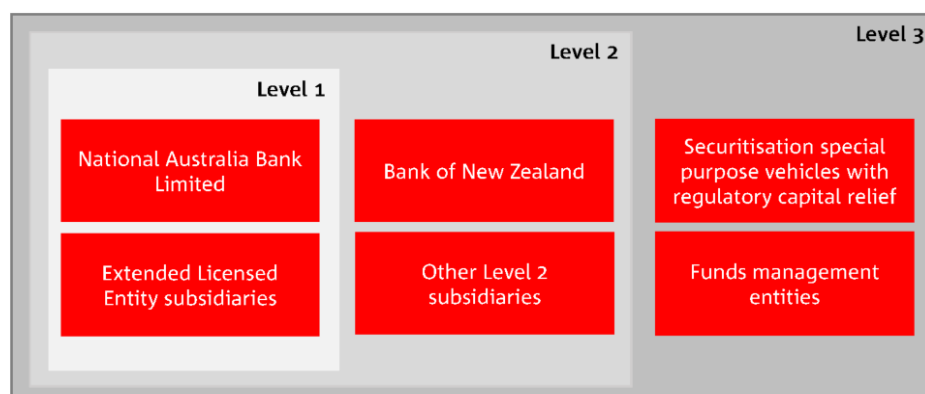
The Group uses the following approaches to measure capital adequacy as at 30 June 2024.

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 ratings-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 RWA for each risk type.

	As at	
	30 Jun 24	31 Mar 24
	\$m	\$m
Credit risk		
Subject to advanced IRB approach		
Corporate (including small and medium-sized enterprises (SME))	109,031	106,746
Retail SME	10,634	10,443
Residential mortgage ⁽¹⁾	99,638	107,716
Qualifying revolving retail	2,759	2,762
Other retail	1,914	1,873
Subject to foundation IRB approach		
Corporate	21,101	21,454
Sovereign	1,471	1,423
Financial institution	19,947	20,247
Total IRB approach	266,495	272,664
Specialised lending	2,994	3,090
Subject to standardised approach		
Corporate	7,421	6,897
Residential mortgage	6,498	6,558
Other retail	6,051	6,078
Other ⁽²⁾	4,806	4,861
Total standardised approach	24,776	24,394
RBNZ regulated banking subsidiary	51,231	53,147
Other		
Securitisation exposures	5,545	5,939
Credit valuation adjustment	4,716	4,639
Total other	10,261	10,578
Total credit risk	355,757	363,873
Market risk	12,272	11,171
Operational risk	36,102	36,102
Interest rate risk in the banking book	21,412	21,407
Total RWA	425,543	432,553

(1) In the three months ended 30 June 2024, the probability of default (PD) estimates for residential mortgage exposures subject to the advanced IRB approach were updated through the implementation of new PD models. This change has reduced credit RWA for residential mortgage exposures of the Group excluding BNZ.

(2) 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 \$112 million for equity exposures (31 March 2024: \$112 million).

Capital

The following tables provide the capital ratios and leverage ratio.

From 1 April 2024, the Group revised its accounting treatment for the recognition of dividends. Dividends are recognised on the payment date as the Company does not incur a liability before this date. As a result, the 30 June 2024 capital and leverage ratios exclude the impact of the 2024 interim dividend that was paid on 3 July 2024.

Capital ratios	As at	
	30 Jun 24	31 Mar 24
	%	%
Level 2 Common Equity Tier 1	12.6	12.1
Level 2 Tier 1	14.9	14.1
Level 2 Total	21.1	20.3
Level 1 Common Equity Tier 1	12.5	11.8
Level 1 Tier 1	15.0	14.1
Level 1 Total	21.8	20.8

Leverage ratio	As at			
	30 Jun 24	31 Mar 24	31 Dec 23	30 Sep 23
	\$m	\$m	\$m	\$m
Tier 1 capital	63,276	61,133	60,181	61,726
Total exposures	1,188,241	1,198,406	1,190,152	1,183,323
Leverage ratio (%)	5.3%	5.1%	5.1%	5.2%

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 30 Jun 24				3 months ended 30 Jun 24
	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)	178,554	25,414	2,510	206,478	204,272
Retail SME	17,418	7,430	–	24,848	24,748
Residential mortgage	341,637	57,170	–	398,807	399,277
Qualifying revolving retail	4,116	5,203	–	9,319	9,385
Other retail	1,397	342	–	1,739	1,730
Subject to foundation IRB approach					
Corporate	18,754	13,021	6,239	38,014	38,404
Sovereign ⁽¹⁾	157,429	705	1,181	159,315	171,502
Financial institution	31,154	19,506	18,008	68,668	68,801
Total IRB approach	750,459	128,791	27,938	907,188	918,119
Specialised lending	2,501	1,076	86	3,663	3,738
Subject to standardised approach					
Corporate	7,154	2,263	3,187	12,604	12,240
Residential mortgage	15,741	1,113	–	16,854	16,941
Other retail	5,417	3,097	–	8,514	8,597
Other	7,446	–	–	7,446	7,203
Total standardised approach	35,758	6,473	3,187	45,418	44,981
RBNZ regulated banking subsidiary⁽²⁾	110,520	8,225	3,151	121,896	126,415
Total exposure at default	899,238	144,565	34,362	1,078,165	1,093,253

