Pillar 3 Report

2023

as at 30 June 2023

Incorporating the requirements of APS 330

National Australia Bank Limited ABN 12 004 044 937

This page has been left blank intentionally.

Table of Contents

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, 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

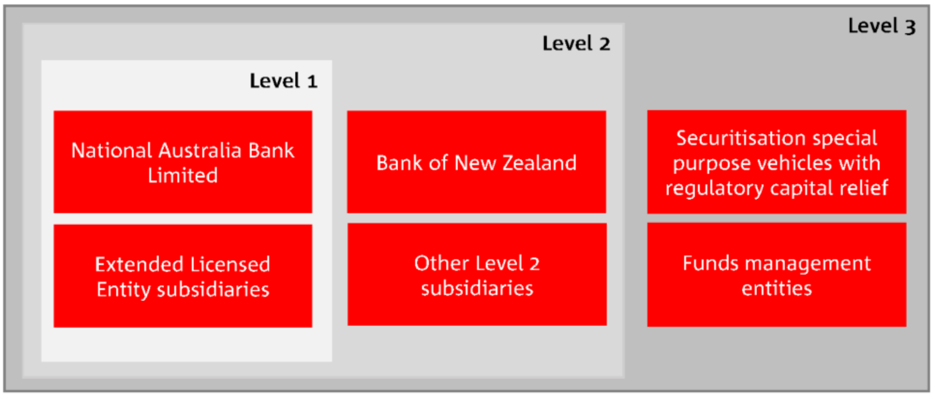
The Group uses the following approaches to measure capital adequacy as at 30 June 2023.

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 approval from APRA and applies the advanced IRB, foundation IRB, supervisory slotting and standardised approach to different portfolios in accordance with its IRB approval. Risk-weighted assets (RWA) and expected loss for the Group's banking subsidiary regulated by the Reserve Bank of New Zealand (RBNZ) are calculated using RBNZ prudential rules, with the exception of scaling factors and the capital floor which are applied under APRA requirements.

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 the Group's banking subsidiary regulated by the RBNZ (Bank of New Zealand (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 30 Jun 23 $m	As at 31 Mar 23 $m
Credit risk		
Subject to advanced IRB approach		
Corporate (including small and medium-sized enterprises (SME))[(1)]	101,765	105,725
Retail SME[(1)]	9,434	10,641
Residential mortgage	100,258	97,178
Qualifying revolving retail	2,652	2,553
Other retail	1,783	1,729
Subject to foundation IRB approach		
Corporate	24,754	26,390
Sovereign	1,543	1,806
Financial institution	20,802	23,145
Total IRB approach	**262,991**	**269,167**
Specialised lending	**2,066**	**2,043**
Subject to standardised approach		
Corporate	5,235	4,929
Residential mortgage	6,700	6,656
Other retail	6,553	6,359
Other[(2)]	5,434	5,058
Total standardised approach	**23,922**	**23,002**
RBNZ regulated banking subsidiary	**51,421**	**52,104**
Other		
Securitisation exposures	5,453	5,490
Credit valuation adjustment	4,994	4,501
Total other	**10,447**	**9,991**
Total credit risk	**350,847**	**356,307**
Market risk	9,972	8,496
Operational risk	41,178	41,178
Interest rate risk in the banking book	32,701	30,192
Total RWA	**434,698**	**436,173**

(1) In the three months ended 30 June 2023, the loss given default (LGD) estimates for non-retail exposures subject to the advanced IRB approach were updated, including the implementation of new LGD models and changes under the revised APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*. These changes have reduced credit RWA for corporate (including SME) and retail SME 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 $124 million for equity exposures (31 March 2023: $107 million).

The following tables provide the capital ratios and leverage ratio.

Capital ratios	As at 30 Jun 23 %	As at 31 Mar 23 %
Level 2 Common Equity Tier 1	11.9	12.2
Level 2 Tier 1	13.6	13.9
Level 2 Total	19.5	19.8
Level 1 Common Equity Tier 1	11.9	12.0
Level 1 Tier 1	13.8	13.9
Level 1 Total	20.2	20.4

Leverage ratio	As at 30 Jun 23 $m	31 Mar 23 $m	31 Dec 22 $m	30 Sep 22 $m
Tier 1 capital	59,259	60,595	58,669	59,112
Total exposures	1,192,746	1,189,150	1,182,429	1,167,759
Leverage ratio (%)	**5.0%**	**5.1%**	**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. Securitisation exposures within the scope of APS 120 are disclosed separately in securitisation section of this report. Exposure at default (EaD) represents credit risk exposures net of offsets for eligible financial collateral.

The table also provides average credit risk exposure, being the simple average of the exposure at the beginning and end of the reporting period. Average credit risk exposure has not been reported for the three months ended 31 March 2023, as exposures are measured differently and reflected under different asset classes at the beginning and end of the comparative period due to adoption of the revised capital framework on 1 January 2023.

