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ASX ANNOUNCEMENT

NAB 2016 Third Quarter Pillar 3 Report

National Australia Bank Limited (NAB) today released its third 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 2016 Third Quarter Trading Update. 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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2016 PILLAR 3 REPORT

Incorporating the requirements of APS 330

Third Quarter Update as at 30 June 2016

more than money

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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 from 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 30 June 2016 is consistent with the NAB Group's objective of maintaining a strong capital position.

	As at	
	30 Jun 16	31 Mar 16
Capital ratios (Level 2)	%	%
Common Equity Tier 1	9.5	9.7
Tier 1	11.5	11.8
Total	13.2	13.3

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 approach to the Basel Accord, which is applied across the NAB Group as at 30 June 2016.

The NAB Group's Basel Methodologies

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

IRB: Internal Ratings Based approach
AMA: Advanced Measurement Approach
IRRBB: Interest Rate Risk in the Banking Book
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 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.

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 (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 *Prudential Standard APS 120: Securitisation (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.

MLC Life Insurance Transaction

As announced on 28 October 2015, the NAB Group has agreed to sell 80% of MLC Limited to Nippon Life Limited. The transaction is subject to certain conditions, including regulatory approvals. Some of these conditions are subject to approvals from third parties and government agencies. The transaction may not proceed if any contractual conditions cannot be satisfied. The extraction of the investments and superannuation business was completed on 1 July 2016 by way of a successor fund transfer. The completion of the sale of MLC Limited (which will create a standalone life insurance company) is expected to occur in the second half of calendar year 2016.

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	
	30 Jun 16	31 Mar 16
	RWA	RWA
	$m	$m
Credit risk [(1)]		
IRB approach		
Corporate (including SME) [(2)]	126,721	126,757
Sovereign	1,611	1,684
Bank	11,466	11,381
Residential mortgage	64,217	62,504
Qualifying revolving retail	4,032	3,897
Retail SME	6,346	6,188
Other retail	3,684	3,631
Total IRB approach	**218,077**	**216,042**
Specialised lending (SL)	**59,301**	**59,498**
Standardised approach		
Australian and foreign governments	-	-
Bank	-	-
Residential mortgage	2,802	2,804
Corporate	4,183	4,172
Other	625	558
Total standardised approach	**7,610**	**7,534**
Other		
Securitisation	3,416	3,351
Credit value adjustment	13,775	12,257
Central counterparty default fund contribution guarantee	430	393
Other [(3)]	5,393	4,383
Total other	**23,014**	**20,384**
Total credit risk	**308,002**	**303,458**
Market risk	6,930	7,250
Operational risk	37,500	40,000
Interest rate risk in the banking book	11,118	10,725
Total risk-weighted assets	**363,550**	**361,433**

Capital ratios (Level 2)	%	%
Common Equity Tier 1	9.5	9.7
Tier 1	11.5	11.8
Total	13.2	13.3

Leverage ratio[(4)]	As at			
	30 Jun 16	31 Mar 16	31 Dec 15	30 Sep 15
	$m	$m	$m	$m
Tier 1 Capital	41,901	42,535	49,267	49,743
Total exposures	855,681	810,505	910,473	897,765
Leverage ratio (%)	4.9%	5.3%	5.4%	5.5%

(1) *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.*

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

(3) *'Other' includes non-lending asset exposures.*

(4) *The replacement cost associated with derivatives transactions as at 30 September 2015 includes the gross derivative credit exposure amount. In accordance with APS 110 Capital Adequacy, this has been revised from 31 December 2015 to exclude potential future credit exposures.*

4. Credit Risk Exposures

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

This table provides the amount of gross credit risk exposure subject to the Standardised and Advanced IRB approaches. The Level 2 Group has no credit risk exposures subject to the Foundation IRB approach. 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, the exposure is defined as the mark-to-market value plus a potential value of future movements. 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.

For the IRB approach, Exposure at Default (EaD) is reported gross of specific provisions and partial write-offs and prior to the application of on-balance sheet netting and credit risk mitigation. For the Standardised approach, EaD is reported net of any specific provision and prior to the application of on-balance sheet netting and credit risk mitigation. Exposures exclude non-lending assets, equities, securitisation and Credit Value Adjustment (CVA).