(1) The reduction in sovereign market related off-balance sheet exposures from 31 March 2024 to 30 June 2024 was largely due to a decrease in securities financing transaction exposures following repayment of the final tranches of the Term Funding Facility during the quarter.

(2) The reduction in RBNZ regulated banking subsidiary non-market related off-balance sheet exposures from 31 March 2024 to 30 June 2024 was mainly driven by the adoption of standardised credit conversion factors for certain non-retail exposures.

Credit risk (cont.)

Exposure type	As at 31 Mar 24				3 months ended 31 Mar 24
	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)	173,828	25,155	3,084	202,067	199,710
Retail SME	16,965	7,682	-	24,647	24,564
Residential mortgage	341,521	58,226	-	399,747	398,353
Qualifying revolving retail	4,171	5,281	-	9,452	9,450
Other retail	1,395	325	-	1,720	1,708
Subject to foundation IRB approach					
Corporate	20,302	12,516	5,976	38,794	39,693
Sovereign	166,008	638	17,043	183,689	183,229
Financial institution	31,271	19,499	18,164	68,934	67,448
Total IRB approach	755,461	129,322	44,267	929,050	924,155
Specialised lending	2,658	1,044	111	3,813	3,474
Subject to standardised approach					
Corporate	6,595	2,244	3,038	11,877	11,791
Residential mortgage	15,696	1,331	-	17,027	16,904
Other retail	5,424	3,257	-	8,681	8,675
Other	6,960	-	-	6,960	6,583
Total standardised approach	34,675	6,832	3,038	44,545	43,953
RBNZ regulated banking subsidiary	112,090	15,352	3,491	130,933	132,435
Total exposure at default	904,884	152,550	50,907	1,108,341	1,104,017

Credit provisions and losses

The following table provides information on asset quality.

Exposure type	As at 30 Jun 24			3 months ended 30 Jun 24	
	Non-performing exposures	Provision for non-performing exposures ⁽¹⁾	Of which: Individually assessed provision	Individually assessed credit impairment charge	Net write-offs
	\$m	\$m	\$m	\$m	\$m
Subject to advanced IRB approach					
Corporate (including SME)	2,835	703	258	23	13
Retail SME	1,103	268	126	11	10
Residential mortgage	4,238	440	49	10	6
Qualifying revolving retail	40	26	-	22	23
Other retail	58	53	3	15	23
Subject to foundation IRB approach					
Corporate	4	2	2	1	-
Financial institution	29	11	8	-	-
Total IRB approach	8,307	1,503	446	82	75
Specialised lending	-	-	-	-	-
Subject to standardised approach					
Corporate	60	28	23	1	1
Residential mortgage	117	15	1	-	-
Other retail	104	41	3	15	14
Total standardised approach	281	84	27	16	15
RBNZ regulated banking subsidiary	1,038	185	95	22	8
Total	9,626	1,772	568	120	98
Provision for performing exposures⁽²⁾		4,034			
Total provision for credit impairment on loans at amortised cost⁽³⁾		5,806			

(1) Provision for non-performing exposures represents Stage 3 expected credit losses, which are individually and collectively assessed.

(2) Provision for performing exposures represents Stage 1 and Stage 2 expected credit losses, which are collectively assessed.

(3) Includes \$22 million of provisions on certain loans measured at amortised cost for regulatory capital purposes and at fair value for accounting purposes.

Credit risk (cont.)

Exposure type	As at 31 Mar 24			3 months ended 31 Mar 24	
	Non-performing exposures	Provision for non-performing exposures ⁽¹⁾	Of which: Individually assessed provision	Individually assessed credit impairment charge	Net write-offs
	\$m	\$m	\$m	\$m	\$m
Subject to advanced IRB approach					
Corporate (including SME)	2,512	655	260	26	11
Retail SME	1,040	256	121	19	9
Residential mortgage	3,763	371	46	6	7
Qualifying revolving retail	41	25	-	21	17
Other retail	59	56	3	14	25
Subject to foundation IRB approach					
Corporate	17	3	2	(34)	(23)
Financial institution	21	8	6	(4)	(1)
Total IRB approach	7,453	1,374	438	48	45
Specialised lending	-	-	-	-	-
Subject to standardised approach					
Corporate	68	31	23	1	17
Residential mortgage	83	19	4	-	-
Other retail	89	34	-	17	17
Total standardised approach	240	84	27	18	34
RBNZ regulated banking subsidiary	998	184	81	24	12
Total	8,691	1,642	546	90	91
Provision for performing exposures⁽²⁾		4,150			
Total provision for credit impairment on loans at amortised cost⁽³⁾		5,792			

(1) Provision for non-performing exposures represents Stage 3 expected credit losses, which are individually and collectively assessed.

