2016
Pillar 3 Report

Incorporating the requirements of APS 330

First Quarter Update as at 31 December 2015

National Australia Bank

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1. Introduction

National Australia Bank Limited (ABN 12 004 044 937) (NAB) applies the Basel framework as a cornerstone of the NAB Group's risk management framework and capital strategy, and recognises that it is critical for achieving the NAB Group's strategic agenda.

In Australia, the Australian Prudential Regulation Authority (APRA) has regulatory responsibility for the implementation of the Basel Accord through the release of prudential standards.

This Pillar 3 Report is designed to provide the NAB Group's stakeholders with detailed information about the approach the NAB Group takes to manage risk and to determine capital adequacy, having regard to the operating environment. The report also addresses the requirements of APRA's *Prudential Standard APS 330: Public Disclosure (APS 330)*.

All figures in this report are in Australian dollars (AUD) unless otherwise noted. Disclosures in this report are based on the APRA Basel III standards that have applied since 1 January 2013, except for market risk Risk-Weighted Assets (RWA) that are calculated on a Basel 2.5 basis for each period presented.

Capital Ratio Summary

The NAB Group's Common Equity Tier 1 (CET1) capital ratio of 10.1% at 31 December 2015 is consistent with the NAB Group's objective of maintaining a strong capital position.

	As at	
	31 Dec 15	30 Sep 15
Capital ratios (Level 2)	%	%
Common Equity Tier 1	10.1	10.2
Tier 1	12.3	12.4
Total	14.1	14.2

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 2015.

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

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

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.

1.2 APS 330 Disclosure Governance

The NAB Group's 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.

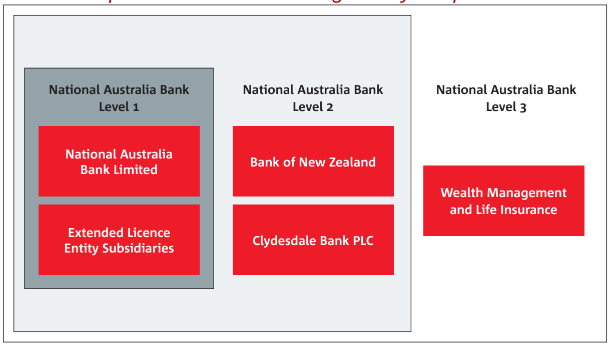
2. Scope of Application

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 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.

The NAB Group is progressing with transition to the revised Level 2 Group following clarification on the ADI Level 2 Group definition released by APRA in May 2014.

In the interim period, CET1 capital reflects the transition arrangements granted by APRA on the removal of capital benefits arising from debt issued directly by NWMH.

In addition, certain securitisation special purpose vehicles (SPVs) to which assets have been transferred in accordance with APRA's requirements as set out in *Prudential Standard APS 120: Securitisation (APS 120)* have been deconsolidated from the Level 2 Group for the purposes of this disclosure. For regulatory purposes, credit risk is removed from the sold assets and there is no requirement to hold capital against them.

Clydesdale Bank plc

On 8 February 2016, the NAB Group completed the demerger of 75% of CYBG PLC shares to existing NAB shareholders and the initial public offering (IPO) of the remaining 25%. CYBG is the holding company of Clydesdale Bank plc.

The overall impact of the demerger and IPO, including the conduct indemnity, is estimated to reduce NAB's CET1 capital ratio by 49 basis points. Based on NAB's CET1 ratio as at 31 December 2015, this implies a pro forma post demerger CET1 ratio of 9.6%, which is above NAB's target range of 8.75%-9.25%.

MLC life insurance transaction

As previously announced on 28 October 2015, the NAB Group has agreed to sell 80% of MLC Limited to Nippon Life. The transaction is subject to certain conditions, including regulatory approvals, extraction of the investments and superannuation business and establishing MLC Limited as a standalone life insurance company. Some of these conditions are subject to approvals from third parties and government agencies. The transaction may not proceed if any contractual conditions cannot be satisfied.

