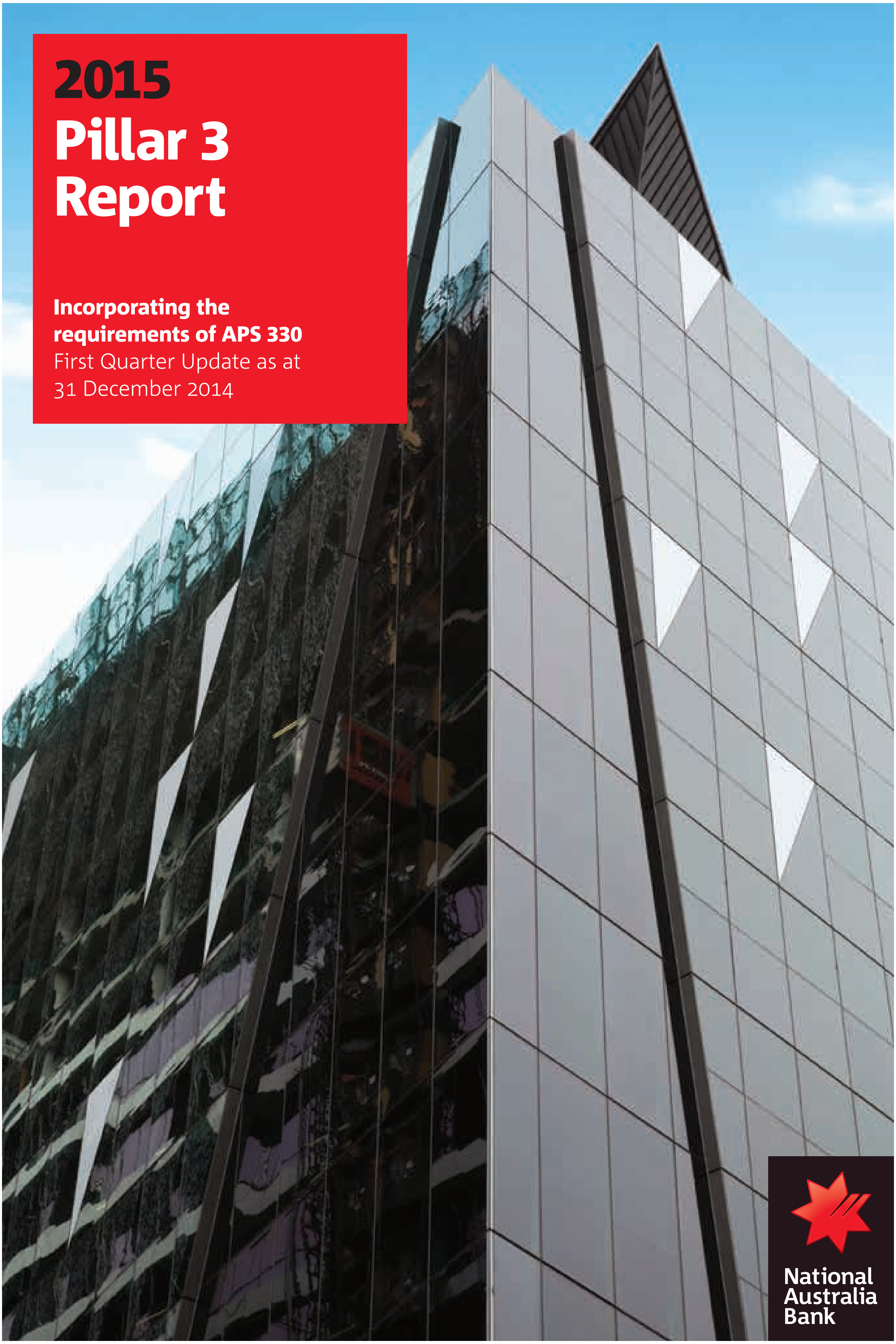
2015 Pillar 3 Report

Incorporating the requirements of APS 330
First Quarter Update as at
31 December 2014



National Australia Bank

This page has been left blank intentionally

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 apply 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 8.74% at 31 December 2014 is consistent with the NAB Group's objective of maintaining a strong capital position.

