PILLAR 3 REPORT

as at 30 June 2021

Incorporating the requirements of APS 330

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Section 1

Introduction

National Australia Bank Limited (NAB) is an Authorised Deposit-taking Institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act 1959* (Cth). This document has been prepared in accordance with the quarterly reporting requirements of 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 the following 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.

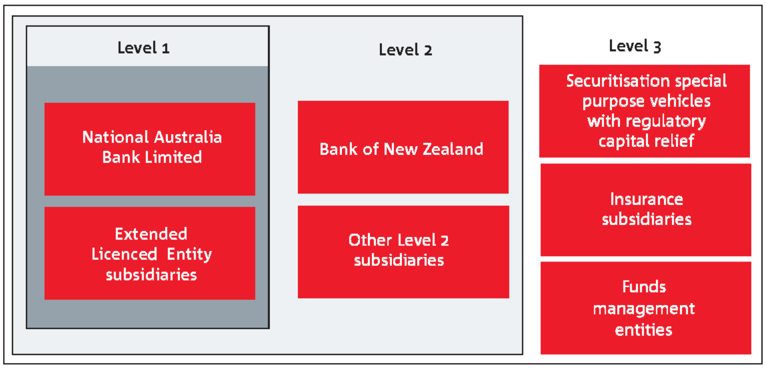
Capital Adequacy Methodologies

The Group uses the following approaches to measure capital adequacy as at 30 June 2021.

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

Scope of Application

APRA measures the Group's capital adequacy by assessing financial strength at three levels as illustrated below.



Level 1 comprises NAB and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Level 2 comprises NAB and the entities it controls, excluding securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation,* insurance subsidiaries and funds management entities. Level 2 controlled entities include Bank of New Zealand (BNZ) and other financial entities such as broking, wealth advisory and leasing companies.

Level 3 comprises the consolidation of NAB and all of its subsidiaries.

Following the sale of the MLC Wealth business effective from 31 May 2021, entities subject to that sale are no longer in Level 2 or Level 3.

This report applies to the Level 2 Group, headed by NAB, unless otherwise stated.

Section 2

Capital

Capital Adequacy [APS 330 paragraph 49 and Attachment C, Table 3a - f]

The following tables provide the risk-weighted assets (RWA) for each risk type.

	As at	
	30 Jun 21	31 Mar 21
	$m	$m
Credit risk		
Subject to IRB approach		
Corporate (including Small and Medium Enterprises (SME))	126,257	126,791
Sovereign	1,656	1,720
Bank	7,008	8,026
Residential mortgage	110,454	111,366
Qualifying revolving retail	2,338	2,438
Retail SME	6,422	6,168
Other retail	2,170	2,178
Total IRB approach	**256,305**	**258,687**
Specialised lending	**58,216**	**57,471**
Subject to standardised approach		
Residential mortgage	841	1,255
Corporate	4,386	4,241
Other	433	432
Total standardised approach	**5,660**	**5,928**
Other		
Securitisation exposures	5,213	5,028
Credit valuation adjustment	9,962	10,189
Central counterparty default fund contribution guarantee	80	82
Other[(1)]	12,345	10,807
Total other	**27,600**	**26,106**
Total credit risk	**347,781**	**348,192**
Market risk	12,784	12,626
Operational risk	47,796	48,627
Interest rate risk in the banking book	9,499	8,165
Total RWA	**417,860**	**417,610**

(1) Other mainly consists of other assets, claims and exposures and overlay adjustments for regulatory prescribed methodology requirements. Other includes RWA of $60m for equity exposures (31 March 2021: $54m).

The following tables provide the capital ratios and leverage ratio.

	As at	
	30 Jun 21	31 Mar 21
Capital ratios	%	%
Common Equity Tier 1	12.6	12.4
Tier 1	14.3	14.0
Total	18.4	17.9

Leverage ratio	As at			
	30 Jun 21	31 Mar 21	31 Dec 20	30 Sep 20
	$m	$m	$m	$m
Tier 1 capital	59,687	58,487	57,905	56,131
Total exposures	1,027,956	976,870	976,034	960,575
Leverage ratio (%)	**5.8%**	**6.0%**	**5.9%**	**5.8%**

Section 3

Credit Risk

Information presented in this section excludes credit risk information in respect of certain securitisation exposures and non-lending assets. In particular, it excludes information on third party securitisation exposures and own asset securitisations with capital relief which have separate disclosures in Section 4 *Securitisation*.

