national
australia
bank

Pillar 3 Report

as at 30 September 2024

Incorporating the requirements of APS 330

National Australia Bank Limited ABN 12 004 044 937

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Table of contents

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.

This document describes the approach the Group, being NAB and its controlled entities, takes to manage risk, and provides detailed information about risk exposures, capital adequacy and liquidity.

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

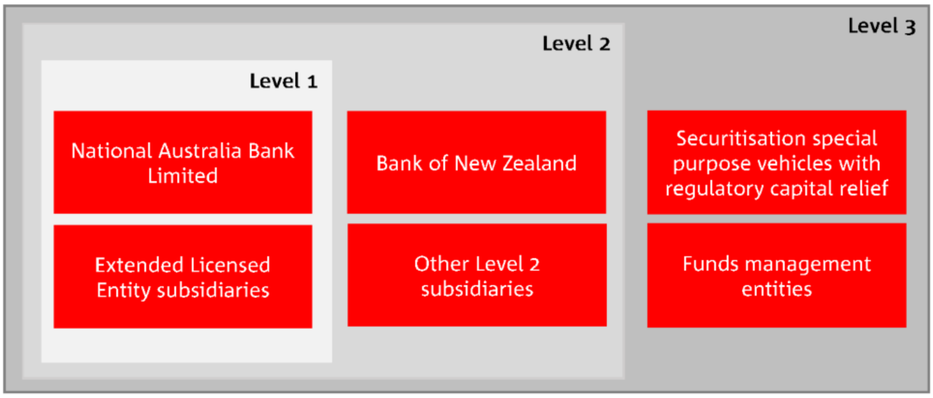
The Group uses the following approaches to measure capital adequacy as at 30 September 2024.

Credit risk	Operational risk	Non-traded market risk	Traded market risk
Internal Ratings-based Approach (IRB)(1)	Standardised Measurement Approach (SMA)	Internal Model Approach (IMA)	Internal Model Approach (IMA) and standard method

(1) The Group has received IRB accreditation from APRA and applies the advanced IRB, foundation IRB, supervisory slotting and standardised approaches to different portfolios. Risk-weighted assets (RWA) and expected loss for the Group's banking subsidiary regulated by the Reserve Bank of New Zealand (RBNZ), Bank of New Zealand (BNZ), are calculated using RBNZ prudential requirements, with the exception of scaling factors and the capital floor which are applied under APRA requirements.
BNZ has received IRB accreditation from the RBNZ and applies the internal rating-based approach, supervisory slotting estimates and standardised approach to different portfolios.

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 (SPVs) to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation* and funds management entities. Level 2 controlled entities include BNZ, National Australia Bank Europe S.A. (NAB Europe) 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.

Regulatory reform

Regulatory change is a key area of focus for the Group. Key reforms that may affect the Group's capital and funding include:

Revisions to the capital framework

- APRA's revisions to APS 117 *Capital Adequacy: Interest Rate Risk in the Banking Book* will come into effect on 1 October 2025.
- APRA expects Australian banks to continue building preparedness for the Basel Committee on Banking Supervision's (BCBS) fundamental review of the trading book regulatory standards ahead of the release of draft standards. There is no timeline provided for when these draft standards will be released.
- APRA has deferred the implementation date for the Basel III reforms to APS 180 *Capital Adequacy: Counterparty Credit Risk* to 2026.

Increased loss-absorbing capacity for ADIs

Under their loss-absorbing capacity framework, APRA required domestic systemically important banks (D-SIBs) to hold incremental Total capital equal to 3% of RWA from 1 January 2024. The requirement increases by 1.5% (to a total of 4.5%) of RWA on 1 January 2026. NAB has met the 3% of RWA Total capital requirement.

Reserve Bank of New Zealand capital review

In December 2019, the RBNZ finalised its review of their capital adequacy framework. The RBNZ amendments included an increase in the Tier 1 capital requirement to 16% of RWA, and an increase in the Total capital requirement to 18% of RWA, to be phased in by 2028.

Additional Tier 1 capital discussion paper

In September 2024, APRA released a discussion paper outlining potential amendments to APRA's prudential framework to ensure that the capital strength of the Australian banking system operates more effectively in a stress scenario. For advanced banks such as NAB, APRA has proposed replacing 1.5% Additional Tier 1 capital with 0.25% Common Equity Tier 1 capital and 1.25% Tier 2 capital, from January 2027. Subject to stakeholder feedback, APRA plans to provide an update on the consultation process in late 2024 and formally consult on specific changes to prudential standards in 2025.

Liquidity requirements

APRA will conduct a broader review of APS 210 *Liquidity* with early industry engagement commencing in 2025.

Public disclosure

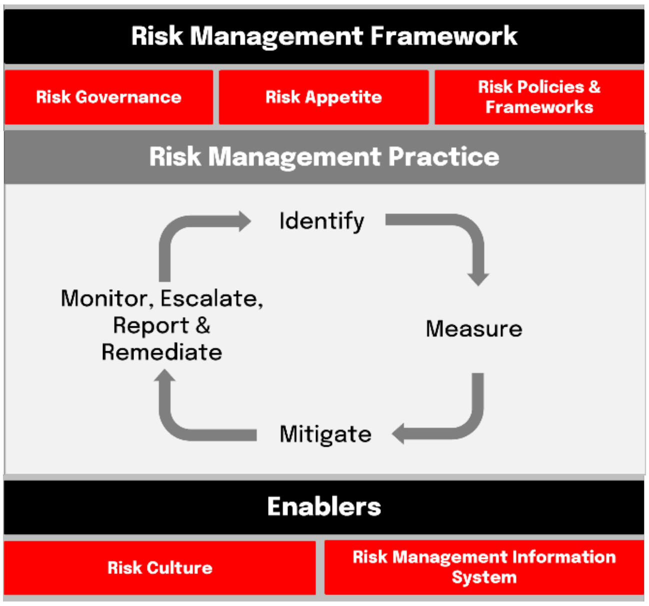
In December 2022, APRA issued a revised APS 330 which aligns with the updated international standards for public disclosure set by the BCBS. The revised disclosure requirements are effective from 1 January 2025.

Risk governance and management

Risk management

Risk includes the potential for harm and is an inherent part of the Group's business. The Group's ability to manage risk effectively is critical to being a safe and secure bank that can serve customers well and help communities prosper. The Group's risk management is in line with APRA Prudential Standard CPS 220 *Risk Management*.

The Group's Risk Management Framework is outlined in the Risk Management Strategy and illustrated below. The Risk Management Framework consists of systems, structures, policies, processes, and people within the Group that manage the Group's material risks. The Risk Management Framework is comprehensively reviewed every three years for appropriateness, effectiveness, and adequacy by an operationally independent party. The Board is ultimately responsible for the Risk Management Framework and oversees its operation by management. In addition, directors and senior executives are held accountable for the parts of the Group's operations they manage or control.



The Group applies a 'Three Lines of Accountability' operating model in relation to the management of risk. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. The role of each line is:

- Line 1 – Businesses and enabling units own risks and obligations, and the controls and mitigation strategies that help manage them.
- Line 2 – A functionally segregated and independent Risk function develops risk management frameworks, defines risk boundaries, provides advice and objective review and challenge regarding the effectiveness of risk management within the Line 1 businesses, and executes specific risk management activities where a functional segregation of duties and/or specific risk capability is required.
- Line 3 – An independent Internal Audit function, reporting to the Board, monitors the end-to-end effectiveness of risk management and compliance with the Risk Management Framework.

The Group undertakes annual strategic planning to maintain alignment of the Group's risk appetite and its business strategy. Strategic planning is informed by the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) assessments of the Group's risk profile and the level of financial resources required to maintain suitable capital and liquidity for those risks. Key outputs of the strategic planning process are the Strategic Plan, Financial Plan, Funding Strategy, Capital Management Strategy and Risk Appetite Statement (RAS). These documents collectively establish performance targets and risk boundaries for the Group, legal entities, and individual businesses where applicable, with stress testing and scenario analysis used to inform risk appetite. These documents form the Group's Business Plan, which is endorsed by management and approved by the Board.

Risk governance

Risk governance refers to the formal structure used to support risk-based decision-making and oversight across all the Group's operations.

The Board provides strategic direction for the Group's businesses and represents the interests of shareholders through the creation of sustainable value. The Board achieves this through a focus on customers, colleagues and the broader community. The Board is supported by its committees, as follows:

- Board Risk & Compliance Committee
- Board Audit Committee

- Board People & Remuneration Committee
- Board Nomination & Governance Committee
- Board Customer Committee.

Information on Board committees and their charters is available in the Corporate Governance section of the Group's website at nab.com.au/about-us/corporate-governance.

The Board delegates responsibility for the day-to-day management of the Group's operations to the Group Chief Executive Officer (Group CEO). The Group CEO delegates authority to members of the Executive Leadership Team (commensurate with their roles and documented accountabilities). The delegations from the Board to the Group CEO, and the Group CEO to the Executive Leadership Team are reviewed on an annual basis. Both the Board, supported by its committees, and management, through its executives, promote awareness of a risk-based culture, supporting an acceptable balance between risk and return.

The Group CEO oversees enterprise-wide risk management through the Executive Risk & Compliance Committee and its supporting sub-committees, as follows:

- Group Credit & Market Risk Committee (GCMRC)
- Group Model Risk Committee (as a sub-committee of GCMRC)
- Group Asset & Liability Committee
- Group Non-Financial Risk Committee
- Executive Financial Crime Risk Committee
- Business & Private Banking Risk Committee
- Corporate & Institutional Banking Risk Committee
- Personal Banking Risk Committee.

Each sub-committee oversees and governs the effective management of risk which supports the relevant accountable executives.

In addition:

- Two sub-committees of the Executive Customer Committee (namely the Enterprise Product Committee and Banking Remediation Committee) evaluate new and existing product offerings and monitor customer remediation activities to ensure transparent decision-making and consistent customer outcomes, respectively.
- The Executive Remuneration Committee (a sub-committee of the People & Culture Executive Committee) reviews and makes recommendations to the Board People & Remuneration Committee on remuneration consequences of risk issues and events, including in connection with deferred incentives.

Material risks

The following table provides a summary of the Group's material risks. A number of measures exist across each of the material risks, including but not limited to those outlined in the table below. The Board, supported by its committees, is responsible for all material risks.

Detailed information on principal risks and uncertainties associated with the Group is outlined in the risk factors section of the 2024 Annual Report.

Material risk	Definition	Key measures	Key governing policies and committees
Strategic	The risk to earnings, capital, liquidity, funding and/or reputation arising from an inadequate response to changes in the external environment and risk of failing to properly consider downstream impacts and achieve effective outcomes when executing material change programs.	• Measures as outlined in the Group's strategic ambition • Measures through risk appetite settings and key risk indicators	**Governing policies and other documents** • Group Organic Investment Policy • Group Inorganic Investment Policy • Investment Governance Framework
Financial risk categories			
Credit	The risk that a customer will fail to meet its obligations to the Group in accordance with agreed terms. It is a financial risk that the Group consciously elects to take through both the Group's lending activities (banking book) and markets and trading activities (trading book).	• Credit concentration limits (including for single large exposures, industries, and countries) • Portfolio limits, settings and indicators in respect to credit quality having regard to probability of default (PD), loss given default (LGD), exposure at default (EaD), RWA, and a range of more granular measures applicable to the nature of the credit risk (for example, loan-to-valuation ratios (LVR), days past due, impairments and write-offs)	**Governing policies and other documents** • Credit Risk Management Strategy • Group Model Risk Policy **Committees and other bodies** • Executive Risk & Compliance Committee • Group Credit & Market Risk Committee • Group Model Risk Committee

