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Thursday, 10 February 2022

ASX ANNOUNCEMENT

NAB 2022 First Quarter Pillar 3 Report

National Australia Bank Limited (NAB) today released its 2022 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 Gary Lennon, Group Chief Financial Officer.



National
Australia
Bank

PILLAR 3 REPORT

as at 31 December 2021

Incorporating the requirements of APS 330

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SECTION 1 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*, which requires disclosure of information to the market to contribute to the transparency of financial markets and to enhance market discipline. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's framework for bank capital adequacy. The framework consists of three mutually reinforcing pillars.

Pillar 1 Minimum capital requirement	Pillar 2 Supervisory review process	Pillar 3 Market discipline
Minimum requirements for the level and quality of capital	Management's responsibility for capital adequacy to support risks beyond the minimum requirements, including an Internal Capital Adequacy Assessment Process (ICAAP)	Disclosure to the market of qualitative and quantitative aspects of risk management, capital adequacy and various risk metrics

This document provides information about risk exposures, capital adequacy and liquidity 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.

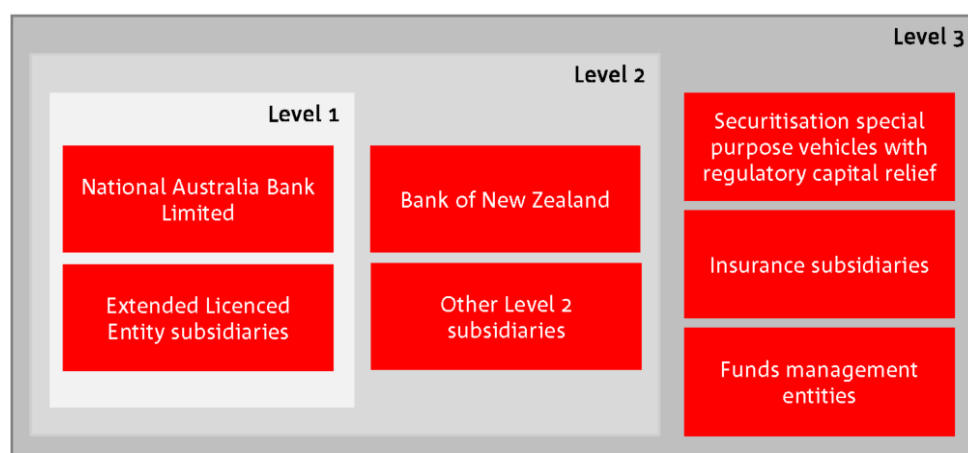
Capital Adequacy Methodologies

The Group uses the following approaches to measure capital adequacy as at 31 December 2021.

Credit Risk	Operational Risk	Non-traded Market Risk	Traded Market Risk
Advanced Internal Ratings-based Approach (IRB)	Advanced Measurement Approach (AMA)	Internal Model Approach (IMA)	Internal Model Approach (IMA) and standard method

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 subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Level 2 comprises NAB and the entities it controls, excluding securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation*, insurance subsidiaries and funds management entities. Level 2 controlled entities include Bank of New Zealand (BNZ) 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 Adequacy [APS 330 paragraph 49 and Attachment C, Table 3a - f]

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

	As at	
	31 Dec 21	30 Sep 21
	\$m	\$m
Credit risk		
Subject to IRB approach		
Corporate (including small and medium-sized enterprises (SME))	135,991	128,615
Sovereign	1,824	1,608
Bank	6,133	6,404
Retail SME	6,298	6,330
Residential mortgage	111,373	110,557
Qualifying revolving retail	2,220	2,206
Other retail	2,046	2,030
Total IRB approach	265,885	257,750
Specialised lending	59,287	58,870
Subject to standardised approach		
Corporate	4,551	4,445
Residential mortgage	1,099	979
Other	422	419
Total standardised approach	6,072	5,843
Other		
Securitisation exposures	6,256	5,602
Credit valuation adjustment	7,072	7,619
Central counterparty default fund contribution guarantee	87	108
Other ⁽¹⁾	12,717	12,249
Total other	26,132	25,578
Total credit risk	357,376	348,041
Market risk	10,534	9,644
Operational risk	47,415	47,866
Interest rate risk in the banking book	16,784	11,612
Total RWA	432,109	417,163

(1) Other consists of other assets, claims and exposures and overlay adjustments for regulatory prescribed methodology requirements. Other includes RWA of \$67 million for equity exposures (30 September 2021: \$67 million).

