



Pillar 3 Report

2022

as at 30 June 2022

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

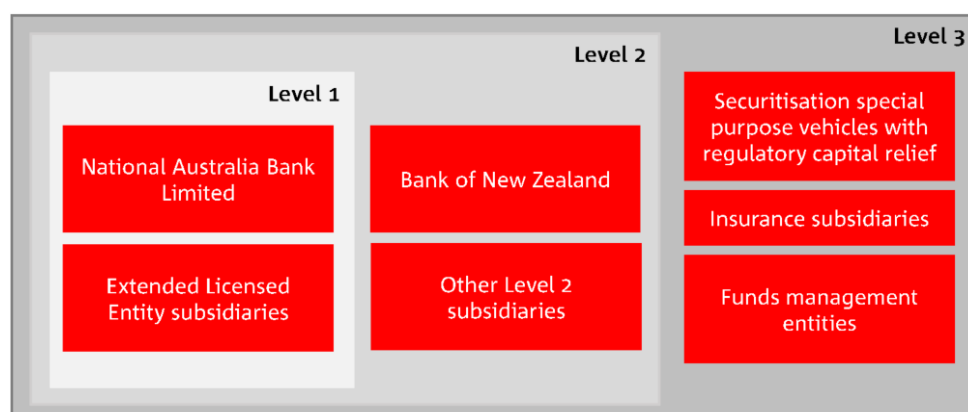
The Group uses the following approaches to measure capital adequacy as at 30 June 2022.

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

On 1 June 2022, the Group acquired Citigroup Pty Limited's Australian consumer business. The standardised approach has been applied to the acquired portfolios, with the exposure at default and risk-weighted assets related to this acquisition being \$14.4 billion and \$8.1 billion respectively as at 30 June 2022.

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 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	
	30 Jun 22	31 Mar 22
	\$m	\$m
Credit risk		
Subject to IRB approach		
Corporate (including small and medium-sized enterprises (SME))	136,025	133,619
Sovereign	1,757	1,625
Bank	7,410	6,426
Retail SME	6,917	6,916
Residential mortgage	110,546	112,447
Qualifying revolving retail	2,267	2,266
Other retail	2,005	2,060
Total IRB approach	266,927	265,359
Specialised lending	62,117	61,242
Subject to standardised approach		
Corporate	5,024	4,724
Residential mortgage	5,053	1,211
Other ⁽¹⁾	4,477	421
Total standardised approach⁽²⁾	14,554	6,356
Other		
Securitisation exposures	6,391	6,268
Credit valuation adjustment	6,182	5,951
Central counterparty default fund contribution guarantee	91	100
Other ⁽³⁾	9,178	9,826
Total other	21,842	22,145
Total credit risk	365,440	355,102
Market risk	10,022	8,958
Operational risk	41,124	41,124
Interest rate risk in the banking book	30,744	26,756
Total RWA	447,330	431,940

(1) Other subject to the standardised approach mainly consists of the unsecured lending portfolio acquired from Citigroup Pty Limited and margin lending.

(2) The increase in credit RWA on exposures subject to the standardised approach is mainly due to the acquisition of Citigroup Pty Limited's Australian consumer business on 1 June 2022. The credit RWA related to this acquisition was \$8.1 billion as at 30 June 2022.

(3) Other consists of other assets, claims and exposures and overlay adjustments for regulatory prescribed methodology requirements. Other includes RWA of \$84 million for equity exposures (31 March 2022: \$78 million).

The following tables provide the capital ratios and leverage ratio.

	As at	
	30 Jun 22	31 Mar 22
	%	%
Capital ratios		
Common Equity Tier 1	11.6	12.5
Tier 1	13.1	14.1
Total	17.7	18.6

	As at			
	30 Jun 22	31 Mar 22	31 Dec 21	30 Sep 21
	\$m	\$m	\$m	\$m
Leverage ratio				
Tier 1 capital	58,684	60,759	60,542	61,073
Total exposures	1,161,897	1,103,622	1,084,305	1,047,595
Leverage ratio (%)	5.1%	5.5%	5.6%	5.8%

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. 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, and average credit risk exposure, being the simple average of the exposure at the beginning and end of the reporting period.