Material risk	Definition	Key measures	Key governing policies and committees
Market	The risk of loss from the Group's trading activities or management of structural balance sheet exposures. Losses can arise from a change in the value of positions in financial instruments, bank assets and liabilities or their hedges due to adverse movements in market prices. This may be due to changes in credit spreads, interest rates, foreign exchange rates, market volatility, commodity and equity prices. Traded market risk can be taken on and managed by the Markets division, while banking book market risks (interest rate risk and foreign exchange risk) arise from the management of bank-wide non-trading activity and is managed primarily by Group Treasury.	• Earnings at risk limits • Trading desk limits and settings (for example, stop loss limits) • Globally diversified Value-at-Risk (VaR), stressed VaR and inner stress limits • RWA	**Governing policies and other documents** • Group Traded Market Risk Policy • Interest Rate Risk in the Banking Book Policy • Group Foreign Exchange Risk in the Banking Book Policy • Funds Transfer Pricing Policy • Group Model Risk Policy **Committees and other bodies** • Executive Risk & Compliance Committee • Group Credit & Market Risk Committee • Group Asset & Liability Committee • Group Model Risk Committee
Balance Sheet and Liquidity	The risk of failing to manage and monitor key banking book structural risks such as liquidity risk and capital risk.	• Liquidity Coverage Ratio (LCR) • Net Stable Funding Ratio (NSFR) • Common Equity Tier 1 (CET1) capital ratio • Customer Funding Index	**Governing policies and other documents** • Group Capital Risk Policy • Group Liquidity Risk Policy • Group Equity Risk in the Banking Book Policy • Third Party Securitisation Risk Policy • Group Model Risk Policy • Contagion Risk Policy **Committees and other bodies** • Executive Risk & Compliance Committee • Group Asset & Liability Committee • Group Model Risk Committee
Non-financial risk categories			
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic risk and reputational risk. This material risk category addresses areas of risk including: • Data • Privacy, information security • Service interruption • Fraud • People • Financial, tax and regulatory reporting • Transaction processing and execution • Third party • Models.	• Operational risk metrics which ensure the Group operates within Board approved risk appetite limits and risk settings applicable to the management of operational risk such as financial losses, service disruption due to technology incidents, and information security (cyber)	**Governing policies and other documents** • Group Anti-Fraud Policy • Operational Risk Management Policy and related Guidance Notes for Profiling, Event Management, and Findings & Treatment Plans • Group Information Risk Policy • Business Continuity Management Policy • Group Outsourcing Policy • Group Model Risk Policy • Change Risk Process Guidance Note **Committees and other bodies** • Executive Risk & Compliance Committee • Group Non-Financial Risk Committee

Material risk	Definition	Key measures	Key governing policies and committees
Sustainability	The risk that Environmental, Social or Governance (ESG) events or conditions negatively impact the risk and return profile, value or reputation of the Group or its customers and suppliers.	• Monitoring of compliance with ESG-related risk appetite settings, including credit portfolio limits, and key risk indicators • Policy breach and exemptions reporting • ESG risk assessment as part of supply chain and credit risk assessment and due diligence processes for high-risk suppliers and customers and new suppliers and customers • Monitoring of operational emissions and progress against related targets • Monitoring of attributable financed emissions and progress against Net Zero Banking Alliance targets and operationalisation plans • Climate-related stress testing and risk assessment • Climate and nature-related portfolio heat mapping	**Governing policies and other documents** • Group Environmental Management Policy • Group Environmental Reporting and Offset Management Policy • Group Human Rights Policy • Group Procurement Policy • Group Outsourcing Policy • Group Assessing Customer-related ESG Risk Policy • Group Assessing Customer-related Environmental Contamination Risk Policy • Group Equator Principles Policy • High Risk ESG Sectors and Sensitive Areas List • Net Zero Banking Alliance Policy • Social Impact Policy **Committees and other bodies** • Executive Risk & Compliance Committee • Group Credit & Market Risk Committee • Sustainability Council • Climate Governance Forum
Conduct	The risk that any action of the Group, or those acting on behalf of the Group, will result in unfair outcomes for customers. Areas of exposure include providing an unsatisfactory or unsuitable product or service or unsuitable sales or lending, giving inappropriate advice, and unsatisfactory complaint or remediation management.	• Measures through risk appetite settings and key risk indicators	**Governing policies and other documents** • Group Conduct Risk Framework • NAB's Code of Conduct • NAB's Framework for Customers Experiencing Vulnerability • Group Customer Complaints Handling Policy • Customer Outcomes Framework • Financial Markets Conduct Policy **Committees and other bodies** • Executive Risk & Compliance Committee • Executive Customer Committee • Enterprise Product Committee • Banking Remediation Committee
Compliance	The risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives, as well as the internal policies, standards, procedures, and frameworks that support fair and equitable treatment of customers.	• Metrics related to the assessment of arrangements in place to meet regulatory compliance obligations • Board and senior management metrics on financial crime compliance and operational performance • Timeliness of investigation of potentially reportable regulatory events • Status of Enhanced Customer Due Diligence reviews and senior manager approvals • Timeframes related to investigations into Australian Transaction Reports and Analysis Centre (AUSTRAC) related compliance events • Timeliness of customers identified for exit due to financial crime risk • Timeliness of Unusual Activity Report investigations	**Governing policies and other documents** • Compliance Obligations Management Policy • Regulatory Breach Management Policy • Conflicts of Interest Policy • Gifts and Entertainment Policy • Personal Account Dealing Policy • Personal Conflicts of Interest Policy • Cross Border Policy • Information Barriers Policy • Block Leave Policy • Policies on clearing, trade execution, reporting, risk mitigation and margining of over-the-counter derivative transactions. • Swap Dealer Policy • Volcker Policy • Financial Benchmarks Policy • Group Anti-Bribery and Corruption Policy • Anti-Money Laundering & Counter-Terrorism Financing Program (Part A and B) • Economic and Trade Sanctions Policy & Standard **Committees and other bodies** • Executive Risk & Compliance Committee • Group Non-Financial Risk Committee • Executive Financial Crime Risk Committee

Capital

4.1 Capital adequacy

Capital Management Strategy

The Capital Management Strategy is focused on adequacy, efficiency and flexibility. It covers the Group capital outlook, potential risks, initiatives and distributions. The Capital Management Strategy also considers stressed scenarios and sensitivities to ensure the Group maintains appropriate capital and can respond appropriately in these situations. This approach is consistent across the Group's subsidiaries.

The Board sets capital operating targets above regulatory minimums and capital buffers, taking into account market, regulatory and rating agency expectations. The operating targets are regularly reviewed in the context of the external economic and regulatory outlook with the objective of maintaining balance sheet strength. The target range for the Group's CET1 capital ratio is 11.00 to 11.50%.

Internal Capital Adequacy Assessment Process (ICAAP)

The amount of capital held by the Group is informed by the ICAAP, with capital adequacy determined for both the Level 1 and Level 2 Groups. The process is designed to assess the ability to withstand unexpected loss and continue to support customers and protect depositors through a range of adverse scenarios. Key features include:

- identification of risks arising from the activities for which capital is a mitigant.
- calibration of capital limits commensurate with the risk profile and appetite, and appropriate triggers to mitigate potential limit breaches.
- assessment of capital adequacy on a current and forward-looking basis, including scenario planning and stress testing.
- detail on capital management actions available to provide additional capital as required.

Governance, reporting and oversight

The ICAAP, Capital Management Strategy, RAS, Group Strategic Plan and Financial Plan together detail the governance, management, and reporting of the Group's capital adequacy. These documents are reviewed and endorsed by key management committees, including the Group Asset & Liability Committee and/or the Executive Risk & Compliance Committee, and are approved by the Board. The ICAAP is supported by the Group Capital Risk Policy, which defines the framework for the management, monitoring and governance of the Group's capital position.

Group Treasury is responsible for managing capital risk. Line 2 maintains a risk framework to provide oversight and monitoring of stress testing of the Group's capital position, capital planning and forecasting, and capital activities to ensure compliance with regulatory capital standards.

Group Treasury, along with Line 2, monitors the Group's capital position on a monthly basis and reports to management, the Board Risk & Compliance Committee and the Board.

Embedding capital requirements in business decisions

Capital requirements are taken into consideration in:

- product and facility pricing decisions.
- business development, including acquisitions and divestments.
- strategic planning.
- performance measurement and management, including incentive determination.
- setting of risk appetite and risk limits, including single large exposure limits, industry limits and country limits.

Table 4.1.A Risk-weighted assets

Model and methodology changes

During the six months ended 30 September 2024, the following model and methodology changes were implemented:

- LGD estimates for corporate and retail SME exposures subject to the advanced IRB approach were updated, including estimates for collateral values. This change has reduced credit RWA for these exposures of the Level 2 Group excluding BNZ.
- PD estimates for residential mortgage exposures subject to the advanced IRB approach were updated through the implementation of new PD models. This change has reduced credit RWA for residential mortgage exposures of the Level 2 Group excluding BNZ.
- A residential mortgage portfolio previously subject to the standardised approach received APRA approval for use of the advanced IRB approach. This change has reduced residential mortgage exposures subject to the standardised approach, and increased residential mortgages under the advanced IRB approach, with an overall decrease in credit RWA for residential mortgages of the Level 2 Group excluding BNZ.
- Standardised credit conversion factors were adopted for certain non-retail exposures of the RBNZ regulated banking subsidiary. This change resulted in a decrease in non-market related off-balance sheet exposures and associated credit RWA.

The following table provides RWA for each risk type. A description of the credit risk asset classes is contained in Section 5.3 *Internal ratings-based portfolios*.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Credit risk		
Subject to advanced IRB approach		
Corporate (including small and medium-sized enterprises (SME))	104,089	106,746
Retail SME	10,327	10,443
Residential mortgage[1]	104,004	107,716
Qualifying revolving retail	2,682	2,762
Other retail	1,922	1,873
Subject to foundation IRB approach		
Corporate	20,950	21,454
Sovereign	1,617	1,423
Financial institution	19,068	20,247
Total IRB approach	**264,659**	**272,664**
Specialised lending	**2,609**	**3,090**
Subject to standardised approach		
Corporate	7,693	6,897
Residential mortgage	3,212	6,558
Other retail	6,041	6,078
Other[2]	4,355	4,861
Total standardised approach	**21,301**	**24,394**
RBNZ regulated banking subsidiary	**51,899**	**53,147**
Other		
Securitisation exposures	5,369	5,939
Credit valuation adjustment	5,054	4,639
Total other	**10,423**	**10,578**
Total credit risk	**350,891**	**363,873**
Market risk	11,427	11,171
Operational risk	36,102	36,102
Interest rate risk in the banking book	15,526	21,407
Total RWA	**413,946**	**432,553**

(1) RWA for residential mortgages for the Level 2 Group excluding BNZ measured under the IRB approach is $153,889 million when recomputed under the standardised approach for the purposes of the capital floor (31 March 2024: $150,494 million).
(2) Other subject to the standardised approach consists of cash items in the process of collection, premises and other fixed assets, and all other exposures, and includes $102 million for equity exposures (31 March 2024: $112 million).

The following table provides total RWA for the Level 1 Group.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Total RWA	**372,694**	**390,010**

Table 4.1.B Capital floor

The measurement of total RWA includes a capital floor to limit the benefit of modelled estimates under the IRB approach relative to the standardised approach. The capital floor applies at the aggregate RWA level and requires IRB ADIs to apply the higher of total RWA calculated under the IRB approach and 72.5% of total RWA calculated under the standardised approach.

There was no capital floor adjustment as at 30 September 2024 or 31 March 2024 as shown below.

Change in risk-weight for unrated corporate exposures under APS 112

Effective 30 September 2024, APRA revised APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*, allowing certain corporate borrowers without an external credit rating to be differentiated between investment grade and non-investment grade based on an internal methodology for a more risk-sensitive approach to applying risk-weights. This change resulted in a decrease in credit RWA under the standardised approach.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Risk-weighted assets under the standardised approach		
Credit risk	515,331	523,024
Market risk	11,427	11,171
Operational risk	36,102	36,102
Interest rate risk in the banking book	n/a	n/a
Total	**562,860**	**570,297**
Risk-weighted assets prior to application of floor		
Credit risk	350,891	363,873
Market risk	11,427	11,171
Operational risk	36,102	36,102
Interest rate risk in the banking book	15,526	21,407
Total	**413,946**	**432,553**
Capital floor at 72.5%	**408,074**	**413,465**
Capital floor adjustment	**n/a**	**n/a**

Table 4.1.C Capital and leverage ratios

The following tables provide:

- the key capital ratios for the Level 1 and Level 2 Groups.
- the key capital ratios for the Group's significant overseas bank subsidiary, BNZ.
- the leverage ratio for the Level 2 Group as at 30 September 2024 and for the three previous quarters.

	As at	
	30 Sep 24	31 Mar 24
Capital ratios	%	%
Level 2 Common Equity Tier 1	12.35	12.15
Level 2 Tier 1	14.67	14.13
Level 2 Total	20.92	20.27
Level 1 Common Equity Tier 1	12.08	11.85
Level 1 Tier 1	14.65	14.05
Level 1 Total	21.49	20.76

	As at	
	30 Sep 24	31 Mar 24
RBNZ regulated banking subsidiary capital ratios(1)	%	%
BNZ Common Equity Tier 1	13.9	14.1
BNZ Tier 1	14.9	14.5
BNZ Total	16.0	15.6

(1) BNZ's capital ratios are derived under the RBNZ's capital adequacy framework.