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 15 RWA $m	As at 30 Sep 15 RWA $m
Credit risk [(1)]		
IRB approach		
Corporate (including SME) [(2)]	128,200	128,382
Sovereign	1,767	1,679
Bank	11,029	12,291
Residential mortgage	61,632	60,783
Qualifying revolving retail	3,897	3,782
Retail SME	6,346	6,470
Other retail	3,670	3,429
Total IRB approach	**216,541**	**216,816**
Specialised lending (SL)	**59,429**	**58,376**
Standardised approach		
Australian and foreign governments	52	55
Bank	282	189
Residential mortgage	20,798	20,877
Corporate	19,802	20,896
Other	3,251	3,404
Total standardised approach	**44,185**	**45,421**
Other		
Securitisation	2,761	2,515
Credit value adjustment	12,431	13,940
Central counterparty default fund contribution guarantee	603	557
Other [(3)]	5,848	6,701
Total other	**21,643**	**23,713**
Total credit risk	**341,798**	**344,326**
Market risk	7,104	5,793
Operational risk	40,000	40,000
Interest rate risk in the banking book	10,725	9,639
Total risk-weighted assets	**399,627**	**399,758**

Capital ratios (Level 2)	**%**	**%**
Common Equity Tier 1	10.1	10.2
Tier 1	12.3	12.4
Total	14.1	14.2

Leverage ratio [(4)]	**$m**	**$m**
Tier 1 Capital	49,267	49,743
Total exposures	910,473	897,765
Leverage ratio (%)	5.4%	5.5%

(1) *RWA which are calculated in accordance with APRA's requirements under the Basel Accord are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.*

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

(3) *'Other' includes non-lending asset exposures. September 2015 includes an RBNZ overlay adjustment required to maintain a minimum risk profile of the NZ Agri portfolio.*

(4) *The replacement cost associated with derivatives transactions as at 30 September 2015 includes the gross derivative credit exposure amount. In accordance with APS110 Capital Adequacy, this has been revised from 31 December 2015 to exclude potential future credit exposures.*

4. Credit Risk Exposures

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

This table provides the amount of gross credit risk exposure subject to the Standardised and Advanced IRB approaches. The Level 2 Group has no credit risk exposures subject to the Foundation IRB approach. Gross credit risk exposure refers to the potential exposure as a result of a counterparty default prior to the application of credit risk mitigation. It is defined as the outstanding amount on drawn commitments plus a credit conversion factor on undrawn commitments on a given facility. For derivatives, the exposure is defined as the mark-to-market value plus a potential value of future movements. The average credit risk exposure is the sum of the gross credit risk exposure at the beginning of the reporting period plus the gross credit risk exposure at the end of the reporting period divided by two.

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

	As at 31 Dec 15				3 months ended 31 Dec 15
	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)]	136,197	64,177	60,022	260,396	260,868
Sovereign [(1)]	70,524	527	14,542	85,593	78,535
Bank [(1)]	24,029	3,307	54,493	81,829	81,442
Residential mortgage	295,980	50,101	-	346,081	343,429
Qualifying revolving retail	5,952	5,516	-	11,468	11,370
Retail SME	12,424	3,900	-	16,324	16,276
Other retail	3,383	1,276	-	4,659	4,545
Total IRB approach	**548,489**	**128,804**	**129,057**	**806,350**	**796,465**
Specialised lending (SL)	**55,291**	**11,047**	**1,277**	**67,615**	**66,827**
Standardised approach					
Australian and foreign governments	12,451	204	-	12,655	13,577
Bank	991	20	114	1,125	1,141
Residential mortgage	48,373	3,009	-	51,382	52,406
Corporate [(1)]	19,079	3,154	61,206	83,439	82,201
Other	3,675	177	-	3,852	3,925
Total standardised approach	**84,569**	**6,564**	**61,320**	**152,453**	**153,250**
Total	**688,349**	**146,415**	**191,654**	**1,026,418**	**1,016,542**

(1) Total credit risk exposure, net of eligible financial collateral is $867,271 million. For materially impacted asset classes, exposure net of collateral is as follows:

	$m
Corporate (including SME)	*214,281*
Sovereign	*73,543*
Bank	*39,782*
Corporate (Standardised)	*25,251*

	As at 30 Sep 15				3 months ended 30 Sep 15
	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)]	135,731	61,588	64,020	261,339	261,089
Sovereign [(1)]	54,200	485	16,792	71,477	76,331
Bank [(1)]	25,377	4,058	51,620	81,055	84,789
Residential mortgage	291,966	48,811	-	340,777	339,346
Qualifying revolving retail	5,702	5,570	-	11,272	11,284
Retail SME	12,443	3,784	-	16,227	16,220
Other retail	3,190	1,242	-	4,432	4,470
Total IRB approach	**528,609**	**125,538**	**132,432**	**786,579**	**793,529**
Specialised lending (SL)	**54,293**	**10,321**	**1,425**	**66,039**	**64,884**
Standardised approach					
Australian and foreign governments	14,283	216	-	14,499	16,192
Bank	616	50	491	1,157	1,671
Residential mortgage	50,491	2,939	-	53,430	52,529
Corporate [(1)]	19,984	3,166	57,812	80,962	80,902
Other	3,812	187	-	3,999	4,043
Total standardised approach	**89,186**	**6,558**	**58,303**	**154,047**	**155,337**
Total [(1)]	**672,088**	**142,417**	**192,160**	**1,006,665**	**1,013,750**