Exposure at default throughout this section represents credit risk exposures net of offsets for eligible financial collateral.

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

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

	As at 30 Jun 21				3 months ended 30 Jun 21
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	163,985	84,719	23,606	**272,310**	270,513
Sovereign	143,848	2,000	22,954	**168,802**	147,077
Bank	19,339	1,720	9,437	**30,496**	31,675
Residential mortgage	349,155	53,876	-	**403,031**	398,359
Qualifying revolving retail	4,013	5,187	-	**9,200**	9,239
Retail SME	12,367	4,504	-	**16,871**	16,841
Other retail	1,972	1,011	-	**2,983**	2,997
Total IRB approach	**694,679**	**153,017**	**55,997**	**903,693**	**876,701**
Specialised lending	**57,139**	**8,743**	**1,249**	**67,131**	**66,564**
Subject to standardised approach					
Residential mortgage	1,508	69	-	**1,577**	1,607
Corporate	4,477	773	4,842	**10,092**	10,303
Other	1,141	-	-	**1,141**	1,129
Total standardised approach	**7,126**	**842**	**4,842**	**12,810**	**13,039**
Total exposure at default	**758,944**	**162,602**	**62,088**	**983,634**	**956,304**

	As at 31 Mar 21				3 months ended 31 Mar 21
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	159,231	85,554	23,930	**268,715**	267,510
Sovereign	110,785	1,797	12,770	**125,352**	118,109
Bank	18,765	1,776	12,312	**32,853**	32,943
Residential mortgage	340,869	52,819	-	**393,688**	392,073
Qualifying revolving retail	4,073	5,204	-	**9,277**	9,371
Retail SME	12,099	4,711	-	**16,810**	16,905
Other retail	1,995	1,017	-	**3,012**	3,099
Total IRB approach	**647,817**	**152,878**	**49,012**	**849,707**	**840,009**
Specialised lending	**56,339**	**8,362**	**1,295**	**65,996**	**65,790**
Subject to standardised approach					
Residential mortgage	1,495	143	-	**1,638**	1,651
Corporate	4,562	689	5,264	**10,515**	10,760
Other	1,115	2	-	**1,117**	1,097
Total standardised approach	**7,172**	**834**	**5,264**	**13,270**	**13,507**
Total exposure at default	**711,328**	**162,074**	**55,571**	**928,973**	**919,306**

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

The following table provides information on asset quality.

	As at 30 Jun 21			3 months ended 30 Jun 21	
	Impaired facilities	Past due facilities ≥90 days	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	818	352	426	(40)	61
Residential mortgage	302	4,617	96	7	14
Qualifying revolving retail	-	21	-	22	17
Retail SME	98	329	67	15	14
Other retail	5	43	3	10	8
Total IRB approach	**1,223**	**5,362**	**592**	**14**	**114**
Specialised lending	**191**	**85**	**88**	**1**	**5**
Subject to standardised approach					
Residential mortgage	13	27	5	1	-
Corporate	21	1	25	18	1
Total standardised approach	**34**	**28**	**30**	**19**	**1**
Total	**1,448**	**5,475**	**710**	**34**	**120**
Additional regulatory specific provisions			1,429		
Total regulatory specific provisions			**2,139**		
General reserve for credit losses			**3,330**		

	As at 31 Mar 21			3 months ended 31 Mar 21	
	Impaired facilities	Past due facilities ≥90 days	Specific provision for credit impairment	Specific credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	1,022	337	515	33	29
Residential mortgage	316	4,836	104	1	5
Qualifying revolving retail	-	21	-	13	11
Retail SME	95	326	63	4	6
Other retail	4	46	3	3	8
Total IRB approach	**1,437**	**5,566**	**685**	**54**	**59**
Specialised lending	**217**	**62**	**95**	**2**	**2**
Subject to standardised approach					
Residential mortgage	11	35	4	-	-
Corporate	4	1	10	2	-
Total standardised approach	**15**	**36**	**14**	**2**	**-**
Total	**1,669**	**5,664**	**794**	**58**	**61**
Additional regulatory specific provisions			1,547		
Total regulatory specific provisions			**2,341**		
General reserve for credit losses			**3,662**		

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.