	As at			
	30 Sep 24	30 Jun 24	31 Mar 24	31 Dec 23
Leverage ratio	$m	$m	$m	$m
Tier 1 capital	60,728	63,276	61,133	60,181
Total exposures	1,191,855	1,188,241	1,198,406	1,190,152
Leverage ratio (%)	**5.10%**	**5.33%**	**5.10%**	**5.06%**

4.2 Capital structure

Regulatory capital is calculated in accordance with APS 111 *Capital Adequacy: Measurement of Capital*. The Group's capital structure comprises various forms of capital which are summarised in the table below.

Common Equity Tier 1 capital	Tier 1 capital	Total capital
Common Equity Tier 1 (CET1) capital ranks behind the claims of depositors and other creditors in the event of winding-up of the issuer, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. CET1 capital consists of the sum of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111.	CET1 capital plus Additional Tier 1 capital. Additional Tier 1 capital comprises high quality components of capital that satisfy the following 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.	Tier 1 capital plus Tier 2 capital. Tier 2 capital comprises other components of capital that, to varying degrees, do not meet the requirements of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Further details of Additional Tier 1 and Tier 2 securities are available at capital.nab.com.au/programmes/capital-instruments.

Restrictions and major impediments on the transfer of funds or regulatory capital within the Group

Thin capitalisation rules

The transfer of funds or regulatory capital within the Group will take into account tax legislation that imposes interest deduction limitations based on prescribed minimum capital levels.

Intragroup exposure limits

Exposures to related entities are managed in accordance with the Intra-group Transactions and Exposure Policy and prudential limits prescribed in APS 222 *Associations with Related Entities*.

Table 4.2.A Regulatory capital structure

The table below provides the structure of regulatory capital for the Level 2 Group. A detailed breakdown as at 30 September 2024 is shown in Table 4.3.A *Regulatory capital disclosure template*.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Common Equity Tier 1 capital before regulatory adjustments	61,462	61,369
Regulatory adjustments to Common Equity Tier 1 capital	(10,323)	(8,826)
Common Equity Tier 1 capital (CET1)	**51,139**	**52,543**
Additional Tier 1 capital before regulatory adjustments	9,610	8,610
Regulatory adjustments to Additional Tier 1 capital	(21)	(20)
Additional Tier 1 capital (AT1)	**9,589**	**8,590**
Tier 1 capital (T1 = CET1 + AT1)	**60,728**	**61,133**
Tier 2 capital before regulatory adjustments	26,010	26,667
Regulatory adjustments to Tier 2 capital	(136)	(133)
Tier 2 capital (T2)	**25,874**	**26,534**
Total capital (TC = T1 + T2)	**86,602**	**87,667**

4.3 Detailed capital disclosures

Table 4.3.A Regulatory capital disclosure template

The capital ratios for the Level 2 Group and other regulatory capital information are presented in the following regulatory capital disclosure template.

Explanation of how amounts in the template reconcile to the Level 2 Group balance sheet is contained in Table 4.3.C *Reconciliation between the Level 2 Group balance sheet and regulatory capital disclosure template*.

		As at 30 Sep 24
		$m
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying ordinary shares (and equivalent for mutually-owned entities) capital	36,581
2	Retained earnings	25,243
3	Accumulated other comprehensive income (and other reserves)	(362)
5	Ordinary share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–
6	**Common Equity Tier 1 capital before regulatory adjustments**	**61,462**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	–
8	Goodwill	2,070
9	Other intangibles other than mortgage-servicing rights (net of related deferred tax balance)	3,444
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	105
11	Cash flow hedge reserve	(145)
12	Shortfall of provisions to expected losses	–
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	–
14	Gains/(losses) due to changes in own credit risk on fair valued liabilities	(118)
15	Defined benefit superannuation plan assets (net of related tax liability)	33
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	–
17	Reciprocal cross-holdings in common equity	–
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–
19	Significant investments in the ordinary shares of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	–
20	Mortgage service rights (amount above 10% threshold)	–
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–
22	Amount exceeding the 15% threshold	–
23	of which: significant investments in the ordinary shares of financial entities	–
24	of which: mortgage servicing rights	–
25	of which: deferred tax assets arising from temporary differences	–
APRA specific regulatory adjustments		
26	National specific regulatory adjustments (sum of rows 26a, 26b, 26c, 26d, 26e, 26f, 26g, 26h, 26i and 26j)	4,934
26a	of which: treasury shares	–
26b	of which: offset to dividends declared under a dividend reinvestment plan (DRP), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	–
26c	of which: deferred fee income	(371)
26d	of which: equity investments in financial institutions not reported in rows 18, 19 and 23 (adjusted for intangible component of investments)	775
26e	of which: deferred tax assets not reported in rows 10, 21 and 25	2,675
26f	of which: capitalised expenses[(1)]	1,771
26g	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	62
26h	of which: covered bonds in excess of asset cover in pools	–
26i	of which: undercapitalisation of a non-consolidated subsidiary	–
26j	of which: other national specific regulatory adjustments not reported in rows 26a to 26i	22
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	–
28	**Total regulatory adjustments to Common Equity Tier 1**	**10,323**
29	**Common Equity Tier 1 capital (CET1)**	**51,139**

(1) Where fee income eligible as regulatory capital relates to products giving rise to capitalised expenses, fee income is netted off against capitalised expenses in accordance with APS 111.

		As at 30 Sep 24
		$m
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments	9,610
31	of which: classified as equity under applicable accounting standards	–
32	of which: classified as liabilities under applicable accounting standards	9,610
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group Additional Tier 1)	–
36	**Additional Tier 1 capital before regulatory adjustments**	**9,610**
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments and any unused trading limit	21
38	Reciprocal cross-holdings in Additional Tier 1 instruments	–
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–
41	National specific regulatory adjustments (sum of rows 41a, 41b and 41c)	–
41a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	–
41b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	–
41c	of which: other national specific regulatory adjustments not reported in rows 41a and 41b	–
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	–
43	**Total regulatory adjustments to Additional Tier 1 capital**	**21**
44	**Additional Tier 1 capital (AT1)**	**9,589**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**60,728**
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments	24,108
48	Tier 2 instruments (and CET1 and Additional Tier 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–
50	Provisions(1)	1,902
51	**Tier 2 capital before regulatory adjustments**	**26,010**
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments and any unused trading limit	75
53	Reciprocal cross-holdings in Tier 2 instruments	–
54	Investments in the Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the ADI does not own more than 10% of the issued share capital (amount above 10% threshold)	–
55	Significant investments in the Tier 2 capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–
56	National specific regulatory adjustments (sum of rows 56a, 56b and 56c)	61
56a	of which: holdings of capital instruments in group members by other group members on behalf of third parties	–
56b	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidation not reported in rows 54 and 55	61
56c	of which: other national specific regulatory adjustments not reported in rows 56a and 56b	–
57	**Total regulatory adjustments to Tier 2 capital**	**136**
58	**Tier 2 capital (T2)**	**25,874**
59	**Total capital (TC = T1 + T2)**	**86,602**
60	**Total RWA based on APRA standards**	**413,946**

(1) Consists of eligible provisions held against non-defaulted exposures under the IRB approach ($1,681 million) and against exposures under the standardised approach ($221 million).

Detailed capital disclosures (cont.)

		As at 30 Sep 24
		$m
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of RWA)	12.35%
62	Tier 1 (as a percentage of RWA)	14.67%
63	Total capital (as a percentage of RWA)	20.92%
64	Buffer requirement (minimum CET1 requirement, plus capital conservation buffer, plus any countercyclical buffer requirements expressed as a percentage of RWA)[1]	10.10%
65	of which: capital conservation buffer requirement[2]	4.75%
66	of which: ADI-specific countercyclical buffer requirements	0.85%
67	of which: Global Systemically Important Bank (G-SIB) buffer requirement	n/a
68	Common Equity Tier 1 available to meet buffers (as a percentage of RWA)	12.35%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	n/a
70	National Tier 1 minimum ratio (if different from Basel III minimum)	n/a
71	National Total capital minimum ratio (if different from Basel III minimum)	n/a
Amounts below the thresholds for deduction (not risk-weighted)[3]		
72	Non-significant investments in the capital of other financial entities	204
73	Significant investments in the ordinary shares of financial entities (adjusted for intangible component of investments)	571
74	Mortgage servicing rights (net of related tax liability)	–
75	Deferred tax assets arising from temporary differences (net of related tax liability)	2,675
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	221
77	Cap on inclusion of provisions in Tier 2 under standardised approach	335
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	1,681
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	1,902

(1) Comprises a minimum CET1 capital ratio of 4.5% per APS 110 *Capital Adequacy* paragraph 24(a), a capital conservation buffer of 4.75% of RWA and a countercyclical capital buffer (refer to Table 4.3.E *Countercyclical capital buffer*).
(2) Includes a 1% capital conservation buffer requirement applicable to D-SIBs.
(3) Amounts below the thresholds for deduction under Basel requirements are an APRA specific regulatory adjustment.

Table 4.3.B Reconciliation between the Group and Level 2 Group balance sheet

The following table shows the Group's balance sheet and adjustments to derive the Level 2 Group balance sheet as at 30 September 2024.

	Group balance sheet $m	Adjustments[1] $m	Level 2 Group balance sheet $m	Reference[2]
Assets				
Cash and liquid assets	2,499	-	2,499	
Due from other banks	110,438	-	110,438	
Collateral placed	9,633	-	9,633	
Trading assets	133,606	-	133,606	
Derivative assets	28,766	7	28,773	
Debt instruments	41,999	-	41,999	
Other financial assets	769	-	769	
Loans and advances	732,692	(3,197)	729,495	
Current tax assets	25	-	25	
Due from controlled entities	-	15	15	
Deferred tax assets	3,181	-	3,181	Table B
Property, plant and equipment	2,865	-	2,865	
Investments in controlled entities	-	10	10	
Goodwill and other intangible assets	5,224	-	5,224	Table A
Other assets	8,551	-	8,551	
Total assets	**1,080,248**	**(3,165)**	**1,077,083**	
Liabilities				
Due to other banks	12,328	-	12,328	
Collateral received	5,151	-	5,151	
Other financial liabilities	70,272	-	70,272	
Deposits and other borrowings	712,566	-	712,566	
Derivative liabilities	32,576	-	32,576	
Current tax liabilities	1,042	3	1,045	
Provisions	1,804	-	1,804	
Due to controlled entities	-	89	89	
Bonds, notes and subordinated debt	156,294	(3,264)	153,030	
Debt issues	9,560	-	9,560	
Other liabilities	16,442	-	16,442	
Total liabilities	**1,018,035**	**(3,172)**	**1,014,863**	
Net assets	**62,213**	**7**	**62,220**	
Equity				
Contributed equity	36,581	-	36,581	Row 1
Foreign currency translation reserve	(66)	-	(66)	
Asset revaluation reserve	19	-	19	
Cash flow hedge reserve	(145)	-	(145)	Row 11
Cost of hedging reserve	(173)	-	(173)	
Equity-based compensation reserve	249	-	249	
Debt instruments at fair value through other comprehensive income reserve	(283)	-	(283)	
Equity instruments at fair value through other comprehensive income reserve	37	-	37	
Total reserves	**(362)**	**-**	**(362)**	Row 3
Retained profits	25,236	7	25,243	Row 2
Total equity (attributable to owners of NAB)	**61,455**	**7**	**61,462**	
Non-controlling interests	758	-	758	
Total equity	**62,213**	**7**	**62,220**	

(1) The adjustments remove the assets, liabilities and equity balances of Level 3 entities deconsolidated for regulatory purposes, and reinstate any intragroup assets and liabilities, treating them as external to the Level 2 Group.
(2) References are directly to rows in Table 4.3.A *Regulatory capital disclosure template* or to reconciliations to the disclosure template in Table 4.3.C *Reconciliation between the Level 2 Group balance sheet and regulatory capital disclosure template*.

Table 4.3.C Reconciliation between the Level 2 Group balance sheet and regulatory capital disclosure template

The following tables show how amounts in the regulatory capital disclosure template in Table 4.3.A have been derived based on the Level 2 Group balance sheet in Table 4.3.B.