[(1)] *Total credit risk exposure, net of eligible financial collateral is $850,651 million. For materially impacted asset classes, exposure net of collateral is as follows:*

	$m
Corporate (including SME)	*214,432*
Sovereign	*57,919*
Bank	*42,637*
Corporate (Standardised)	*25,947*

5. Credit Provisions and Losses

Credit Risk Provisions [APS 330 Attachment C, Table 4b – c]

The following tables set out information on credit risk provision by Basel Accord asset class, excluding non-lending assets and securitisation exposures. Definitions of impairment and past due facilities are based on Prudential Standard APS 220: Credit Quality. This standard also provides guidance for Provisioning, estimated future credit losses and the General Reserve for Credit Losses.

	As at 31 Dec 15			3 months ended 31 Dec 15	
	Impaired facilities (1)(2)	**Past due facilities ≥90 days**	**Specific provisions** (3)	**Charges for specific provisions**	**Net write-offs** (4)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	1,195	188	273	61	33
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	325	1,271	88	21	23
Qualifying revolving retail	-	58	-	27	27
Retail SME	97	97	45	11	12
Other retail	2	49	1	13	20
Total IRB approach	**1,619**	**1,663**	**407**	**133**	**115**
Specialised lending (SL)	**200**	**118**	**49**	**2**	**4**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	144	212	47	1	1
Corporate	350	72	152	3	19
Other	3	21	2	11	10
Total standardised approach	**497**	**305**	**201**	**15**	**30**
Total	**2,316**	**2,086**	**657**	**150**	**149**

Additional regulatory specific provision	405

(1) *Impaired facilities includes $5 million of restructured loans (September 2015: $60 million) which includes $nil million of restructured fair value assets (September 2015: $nil).*

Impaired facilities includes $64 million of gross impaired fair value assets (September 2015: $58 million).

(2) *Corporate (incl SME) impaired facilities include NZ$420 million BNZ Dairy exposures currently assessed as no loss.*

(3) *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 $405 million (September 2015: $413 million).*

Specific provisions include $26 million (September 2015: $34 million) of specific provisions on gross impaired loans at fair value.

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

	As at 30 Sep 15			3 months ended 30 Sep 15	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions (1)	Net write-offs (2)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	778	221	244	78	188
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	367	1,256	94	8	10
Qualifying revolving retail	-	58	-	31	38
Retail SME	96	106	45	4	25
Other retail	3	43	1	16	21
Total IRB approach	**1,244**	**1,684**	**384**	**137**	**282**
Specialised lending (SL)	**226**	**124**	**54**	**6**	**33**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	150	216	51	11	3
Corporate	427	76	179	25	33
Other	3	22	3	13	14
Total standardised approach	**580**	**314**	**233**	**49**	**50**
Total	**2,050**	**2,122**	**671**	**192**	**365**

Additional regulatory specific provision			413

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

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

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 15			As at 30 Sep 15		
	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	2	1,835	1,837	1	1,989	1,990
Warehouse facilities	8,215	1,749	9,964	6,589	1,281	7,870
Credit enhancements	2	17	19	2	16	18
Derivative transactions	113	-	113	97	-	97
Securities	7,994	-	7,994	8,381	-	8,381
Credit derivatives transactions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total securitisation exposures	**16,326**	**3,601**	**19,927**	**15,070**	**3,286**	**18,356**

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 15 $m	3 months ended 30 Sep 15 $m
Securitisation exposure type		
Liquidity facilities	164	5
Warehouse facilities	1,741	-
Credit enhancements	-	-
Derivative transactions	12	15
Securities	522	532
Credit derivatives transactions	-	-
Other	-	-
Total new facilities provided	**2,439**	**552**

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 15			3 months ended 30 Sep 15		
	Amount securitised during period directly originated $m	Amount securitised during period indirectly originated $m	Recognised gain or loss on sale $m	Amount securitised during period directly originated $m	Amount securitised during period indirectly originated $m	Recognised gain or loss on sale $m
Underlying asset						
Residential mortgage	6,344	-	-	13,994	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**6,344**	**-**	**-**	**13,994**	**-**	**-**

