

PILLAR 3 REPORT

as at 31 December 2020

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. In simple terms, 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.

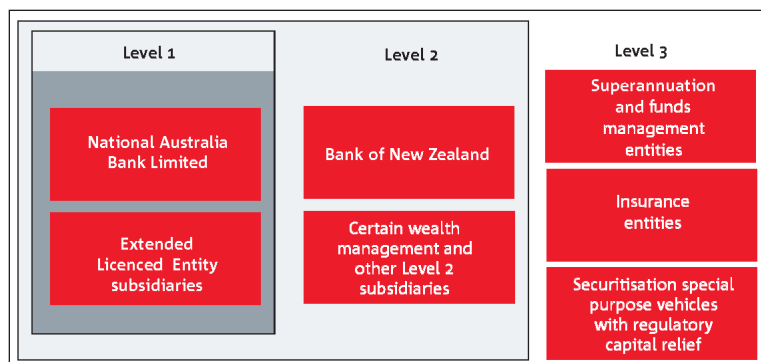
Capital Adequacy Methodologies

The Group uses the following approaches to measure capital adequacy as at 31 December 2020.

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

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

On 31 August 2020, NAB announced that it had agreed to sell MLC Wealth, comprising its advice, platforms, superannuation & investments and asset management businesses, to IOOF Holdings Ltd. On 16 December 2020, NAB announced that it had agreed to sell BNZ Life Insurance business to Partners Life. The subsidiaries subject to these agreements consist of both Level 2 and Level 3 subsidiaries, which remain part of the Group until completion of the transactions.

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	
	31 Dec 20	30 Sep 20
	\$m	\$m
Credit risk		
Subject to IRB approach		
Corporate (including Small and Medium Enterprises (SME))	130,096	132,922
Sovereign	2,010	2,143
Bank	8,257	8,856
Residential mortgage	108,268	106,269
Qualifying revolving retail	2,491	2,524
Retail SME	6,136	5,983
Other retail	2,241	2,281
Total IRB approach	259,499	260,978
Specialised lending	58,072	59,465
Subject to standardised approach		
Residential mortgage	1,272	1,296
Corporate	4,443	4,355
Other	426	418
Total standardised approach	6,141	6,069
Other		
Securitisation exposures	5,047	5,237
Credit value adjustment	12,238	12,703
Central counterparty default fund contribution guarantee	76	83
Other ⁽¹⁾	9,973	9,456
Total other	27,334	27,479
Total credit risk	351,046	353,991
Market risk	14,587	12,678
Operational risk	50,432	49,993
Interest rate risk in the banking book	9,746	8,485
Total RWA	425,811	425,147

⁽¹⁾ Other mainly consists of RWA for other assets, claims and exposures and RWA overlay adjustments for regulatory prescribed methodology requirements. Other includes RWA of \$54m for equity exposures (30 September 2020: nil).

The following tables provide the capital ratios and leverage ratio.

	As at	
	31 Dec 20	30 Sep 20
	%	%
Capital ratios		
Common Equity Tier 1	11.7	11.5
Tier 1	13.6	13.2
Total	17.2	16.6

	As at			
	31 Dec 20	30 Sep 20	30 Jun 20	31 Mar 20
	\$m	\$m	\$m	\$m
Leverage ratio				
Tier 1 capital	57,905	56,131	56,189	51,761
Total exposures	976,034	960,575	964,854	988,245
Leverage ratio (%)	5.93%	5.84%	5.82%	5.24%

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.

Exposure type	As at 31 Dec 20				3 months ended
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	31 Dec 20
	\$m	\$m	\$m	\$m	Average total exposure \$m
Subject to IRB approach					
Corporate (including SME)	157,998	84,895	23,412	266,305	266,213
Sovereign	95,319	1,795	13,751	110,865	102,519
Bank	21,214	1,509	10,310	33,033	34,008
Residential mortgage	338,681	51,777	-	390,457	388,615
Qualifying revolving retail	4,197	5,268	-	9,465	9,429
Retail SME	12,180	4,819	-	17,000	17,026
Other retail	2,131	1,055	-	3,186	3,207
Total IRB approach	631,720	151,118	47,473	830,311	821,017
Specialised lending	56,320	7,607	1,657	65,584	66,101
Subject to standardised approach					
Residential mortgage	1,546	117	-	1,663	1,685
Corporate	4,782	688	5,534	11,004	11,029
Other	1,075	2	-	1,077	1,061
Total standardised approach	7,403	807	5,534	13,744	13,775
Total exposure (EaD)	695,443	159,532	54,664	909,639	900,893