Table A	As at 30 Sep 24 $m	Disclosure template row
Goodwill and other intangible assets	5,224	
Associated net deferred tax asset	290	
Total	**5,514**	
which comprises:		
Goodwill	2,070	Row 8
Other intangibles other than mortgage-servicing rights (net of related deferred tax balance)	3,444	Row 9

Table B	As at 30 Sep 24 $m	Disclosure template row
Deferred tax assets	3,181	
Less deferred tax assets that rely on future profitability	(105)	Row 10
Less net deferred tax assets included in other regulatory adjustments or associated with reserves ineligible for inclusion in regulatory capital	(401)	
Deferred tax assets APRA specific regulatory adjustment	**2,675**	Row 26e, 75

Table C	As at 30 Sep 24 $m	Disclosure template row
Face value of NAB Capital Notes 3	1,874	
Face value of NAB Capital Notes 5	2,386	
Face value of NAB Capital Notes 6	2,000	
Face value of NAB Capital Notes 7	1,250	
Face value of NAB Capital Notes 8	1,000	
Face value of NAB Wholesale Capital Notes	500	
Face value of NAB Wholesale Capital Notes 2	600	
Directly issued qualifying Additional Tier 1 instruments classified as liabilities	**9,610**	Row 32

Table D	As at 30 Sep 24 $m	Disclosure template row
Subordinated medium term notes	24,108	
Directly issued qualifying Tier 2 instruments	**24,108**	Row 46

Table 4.3.D Entities excluded from the Level 2 Group balance sheet

The following table provides details of entities included in the accounting scope of consolidation and excluded from the regulatory scope of consolidation.

		As at 30 Sep 24	
		Total assets	Total liabilities
Entity name	Principal activity	$m	$m
NAB Trust Services Limited	Trustee	11	-
National Australia Managers Limited	Funds manager	4	1
National RMBS Trust 2018-1	Securitisation	363	363
National RMBS Trust 2018-2	Securitisation	377	378
National RMBS Trust 2022-1	Securitisation	787	789
National RMBS Trust 2024-1	Securitisation	1,750	1,751

Table 4.3.E Countercyclical capital buffer

The countercyclical capital buffer represents an extension to the capital conservation buffer and may require an ADI to hold additional CET1 capital of up to 3.5% of RWA. It is calculated in accordance with APS 110 (Attachment C). Its primary objective is to use a buffer of capital to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk.

The following table provides a geographic breakdown of RWA associated with private sector credit exposures that are used to calculate the Level 2 Group's countercyclical capital buffer requirement.

	As at 30 Sep 24			
	Countercyclical capital buffer	RWA for private sector credit exposures	ADI-specific buffer	Disclosure template row
Country	%	$m	%	
Australia	1.00	264,442	0.768	
Denmark	2.50	239	0.002	
France	1.00	1,215	0.004	
Germany	0.75	1,035	0.002	
Hong Kong	1.00	783	0.002	
Ireland	1.50	293	0.001	
Luxembourg	0.50	873	0.001	
Netherlands	2.00	1,347	0.008	
Norway	2.50	333	0.002	
Sweden	2.00	433	0.003	
United Kingdom	2.00	9,566	0.055	
Other	-	64,218	-	
Total	**n/a**	**344,777**	**0.848**	Row 66

4.4 Leverage ratio

The leverage ratio is a non-risk based measure that uses exposures to supplement the RWA-based capital requirements. It is calculated in accordance with APS 110 (Attachment D).

The leverage ratio calculation is presented in the disclosure template below.

The leverage ratio remained unchanged at 5.10% compared to 31 March 2024, with a $0.4 billion decrease in Tier 1 capital, and a $6.6 billion decrease in total exposures.

The decrease in Tier 1 capital was mainly due to a reduction in CET1 capital, partially offset by an increase in Additional Tier 1 capital from the issuance of NAB Capital Notes 8 in June 2024.

The decrease in total exposures was primarily driven by lower securities financing transaction exposures and on-balance sheet exposures of $4.4 billion and $3.1 billion respectively. The decrease in securities financing transaction exposures was due to repayment of the final tranches of the Term Funding Facility (TFF), partially offset by an increase in reverse repurchase agreements. The decrease in on-balance sheet exposures was mainly related to lower amounts due from central banks, partially offset by an increase in loans and advances.

Table 4.4.A Leverage ratio disclosure template

		As at	
		30 Sep 24	31 Mar 24
		$m	$m
On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives and securities financing transactions (SFTs), but including collateral)	955,602	957,749
2	(Asset amounts deducted in determining Tier 1 capital)	(10,441)	(9,478)
3	**On-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**945,161**	**948,271**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	10,165	9,656
5	Add-on amounts for potential future credit exposure (PFCE) associated with all derivatives transactions	20,510	20,982
6	Gross-up for derivatives collateral provided where not included in on-balance sheet exposures	3,710	6,723
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(6,305)	(9,946)
8	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	16,589	14,675
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(15,533)	(13,570)
11	**Derivative exposures (sum of rows 4 to 10)**	**29,136**	**28,520**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	106,898	99,474
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(16,026)	(14,873)
14	Counterparty Credit Risk (CCR) exposure for SFT assets	4,781	15,501
15	Agent transaction exposures	-	-
16	**Securities financing transaction exposures (sum of rows 12 to 15)**	**95,653**	**100,102**
Non-market related off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	246,429	245,250
18	(Adjustments for conversion to credit equivalent amounts)	(124,524)	(123,737)
19	**Non-market related off-balance sheet exposures (sum of rows 17 and 18)**	**121,905**	**121,513**
Capital and total exposures			
20	**Tier 1 capital**	**60,728**	**61,133**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**1,191,855**	**1,198,406**
Leverage ratio			
22	**Leverage ratio**	**5.10%**	**5.10%**

Table 4.4.B Summary comparison of accounting assets vs leverage ratio exposure measure

		As at	
		30 Sep 24	31 Mar 24
		$m	$m
Items			
1	Total consolidated assets as per published financial statements	1,080,248	1,071,005
2	Adjustment for investments in entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(3,165)	(1,659)
3	Adjustment for assets held on the balance sheet in a fiduciary capacity pursuant to the Australian Accounting Standards but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	362	3,827
5	Adjustment for securities financing transactions	2,946	13,198
6	Adjustment for off-balance sheet exposures (credit equivalent amount)	121,905	121,513
7	Other adjustments	(10,441)	(9,478)
8	**Leverage ratio exposure**	**1,191,855**	**1,198,406**

Credit risk

5.1 General disclosures

Credit risk is the potential that a customer will fail to meet its obligations to the Group in accordance with agreed terms. It is a financial risk that the Group consciously elects to take through both the Group's lending activities (banking book) and markets and trading activities (trading book).

The Group's management of credit risk is aligned to the following five principles:

1. Do the right thing by providing financial services to customers in a responsible manner.
2. Only take credit risks that are transparent.
3. Plan and manage for the possibility of default.
4. Be proactive in managing exposures to customers and their credit risk.
5. Manage the portfolio of credit exposures responsibly and in the interest of capital providers and other relevant stakeholders.

These principles guide credit origination, credit assessment and approval activities, credit risk objectives and appetite.

Governance

The Board delegates oversight of credit risk to the Board Risk & Compliance Committee. The Board delegates credit limit authorities to the Group CEO who has the authority to subdelegate this authority and power to the Group Chief Risk Officer. The Group Chief Risk Officer delegates to the Chief Credit and Market Risk Officer, who sets the Delegated Commitment Authority (DCA) framework and subdelegates the credit decision making authority to the Group's divisions and individuals up to certain limits in accordance with the DCA hierarchy.

The Executive Risk & Compliance Committee and its sub-committees, in particular the Group Credit & Market Risk Committee, oversee the Group's credit risk appetite, principles, policies, models and systems for the management of credit risk. Internal risk forums and councils oversee implementation of these disciplines at a more granular level.

Management

The Credit Risk Management Strategy outlines the Group's approach to managing credit risk and articulates the Credit Risk Management Framework that seeks to ensure that credit risks are identified, measured, evaluated, monitored, reported and controlled or mitigated.

The Credit Risk Management Strategy is adaptable in managing shifts through economic and credit cycles through key credit risk management drivers which include:

- Credit risk appetite - the level of risk the Group is willing to assume to ensure that it operates within acceptable levels of credit risk and in compliance with obligations and commitments.
- Credit authorities - the mechanism used to support risk-based credit limit decisions across the Group.
- Credit risk policy - sets the mandatory requirements for the Group's credit risk activities, including credit origination, assessment and approval activities, and supports adherence to regulatory and legislative obligations.

The Credit Risk Management Framework and the use of key credit risk management drivers support the Group to:

- deliver the Group's strategic ambition.
- protect customers and deliver fair outcomes.
- drive sustainable business performance in a safe and responsible manner.
- comply with the Group's obligations.

The Credit Assurance function performs a key assurance activity. Through a sampling process, this function reviews approvals undertaken across all business units. It also undertakes thematic reviews of portfolios of concern, and tests the reasonableness of individually assessed provisions raised against non-performing exposures. The function operates independently of the credit approval process, and reports its findings to both the relevant business units, and to Line 1 and Line 2 risk committees.

Monitoring and reporting

The Group has a comprehensive process for monitoring and reporting credit and asset quality. The Group Chief Risk Officer receives regular reports covering credit risk, credit quality, asset concentrations, asset quality, ESG risk, material exposures, defaults and assurance outcomes for retail and non-retail loans. These reports incorporate key credit risk measures including detailed analysis of concentration risk, large credit approvals and updates on defaulted counterparties. Key reports are provided to key management committees, the Board Risk & Compliance Committee and the Board.

The Group Credit & Market Risk Committee is periodically provided with portfolio and industry reviews. Credit risk is oversighted by the Board Risk & Compliance Committee and the Board.

Definition of non-performing

Exposures are non-performing when in default aligned to the definition in APS 220 *Credit Risk Management*. Default occurs when a loan obligation is contractually 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without remedial action, such as realisation of security.

Provisions and write-offs

Individually assessed provision for credit impairment

An individually assessed provision is raised for facilities for which a loss is expected and represents the estimated shortfall between the gross carrying value of the asset and the estimated future cash flows, including the estimated realisable value of security after costs.

Collective provision for credit impairment

Collective provisions are raised for facilities that are performing or facilities in default but for which no loss is expected. This process involves grouping financial assets with similar credit risk characteristics and collectively assessing them for expected loss in accordance with the requirements of Australian Accounting Standard AASB 9 *Financial Instruments*.

Collective provisions also incorporate an estimate of the expected loss using management's forward-looking assessment of macro-economic and industry-specific factors. This process includes judgements and estimates in line with the requirements of AASB 9.

Write-offs

Where there is no reasonable expectation of recovery of a portion or the entire value of an exposure, a write-off is reflected against the related provision. Such assets are written off after all the necessary recovery procedures have been completed and the amount of the loss has been determined. Recoveries of amounts post write-off are offset against the credit impairment charge in profit or loss.

Presentation of credit risk information

This section excludes credit risk information in respect of securitisation exposures within the scope of APS 120 (which have separate disclosures in Section 6 *Securitisation*). EaD throughout this section represents credit risk exposures net of offsets for eligible financial collateral, except where indicated. RWA in this section excludes the credit valuation adjustment risk capital charge which is not attributed to individual asset classes.

Table 5.1.A Credit risk summary

The following table provides information on credit exposures and asset quality.