	As at 30 Jun 16				3 months ended 30 Jun 16
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME) (1)	138,042	63,205	70,014	271,261	266,396
Sovereign (1)	65,811	473	23,311	89,595	80,473
Bank (1)	23,494	2,969	58,978	85,441	80,566
Residential mortgage	304,392	49,948	-	354,340	350,917
Qualifying revolving retail	5,998	5,678	-	11,676	11,617
Retail SME	12,568	3,745	-	16,313	16,275
Other retail	3,353	1,284	-	4,637	4,580
Total IRB approach	**553,658**	**127,302**	**152,303**	**833,263**	**810,824**
Specialised lending (SL)	**55,958**	**10,275**	**1,522**	**67,755**	**67,728**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	4,799	132	-	4,931	4,943
Corporate (1)	6,256	593	59,609	66,458	62,727
Other	1,201	1	-	1,202	1,188
Total standardised approach	**12,256**	**726**	**59,609**	**72,591**	**68,858**
Total	**621,872**	**138,303**	**213,434**	**973,609**	**947,410**

(1) *Total credit risk exposure, net of eligible financial collateral is $795,008 million. For materially impacted asset classes, exposure net of collateral is as follows:*

	$m
Corporate (including SME)	*216,488*
Sovereign	*70,462*
Bank	*38,573*
Corporate (Standardised)	*9,123*

	As at 31 Mar 16				3 months ended 31 Mar 16
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure [1]
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME) [2]	136,232	63,060	62,239	261,531	260,964
Sovereign [2]	58,261	525	12,565	71,351	78,472
Bank [2]	22,821	3,640	49,229	75,690	78,760
Residential mortgage	297,717	49,776	-	347,493	346,787
Qualifying revolving retail	5,979	5,578	-	11,557	11,513
Retail SME	12,398	3,840	-	16,238	16,281
Other retail	3,289	1,233	-	4,522	4,591
Total IRB approach	**536,697**	**127,652**	**124,033**	**788,382**	**797,368**
Specialised lending (SL)	**55,184**	**11,174**	**1,343**	**67,701**	**67,658**
Standardised approach					
Australian and foreign governments	-	-	-	-	6,328
Bank	-	-	-	-	563
Residential mortgage	4,835	119	-	4,954	28,168
Corporate [2]	5,686	536	52,774	58,996	71,218
Other	1,172	1	-	1,173	2,513
Total standardised approach	**11,693**	**656**	**52,774**	**65,123**	**108,790**
Total [2]	**603,574**	**139,482**	**178,150**	**921,206**	**973,816**

(1) *Includes discontinued operations of CYBG PLC (CYBG), which was the holding company of Clydesdale Bank plc.*

(2) *Total credit risk exposure, net of eligible financial collateral is $774,186 million. For materially impacted asset classes, exposure net of collateral is as follows:*

	$m
Corporate (including SME)	*212,209*
Sovereign	*62,326*
Bank	*37,754*
Corporate (Standardised)	*8,749*

5. Credit Provisions 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 Prudential Standard APS 220: Credit Quality. This standard also provides guidance for provisioning, estimated future credit losses and the General Reserve for Credit Losses (GRCL).

	As at 30 Jun 16			3 months ended 30 Jun 16	
	Impaired facilities (1)	Past due facilities ≥90 days	Specific provisions (2)	Charges for specific provisions	Net write-offs (3)
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	1,630	186	367	51	112
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	332	1,556	86	20	14
Qualifying revolving retail	-	69	-	31	34
Retail SME	86	96	39	16	19
Other retail	4	54	2	31	31
Total IRB approach	**2,052**	**1,961**	**494**	**149**	**210**
Specialised lending (SL)	**189**	**104**	**62**	**30**	**12**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	8	4	3	-	-
Corporate	44	-	30	29	3
Other	-	-	-	-	-
Total standardised approach	**52**	**4**	**33**	**29**	**3**
Total	**2,293**	**2,069**	**589**	**208**	**225**

General Reserve for Credit Losses	**2,650**

(1) *Impaired facilities includes $nil million of restructured loans (March 2016: $1 million).*

Corporate (incl SME) impaired facilities include $607 million (NZ$636 million) of BNZ dairy exposures currently assessed as no loss based on security held. At March 2016: $522 million (NZ$579 million).