Exposure type	As at 30 Sep 20				3 months ended
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	30 Sep 20
	\$m	\$m	\$m	\$m	Average total exposure \$m
Subject to IRB approach					
Corporate (including SME)	159,620	83,412	23,089	266,121	267,872
Sovereign	79,999	817	13,357	94,173	84,896
Bank	22,562	1,604	10,816	34,982	36,698
Residential mortgage	336,540	50,233	-	386,773	387,617
Qualifying revolving retail	3,957	5,436	-	9,393	9,554
Retail SME	12,400	4,652	-	17,052	17,143
Other retail	2,141	1,087	-	3,228	3,347
Total IRB approach	617,219	147,241	47,262	811,722	807,127
Specialised lending	56,175	8,538	1,905	66,618	67,006
Subject to standardised approach					
Residential mortgage	1,589	117	-	1,706	1,732
Corporate	4,900	690	5,464	11,054	10,982
Other	1,044	2	-	1,046	1,046
Total standardised approach	7,533	809	5,464	13,806	13,760
Total exposure (EaD)	680,927	156,588	54,631	892,146	887,893

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

The following table provides information on asset quality.

Exposure type	As at 31 Dec 20			3 months ended 31 Dec 20	
	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)	1,048	284	525	(18)	17
Residential mortgage	319	3,632	109	11	14
Qualifying revolving retail	-	11	-	21	20
Retail SME	86	272	60	6	6
Other retail	4	44	3	9	10
Total IRB approach	1,457	4,243	697	29	67
Specialised lending	215	63	93	(3)	(1)
Subject to standardised approach					
Residential mortgage	11	34	4	-	-
Corporate	2	-	8	-	-
Total standardised approach	13	34	12	-	-
Total	1,685	4,340	802	26	66
Additional regulatory specific provisions			1,638		
Total regulatory specific provisions			2,440		
General reserve for credit losses			3,819		

Exposure type	As at 30 Sep 20			3 months ended 30 Sep 20	
	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)	1,228	284	562	69	93
Residential mortgage	314	3,530	110	-	9
Qualifying revolving retail	-	27	-	34	24
Retail SME	86	268	58	7	9
Other retail	4	58	3	14	14
Total IRB approach	1,632	4,167	733	124	149
Specialised lending	221	58	95	8	7
Subject to standardised approach					
Residential mortgage	11	29	4	-	-
Corporate	2	1	8	1	-
Total standardised approach	13	30	12	1	-
Total	1,866	4,255	840	133	156
Additional regulatory specific provisions			1,648		
Total regulatory specific provisions			2,488		
General reserve for credit losses			3,888		

Section 4

Securitisation

Recent Securitisation Activity [APS 330 Attachment C, Table 5a]

There were no assets sold by the Group to securitisation special purpose vehicles in the three months ended 31 December 2020.

Underlying asset	3 months ended 30 Sep 20			Recognised gain or loss on sale
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	
	\$m	\$m	\$m	\$m
Residential mortgage	-	-	18,000	-

Securitisation Exposures Retained or Purchased [APS 330 Attachment C, Table 5b]

The following table provides the amount of securitisation exposures held in the banking book, broken down between on and off-balance sheet exposures.

Securitisation exposure type	As at 31 Dec 20			As at 30 Sep 20		
	On-balance sheet	Off-balance sheet	Total	On-balance sheet	Off-balance sheet	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Liquidity facilities	255	1,268	1,523	170	1,529	1,699
Warehouse facilities	11,387	6,422	17,809	11,745	6,626	18,371
Securities	8,002	-	8,002	8,123	-	8,123
Derivatives	-	98	98	-	106	106
Total	19,644	7,788	27,432	20,038	8,261	28,299

The Group had \$903 million of derivative exposures held in the trading book as at 31 December 2020 (30 September 2020: \$728 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 increased to 147% for the three months ended 31 December 2020 as a result of higher high-quality liquid assets (HQLA) and lower net cash outflows. The increase in HQLA was primarily the result of increased funding, mainly from deposit inflows, which has resulted in increased holdings of Australian government and semi-government securities.