The following tables provide the capital ratios and leverage ratio.

	As at	
	31 Dec 21	30 Sep 21
	%	%
Capital ratios		
Common Equity Tier 1	12.4	13.0
Tier 1	14.0	14.6
Total	18.1	18.9

	As at			
	31 Dec 21	30 Sep 21	30 Jun 21	31 Mar 21
	\$m	\$m	\$m	\$m
Leverage ratio				
Tier 1 capital	60,542	61,073	59,687	58,487
Total exposures	1,084,305	1,047,595	1,027,956	976,870
Leverage ratio (%)	5.6%	5.8%	5.8%	6.0%

SECTION 3 CREDIT RISK

This section excludes credit risk information in respect of securitisation exposures within the scope of APS 120 (which have separate disclosures in Section 4 *Securitisation*) and other assets, claims and exposures (including equity exposures). Exposure at default throughout this section represents credit risk exposures net of offsets for eligible financial collateral.

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

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

Exposure type	As at 31 Dec 21				3 months ended
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	31 Dec 21
	\$m	\$m	\$m	\$m	Average exposure at default \$m
Subject to IRB approach					
Corporate (including SME)	178,070	93,874	23,160	295,104	290,285
Sovereign	162,471	2,017	21,996	186,484	180,433
Bank	16,541	1,547	9,787	27,875	28,152
Retail SME	12,317	4,686	-	17,003	16,952
Residential mortgage	364,129	57,137	-	421,266	416,688
Qualifying revolving retail	3,995	5,090	-	9,085	9,009
Other retail	1,899	975	-	2,874	2,858
Total IRB approach	739,422	165,326	54,943	959,691	944,377
Specialised lending	58,353	9,510	778	68,641	68,405
Subject to standardised approach					
Corporate	5,117	700	5,174	10,991	11,026
Residential mortgage	2,154	191	-	2,345	2,168
Other	1,189	-	-	1,189	1,173
Total standardised approach	8,460	891	5,174	14,525	14,367
Total exposure at default	806,235	175,727	60,895	1,042,857	1,027,149

Exposure type	As at 30 Sep 21				3 months ended
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	30 Sep 21
	\$m	\$m	\$m	\$m	Average exposure at default \$m
Subject to IRB approach					
Corporate (including SME)	172,229	88,633	24,604	285,466	278,888
Sovereign	149,836	1,613	22,934	174,383	171,593
Bank	17,368	1,729	9,332	28,429	29,463
Retail SME	12,280	4,621	-	16,901	16,886
Residential mortgage	355,868	56,242	-	412,110	407,571
Qualifying revolving retail	3,655	5,277	-	8,932	9,066
Other retail	1,814	1,027	-	2,841	2,912
Total IRB approach	713,050	159,142	56,870	929,062	916,378
Specialised lending	58,403	8,669	1,098	68,170	67,651
Subject to standardised approach					
Corporate	4,891	745	5,424	11,060	10,576
Residential mortgage	1,738	253	-	1,991	1,784
Other	1,158	-	-	1,158	1,150
Total standardised approach	7,787	998	5,424	14,209	13,510
Total exposure at default	779,240	168,809	63,392	1,011,441	997,538

Credit Provisions and Losses [APS 330 Attachment C, Table 4b - c]

The following table provides information on asset quality.

Exposure type	As at 31 Dec 21			3 months ended 31 Dec 21	
	Impaired facilities \$m	Past due facilities ≥90 days \$m	Specific provision for credit impairment \$m	Specific credit impairment charge \$m	Net write-offs \$m
Subject to IRB approach					
Corporate (including SME)	648	319	379	6	21
Retail SME	97	326	64	7	10
Residential mortgage	270	3,238	92	7	10
Qualifying revolving retail	-	21	-	16	13
Other retail	4	35	3	5	6
Total IRB approach	1,019	3,939	538	41	60
Specialised lending	138	81	77	9	6
Subject to standardised approach					
Corporate	19	4	23	(1)	1
Residential mortgage	16	18	5	-	-
Total standardised approach	35	22	28	(1)	1
Total	1,192	4,042	643	49	67
Additional regulatory specific provisions			1,338		
Total regulatory specific provisions			1,981		
General reserve for credit losses			3,287		