	As at 30 Sep 24					6 months ended 30 Sep 24
	Exposure at default	Risk-weighted assets	Expected loss	Non-performing exposures	Individually assessed provision for credit impairment	Net write-offs
Exposure type	$m	$m	$m	$m	$m	$m
Subject to advanced IRB approach						
Corporate (including SME)	210,932	104,089	1,440	3,134	433	44
Retail SME	24,746	10,327	343	1,161	120	30
Residential mortgage	410,718	104,004	1,130	4,533	47	12
Qualifying revolving retail	9,273	2,682	127	36	–	43
Other retail	1,752	1,922	115	58	2	41
Subject to foundation IRB approach						
Corporate	37,726	20,950	114	4	2	–
Sovereign	162,108	1,617	2	–	–	–
Financial institution	65,001	19,068	49	28	9	–
Total IRB approach	**922,256**	**264,659**	**3,320**	**8,954**	**613**	**170**
Specialised lending	**3,188**	**2,609**	**26**	**–**	**–**	**6**
Subject to standardised approach						
Corporate	12,297	7,693	–	86	26	1
Residential mortgage	7,545	3,212	–	106	1	–
Other retail	8,510	6,041	–	85	–	40
Other	6,406	4,355	–	–	–	–
Total standardised approach	**34,758**	**21,301**	**–**	**277**	**27**	**41**
RBNZ regulated banking subsidiary	**124,609**	**51,899**	**498**	**999**	**116**	**20**
Total	**1,084,811**	**340,468**	**3,844**	**10,230**	**756**	**237**

	As at 31 Mar 24					6 months ended 31 Mar 24
	Exposure at default	Risk-weighted assets	Expected loss	Non-performing exposures	Individually assessed provision for credit impairment	Net write-offs
Exposure type	$m	$m	$m	$m	$m	$m
Subject to advanced IRB approach						
Corporate (including SME)	202,067	106,746	1,228	2,512	260	17
Retail SME	24,647	10,443	328	1,040	121	19
Residential mortgage	399,747	107,716	1,095	3,763	46	19
Qualifying revolving retail	9,452	2,762	131	41	-	34
Other retail	1,720	1,873	109	59	3	39
Subject to foundation IRB approach						
Corporate	38,794	21,454	81	17	2	(23)
Sovereign	183,689	1,423	2	-	-	-
Financial institution	68,934	20,247	48	21	6	(1)
Total IRB approach	**929,050**	**272,664**	**3,022**	**7,453**	**438**	**104**
Specialised lending	**3,813**	**3,090**	**30**	**-**	**-**	**-**
Subject to standardised approach						
Corporate	11,877	6,897	-	68	23	17
Residential mortgage	17,027	6,558	-	83	4	1
Other retail	8,681	6,078	-	89	-	34
Other	6,960	4,861	-	-	-	-
Total standardised approach	**44,545**	**24,394**	**-**	**240**	**27**	**52**
RBNZ regulated banking subsidiary	**130,933**	**53,147**	**552**	**998**	**81**	**24**
Total	**1,108,341**	**353,295**	**3,604**	**8,691**	**546**	**180**

Table 5.1.B Total and average credit risk exposures

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.

	As at 30 Sep 24				6 months ended 30 Sep 24
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	181,410	26,541	2,981	**210,932**	206,499
Retail SME	17,379	7,367	–	**24,746**	24,697
Residential mortgage	351,276	59,442	–	**410,718**	405,232
Qualifying revolving retail	4,065	5,208	–	**9,273**	9,363
Other retail	1,391	361	–	**1,752**	1,736
Subject to foundation IRB approach					
Corporate	18,317	13,196	6,213	**37,726**	38,260
Sovereign(1)	159,291	839	1,978	**162,108**	172,898
Financial institution	29,985	17,619	17,397	**65,001**	66,968
Total IRB approach	**763,114**	**130,573**	**28,569**	**922,256**	**925,653**
Specialised lending	**2,363**	**696**	**129**	**3,188**	**3,500**
Subject to standardised approach					
Corporate	6,618	2,422	3,257	**12,297**	12,087
Residential mortgage	6,841	704	–	**7,545**	12,286
Other retail	5,295	3,215	–	**8,510**	8,596
Other	6,406	–	–	**6,406**	6,683
Total standardised approach	**25,160**	**6,341**	**3,257**	**34,758**	**39,652**
RBNZ regulated banking subsidiary	**112,758**	**8,368**	**3,483**	**124,609**	**127,771**
Total exposure at default	**903,395**	**145,978**	**35,438**	**1,084,811**	**1,096,576**

(1) The reduction in sovereign market related off-balance sheet exposures from 31 March 2024 to 30 September 2024 was largely due to a decrease in securities financing transaction exposures following repayment of the final tranches of the TFF during the period.

	As at 31 Mar 24				6 months ended 31 Mar 24
	On-balance sheet	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure at default	Average exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	173,828	25,155	3,084	**202,067**	198,020
Retail SME	16,965	7,682	-	**24,647**	24,459
Residential mortgage	341,521	58,226	-	**399,747**	396,409
Qualifying revolving retail	4,171	5,281	-	**9,452**	9,364
Other retail	1,395	325	-	**1,720**	1,689
Subject to foundation IRB approach					
Corporate	20,302	12,516	5,976	**38,794**	40,321
Sovereign	166,008	638	17,043	**183,689**	178,240
Financial institution	31,271	19,499	18,164	**68,934**	70,247
Total IRB approach	**755,461**	**129,322**	**44,267**	**929,050**	**918,749**
Specialised lending	**2,658**	**1,044**	**111**	**3,813**	**3,327**
Subject to standardised approach					
Corporate	6,595	2,244	3,038	**11,877**	12,581
Residential mortgage	15,696	1,331	-	**17,027**	16,943
Other retail	5,424	3,257	-	**8,681**	8,625
Other	6,960	-	-	**6,960**	6,952
Total standardised approach	**34,675**	**6,832**	**3,038**	**44,545**	**45,101**
RBNZ regulated banking subsidiary	**112,090**	**15,352**	**3,491**	**130,933**	**133,325**
Total exposure at default	**904,884**	**152,550**	**50,907**	**1,108,341**	**1,100,502**

Table 5.1.C Credit risk exposures by geography

The following table provides credit risk exposures by major geographical area, based on the booking office where the exposure was transacted.

	As at 30 Sep 24			
	Australia	New Zealand	Asia, Europe and Americas	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach				
Corporate (including SME)	199,464	–	11,468	**210,932**
Retail SME	24,746	–	–	**24,746**
Residential mortgage	410,718	–	–	**410,718**
Qualifying revolving retail	9,273	–	–	**9,273**
Other retail	1,752	–	–	**1,752**
Subject to foundation IRB approach				
Corporate	28,058	–	9,668	**37,726**
Sovereign	142,269	–	19,839	**162,108**
Financial institution	31,868	–	33,133	**65,001**
Total IRB approach	**848,148**	**–**	**74,108**	**922,256**
Specialised lending	**1,604**	**–**	**1,584**	**3,188**
Subject to standardised approach				
Corporate	10,846	–	1,451	**12,297**
Residential mortgage	7,545	–	–	**7,545**
Other retail	8,510	–	–	**8,510**
Other	5,659	–	747	**6,406**
Total standardised approach	**32,560**	**–**	**2,198**	**34,758**
RBNZ regulated banking subsidiary	**–**	**124,609**	**–**	**124,609**
Total exposure at default	**882,312**	**124,609**	**77,890**	**1,084,811**

	As at 31 Mar 24			
	Australia	New Zealand	Asia, Europe and Americas	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach				
Corporate (including SME)	192,340	–	9,727	**202,067**
Retail SME	24,647	–	–	**24,647**
Residential mortgage	399,747	–	–	**399,747**
Qualifying revolving retail	9,452	–	–	**9,452**
Other retail	1,720	–	–	**1,720**
Subject to foundation IRB approach				
Corporate	26,866	–	11,928	**38,794**
Sovereign	166,033	–	17,656	**183,689**
Financial institution	32,969	–	35,965	**68,934**
Total IRB approach	**853,774**	**–**	**75,276**	**929,050**
Specialised lending	**1,876**	**–**	**1,937**	**3,813**
Subject to standardised approach				
Corporate	10,551	–	1,326	**11,877**
Residential mortgage	17,027	–	–	**17,027**
Other retail	8,681	–	–	**8,681**
Other	6,277	–	683	**6,960**
Total standardised approach	**42,536**	**–**	**2,009**	**44,545**
RBNZ regulated banking subsidiary	**–**	**130,933**	**–**	**130,933**
Total exposure at default	**898,186**	**130,933**	**79,222**	**1,108,341**

Table 5.1.D Credit risk exposures by industry

The following table provides credit risk exposures by major industry type. Industry classifications follow ANZSIC Level 1 classifications.

	As at 30 Sep 24														
	Accommodation and hospitality	Agriculture, forestry, fishing and mining	Business services and property services	Commercial property	Construction	Finance and insurance	Government and public authorities	Manufacturing	Personal	Residential mortgages	Retail and wholesale trade	Transport and storage	Utilities	Other[1]	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach															
Corporate (including SME)	9,667	42,831	13,917	73,737	7,634	331	194	10,304	–	–	17,660	11,449	6,725	16,483	**210,932**
Retail SME	1,200	5,578	3,576	281	3,169	1,114	–	1,795	–	–	3,889	1,610	65	2,469	**24,746**
Residential mortgage	–	–	–	–	–	–	–	–	–	410,718	–	–	–	–	**410,718**
Qualifying revolving retail	–	–	–	–	–	–	–	–	9,273	–	–	–	–	–	**9,273**
Other retail	–	–	–	–	–	–	–	–	1,752	–	–	–	–	–	**1,752**
Subject to foundation IRB approach															
Corporate	338	4,405	3,229	2,855	1,158	406	–	3,660	–	–	6,454	6,969	5,385	2,867	**37,726**
Sovereign	–	–	–	–	–	97,162	64,946	–	–	–	–	–	–	–	**162,108**
Financial institution	–	–	–	–	–	65,001	–	–	–	–	–	–	–	–	**65,001**
Total IRB approach	**11,205**	**52,814**	**20,722**	**76,873**	**11,961**	**164,014**	**65,140**	**15,759**	**11,025**	**410,718**	**28,003**	**20,028**	**12,175**	**21,819**	**922,256**
Specialised lending	**–**	**466**	**–**	**–**	**–**	**–**	**–**	**223**	**–**	**–**	**–**	**440**	**1,591**	**468**	**3,188**
Subject to standardised approach															
Corporate	23	117	705	30	84	5,971	56	322	–	–	619	248	335	3,787	**12,297**
Residential mortgage	–	–	–	–	–	–	–	–	–	7,545	–	–	–	–	**7,545**
Other retail	–	–	–	–	–	–	–	–	8,510	–	–	–	–	–	**8,510**
Other	–	–	–	–	–	–	–	–	–	–	–	–	–	6,406	**6,406**
Total standardised approach	**23**	**117**	**705**	**30**	**84**	**5,971**	**56**	**322**	**8,510**	**7,545**	**619**	**248**	**335**	**10,193**	**34,758**
RBNZ regulated banking subsidiary	**1,429**	**15,520**	**2,092**	**7,648**	**1,865**	**13,757**	**5,778**	**3,965**	**1,375**	**58,008**	**5,043**	**2,713**	**686**	**4,730**	**124,609**
Total exposure at default	**12,657**	**68,917**	**23,519**	**84,551**	**13,910**	**183,742**	**70,974**	**20,269**	**20,910**	**476,271**	**33,665**	**23,429**	**14,787**	**37,210**	**1,084,811**

(1) Other includes health and community services, and education.

	As at 31 Mar 24														
	Accommodation and hospitality	Agriculture, forestry, fishing and mining	Business services and property services	Commercial property	Construction	Finance and insurance	Government and public authorities	Manufacturing	Personal	Residential mortgages	Retail and wholesale trade	Transport and storage	Utilities	Other[1]	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach															
Corporate (including SME)	9,258	41,801	12,932	69,890	7,262	381	671	10,265	–	–	17,479	11,960	5,829	14,339	**202,067**
Retail SME	1,151	5,630	3,690	280	3,086	1,137	–	1,746	–	–	3,776	1,563	58	2,530	**24,647**
Residential mortgage	–	–	–	–	–	–	–	–	–	399,747	–	–	–	–	**399,747**
Qualifying revolving retail	–	–	–	–	–	–	–	–	9,452	–	–	–	–	–	**9,452**
Other retail	–	–	–	–	–	–	–	–	1,720	–	–	–	–	–	**1,720**
Subject to foundation IRB approach															
Corporate	286	4,326	3,423	3,589	1,172	354	–	3,570	–	–	6,202	7,016	5,897	2,959	**38,794**
Sovereign	–	–	–	–	–	127,197	56,492	–	–	–	–	–	–	–	**183,689**
Financial institution	–	–	–	–	–	68,934	–	–	–	–	–	–	–	–	**68,934**
Total IRB approach	**10,695**	**51,757**	**20,045**	**73,759**	**11,520**	**198,003**	**57,163**	**15,581**	**11,172**	**399,747**	**27,457**	**20,539**	**11,784**	**19,828**	**929,050**
Specialised lending	**–**	**709**	**–**	**–**	**–**	**–**	**–**	**328**	**–**	**–**	**–**	**584**	**1,834**	**358**	**3,813**
Subject to standardised approach															
Corporate	22	114	752	24	91	5,743	27	339	–	–	666	241	339	3,519	**11,877**
Residential mortgage	–	–	–	–	–	–	–	–	–	17,027	–	–	–	–	**17,027**
Other retail	–	–	–	–	–	–	–	–	8,507	–	–	–	–	174	**8,681**
Other	–	–	–	–	–	–	–	–	–	–	–	–	–	6,960	**6,960**
Total standardised approach	**22**	**114**	**752**	**24**	**91**	**5,743**	**27**	**339**	**8,507**	**17,027**	**666**	**241**	**339**	**10,653**	**44,545**
RBNZ regulated banking subsidiary	**1,468**	**16,522**	**2,657**	**7,778**	**2,190**	**16,787**	**4,911**	**5,023**	**1,403**	**56,502**	**5,883**	**3,122**	**1,210**	**5,477**	**130,933**
Total exposure at default	**12,185**	**69,102**	**23,454**	**81,561**	**13,801**	**220,533**	**62,101**	**21,271**	**21,082**	**473,276**	**34,006**	**24,486**	**15,167**	**36,316**	**1,108,341**

(1) Other includes health and community services, and education.