Exposure type	As at 30 Jun 22				3 months ended 30 Jun 22
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
	\$m	\$m	\$m	\$m	\$m
Subject to IRB approach					
Corporate (including SME)	184,638	94,870	29,595	309,103	303,463
Sovereign	178,557	2,848	24,856	206,261	199,164
Bank	21,658	2,271	10,586	34,515	31,903
Retail SME	12,688	4,404	-	17,092	17,065
Residential mortgage	373,201	55,822	-	429,023	427,600
Qualifying revolving retail	3,787	5,199	-	8,986	8,968
Other retail	1,795	969	-	2,764	2,796
Total IRB approach	776,324	166,383	65,037	1,007,744	990,959
Specialised lending	61,135	10,559	250	71,944	71,453
Subject to standardised approach					
Corporate	5,604	681	4,851	11,136	10,821
Residential mortgage	11,994	1,257	-	13,251	7,944
Other	5,092	138	-	5,230	3,218
Total standardised approach⁽¹⁾	22,690	2,076	4,851	29,617	21,983
Total exposure at default	860,149	179,018	70,138	1,109,305	1,084,395

(1) The increase in total exposure at default subject to the standardised approach is mainly due to the acquisition of Citigroup Pty Limited's Australian consumer business on 1 June 2022. The exposure at default related to this acquisition was \$14.4 billion as at 30 June 2022.

Exposure type	As at 31 Mar 22				3 months ended 31 Mar 22
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
	\$m	\$m	\$m	\$m	\$m
Subject to IRB approach					
Corporate (including SME)	182,586	91,789	23,448	297,823	296,464
Sovereign	165,207	2,581	24,280	192,068	189,276
Bank	16,662	1,670	10,960	29,292	28,584
Retail SME	12,438	4,599	-	17,037	17,020
Residential mortgage	369,820	56,357	-	426,177	423,722
Qualifying revolving retail	3,778	5,172	-	8,950	9,018
Other retail	1,820	1,009	-	2,829	2,852
Total IRB approach	752,311	163,177	58,688	974,176	966,936
Specialised lending	60,122	10,438	402	70,962	69,802
Subject to standardised approach					
Corporate	5,214	701	4,590	10,505	10,748
Residential mortgage	2,361	277	-	2,638	2,492
Other	1,206	-	-	1,206	1,198
Total standardised approach	8,781	978	4,590	14,349	14,438
Total exposure at default	821,214	174,593	63,680	1,059,487	1,051,176

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

The following table provides information on asset quality.

Exposure type	As at 30 Jun 22			3 months ended 30 Jun 22	
	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)	582	327	354	(9)	10
Retail SME	91	366	60	7	13
Residential mortgage	252	2,727	74	(3)	7
Qualifying revolving retail	-	20	-	17	12
Other retail	5	33	3	6	6
Total IRB approach	930	3,473	491	18	48
Specialised lending	114	103	61	(2)	7
Subject to standardised approach					
Corporate	19	1	22	-	-
Residential mortgage	19	96	5	-	-
Other	-	32	-	4	4
Total standardised approach	38	129	27	4	4
Total	1,082	3,705	579	20	59

Exposure type	As at 31 Mar 22			3 months ended 31 Mar 22	
	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)	608	309	376	15	14
Retail SME	95	350	64	3	3
Residential mortgage	268	2,981	84	(4)	7
Qualifying revolving retail	-	19	-	15	13
Other retail	4	35	3	6	7
Total IRB approach	975	3,694	527	35	44
Specialised lending	125	104	69	(2)	7
Subject to standardised approach					
Corporate	19	4	22	1	1
Residential mortgage	15	19	4	-	1
Other	-	1	-	-	-
Total standardised approach	34	24	26	1	2
Total	1,134	3,822	622	34	53

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 30 Jun 22			Gain or loss on sale
	Group originated capital relief	Group originated funding only ⁽¹⁾	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgages	1,412	705	(862)	-

(1) The increase in Group originated funding only securitisation exposures is due to the acquisition of Citigroup Pty Limited's Australian consumer business, with certain securitisation special purpose vehicles forming part of the Group from 1 June 2022.