	As at 30 Jun 23				3 months ended 30 Jun 23
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
Exposure type	$m	$m	$m	$m	$m
Subject to advanced IRB approach					
Corporate (including SME)	165,393	24,063	2,554	**192,010**	190,251
Retail SME	16,668	7,354	–	**24,022**	23,978
Residential mortgage	332,700	56,883	–	**389,583**	388,017
Qualifying revolving retail	3,987	5,239	–	**9,226**	9,166
Other retail	1,316	301	–	**1,617**	1,585
Subject to foundation IRB approach					
Corporate	23,658	12,971	6,138	**42,767**	44,270
Sovereign	164,775	928	25,107	**190,810**	191,978
Financial institution	30,633	16,999	21,676	**69,308**	71,386
Total IRB approach	**739,130**	**124,738**	**55,475**	**919,343**	**920,631**
Specialised lending	**1,765**	**689**	**103**	**2,557**	**2,545**
Subject to standardised approach					
Corporate	5,874	2,032	3,945	**11,851**	12,462
Residential mortgage	15,615	1,365	–	**16,980**	16,772
Other retail	5,316	3,647	–	**8,963**	8,874
Other	8,227	–	–	**8,227**	7,880
Total standardised approach	**35,032**	**7,044**	**3,945**	**46,021**	**45,988**
RBNZ regulated banking subsidiary	**112,983**	**15,678**	**4,114**	**132,775**	**132,892**
Total exposure at default	**888,910**	**148,149**	**63,637**	**1,100,696**	**1,102,056**

	As at 31 Mar 23			
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default
Exposure type	$m	$m	$m	$m
Subject to advanced IRB approach				
Corporate (including SME)	161,530	24,162	2,799	**188,491**
Retail SME	16,271	7,665	–	**23,936**
Residential mortgage	329,307	57,146	–	**386,453**
Qualifying revolving retail	3,935	5,170	–	**9,105**
Other retail	1,260	292	–	**1,552**
Subject to foundation IRB approach				
Corporate	25,516	13,397	6,859	**45,772**
Sovereign	168,570	890	23,686	**193,146**
Financial institution	31,889	17,694	23,880	**73,463**
Total IRB approach	**738,278**	**126,416**	**57,224**	**921,918**
Specialised lending	**1,864**	**547**	**121**	**2,532**
Subject to standardised approach				
Corporate	5,441	1,791	5,842	**13,074**
Residential mortgage	14,837	1,726	–	**16,563**
Other retail	5,167	3,619	–	**8,786**
Other	7,533	–	–	**7,533**
Total standardised approach	**32,978**	**7,136**	**5,842**	**45,956**
RBNZ regulated banking subsidiary	**112,216**	**16,683**	**4,111**	**133,010**
Total exposure at default	**885,336**	**150,782**	**67,298**	**1,103,416**

Credit Provisions and Losses

The following table provides information on asset quality.

	As at 30 Jun 23		3 months ended 30 Jun 23	
Exposure type	Non-performing exposures $m	Specific provision for credit impairment $m	Specific credit impairment charge $m	Net write-offs $m
Subject to advanced IRB approach				
Corporate (including SME)	2,062	262	19	6
Retail SME	882	89	10	8
Residential mortgage	3,065	58	6	7
Qualifying revolving retail	57	-	16	18
Other retail	46	3	10	6
Subject to foundation IRB approach				
Corporate	14	12	-	-
Financial institution	27	10	-	-
Total IRB approach	**6,153**	**434**	**61**	**45**
Specialised lending	**27**	**23**	**-**	**-**
Subject to standardised approach				
Corporate	27	4	(1)	4
Residential mortgage	136	5	-	-
Other retail	74	-	14	13
Total standardised approach	**237**	**9**	**13**	**17**
RBNZ regulated banking subsidiary	**1,040**	**68**	**7**	**6**
Total	**7,457**	**534**	**81**	**68**

	As at 31 Mar 23		3 months ended 31 Mar 23	
Exposure type	Non-performing exposures $m	Specific provision for credit impairment $m	Specific credit impairment charge $m	Net write-offs $m
Subject to advanced IRB approach				
Corporate (including SME)	1,686	248	26	15
Retail SME	831	87	10	8
Residential mortgage	2,879	59	4	5
Qualifying revolving retail	57	-	16	14
Other retail	43	3	9	10
Subject to foundation IRB approach				
Corporate	14	12	-	-
Financial institution	23	10	-	-
Total IRB approach	**5,533**	**419**	**65**	**52**
Specialised lending	**27**	**23**	**23**	**-**
Subject to standardised approach				
Corporate	28	4	1	-
Residential mortgage	143	6	-	-
Other retail	70	-	13	13
Total standardised approach	**241**	**10**	**14**	**13**
RBNZ regulated banking subsidiary	**927**	**69**	**(1)**	**4**
Total	**6,728**	**521**	**101**	**69**

Provisions held against performing exposures that represent a purely forward-looking amount for future losses that are presently unidentified were $4,529 million as at 30 June 2023 (31 March 2023: $4,524 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.