Table 5.1.E Credit risk exposures by maturity

The following table provides a breakdown of credit risk exposures by residual contractual maturity, where:

- overdraft and other similar revolving facilities are allocated to the maturity bucket that most appropriately captures the maturity characteristics of the product.
- the maturity of derivatives subject to an International Swaps and Derivatives Association (ISDA) netting agreement is based on individual contract maturity.
- the no specified maturity category includes exposures related to credit cards, on demand facilities and guarantees with no fixed maturity date.

	As at 30 Sep 24				
	≤12 months	1 – 5 years	>5 years	No specified maturity	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	90,200	111,035	9,203	494	**210,932**
Retail SME	9,334	8,889	6,403	120	**24,746**
Residential mortgage	294	493	389,172	20,759	**410,718**
Qualifying revolving retail	–	–	–	9,273	**9,273**
Other retail	163	788	581	220	**1,752**
Subject to foundation IRB approach					
Corporate	10,386	22,420	4,836	84	**37,726**
Sovereign	104,313	18,082	39,648	65	**162,108**
Financial institution	41,784	21,718	1,493	6	**65,001**
Total IRB approach	**256,474**	**183,425**	**451,336**	**31,021**	**922,256**
Specialised lending	**760**	**1,779**	**649**	**–**	**3,188**
Subject to standardised approach					
Corporate	5,660	3,395	3,113	129	**12,297**
Residential mortgage	75	12	7,172	286	**7,545**
Other retail	1,041	162	–	7,307	**8,510**
Other	4,072	–	–	2,334	**6,406**
Total standardised approach	**10,848**	**3,569**	**10,285**	**10,056**	**34,758**
RBNZ regulated banking subsidiary	**25,757**	**31,964**	**59,812**	**7,076**	**124,609**
Total exposure at default	**293,839**	**220,737**	**522,082**	**48,153**	**1,084,811**

	As at 31 Mar 24				
	≤12 months	1 – 5 years	>5 years	No specified maturity	Total exposure at default
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	87,198	104,600	9,853	416	**202,067**
Retail SME	9,489	9,104	5,934	120	**24,647**
Residential mortgage	30	515	377,220	21,982	**399,747**
Qualifying revolving retail	–	–	–	9,452	**9,452**
Other retail	164	777	598	181	**1,720**
Subject to foundation IRB approach					
Corporate	11,197	22,380	5,144	73	**38,794**
Sovereign	132,034	13,257	38,308	90	**183,689**
Financial institution	43,233	23,968	1,692	41	**68,934**
Total IRB approach	**283,345**	**174,601**	**438,749**	**32,355**	**929,050**
Specialised lending	**465**	**2,405**	**943**	**–**	**3,813**
Subject to standardised approach					
Corporate	5,576	3,098	2,956	247	**11,877**
Residential mortgage	381	12	16,324	310	**17,027**
Other retail	1,270	122	–	7,289	**8,681**
Other	4,585	–	–	2,375	**6,960**
Total standardised approach	**11,812**	**3,232**	**19,280**	**10,221**	**44,545**
RBNZ regulated banking subsidiary	**25,559**	**37,891**	**58,437**	**9,046**	**130,933**
Total exposure at default	**321,181**	**218,129**	**517,409**	**51,622**	**1,108,341**

Credit provisions and losses

Table 5.1.F Provisions by asset class

The following table provides information on asset quality.

	As at 30 Sep 24			6 months ended 30 Sep 24	
	Non-performing exposures	Provision for non-performing exposures[1]	Of which: Individually assessed provision for credit impairment	Individually assessed credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	3,134	847	433	234	44
Retail SME	1,161	270	120	17	30
Residential mortgage	4,533	395	47	19	12
Qualifying revolving retail	36	14	-	48	43
Other retail	58	37	2	27	41
Subject to foundation IRB approach					
Corporate	4	2	2	-	-
Financial institution	28	11	9	1	-
Total IRB approach	**8,954**	**1,576**	**613**	**346**	**170**
Specialised lending	**-**	**-**	**-**	**5**	**6**
Subject to standardised approach					
Corporate	86	31	26	1	1
Residential mortgage	106	13	1	-	-
Other retail	85	36	-	40	40
Total standardised approach	**277**	**80**	**27**	**41**	**41**
RBNZ regulated banking subsidiary	**999**	**199**	**116**	**55**	**20**
Total	**10,230**	**1,855**	**756**	**447**	**237**

Provision for performing exposures[2]	**4,066**
Total provision for credit impairment on loans at amortised cost	**5,921**

(1) Provision for non-performing exposures represents Stage 3 expected credit losses, which are individually and collectively assessed.
(2) Provision for performing exposures represents Stage 1 and Stage 2 expected credit losses, which are collectively assessed.

Exposure type	As at 31 Mar 24 Non-performing exposures $m	Provision for non-performing exposures[1] $m	Of which: Individually assessed provision for credit impairment $m	6 months ended 31 Mar 24 Individually assessed credit impairment charge $m	Net write-offs $m
Subject to advanced IRB approach					
Corporate (including SME)	2,512	655	260	47	17
Retail SME	1,040	256	121	27	19
Residential mortgage	3,763	371	46	13	19
Qualifying revolving retail	41	25	-	40	34
Other retail	59	56	3	26	39
Subject to foundation IRB approach					
Corporate	17	3	2	(34)	(23)
Financial institution	21	8	6	(4)	(1)
Total IRB approach	**7,453**	**1,374**	**438**	**115**	**104**
Specialised lending	-	-	-	-	-
Subject to standardised approach					
Corporate	68	31	23	1	17
Residential mortgage	83	19	4	2	1
Other retail	89	34	-	37	34
Total standardised approach	**240**	**84**	**27**	**40**	**52**
RBNZ regulated banking subsidiary	**998**	**184**	**81**	**34**	**24**
Total	**8,691**	**1,642**	**546**	**189**	**180**

Provision for performing exposures[2]	**4,150**
Total provision for credit impairment on loans at amortised cost[3]	**5,792**

(1) Provision for non-performing exposures represents Stage 3 expected credit losses, which are individually and collectively assessed.
(2) Provision for performing exposures represents Stage 1 and Stage 2 expected credit losses, which are collectively assessed.
(3) Includes $25 million of provisions on certain loans measured at amortised cost for regulatory capital purposes and at fair value for accounting purposes.

Table 5.1.G Provisions by industry

The following table provides asset quality information by industry. Industry classifications follow ANZSIC Level 1 classifications.

	As at 30 Sep 24		6 months ended 30 Sep 24	
	Non-performing exposures	Individually assessed provision for credit impairment	Individually assessed credit impairment charge	Net write-offs
	$m	$m	$m	$m
Industry sector				
Accommodation and hospitality	206	18	-	2
Agriculture, forestry, fishing and mining	1,197	77	32	8
Business services and property services	398	98	2	9
Commercial property	994	32	14	1
Construction	357	59	10	18
Finance and insurance	86	18	7	1
Manufacturing	519	177	119	2
Personal	188	2	121	131
Residential mortgages	5,167	59	21	13
Retail and wholesale trade	581	150	97	24
Transport and storage	249	31	11	12
Utilities	9	1	5	6
Other[1]	279	34	8	10
Total	**10,230**	**756**	**447**	**237**

(1) Other includes health and community services, and education.

	As at 31 Mar 24		6 months ended 31 Mar 24	
	Non-performing exposures	Individually assessed provision for credit impairment	Individually assessed credit impairment charge	Net write-offs
	$m	$m	$m	$m
Industry sector				
Accommodation and hospitality	200	21	1	4
Agriculture, forestry, fishing and mining	977	54	15	8
Business services and property services	360	106	15	9
Commercial property	1,022	18	6	8
Construction	363	64	3	4
Finance and insurance	68	12	(3)	-
Manufacturing	290	67	18	2
Personal	192	3	108	111
Residential mortgages	4,259	60	22	20
Retail and wholesale trade	523	78	(23)	(18)
Transport and storage	185	33	13	25
Utilities	7	1	-	-
Other[1]	245	29	14	7
Total	**8,691**	**546**	**189**	**180**

(1) Other includes health and community services, and education.

Table 5.1.H Provisions by geography

The following table provides asset quality information by major geographical area, based on the booking office where the exposure was transacted.

	As at 30 Sep 24		
	Non-performing exposures	Individually assessed provision for credit impairment	Collective provision for credit impairment
	$m		$m
Geographic region			
Australia	9,217	635	4,299
New Zealand	999	116	825
Asia, Europe and Americas	14	5	41
Total	**10,230**	**756**	**5,165**

	As at 31 Mar 24		
	Non-performing exposures	Individually assessed provision for credit impairment	Collective provision for credit impairment(1)
	$m	$m	$m
Geographic region			
Australia	7,679	460	4,496
New Zealand	998	81	815
Asia, Europe and Americas	14	5	40
Total	**8,691**	**546**	**5,351**

(1) Includes $105 million in respect of derivatives at fair value. Credit-related adjustments in respect of derivatives are no longer presented as part of the collective provision for credit impairment.

Factors impacting loss experience in the period

Non-performing exposures

Non-performing exposures as at 30 September 2024 increased by $1,539 million compared to 31 March 2024. This mainly reflects higher arrears for the Australian mortgage portfolio combined with continued broad-based deterioration in the Business and Private Banking business lending portfolio.

Individually assessed provision for credit impairment

The individually assessed provision for credit impairment as at 30 September 2024 increased by $210 million compared to 31 March 2024, mainly due to new and increased individually assessed provisions raised in Business and Private Banking.

Individually assessed credit impairment charge

The individually assessed credit impairment charge for the six months ended 30 September 2024 was $447 million, $258 million higher than the six months ended 31 March 2024. The increase was mainly driven by:

- an increased charge in Business and Private Banking due to increased impairments, including the impairment of a small number of larger customers.
- a non-recurrence of write-backs and recoveries for a small number of larger customers in Corporate and Institutional Banking in the prior period.
- an increased charge in New Zealand Banking and Personal Banking.

Net write-offs

Net write-offs for the six months ended 30 September 2024 was $237 million, $57 million higher than the six months ended 31 March 2024. The increase was due to a higher level of write-off activity across the Australian business lending and unsecured retail portfolios.

Table 5.1.I Movement in provisions

The following table provides details of the movement in provisions over the reporting period for both the collective and individually assessed provision for credit impairment.

	6 months ended 30 Sep 24 $m	6 months ended 31 Mar 24 $m
Collective provision		
Collective provision on loans and advances at amortised cost at beginning of period	5,221	5,046
Net transfer to individually assessed provision	(102)	(76)
New and increased provisions (net of collective provision releases)	20	263
Foreign currency translation and other adjustments	26	(12)
Collective provision on loans and advances at amortised cost	**5,165**	**5,221**
Collective provision on loans at fair value(1)	-	25
Collective provision for credit impairment	**5,165**	**5,246**
Individually assessed provision		
Individually assessed provision on loans and advances at amortised cost at beginning of period	546	539
Net transfer from collective provision	102	76
New and increased provisions (net of collective provision releases)	442	243
Write-back of individually assessed provisions	(60)	(72)
Write-off from individually assessed provisions	(273)	(239)
Foreign currency translation and other adjustments	(1)	(1)
Individually assessed provision for credit impairment	**756**	**546**
Total provisions	**5,921**	**5,792**

(1) Certain loans are measured at amortised cost for regulatory capital purposes and at fair value for accounting purposes.