Underlying asset	3 months ended 31 Mar 22			Gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgages	(94)	(49)	19,204	-

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 30 Jun 22			As at 31 Mar 22		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Liquidity facilities	382	1,100	1,482	380	1,126	1,506
Warehouse facilities	19,028	7,341	26,369	16,406	7,812	24,218
Securities	8,044	-	8,044	8,571	-	8,571
Derivatives	-	48	48	-	53	53
Total	27,454	8,489	35,943	25,357	8,991	34,348

The Group had \$363 million of derivative exposures to third party securitisation vehicles held in the trading book as at 30 June 2022 (31 March 2022: \$482 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 61 daily LCR observations or data points used in calculating the average for the current quarter and 62 observations in the previous quarter.

Average LCR increased to 136% for the three months ended 30 June 2022, from an increase in average total liquid assets of \$5.3 billion, offset by an increase in average net cash outflows of \$1.9 billion. Total average liquid assets increased as a result of higher holdings of high-quality liquid assets (HQLA), which was partially offset by lower alternative liquid assets (ALA) due to a further reduction in the Committed Liquidity Facility (CLF) over the quarter. The CLF will be reduced to zero by the end of the 2022 calendar year subject to market conditions, and APRA has specified that ADIs should not rely on the CLF to meet the minimum 100% LCR requirement from the beginning of 2022. The increase in average net cash outflows was largely driven by retail and small business customer deposit growth, partly as a result of the acquisition of Citigroup's Australian consumer business, along with an increase in outflows from other contractual funding obligations such as the interim dividend payment.

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

	3 months ended			
	30 Jun 22		31 Mar 22	
	Unweighted value (average) ⁽¹⁾	Weighted value (average)	Unweighted value (average) ⁽¹⁾	Weighted value (average)
	\$m	\$m	\$m	\$m
Liquid assets, of which:		203,416		198,149
1 High-quality liquid assets (HQLA) ⁽²⁾⁽³⁾		185,349		173,267
2 Alternative liquid assets (ALA) ⁽³⁾		17,685		23,152
3 Reserve Bank of New Zealand (RBNZ) securities ⁽²⁾⁽³⁾		382		1,730
Cash outflows				
4 Retail deposits and deposits from small business customers	281,124	29,956	274,207	28,708
5 of which: stable deposits	121,101	6,055	119,309	5,965
6 of which: less stable deposits	160,023	23,901	154,898	22,743
7 Unsecured wholesale funding	185,629	84,945	185,756	85,889
8 of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	101,219	25,305	100,548	25,138
9 of which: non-operational deposits (all counterparties)	65,652	40,882	66,205	41,748
10 of which: unsecured debt	18,758	18,758	19,003	19,003
11 Secured wholesale funding ⁽³⁾		5,899		3,843
12 Additional requirements	205,105	38,058	202,829	37,991
13 of which: outflows related to derivatives exposures and other collateral requirements	15,473	15,468	15,576	15,576
14 of which: outflows related to loss of funding on debt products	-	-	-	-
15 of which: credit and liquidity facilities	189,632	22,590	187,253	22,415
16 Other contractual funding obligations	2,585	1,862	1,492	706
17 Other contingent funding obligations	62,060	4,476	59,592	4,389
18 Total cash outflows		165,196		161,526
Cash inflows				
19 Secured lending	39,122	3,237	33,484	1,768
20 Inflows from fully performing exposures	18,949	10,579	18,692	10,260
21 Other cash inflows	1,895	1,889	1,895	1,893
22 Total cash inflows	59,966	15,705	54,071	13,921
23 Total liquid assets		203,416		198,149
24 Total net cash outflows		149,491		147,605
25 Liquidity Coverage Ratio (%)		136%		134%

(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 2022 and 31 March 2022 was on average \$8 billion and \$6 billion respectively.

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

SECTION 6 GLOSSARY

Term	Description
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.
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, 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 <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> .
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> .
Impaired facilities	Impaired facilities consist of: <ul style="list-style-type: none"> - retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days or more past due with insufficient security to cover principal and interest, or sufficient doubt exists about the ability to collect principal and interest in a timely manner - 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 - unsecured portfolio managed facilities that are 180 days or more past due (if not written off) - 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.

Term	Description
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 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.
Past due facilities \geq 90 days	Assets that are contractually 90 days or more past due, but not impaired.
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 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. This approach was applied by the Group from 1 January 2022.
Standard method	An alternative approach to the assessment of traded market risk which 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.
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.