	As at	
	31 Dec 14	**30 Sep 14**
Capital ratios (Level 2)	**%**	**%**
Common Equity Tier 1	8.74	8.63
Tier 1	10.87	10.81
Total	12.49	12.16

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 31 December 2014.

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
Clydesdale Bank PLC	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Standardised	Standardised	IRRBB	n/a

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) is regulated by the Reserve Bank of New Zealand (RBNZ). Credit risk exposures consolidated in the NAB Group position are calculated under RBNZ requirements.

Clydesdale Bank PLC (Clydesdale), NAB's main operating subsidiary in the United Kingdom, is regulated by the Prudential Regulation Authority (PRA). Clydesdale has been accredited to apply the standardised approach to operational and credit risk management in accordance with the regulatory requirements. Credit risk exposures and operational risk RWA consolidated in this report are calculated under APRA requirements.

Great Western Bank (GWB) is regulated in the United States of America by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve System. GWB credit risk and operational risk RWA are subject to APRA Basel standardised methodology.

1.2 AASB 9 'Financial Instruments'

Effective 1 October 2014, the NAB Group early adopted the requirements of AASB 9 'Financial Instruments'. The transitional impacts of this adoption are highlighted in Note 1 to the NAB Group's 2014 Annual Financial Report, and there are no material impacts to the content of this report in the current period.

1.3 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.

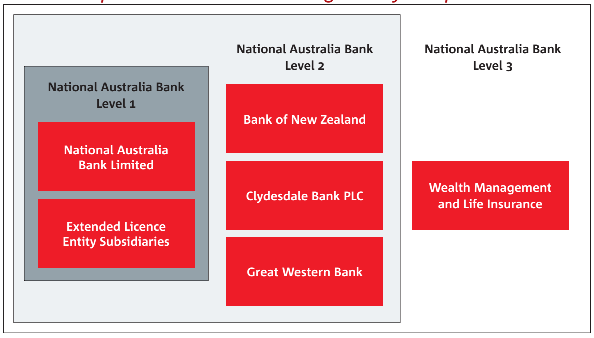
2. Scope of Application

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, Clydesdale, GWB 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 purpose of this report.

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.

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 31 Dec 14 RWA $m	As at 30 Sep 14 RWA $m
Credit risk [(1)]		
IRB approach		
Corporate (including SME) [(2)]	118,058	111,078
Sovereign	1,952	1,608
Bank	11,935	11,341
Residential mortgage	59,685	58,274
Qualifying revolving retail	3,750	3,641
Retail SME	6,619	6,165
Other retail	3,459	3,255
Total IRB approach	**205,458**	**195,362**
Specialised lending (SL)	**52,490**	**52,542**
Standardised approach		
Australian and foreign governments	180	86
Bank	123	107
Residential mortgage	19,488	18,773
Corporate	25,809	25,451
Other	3,337	3,298
Total standardised approach	**48,937**	**47,715**
Other		
Securitisation	2,772	4,210
Credit value adjustment	11,326	10,340
Central counterparty default fund contribution guarantee	421	344
Other [(3)]	8,756	7,861
Total other	**23,275**	**22,755**
Total credit risk	**330,160**	**318,374**
Market risk	5,680	4,923
Operational risk	37,260	36,534
Interest rate risk in the banking book	6,091	7,821
Total risk-weighted assets	**379,191**	**367,652**

Capital ratios (Level 2)	%	%
Common Equity Tier 1	8.74	8.63
Tier 1	10.87	10.81
Total	12.49	12.16

(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. 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, CVA and the CCP default fund contribution guarantee.