Lower net cash outflows was driven by increased cash inflows from performing loans combined with lower cash outflows from wholesale funding and other contingent funding obligations, partly offset by increased outflows related to derivative exposures and other collateral requirements.

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

		3 months ended			
		31 Dec 20 62 data points		30 Sep 20 64 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:			205,270		199,275
1	High-quality liquid assets (HQLA) ⁽²⁾⁽³⁾		138,751		125,687
2	Alternative liquid assets (ALA) ⁽³⁾		64,886		71,424
3	Reserve Bank of New Zealand (RBNZ) securities ⁽²⁾⁽³⁾		1,633		2,164
Cash outflows					
4	Retail deposits and deposits from small business customers	230,927	23,629	219,269	22,772
5	of which: stable deposits	105,244	5,262	101,088	5,054
6	of which: less stable deposits	125,683	18,367	118,181	17,718
7	Unsecured wholesale funding	167,053	78,275	162,871	80,901
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks ⁽⁴⁾	82,756	20,689	70,717	17,680
9	of which: non-operational deposits (all counterparties) ⁽⁴⁾	71,607	44,896	79,918	50,985
10	of which: unsecured debt	12,690	12,690	12,236	12,236
11	Secured wholesale funding ⁽³⁾		2,162		2,924
12	Additional requirements	193,159	44,442	188,776	42,845
13	of which: outflows related to derivatives exposures and other collateral requirements	24,824	24,824	23,802	23,802
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	168,335	19,618	164,974	19,043
16	Other contractual funding obligations	1,314	622	1,612	986
17	Other contingent funding obligations	58,273	3,998	65,830	4,545
18	Total cash outflows		153,128		154,973
Cash inflows					
19	Secured lending	86,181	1,543	78,078	1,723
20	Inflows from fully performing exposures	20,554	11,149	17,076	9,638
21	Other cash inflows	1,041	1,041	689	689
22	Total cash inflows	107,776	13,733	95,843	12,050
23	Total liquid assets		205,270		199,275
24	Total net cash outflows		139,395		142,923
25	Liquidity Coverage Ratio (%)		147%		139%

⁽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 both the three months to 31 December 2020 and 30 September 2020 was on average \$6 billion.

⁽³⁾ APS 330 does not require unweighted amounts to be reported for these items.

⁽⁴⁾ Comparative amounts have been restated to reflect a reclassification of certain cash outflows from operational deposits into non-operational deposits with no impact to overall net cash outflows reported. Amounts previously reported for operational deposits were \$70,937m unweighted and \$19,969m weighted, and for non-operational deposits \$79,698m unweighted and \$48,696m weighted.

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 <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 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 <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 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 <i>Associations with Related Entities</i> .
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 <i>Credit Quality</i> . 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 <i>Liquidity</i> .
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 standardised approach.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 <i>Capital Adequacy</i> . It is a simple, non-risk based supplementary measure to supplement the RWA 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 ≥ 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

Term	Description
Probability of default (PD)	days past due is stopped when the repayment deferral is granted in accordance with APRA guidance. Past due facilities do not include impaired facilities.
Qualifying revolving retail	An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.
Risk-weighted assets (RWA)	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.
RMBS	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.
Securitisation exposures	Residential mortgage-backed securities.
SME	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.
Specific provision for credit impairment	Small and medium sized enterprises.
Standardised approach	The provision assessed on an individual basis in accordance with Australian Accounting Standard AASB 9 <i>Financial Instruments</i> .
Standard method	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.
Term Funding Facility (TFF)	The standard method for market risk applies supervisory risk weights to positions arising from trading activities.
Tier 1 capital	A facility provided by the Reserve Bank of Australia to certain ADIs to support lending to Australian businesses.
Tier 1 capital ratio	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 2 capital	Tier 1 capital divided by risk-weighted assets.
Total 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 ratio	The sum of Tier 1 capital and Tier 2 capital.
Trading book	Total capital divided by risk-weighted assets.
Write-offs	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.
	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.