Exposure type	As at 30 Sep 21			3 months ended 30 Sep 21	
	Impaired facilities \$m	Past due facilities ≥90 days \$m	Specific provision for credit impairment \$m	Specific credit impairment charge \$m	Net write-offs \$m
Subject to IRB approach					
Corporate (including SME)	691	334	396	20	50
Retail SME	93	323	65	15	14
Residential mortgage	291	3,818	95	7	13
Qualifying revolving retail	-	22	-	19	15
Other retail	5	36	4	10	11
Total IRB approach	1,080	4,533	560	71	103
Specialised lending	142	85	75	(8)	7
Subject to standardised approach					
Corporate	19	2	24	-	2
Residential mortgage	17	23	5	-	-
Total standardised approach	36	25	29	-	2
Total	1,258	4,643	664	63	112
Additional regulatory specific provisions			1,444		
Total regulatory specific provisions			2,108		
General reserve for credit losses			3,271		

SECTION 4 SECURITISATION

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

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 special purpose vehicles.

Underlying asset	3 months ended 31 Dec 21			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgage	(118)	(56)	12,421	-

Underlying asset	3 months ended 30 Sep 21			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgage	(139)	(168)	1,828	-

Securitisation Exposures Retained or Purchased [APS 330 Attachment C, Table 5b]

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 21			As at 30 Sep 21		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Liquidity facilities	382	1,159	1,541	145	1,508	1,653
Warehouse facilities	15,973	7,820	23,793	13,292	7,075	20,367
Securities	8,814	-	8,814	8,201	-	8,201
Derivatives	-	60	60	-	68	68
Total	25,169	9,039	34,208	21,638	8,651	30,289

The Group had \$477 million of derivative exposures to third party securitisation vehicles held in the trading book as at 31 December 2021 (30 September 2021: \$513 million).

The Liquidity Coverage Ratio (LCR) presented in the disclosure template below is based on the simple average of daily LCR observations, excluding non-business days. There were 63 daily LCR observations or data points used in calculating the average for the current quarter and 66 observations in the previous quarter.

The Group's LCR increased to 132% for the three months ended 31 December 2021, primarily as a result of holding additional liquid assets. The increase in liquid assets was attributed to an increase in deposits held with central banks, in preparation for a phase-out of the Committed Liquidity Facility (CLF) during the 2022 calendar year. Net cash outflows increased by \$2 billion primarily as a result of increased outflows on retail deposits and small business customer deposits.

Liquidity Coverage Ratio Disclosure Template [APS 330 Attachment F, Table 20]

	3 months ended			
	31 Dec 21		30 Sep 21	
	Unweighted value (average) ⁽¹⁾	Weighted value (average)	Unweighted value (average) ⁽¹⁾	Weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets, of which:		200,009		190,916
1 High-quality liquid assets (HQLA) ⁽²⁾⁽³⁾		166,527		162,905
2 Alternative liquid assets (ALA) ⁽³⁾		30,896		26,859
3 Reserve Bank of New Zealand (RBNZ) securities ⁽²⁾⁽³⁾		2,586		1,152
Cash outflows				
4 Retail deposits and deposits from small business customers	260,126	27,252	246,545	26,088
5 of which: stable deposits	116,002	5,800	110,371	5,519
6 of which: less stable deposits	144,124	21,452	136,174	20,569
7 Unsecured wholesale funding	192,194	92,111	190,660	92,720
8 of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	98,729	24,682	94,944	23,736
9 of which: non-operational deposits (all counterparties)	76,687	50,651	79,812	53,080
10 of which: unsecured debt	16,778	16,778	15,904	15,904
11 Secured wholesale funding ⁽³⁾		3,831		3,295
12 Additional requirements	196,732	36,181	192,948	35,806
13 of which: outflows related to derivatives exposures and other collateral requirements	14,908	14,908	14,833	14,833
14 of which: outflows related to loss of funding on debt products	-	-	-	-
15 of which: credit and liquidity facilities	181,824	21,273	178,115	20,973
16 Other contractual funding obligations	1,591	820	1,423	754
17 Other contingent funding obligations	57,258	4,247	55,311	4,040
18 Total cash outflows		164,442		162,703
Cash inflows				
19 Secured lending	24,642	2,763	27,477	1,705
20 Inflows from fully performing exposures	17,770	9,603	19,279	10,823
21 Other cash inflows	883	883	914	914
22 Total cash inflows	43,295	13,249	47,670	13,442
23 Total liquid assets		200,009		190,916
24 Total net cash outflows		151,193		149,261
25 Liquidity Coverage Ratio (%)		132%		128%