	3 months ended 30 Jun 23			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgages	(151)	(84)	(1,408)	–

	3 months ended 31 Mar 23			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgages	(137)	(73)	(2,336)	–

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.

	As at 30 Jun 23			As at 31 Mar 23		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
Securitisation exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Liquidity facilities	199	1,151	**1,350**	429	918	**1,347**
Warehouse facilities	16,224	6,958	**23,182**	17,162	6,781	**23,943**
Securities	7,412	–	**7,412**	7,006	–	**7,006**
Derivatives	–	37	**37**	–	42	**42**
Total	**23,835**	**8,146**	**31,981**	**24,597**	**7,741**	**32,338**

The Group had $302 million of derivative exposures to third party securitisation vehicles held in the trading book as at 30 June 2023 (31 March 2023: $335 million).

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) for the three months ended 30 June 2023 and 31 March 2023 presented in the disclosure template below is based on the simple average of daily LCR outcomes, excluding non-business days. There were 61 daily LCR data points used in calculating the average for the current quarter and 63 in the previous quarter.

Average LCR for the three months ended 30 June 2023 increased to 137% with a $12.4 billion increase in average liquid assets, partially offset by a $1.6 billion increase in average net cash outflows. Additional liquidity held in preparation for the upcoming Term Funding Facility maturities has driven the increase in average liquid assets. The increase in average net cash outflows was largely due to increased cash outflows related to unsecured wholesale funding and committed credit facilities, as well as the Group's interim dividend where payment is within 30 days. This was partially offset by a reduction in cash outflows related to secured funding.

Liquidity Coverage Ratio Disclosure Template

		3 months ended			
		30 Jun 23		31 Mar 23	
		Unweighted value (average)[1]	Weighted value (average)	Unweighted value (average)[1]	Weighted value (average)
		$m	$m	$m	$m
Liquid assets, of which:			**214,039**		**201,683**
1	High-quality liquid assets (HQLA)[2][3]		211,793		199,500
2	Alternative liquid assets (ALA)[3]		-		-
3	Reserve Bank of New Zealand (RBNZ) securities[2][3]		2,246		2,183
Cash outflows					
4	Retail deposits and deposits from small business customers	276,753	31,408	276,517	30,775
5	of which: stable deposits	113,027	5,651	114,277	5,714
6	of which: less stable deposits	163,726	25,757	162,240	25,061
7	Unsecured wholesale funding	183,568	91,265	179,973	89,816
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	89,319	22,329	92,330	23,082
9	of which: non-operational deposits (all counterparties)	75,414	50,101	71,429	50,520
10	of which: unsecured debt	18,835	18,835	16,214	16,214
11	Secured wholesale funding[3]		5,866		8,164
12	Additional requirements	203,812	39,088	201,083	38,031
13	of which: outflows related to derivatives exposures and other collateral requirements	8,319	8,316	8,835	8,834
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	195,493	30,772	192,248	29,197
16	Other contractual funding obligations	778	778	-	-
17	Other contingent funding obligations	73,994	5,311	68,103	4,857
18	**Total cash outflows**		**173,716**		**171,643**
Cash inflows					
19	Secured lending	42,746	3,155	41,669	4,177
20	Inflows from fully performing exposures	20,899	11,971	19,782	11,130
21	Other cash inflows	2,429	2,422	1,783	1,781
22	**Total cash inflows**	**66,074**	**17,548**	**63,234**	**17,088**
23	**Total liquid assets**		**214,039**		**201,683**
24	**Total net cash outflows**		**156,168**		**154,555**
25	**Liquidity Coverage Ratio (%)**		**137%**		**130%**

(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 2023 and 31 March 2023 was on average $6.7 billion and $7.2 billion respectively.
(3) Disclosed on a weighted basis only, consistent with the disclosure template prescribed by APS 330.

Glossary

Additional Tier 1 capital
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 Approach (IRB)
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 in the Liquidity Coverage Ratio framework.

APRA
Australian Prudential Regulation Authority.

APS
Prudential Standards issued by APRA applicable to ADIs.

Banking book
Exposures not contained in the trading book.

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

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 to the Group 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 Approach (Foundation IRB)
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.

Revised capital framework
Revisions to APRA's capital adequacy and credit risk capital requirements for ADIs, which came into effect on 1 January 2023. The revised requirements are contained in APS 110 'Capital Adequacy', APS 112 'Capital Adequacy: Standardised Approach to Credit Risk' and APS 113 'Capital Adequacy: Internal Ratings-based Approach to Credit Risk'.

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:
- 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
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.