	3 months ended 30 Jun 21			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgage	(131)	(78)	(17,375)	-

	3 months ended 31 Mar 21			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	**$m**	**$m**	**$m**	**$m**
Residential mortgage	(123)	(68)	(13,220)	-

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.

	As at 30 Jun 21			As at 31 Mar 21		
	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	154	1,431	**1,585**	325	1,282	**1,607**
Warehouse facilities	12,574	6,743	**19,317**	12,495	5,207	**17,702**
Securities	7,449	-	**7,449**	7,934	-	**7,934**
Derivatives	-	78	**78**	-	88	**88**
Total	**20,177**	**8,252**	**28,429**	**20,754**	**6,577**	**27,331**

There were $668 million of derivative exposures to third party securitisation special purpose vehicles held in the trading book as at 30 June 2021 (31 March 2021: $788 million).

Section 5

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) presented in the disclosure template below is based on a simple average of daily LCR outcomes excluding non-business days.

The Group's LCR decreased to 129% for the three months ended 30 June 2021 as a result of lower liquid assets and higher net cash outflows. The decrease in liquid assets was attributed to a reduction in Alternative Liquid Assets (ALA) mainly driven by the impact of Committed Liquidity Facility (CLF) limit reduction, partially offset by increased High-quality Liquid Assets (HQLA) from increased deposits held with central banks as a result of Term Funding Facility (TFF) drawdown over the quarter.

Net cash outflows increased primarily as a result of higher cash outflows from growth in retail and wholesale deposits, combined with an increase in short and long term wholesale funding cash outflows, and lower lending cash inflows.

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

		3 months ended			
		30 Jun 21		31 Mar 21	
		62 data points		62 data points	
		Total unweighted value (average) $m[(1)]	Total weighted value (average) $m	Total unweighted value (average) $m[(1)]	Total weighted value (average) $m
Liquid assets, of which:			**181,899**		**183,575**
1	High-quality liquid assets (HQLA)[(2)(3)]		143,361		137,297
2	Alternative liquid assets (ALA)[(3)]		37,909		44,595
3	Reserve Bank of New Zealand (RBNZ) securities[(2)(3)]		629		1,683
Cash outflows					
4	Retail deposits and deposits from small business customers	239,274	25,384	234,713	24,865
5	of which: stable deposits	107,695	5,385	106,701	5,335
6	of which: less stable deposits	131,579	19,999	128,012	19,530
7	Unsecured wholesale funding	177,918	85,667	169,688	80,914
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	88,233	22,058	83,700	20,925
9	of which: non-operational deposits (all counterparties)	74,848	48,772	73,173	47,174
10	of which: unsecured debt	14,837	14,837	12,815	12,815
11	Secured wholesale funding[(3)]		3,975		2,915
12	Additional requirements	189,868	35,903	187,630	37,061
13	of which: outflows related to derivatives exposures and other collateral requirements	16,715	16,715	18,436	18,436
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	173,153	19,188	169,194	18,625
16	Other contractual funding obligations	1,339	632	1,325	616
17	Other contingent funding obligations	53,063	3,849	54,737	3,810
18	**Total cash outflows**		**155,410**		**150,181**
Cash inflows					
19	Secured lending[(4)]	30,907	1,876	34,486	1,588
20	Inflows from fully performing exposures	21,691	12,141	22,890	12,656
21	Other cash inflows	751	751	1,160	1,160
22	**Total cash inflows**	**53,349**	**14,768**	**58,536**	**15,404**
23	**Total liquid assets**		**181,899**		**183,575**
24	**Total net cash outflows**		**140,642**		**134,777**
25	**Liquidity Coverage Ratio (%)**		**129%**		**136%**

(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 2021 and 31 March 2021 was on average $6 billion and $5 billion respectively.*