Loss experience and risk estimates

The following disclosures of loss experience and risk estimates compare estimates against actual outcomes over a period considered sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each asset class.

Changes in asset class definitions under the revised capital framework, which came into effect from 1 January 2023, have not been retrospectively applied to these disclosures[1]. Outcomes have been captured based on asset class definitions and prudential requirements prior to the revised capital framework until 31 March 2023, and outcomes since 1 April 2023 under the revised capital framework have been added to this historical information. For example, bank exposures were reported as an asset class prior to the revised capital framework, whereas now the broader asset class for financial institutions is reported. As a result, disclosures for the 10 years to 30 September 2024 for the financial institution asset class in Table 5.1.J (i) *Loss experience* and Table 5.1.J (ii) *Accuracy of risk estimates for probability of default and exposure at default* comprises the exposure-weighted average for the bank asset class for 8.5 years to 31 March 2023, and the financial institution asset class for 1.5 years to 30 September 2024. This does not impact Table 5.1.J (iii) *Accuracy of risk estimates for loss given default* as this disclosure excludes defaults for the most recent two years for asset classes other than qualifying revolving retail and other retail to allow sufficient time to complete asset workouts and recognition of any losses.

Table 5.1.J (i) Loss experience

The following table provides annual actual losses (i.e. net write-offs) and expected loss (EL), both calculated as an exposure-weighted average (before credit risk mitigation). Actual losses are historical based on a 10-year observation period, whereas EL for non-defaulted exposures is a function of long-run PD and stressed LGD. EL for defaulted exposures is the best estimate of expected loss for exposures under the advanced IRB approach, and is a function of EaD and supervisory estimates of LGD for exposures under the foundation IRB approach.

(1) An explanation of the changes to EaD and credit RWA on adoption of the revised capital framework is provided in the March 2023 Pillar 3 report in Table 4.1.B *Total and average credit risk exposures* and Table 3.1.A *Risk-weighted assets*, respectively.

Exposure type subject to IRB approach	As at 30 Sep 24	
	Exposure-weighted average actual loss	Exposure-weighted average EL
	$m	$m
Corporate (including SME)(1)	154	1,200
Sovereign(1)	–	3
Financial institution(1)	–	20
Retail SME(1)	40	179
Residential mortgage(1)	49	874
Qualifying revolving retail	122	173
Other retail	73	102
RBNZ regulated banking subsidiary		
Non-retail	36	343
Retail	14	125

(1) Refer to page 36 for details of the basis of preparation of this disclosure in light of asset class definition changes under the revised capital framework.

Exposure type subject to IRB approach	As at 31 Mar 24	
	Exposure-weighted average actual loss	Exposure-weighted average EL
	$m	$m
Corporate (including SME)(1)	176	1,236
Sovereign(1)	–	3
Financial institution(1)	–	12
Retail SME(1)	40	154
Residential mortgage(1)	53	853
Qualifying revolving retail	126	184
Other retail	73	103
RBNZ regulated banking subsidiary		
Non-retail	38	319
Retail	15	129

(1) Refer to page 36 for details of the basis of preparation of this disclosure in light of asset class definition changes under the revised capital framework.

Exposure type subject to advanced IRB approach	As at 30 Sep 23	
	Exposure-weighted average actual loss	Exposure-weighted average EL
	$m	$m
Corporate (including SME)	190	1,252
Sovereign	–	3
Bank	–	14
Retail SME	41	163
Residential mortgage	56	868
Qualifying revolving retail	133	185
Other retail	74	103
RBNZ regulated banking subsidiary		
Non-retail	38	344
Retail	15	125

Accuracy of risk estimates

The following tables compare the estimates of credit risk factors used within the calculation of regulatory capital with actual outcomes across asset classes.

An explanation of the internal ratings process and the application of credit risk models to calculate PD, EaD and LGD is provided within Section 5.3 *Internal ratings-based portfolios*.

Table 5.1.J (ii) Accuracy of risk estimates for probability of default and exposure at default

Accuracy of risk estimates for probability of default

The following table provides internal estimates of long-run PD and actual default rates by asset class. Averages of actual and estimated PD are calculated using the cohort that is not in default at the beginning of the reporting period and averaged out over a 10-year observation period. Only exposures with a balance outstanding at both the beginning and end of a 12-month period are included in the analysis.

Accuracy of risk estimates for exposure at default

The ratio of estimated to actual EaD in the following table provides a comparison of EaD for customers that are not in default at the beginning of the reporting period, with EaD at the point of default. A ratio greater than 1.0 signifies that on average, EaD is lower at the point of default than at the beginning of the reporting period.

	As at 30 Sep 24		
	Average estimated PD	Average actual PD	Ratio of estimated to actual EaD
Exposure type subject to IRB approach	%	%	
Corporate (including SME)[(1)(2)]	1.61	1.38	1.1
Sovereign[(1)(3)]	0.38	0.16	1.0
Financial institution[(1)(3)]	0.76	0.50	0.9
Retail SME[(1)]	2.48	1.99	1.1
Residential mortgage[(1)]	0.87	0.92	1.0
Qualifying revolving retail	1.30	1.26	1.1
Other retail	5.53	5.58	1.1
RBNZ regulated banking subsidiary[(4)]			
Corporate (including SME)	1.41	1.32	1.0
Residential mortgage	0.99	0.69	1.0

(1) Refer to page 36 for details of the basis of preparation of this disclosure in light of asset class definition changes under the revised capital framework.
(2) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information for this asset class has been included in the corporate asset class for the 8.5 years to 31 March 2023.
(3) Average actual PDs for sovereign and financial institution exposures are based on a low number of observed defaults.
(4) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.

	As at 31 Mar 24		
	Average estimated PD	Average actual PD	Ratio of estimated to actual EaD
Exposure type subject to IRB approach	%	%	
Corporate (including SME)[(1)(2)]	1.60	1.37	1.1
Sovereign[(1)(3)]	0.39	0.15	1.0
Financial institution[(1)(3)]	0.70	0.38	1.0
Retail SME[(1)]	2.46	1.98	1.1
Residential mortgage[(1)]	0.89	0.91	1.0
Qualifying revolving retail	1.39	1.28	1.1
Other retail	5.47	5.27	1.1
RBNZ regulated banking subsidiary[(4)]			
Corporate (including SME)	1.43	1.32	1.1
Residential mortgage	1.00	0.68	1.0

(1) Refer to page 36 for details of the basis of preparation of this disclosure in light of asset class definition changes under the revised capital framework.
(2) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information for this asset class has been included in the corporate asset class for the 9 years to 31 March 2023.
(3) Average actual PDs for sovereign and bank exposures are based on a low number of observed defaults.
(4) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.

Exposure type subject to advanced IRB approach	As at 30 Sep 23 Average estimated PD %	Average actual PD %	Ratio of estimated to actual EaD
Corporate (including SME)	1.62	1.37	1.1
Specialised lending[1]	1.62	1.50	1.1
Sovereign[2]	0.36	0.13	1.0
Bank[2]	0.42	0.12	1.0
Retail SME	2.47	1.96	1.1
Residential mortgage	0.87	0.91	1.0
Qualifying revolving retail	1.33	1.32	1.1
Other retail	5.04	5.22	1.1
RBNZ regulated banking subsidiary[3]			
Corporate (including SME)	1.44	1.36	1.0
Residential mortgage	1.01	0.68	1.0

(1) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information has been included in this disclosure.
(2) Average actual PDs for sovereign and bank exposures are based on a low number of observed defaults.
(3) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.

Table 5.1.J (iii) Accuracy of risk estimates for loss given default

The following table compares internal estimates of downturn LGD at the beginning of the year with actual losses.

Actual LGD has been calculated using net write-offs from defaults over a 10-year observation period to the reporting date, excluding recent defaults to allow sufficient time to complete the workout of the asset and recognition of any losses. For defaults relating to qualifying revolving retail and other retail, this period is the most recent 12 months and for all other asset classes this period is the most recent two years.

Exposure type subject to advanced IRB approach	As at 30 Sep 24 Average estimated downturn LGD %	Average actual LGD %
Corporate (including SME)[1]	34.0	9.4
Specialised lending[2]	31.2	2.9
Sovereign	13.8	–
Bank	58.9	–
Retail SME	30.6	11.9
Residential mortgage[1]	20.0	1.8
Qualifying revolving retail	81.4	49.8
Other retail	73.8	46.2
RBNZ regulated banking subsidiary[3]		
Corporate (including SME)	40.9	8.1
Residential mortgage[4]	23.0	1.7

(1) Estimated downturn LGD subject to APRA imposed regulatory floors.
(2) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information has been included in this disclosure.
(3) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.
(4) RBNZ prudential rules prescribe LGDs for residential mortgages.

	As at 31 Mar 24	
	Average estimated downturn LGD	Average actual LGD
Exposure type subject to advanced IRB approach	%	%
Corporate (including SME)[1]	34.6	10.9
Specialised lending[2]	30.5	3.0
Sovereign	15.0	-
Bank	59.6	-
Retail SME	31.2	12.6
Residential mortgage[1]	20.0	1.9
Qualifying revolving retail	82.5	50.0
Other retail	74.9	45.4
RBNZ regulated banking subsidiary[3]		
Corporate (including SME)	40.5	5.5
Residential mortgage[4]	23.4	1.9

(1) Estimated downturn LGD subject to APRA imposed regulatory floors.
(2) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information has been included in this disclosure.
(3) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.
(4) RBNZ prudential rules prescribe LGDs for residential mortgages.

	As at 30 Sep 23	
	Average estimated downturn LGD	Average actual LGD
Exposure type subject to advanced IRB approach	%	%
Corporate (including SME)[1]	32.3	16.4
Specialised lending[2]	29.8	6.1
Sovereign	15.0	-
Bank	58.8	-
Retail SME	31.5	13.1
Residential mortgage[1]	20.0	2.0
Qualifying revolving retail	82.5	50.2
Other retail	74.2	45.7
RBNZ regulated banking subsidiary[3]		
Corporate (including SME)	40.8	6.6
Residential mortgage[4]	23.7	2.1

(1) Estimated downturn LGD subject to APRA imposed regulatory floors.
(2) As a significant portion of specialised lending exposures that were subject to supervisory slotting prior to the implementation of the revised capital framework are now subject to the advanced or foundation IRB approaches, risk estimate information has been included in this disclosure.
(3) Risk estimate information has only been disclosed for the RBNZ regulated banking subsidiary's significant asset classes on the basis of materiality.
(4) RBNZ prudential rules prescribe LGDs for residential mortgages.

5.2 Standardised and supervisory slotting portfolios

Standardised credit risk portfolios

The standardised approach to credit risk is applied to:

- bank and sovereign exposures of the RBNZ regulated banking subsidiary in accordance with RBNZ prudential requirements.
- several regulatory prescribed portfolios, such as qualifying central clearing counterparties and margin lending.
- non-standard mortgages of the Level 2 Group excluding BNZ.
- other portfolios where the standardised approach to credit risk is applied by the Group, including the Citi consumer business.
- cash items in the process of collection, premises and other fixed assets, and all other exposures.

Fitch Ratings, Moody's Investor Services and S&P Global Ratings credit ratings are used to determine the risk-weights within the standardised approach. APRA's external rating grades table is used to map external ratings into an external rating grade or credit rating grade that defines the appropriate risk-weight as outlined in APS 112.

Table 5.2.A Standardised exposures by risk-weight

The following table provides credit risk exposures subject to the standardised approach by risk-weight.

	As at 30 Sep 24			As at 31 Mar 24		
	Level 2 Group excluding BNZ	RBNZ regulated banking subsidiary	Total exposure at default	Level 2 Group excluding BNZ	RBNZ regulated banking subsidiary	Total exposure at default
Risk-weights[(1)]	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
0%	1,062	11,407	12,469	1,076	12,607	13,683
2%	3,062	678	3,740	2,992	524	3,516
20%	5,338	3,143	8,481	6,630	2,678	9,308
25%	1,267	-	1,267	2,579	-	2,579
30%	1,454	-	1,454	2,939	-	2,939
35%	1,029	-	1,029	3,886	-	3,886
40%	887	1	888	1,368	1	1,369
45%	847	-	847	2,009	-	2,009
50%	231	1,201	1,432	932	1,801	2,733
75%	6,441	-	6,441	6,529	-	6,529
85%	2,509	-	2,509	1,101	-	1,101
100%	5,833	1,056	6,889	11,151	1,194	12,345
110%	3,776	-	3,776	-	-	-
Other risk-weights	633	-	633	933	-	933
Central counterparty default fund contribution guarantee	389	27	416	420	27	447
Total exposure at default subject to the standardised approach	**34,758**	**17,513**	**52,271**	**44,545**	**18,832**	**63,377**

(1) As outlined on page 10, effective 30 September 2024, a revision to APS 112 impacted the risk-weighting of certain unrated corporate exposures. Comparative information as at 31 March 2024 has been restated to disclose exposures risk-weighted at 85% (which were previously included in other risk-weights) to align to the presentation in the current period.