Impaired facilities includes $17 million of gross impaired fair value assets (March 2016: $14 million).

(2) *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 $429 million (March 2016: $403 million). This value is in addition to the $589 million of specific provisions (March 2016: $602 million) shown above.*

Specific provisions include $5 million (March 2016: $6 million) of specific provisions on gross impaired loans at fair value.

(3) *Net write-offs includes net write-offs of fair value loans.*

	As at 31 Mar 16			3 months ended 31 Mar 16	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions [1]	Net write-offs [2]
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	1,551	232	424	206	43
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	325	1,436	83	9	9
Qualifying revolving retail	-	65	-	41	46
Retail SME	95	98	41	5	11
Other retail	3	55	1	23	30
Total IRB approach	**1,974**	**1,886**	**549**	**284**	**139**
Specialised lending (SL)	**176**	**111**	**45**	**6**	**9**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	20	4	-	(1)	-
Corporate	4	2	8	11	4
Other	-	-	-	2	2
Total standardised approach	**24**	**6**	**8**	**12**	**6**
Total	**2,174**	**2,003**	**602**	**302**	**154**

General Reserve for Credit Losses	**2,705**

(1) *Charges for specific provisions includes discontinued operations of CYBG.*

(2) *Net write-offs includes net write-offs of fair value loans and discontinued operations of CYBG.*

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.

	As at 30 Jun 16			As at 31 Mar 16		
	On-balance sheet $m	Off-balance sheet $m	Total $m	On-balance sheet $m	Off-balance sheet $m	Total $m
Securitisation exposure type						
Liquidity facilities	123	1,704	1,827	53	2,105	2,158
Warehouse facilities	9,729	1,489	11,218	9,273	1,318	10,591
Credit enhancements	2	17	19	2	16	18
Derivative transactions	160	-	160	160	-	160
Securities	8,354	-	8,354	8,351	-	8,351
Credit derivatives transactions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total securitisation exposures	**18,368**	**3,210**	**21,578**	**17,839**	**3,439**	**21,278**

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

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

	Notional amount of facilities provided	
	3 months ended 30 Jun 16 $m	3 months ended 31 Mar 16 $m
Securitisation exposure type		
Liquidity facilities	122	396
Warehouse facilities	843	158
Credit enhancements	-	-
Derivative transactions	58	16
Securities	732	264
Credit derivatives transactions	-	-
Other	-	-
Total new facilities provided	**1,755**	**834**

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.

	3 months ended 30 Jun 16			3 months ended 31 Mar 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
Underlying asset						
Residential mortgage	3,540	-	-	1,200	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**3,540**	**-**	**-**	**1,200**	**-**	**-**

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).
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 *Prudential Standard APS 111: Capital Adequacy: Measurement of Capital.*
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 *Prudential Standard APS 222 Associations with Related Entities.*
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, for corporate, sovereign and bank portfolios, is limited to the collateral items detailed in paragraphs 5 and 25 of Attachment H of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk.* Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment, paragraph 8.
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 *Prudential Standard 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 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

Term	Description
	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.
Impaired facilities	Impaired facilities consist of: - 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 - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. 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 *Section 2 Scope of Application* 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 uses exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's *Prudential Standard APS110: Capital Adequacy*.
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 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 and packaging cash-flow converting financial assets into securities that can be sold to investors.
SME	Small and Medium Sized Enterprises.
Specialised Lending	Specialised Lending refers to lending to a specific entity (often a special purpose vehicle or 'SPV') created to finance the acquisition of and/or operate physical assets. The entity will have little or no independent capacity to repay the obligation, apart from the income generated from the assets being financed.
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 CET1 Capital and instruments issued by the Group that meet the criteria for inclusion as

Term	Description
	Additional Tier 1 capital set out in *Prudential Standard APS 111 - Capital Adequacy: Measurement of Capital*.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by RWA.
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.