(3) *Disclosed on a weighted basis only consistent with APS 330.*

(4) *Unweighted average secured lending cash inflows for the three months ended 31 March 2021 have been restated from that previously disclosed ($74,581m).*

Section 6

Glossary

Term	Description
Additional regulatory specific provisions	In line with APRA's July 2017 guidance "Provisions for regulatory purposes and AASB 9 Financial Instruments", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as general reserve for credit losses.
Additional Tier 1 capital	Additional Tier 1 capital comprises high quality components of capital that satisfy the following essential 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 process used to estimate credit risk through the use of internally developed models to assess potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Advanced Measurement Approach (AMA)	The risk estimation process used for operational risk, combining internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
Alternative liquid assets (ALA)	Assets that qualify for inclusion in the numerator of the Liquidity Coverage Ratio in jurisdictions where there is insufficient supply of high-quality liquid assets in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency in the Liquidity Coverage Ratio framework. The Committed Liquidity Facility and Term Funding Facility provided by the Reserve Bank of Australia to ADIs are treated as ALAs in the Liquidity Coverage Ratio.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
Banking book	Exposures not contained in the trading book.
Central counterparty (CCP)	A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, thereby insuring the future performance of open contracts.
CET1 capital ratio	CET1 capital divided by risk-weighted assets.
Committed Liquidity Facility (CLF)	A facility provided by the Reserve Bank of Australia to certain ADIs to assist them in meeting the Basel III liquidity requirements.
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 (including SME)	Corporate (including SME) consists of corporations, partnerships or proprietorships not elsewhere classified and includes non-banking entities held by banks.
Credit value adjustment (CVA)	A capital charge to reflect potential mark-to-market losses due to counterparty migration risk for bilateral over-the-counter derivative contracts.
Default fund	Clearing members' funded or unfunded contributions towards, or underwriting of, a central counterparty's mutualised loss sharing arrangements.
Eligible financial collateral (EFC)	Under the standardised approach, EFC is the amount of cash collateral, netting and eligible bonds and equities. Under the Internal Ratings-based approach, EFC is limited to the collateral items detailed in APS 112 *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 an obligor 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 *Associations with Related Entities*.
General Reserve for Credit Losses (GRCL)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 *Credit Quality*. The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provisions for facilities in default but for which no loss is expected (which are reported as additional regulatory specific provisions). Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
Group	NAB and its controlled entities.
High-quality liquid assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian government and semi-government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Impaired facilities	Impaired facilities consist of: - retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest - unsecured portfolio managed facilities that are 180 days past due (if not written off) - non-retail loans which are contractually past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner - off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
Internal Model Approach (IMA) - Non-traded Market Risk	The approach used in the assessment of non-traded market risk. The Group uses, under approval from APRA, the IMA to calculate interest rate risk in the banking book for all transactions in the banking book.
Internal Model Approach (IMA) - Traded Market Risk	The approach used in the assessment of traded market risk. The Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the standard method.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based supplementary measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of high-quality liquid assets available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Loss given default (LGD)	An estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default.
NAB	National Australia Bank Limited ABN 12 004 044 937.
Net write-offs	Write-offs, net of recoveries.

Term	Description
Past due facilities ≥ 90 days	Well-secured assets that are more than 90 days past due and portfolio managed facilities that are not well secured and between 90 and 180 days past due. For eligible COVID-19 payment deferrals granted in respect of otherwise performing loans, the counting of days past due is stopped when the repayment deferral is granted in accordance with APRA guidance. Past due facilities do not include impaired facilities.
Probability of default (PD)	An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.
Qualifying revolving retail	Revolving exposures to individuals less than $100,000, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this asset class.
Risk-weighted assets (RWA)	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
RMBS	Residential mortgage-backed securities.
Securitisation exposures	Securitisation exposures include the following exposure types: - 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*.
Standardised approach	An alternative approach to the assessment of credit risk whereby an ADI uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk-weighted assets.
Standard method	The standard method for market risk applies supervisory risk weights to positions arising from trading activities.
Term Funding Facility (TFF)	A facility provided by the Reserve Bank of Australia to certain ADIs to support lending to Australian businesses.
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 *Capital Adequacy: Measurement of 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 derivative products 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.