	As at 31 Dec 14				3 months ended 31 Dec 14
	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)]	128,252	54,128	53,637	236,017	235,195
Sovereign [(1)]	57,747	567	17,119	75,433	70,378
Bank [(1)]	25,116	2,003	52,905	80,024	73,466
Residential mortgage	280,021	47,192	-	327,213	322,307
Qualifying revolving retail	5,832	5,296	-	11,128	11,005
Retail SME	12,452	3,881	-	16,333	16,264
Other retail	3,413	1,364	-	4,777	4,650
Total IRB approach	**512,833**	**114,431**	**123,661**	**750,925**	**733,265**
Specialised lending (SL)	**51,184**	**9,045**	**1,514**	**61,743**	**61,941**
Standardised approach					
Australian and foreign governments	14,512	247	96	14,855	13,580
Bank	599	31	1,156	1,786	1,718
Residential mortgage	43,482	3,111	-	46,593	45,508
Corporate [(1)]	23,790	3,242	45,879	72,911	70,328
Other	3,687	232	-	3,919	3,895
Total standardised approach	**86,070**	**6,863**	**47,131**	**140,064**	**135,029**
Total	**650,087**	**130,339**	**172,306**	**952,732**	**930,235**

(1) *Total credit risk exposure, net of eligible financial collateral is $811,824 million. For materially impacted asset classes, exposure net of collateral is as follows:*

	$m
Corporate (including SME)	*195,256*
Sovereign	*61,526*
Bank	*38,961*
Corporate (Standardised)	*29,102*

	As at 30 Sep 14				3 months ended 30 Sep 14
	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)]	124,737	53,093	56,542	234,372	229,832
Sovereign [(1)]	47,798	627	16,897	65,322	64,295
Bank [(1)]	25,649	1,709	39,550	66,908	71,284
Residential mortgage	272,065	45,335	-	317,400	315,824
Qualifying revolving retail	5,575	5,307	-	10,882	10,919
Retail SME	12,523	3,671	-	16,194	16,324
Other retail	3,223	1,299	-	4,522	4,615
Total IRB approach	**491,570**	**111,041**	**112,989**	**715,600**	**713,092**
Specialised lending (SL)	**52,548**	**8,337**	**1,253**	**62,138**	**62,259**
Standardised approach					
Australian and foreign governments [(2)]	12,095	209	-	12,304	12,810
Bank [(2)]	343	40	1,267	1,650	1,383
Residential mortgage	41,178	3,245	-	44,423	43,130
Corporate [(1)]	23,004	3,097	41,644	67,745	65,762
Other	3,647	223	-	3,870	3,852
Total standardised approach	**80,267**	**6,814**	**42,911**	**129,992**	**126,936**
Total [(1)]	**624,385**	**126,192**	**157,153**	**907,730**	**902,286**

[(1)] *Total credit risk exposure, net of eligible financial collateral is $778,155 million. For materially impacted asset classes, exposure net of collateral is as follows:*

	$m
Corporate (including SME)	*189,278*
Sovereign	*50,404*
Bank	*38,578*
Corporate (Standardised)	*28,464*

[(2)] *Australian and Foreign Governments includes $10,930 million of Central Bank exposures previously classified within the Standardised Bank asset class.*

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, equities 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.

	As at 31 Dec 14			3 months ended 31 Dec 14	
	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)	1,200	284	450	69	104
Sovereign	-	-	-	-	-
Bank	1	-	-	-	-
Residential mortgage	427	1,198	107	25	18
Qualifying revolving retail	-	51	-	38	33
Retail SME	108	112	58	9	10
Other retail	4	42	2	17	18
Total IRB approach	**1,740**	**1,687**	**617**	**158**	**183**
Specialised lending (SL)	**370**	**138**	**119**	**9**	**88**
Standardised approach					
Australian and foreign governments	17	13	-	-	-
Bank	-	-	-	-	-
Residential mortgage	120	206	33	(11)	4
Corporate	515	112	206	8	53
Other	3	19	2	13	12
Total standardised approach	**655**	**350**	**241**	**10**	**69**
Total	**2,765**	**2,175**	**977**	**177**	**340**

General Reserve for Credit Losses (after-tax basis)	**2,869**

(1) *Impaired facilities includes $85 million of restructured loans (September 2014: $196 million) which includes $6 million of restructured fair value assets (September 2014: $7 million).*

Impaired facilities includes $133 million of gross impaired fair value assets (September 2014: $187 million).