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 Tier 1 (CET1) is recognised as the highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of common shares; retained earnings; undistributed current year earnings; as well as other elements as defined under *Prudential Standard APS 111: Capital Adequacy: Measurement of Capital.*
Credit derivative transactions	In relation to securitisation exposures, credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the NAB Group, usually through the use of credit default swaps.
Credit enhancements	Credit enhancements are arrangements in which the NAB Group holds a securitisation exposure that is able to absorb losses in the pool, providing credit protection to investors or other parties to the securitisation. A first loss credit enhancement is available to absorb losses in the first instance. A second loss credit enhancement is available to absorb losses after first loss credit enhancements have been exhausted.
Credit Value Adjustment (CVA)	A capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.
Derivative transactions	In relation to securitisation exposures, derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transactions.
EaD	Exposure at Default (EaD) is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the NAB Group would incur in the event of a default. It is used in the calculation of RWA.
ELE	The Extended Licensed Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in *Prudential Standard APS 222 Associations with Related Entities.*
Eligible financial collateral	Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach, for corporate, sovereign and bank portfolios, is limited to the collateral items detailed in paragraphs 5 and 25 of Attachment H of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk.* Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment, paragraph 8.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.
Foundation IRB (FIRB)	Foundation Internal Ratings Based (FIRB) approach refers to an alternative approach to advanced IRB defined under the Basel Accord where a Group develops its own PD models and seeks approval from its regulator to use these in the calculation of regulatory capital, and the regulator provides a supervisory estimate for LGD and EaD.
General Reserve for Credit Losses (GRCL)	The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets. The reserve is a compliance requirement under *Prudential Standard APS 220: Credit Quality*. The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up, created through a transfer from retained earnings to a reserve, to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes.
GRCL calculation methodology	The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provision on default no-loss assets. The difference between the GRCL and accounting collective provision is covered with an additional top-up,

Term	Description
	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.
IFRS	International Financial Reporting Standards.
IMA	Internal Model Approach (IMA) describes the approach used in the assessment of traded market risk. The NAB Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the Standard Method.
Impaired facilities	Impaired facilities consist of: - Retail loans (excluding unsecured portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue - Non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and - Impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities are also classified as impaired assets when they become 180 days past due (if not written off).
IRB approach	The internal ratings based (IRB) approach refers to the processes employed by the NAB Group to estimate credit risk. This is achieved through the use of internally developed models to assess the potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
IRRBB	Interest rate risk in the banking book.
Level 2 Group	The Level 2 Group, being NAB and the entities it controls subject to certain exceptions set out in *Section 2 Scope of Application* of this report.
Level 3 conglomerate Group	Contains APRA-regulated entities with material operations across more than one APRA-regulated industry and/or unregulated entities.
Leverage Ratio	The Leverage Ratio is a simple, transparent, non-risk based supplementary measure that uses exposures to supplement the risk-weighted assets based capital requirements and is prepared in accordance with APRA's *Prudential Standard APS110: Capital Adequacy*.
LGD	Loss Given Default (LGD) is an estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default. It is used in the calculation of RWA.
Liquidity Coverage Ratio (LCR)	LCR is a new measure announced as part of the Basel III liquidity reforms that came into force on 1 January 2015. The ratio measures the amount of high quality liquid assets held that can be converted to cash easily and immediately in private markets, to total net cash flows required to meet the Group's liquidity needs for a 30 day calendar liquidity stress scenario.
Liquidity facilities	Liquidity facilities are provided by the NAB Group to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV (asset liquidity facilities), or to cover the inability of the SPV to roll over ABCP (standby liquidity facilities).
NAB	National Australia Bank Limited ABN 12 004 044 937.
NAB Group	NAB and its controlled entities.
Net write-offs	Write-offs on loans at amortised cost and Fair Value loans net of recoveries.
Past due facilities ≥ 90 days	Past due facilities ≥ 90 days consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
PD	Probability of Default (PD) is an estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations to the NAB Group in the next 12 months.
Qualifying revolving retail exposures	For the purposes of regulatory reporting, credit cards are referred to as qualifying revolving retail.
Regulatory capital	Regulatory capital is the total capital held by the NAB Group as a buffer against potential losses arising from the business the NAB Group operates in. Unlike economic capital, it is calculated based on guidance and standards provided by the NAB Group's regulators, including APRA. It is designed to support stability in the banking system and protect depositors.
Risk-Weighted Assets (RWA)	A quantitative measure of the NAB Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Securities	Securities include the purchase of securitisation debt securities for either trading or banking book purposes.
Securitisation	Structured finance technique which involves pooling, packaging cash-flows and 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 approach refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Tier 1 Capital	Tier 1 Capital comprises CET1 Capital and instruments issued by the Group that meet the criteria for inclusion as Addition Tier 1 capital set out in *Prudential Standard APS 111 - Capital Adequacy: Measurement of Capital*.

Term	Description
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.