(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 2021 and 30 September 2021 was on average \$5 billion and \$7 billion respectively.

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

SECTION 6 GLOSSARY

Term	Description
Additional regulatory specific provisions	In line with APRA's July 2017 guidance "Provisions for regulatory purposes and AASB 9 Financial Instruments", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as general reserve for credit losses.
Additional Tier 1 capital	Additional Tier 1 capital comprises high quality components of capital that satisfy the following characteristics: <ul style="list-style-type: none"> - 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 Approach (IRB)	The process used to estimate credit risk through the use of internally developed models to assess potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Advanced Measurement Approach (AMA)	The risk estimation process used for operational risk, combining internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
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 in the Liquidity Coverage Ratio framework. The Committed Liquidity Facility and Term Funding Facility provided by the Reserve Bank of Australia to ADIs are treated as ALAs in the Liquidity Coverage Ratio.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
Banking book	Exposures not contained in the trading book.
Central counterparty (CCP)	A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, thereby insuring the future performance of open contracts.
CET1 capital ratio	CET1 capital divided by risk-weighted assets.
Committed Liquidity Facility (CLF)	A facility provided by the Reserve Bank of Australia to certain ADIs to assist them in meeting the Basel III liquidity requirements. APRA has announced that the CLF will be reduced to zero by the end of 2022 subject to financial market conditions. The CLF reduction is expected to be offset by ADIs increasing holdings of high-quality liquid 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 <i>Capital Adequacy: Measurement of Capital</i> .
Corporate (including SME)	Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.
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 fund	Clearing members' funded or unfunded contributions towards, or underwriting of, a central counterparty's mutualised loss sharing arrangements.
Eligible financial collateral (EFC)	Under the standardised approach, EFC 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 <i>Capital Adequacy: Standardised Approach to Credit Risk</i> . 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.
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 <i>Associations with Related Entities</i> .
General Reserve for Credit Losses (GRCL)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 <i>Credit Quality</i> . The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provisions for facilities in default but for which no loss is expected (which are reported as additional regulatory specific provisions). Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
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 <i>Liquidity</i> .

Term	Description
Impaired facilities	Impaired facilities consist of: <ul style="list-style-type: none"> - retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest - unsecured portfolio managed facilities that are 180 days past due (if not written off) - non-retail loans which are contractually past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner - off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
Internal Model Approach (IMA) - Non-traded Market Risk	The approach used in the assessment of non-traded market risk. The Group uses, under approval from APRA, the IMA to calculate interest rate risk in the banking book for all transactions in the banking book.
Internal Model Approach (IMA) - Traded Market Risk	The approach used in the assessment of traded market risk. The 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.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 <i>Capital Adequacy</i> . It is a simple, non-risk based supplementary 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.
Past due facilities ≥ 90 days	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. For eligible COVID-19 payment deferrals granted in respect of otherwise performing loans, the counting of days past due is stopped when the repayment deferral is granted in accordance with APRA guidance. Past due facilities do not include impaired facilities.
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. Only Australian retail credit cards qualify for this asset class.
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	Securitisation exposures include the following exposure types: <ul style="list-style-type: none"> - 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 <i>Financial Instruments</i> .
Standardised approach	An alternative approach to the assessment of credit risk which uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk-weighted assets.
Standard method	The standard method for market risk applies supervisory risk-weights to positions arising from trading activities.
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	Tier 1 capital comprises CET1 capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 <i>Capital Adequacy: Measurement of Capital</i> .
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
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.
Total capital	The sum of Tier 1 capital and Tier 2 capital.

SECTION 6 GLOSSARY

Term	Description
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.