Australian and foreign governments impaired facilities refer to the portion of loans covered by the loss share agreement with the FDIC.

(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 $347 million (September 2014: $382 million).*

Specific provisions include $52 million (September 2014: $96 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 30 Sep 14			3 months ended 30 Sep 14	
	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)	1,292	272	464	131	120
Sovereign	-	-	-	-	-
Bank	1	-	-	-	-
Residential mortgage	420	1,216	101	25	33
Qualifying revolving retail	-	57	-	56	33
Retail SME	113	110	58	13	16
Other retail	4	42	2	20	21
Total IRB approach	**1,830**	**1,697**	**625**	**245**	**223**
Specialised lending (SL)	**1,491**	**288**	**524**	**37**	**65**
Standardised approach					
Australian and foreign governments	14	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	181	210	58	4	4
Corporate	603	117	243	(4)	54
Other	3	30	4	34	23
Total standardised approach	**801**	**357**	**305**	**34**	**81**
Total	**4,122**	**2,342**	**1,454**	**316**	**369**

General Reserve for Credit Losses (after-tax basis)			**2,855**

(1) *Impaired facilities includes $196 million of restructured loans which includes $7 million of restructured fair value assets.*

Impaired facilities includes $187 million of gross impaired fair value assets.

Australian and foreign governments impaired facilities refer to the portion of loans covered by the loss share agreement with the FDIC.

(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 $382 million.*

Specific provisions includes $96 million of specific provisions on gross impaired loans at fair value.

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

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 31 Dec 14			As at 30 Sep 14		
	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	19	1,999	2,018	-	2,153	2,153
Warehouse facilities	6,970	1,302	8,272	5,817	1,211	7,028
Credit enhancements	-	19	19	-	18	18
Derivative transactions	102	-	102	90	-	90
Securities	8,445	-	8,445	7,718	-	7,718
Credit derivatives transactions	-	-	-	-	-	-
Other	-	1	1	-	-	-
Total securitisation exposures	**15,536**	**3,321**	**18,857**	**13,625**	**3,382**	**17,007**

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 31 Dec 14 $m	3 months ended 30 Sep 14 $m
Securitisation exposure type		
Liquidity facilities	12	-
Warehouse facilities	2,042	38
Credit enhancements	-	18
Derivative transactions	-	13
Securities	1,407	1,574
Credit derivatives transactions	-	-
Other	-	-
Total new facilities provided	**3,461**	**1,644**

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 31 Dec 14			3 months ended 30 Sep 14		
	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	12,765	-	-	9,823	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**12,765**		**-**	**9,823**	**-**	**-**

7. Glossary

Term	Description
AASB	Australian Accounting Standards Board.
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	Principal 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)	Common equity 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; share premium; 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, is 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 4 and 23 of Attachment G 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 6.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
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*.
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 otherwise non-performing assets, regardless of expected loss, are reported as additional regulatory specific provisions.

Term	Description
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 90 days or more past due with security insufficient to cover principal and arrears of interest revenue. Unsecured portfolio managed facilities are classified as impaired assets when they become 180 days past due (if not written off) as per ARF 220 instructions; Non-retail loans that are contractually 90 days or more past due and/or sufficient doubt exists about the ultimate ability to collect principal and interest; and Impaired off-balance sheet credit exposures, where current circumstances indicate that losses may be incurred.
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.
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 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.
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 the highest quality components of capital that fully satisfy all of the characteristics outlined under APRA's prudential framework. It provides a permanent and unrestricted commitment of funds, which are freely available to absorb losses, do not impose any unavoidable servicing charge against earnings, and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 1 Capital ratio	Tier 1 Capital as defined by APRA divided by risk-weighted assets.
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.