(2) Provision for performing exposures represents Stage 1 and Stage 2 expected credit losses, which are collectively assessed.

(3) Includes \$25 million of provisions on certain loans measured at amortised cost for regulatory capital purposes and at fair value for accounting purposes.

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 30 Jun 24			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	
Residential mortgages	1,897	(41)	(52)	-

Underlying asset	3 months ended 31 Mar 24			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	
Residential mortgages	(85)	(47)	(3,878)	-

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 30 Jun 24			As at 31 Mar 24		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Liquidity facilities	283	1,094	1,377	193	1,058	1,251
Warehouse facilities	17,182	6,379	23,561	17,290	6,928	24,218
Securities	6,633	-	6,633	8,444	-	8,444
Derivatives	-	41	41	-	19	19
Total	24,098	7,514	31,612	25,927	8,005	33,932

The Group had \$472 million of derivative exposures to third party securitisation vehicles held in the trading book as at 30 June 2024 (31 March 2024: \$442 million).

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) for the three months ended 30 June 2024 and 31 March 2024 presented in the disclosure template below is based on a simple average of daily LCR outcomes, excluding non-business days. There were 62 daily LCR data points used in calculating the average for the current and previous quarters.

Average LCR for the three months ended 30 June 2024 decreased to 137% driven by an increase in average net cash outflows of \$2.0 billion, which was partially offset by an increase in liquid assets of \$0.8 billion.

The increase in average net cash outflows was largely due to repayment of the final tranches of the Term Funding Facility during the quarter, which was partially offset by reductions in short term wholesale funding and deposit cash outflows.

The increase in liquid assets was mainly attributable to an increase in RBNZ securities, partially offset by lower high-quality liquid assets (HQLA).

Liquidity Coverage Ratio disclosure template

	3 months ended			
	30 Jun 24		31 Mar 24	
	Unweighted value (average) ⁽¹⁾	Weighted value (average)	Unweighted value (average) ⁽¹⁾	Weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets, of which:		207,855		207,086
1 High-quality liquid assets (HQLA) ⁽²⁾⁽³⁾		204,668		205,306
2 Alternative liquid assets (ALA) ⁽³⁾		–		–
3 Reserve Bank of New Zealand (RBNZ) securities ⁽²⁾⁽³⁾		3,187		1,780
Cash outflows				
4 Retail deposits and deposits from small business customers	279,039	28,339	277,862	29,510
5 of which: stable deposits	126,904	6,345	122,849	6,142
6 of which: less stable deposits	152,135	21,994	155,013	23,368
7 Unsecured wholesale funding	170,515	79,842	178,480	85,935
8 of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	83,922	20,981	85,282	21,320
9 of which: non-operational deposits (all counterparties)	74,457	46,725	76,748	48,165
10 of which: unsecured debt	12,136	12,136	16,450	16,450
11 Secured wholesale funding ⁽³⁾		19,051		7,840
12 Additional requirements	210,323	38,411	211,856	39,941
13 of which: outflows related to derivatives exposures and other collateral requirements	8,695	8,691	8,957	8,955
14 of which: outflows related to loss of funding on debt products	–	–	–	–
15 of which: credit and liquidity facilities	201,628	29,720	202,899	30,986
16 Other contractual funding obligations	106	106	4	4
17 Other contingent funding obligations	89,135	6,029	82,080	5,667
18 Total cash outflows		171,778		168,897
Cash inflows				
19 Secured lending (e.g. reverse repos)	43,496	4,455	40,277	3,949
20 Inflows from fully performing exposures	21,953	13,464	22,496	13,843
21 Other cash inflows	2,505	2,502	1,793	1,792
22 Total cash inflows	67,954	20,421	64,566	19,584
23 Total liquid assets		207,855		207,086
24 Total net cash outflows		151,357		149,313
25 Liquidity Coverage Ratio (%)		137%		139%

(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 30 June 2024 and 31 March 2024 was on average \$6.3 billion and \$8.1 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.

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'.

Company

National Australia Bank Limited (NAB) ABN 12 004 044 937.

Corporate

The corporate asset class in the credit risk disclosures consists of corporations, partnerships, public sector entities and any other credit exposure not classified elsewhere.

Credit valuation adjustment

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'.

Individually assessed provision for credit impairment

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

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.

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.

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 was fully repaid by 30 June 2024.

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.