Portfolios subject to supervisory risk-weights under the internal ratings-based approach

Exposures associated with the financing of individual projects where repayment is highly dependent on the performance of the underlying pool or collateral, rather than the customer's creditworthiness, are subject to the supervisory slotting approach. Specialised lending is represented by the following sub-asset classes:

- project finance exposures.
- object finance exposures.
- commodities finance exposures.

In addition, supervisory risk-weights are applied to BNZ income-producing real estate exposures under RBNZ prudential requirements.

The Group maps its internal rating grades for specialised lending to the five supervisory slotting categories of strong, good, satisfactory, weak and default. Each slotting category is associated with a specific risk-weight for unexpected loss that broadly corresponds to a range of external credit assessments as detailed below, with the S&P Global Ratings external rating equivalent.

Supervisory category	Risk-weight	External rating equivalent
Strong	70%	BBB- or better
Good	90%	BB+ or BB
Satisfactory	115%	BB- or B+
Weak	250%	B to C
Default	n/a	n/a

Table 5.2.B Supervisory slotting exposures by risk-weight

The following table provides credit exposures for specialised lending exposures subject to supervisory slotting by risk-weight. Risk-weights for the RBNZ regulated banking subsidiary in the table below are prior to the application of APRA's 1.1 scaling factor.

	As at 30 Sep 24			As at 31 Mar 24		
	Level 2 Group excluding BNZ	RBNZ regulated banking subsidiary	Total exposure at default	Level 2 Group excluding BNZ	RBNZ regulated banking subsidiary	Total exposure at default
Risk-weights	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
70%	2,154	1,163	**3,317**	2,308	1,022	**3,330**
90%	756	4,313	**5,069**	1,105	4,104	**5,209**
115%	203	673	**876**	385	639	**1,024**
250%	75	149	**224**	15	155	**170**
Default	-	14	**14**	-	142	**142**
Total specialised lending exposure subject to supervisory slotting	**3,188**	**6,312**	**9,500**	**3,813**	**6,062**	**9,875**

5.3 Internal ratings-based portfolios

General disclosure on the internal ratings-based approach

The Group has been accredited by APRA to use its internal credit models and processes in determining RWA for its retail and non-retail credit portfolios.

The Group's internal ratings system measures credit risk using PD, EaD and LGD. Distinct PD, EaD and LGD models exist for the retail and non-retail credit portfolios, based on asset classes and customer segments.

Non-retail customers are assessed individually using a combination of expert judgement and statistical risk rating tools. For retail customers, operational scorecards are the primary method of risk rating. Rating approaches for each asset class are summarised in the table below.

Exposure type	Description of APRA prudential requirements	Rating approach
Non-retail exposures subject to the advanced IRB approach		
Corporate (including SME)	Corporations, partnerships, proprietorships, public sector entities and any other credit exposure not elsewhere classified.	Statistical risk model, external credit rating and expert judgement
Non-retail exposures subject to the foundation IRB approach		
Corporate	Corporations, partnerships, proprietorships and public sector entities with consolidated annual revenue greater than $750 million.	Statistical risk model, external credit rating and expert judgement
Sovereign	- Australian and overseas central and subnational governments. A subnational government is a government of a geographically defined part of a state which has powers to raise revenue and borrow money. - The Reserve Bank of Australia (RBA) and overseas central banks. - Multilateral development banks or institutions eligible for a zero risk-weight.	Statistical risk model, external credit rating and expert judgement
Financial institution	Legal entities whose main business includes the management of financial assets, lending, factoring, leasing, provision of credit enhancements, securitisation (excluding securitisation exposures subject to the requirements of APS 120), investments, financial custody, central counterparty services (excluding qualifying central counterparty exposures) and proprietary trading.	Statistical risk model, external credit rating and expert judgement
Retail exposures subject to the advanced IRB approach		
Retail SME	Non-complex exposures to small-business customers managed as part of a portfolio for risk management purposes where: - the consolidated annual revenue of borrower is less than $75 million, and - the total small-business-related exposure to the borrower is less than $1.5 million.	Statistical risk model
Residential mortgage	Exposures that are partly or fully secured by residential properties, managed in a similar manner to other retail exposures, and not for business purposes. This excludes non-standard mortgages.	Statistical risk model
Qualifying revolving retail	Consumer credit card exposures less than $100,000.	Statistical risk model
Other retail	Retail exposures other than residential mortgage and qualifying revolving retail, including personal loan products, overdrafts and transaction account exposures.	Statistical risk model

Internal risk rating and external ratings

The structure of the internal risk rating system and its relationship with external ratings provided by S&P Global Ratings and Moody's Investor Services is outlined below.

Internal risk rating and external ratings

Description	Internal rating	Probability of default (%)	S&P rating	Moody's rating
Super senior investment grade	1, 2	0<0.03	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3
Senior investment grade	3, 4, 5	0.03<0.11	A+, A, A-	A1, A2, A3
Investment grade	6, 7, 8, 9, 10, 11	0.11<0.55	BBB+, BBB, BBB-	Baa1, Baa2, Baa3
Acceptable	12, 13, 14, 15, 16, 17, 18, 19	0.55<5.01	BB+, BB, BB-, B+	Ba1, Ba2, Ba3, B1
Weak/doubtful	20, 21, 22, 23	5.01<99.99	B, B-, CCC+, CCC, CCC-	B2, B3, Caa,Ca
Default	98, 99	100	D	C

Internal ratings-based approach overview

Probability of default

PD measures the likelihood that a customer will default within a 12-month period. The Group uses two types of PD estimates:

- Point-in-time, which estimates the likelihood of default in the next 12 months taking account of the current economic conditions. Point-in-time PDs are used for management of the portfolio and the collective provision calculation.
- Through-the-cycle, which estimates the likelihood of default through a full credit cycle. Through-the-cycle PDs are used in the calculation of credit RWA.

The Group has a common masterscale across all counterparties (non-retail and retail) for PD.

Loss given default

LGD measures the portion of the exposure owed to the Group that would be lost in the event of the customer defaulting. LGD is calculated by using a set of estimated parameters including loss given realisation, post default path rates and bank value of collateral.

The Group applies stresses to the model factors to obtain downturn LGD estimates using internal data, external reference data and benchmarks, and by applying expert judgement or utilising regulatory imposed floors.

Exposure at default

EaD is calculated according to the facility type. The Group's EaD models predict the amount that is outstanding if the customer defaults. This amount includes principal, fees and interest owed at the time of default.

The Group applies stresses to the model factors to obtain downturn EaD estimates using internal data, benchmark studies and expert judgement.

Credit rating system control

In addition to monthly performance reporting, credit models are reviewed at least annually in accordance with the Group Model Risk Policy. Regular independent reviews are also conducted.

The outcomes of the model validation process, including proposed actions, are presented to the authorised risk committees for review and endorsement of any actions for implementation.

Internal ratings-based approach for non-retail credit

PD models

The Group has a number of PD models that differ by industry, segment and counterparty size, and incorporate regional variances.

The rating model used is dependent on:

- industry, based on ANZSIC classification.
- available financial information.
- qualitative information.
- exposure and product.

The quantitative factors consist of financial ratios and indicators, such as profitability, leverage and debt service coverage. The qualitative factors are based on qualitative data using the expert judgement of the lender and credit officer, such as management ability and industry outlook.

While factors predictive of default have broad similarities across segments (for example, debt service capability and management quality) and are inherently correlated, the modelling process establishes those factors that are most robustly predictive for each segment, along with their relative weightings. External benchmarking is used for certain segments that have insufficient internal data, a small population and/or low defaults. This is the case for externally-rated banks and sovereigns, where external rating agency data is used. The resultant rating is updated at least annually.

EaD models

EaD is calculated according to the facility type. Conversion factors are used for estimating off-balance sheet exposures into an equivalent on-balance sheet amount, based on internal data.

Eligible collateral is determined in accordance with APS 112 (Attachment G).

LGD models

LGD for the non-retail portfolio is calculated by using a set of estimated parameters including post default path relativities, secured and unsecured loss experience as well as bank value of collateral. LGD is segmented by customer type, customer size and nature of facility.

As the market value of the collateral and unsecured recoveries is affected by credit cycle changes, the impact of a credit cycle downturn on LGD has been incorporated.

The Group also uses the following factors for non-retail credit LGD models:

- relevant external benchmarks.
- secured and unsecured recovery rates.
- time value of money.
- principal and interest write-offs.

Where limited internal default data exists, data is supplemented by external benchmarks, market data and expert judgement.

Internal ratings-based approach for retail credit

PD models

Retail PD models are developed using:

- application data including external credit bureau data.
- customer and account level behavioural data (for example, delinquency or limit utilisation).

Each account is scored to assign a PD. This process allows groups of accounts with similar scores to be pooled together and mapped to the PD masterscale.

Appropriate long-run adjustments have been made to the models to account for performance over an economic cycle.

EaD models

Retail EaD models use a combination of credit conversion factors similar to those used in non-retail, as well as scaling factors.

For retail products, credit conversion factors have been developed mainly for revolving credit products, such as credit cards and overdrafts, and estimate the amount of unutilised credit a customer may draw in the lead up to default.

Scaling factors are applied mainly to term lending products, where the customer has less availability of unutilised credit from which to draw in the lead up to default.

LGD models

Key account variables, such as months exposure held and balance, are identified and modelled to provide an estimate of the probability that a loan that has defaulted would return to full performance (i.e. cure).

For accounts that do not cure and are written off, internal recovery data is used to assess the ultimate loss (i.e. initial loss, less recoveries achieved, plus costs of recovery).

Adjustments based on external data and expert judgement are made to the LGD to account for a downturn in the economic cycle, and are applied by varying the cure and recovery rates.

In Australia, lenders mortgage insurance is generally required for borrowing where the LVR is above 80% at origination. Such insurance does not currently influence the retail LGD metrics used. For loans secured by residential property, APRA has mandated the use of a supervisory floor of 10% for RWA purposes.

Portfolios subject to internal ratings-based approach

Table 5.3.A Non-retail exposures by risk grade

The following table provides a breakdown of non-retail credit exposures by PD risk grade.

	As at 30 Sep 24						
	PD risk grade						
	0<0.03%	0.03<0.11%	0.11<0.55%	0.55<2.00%	2.00<5.01%	5.01<99.99%	100%
	$m	$m	$m	$m	$m	$m	$m
Exposure at default							
Subject to advanced IRB approach							
Corporate (including SME)	–	7,622	54,439	119,165	22,116	4,437	3,153
Subject to foundation IRB approach							
Corporate	–	6,374	24,903	4,999	797	638	15
Sovereign	154,076	7,952	78	1	–	1	–
Financial institution	–	50,937	11,450	2,104	405	78	27
Total IRB approach	154,076	72,885	90,870	126,269	23,318	5,154	3,195
RBNZ regulated banking subsidiary	–	3,336	14,416	17,559	3,546	1,077	331
Total exposure at default	**154,076**	**76,221**	**105,286**	**143,828**	**26,864**	**6,231**	**3,526**
Undrawn commitments[1]							
Subject to advanced IRB approach							
Corporate (including SME)	–	2,746	7,254	9,591	1,738	293	118
Subject to foundation IRB approach							
Corporate	–	2,468	6,316	968	114	10	–
Sovereign	744	71	–	1	–	1	–
Financial institution	–	8,605	2,009	187	30	2	–
Total IRB approach	744	13,890	15,579	10,747	1,882	306	118
RBNZ regulated banking subsidiary	–	460	1,810	1,073	146	26	2
Total undrawn commitments	**744**	**14,350**	**17,389**	**11,820**	**2,028**	**332**	**120**
Average exposure at default ($m)[2]							
Subject to advanced IRB approach							
Corporate (including SME)	–	1.19	0.72	0.80	0.53	0.37	0.59
Subject to foundation IRB approach							
Corporate	–	5.38	1.93	0.89	1.49	2.14	0.42
Sovereign	46.03	8.60	4.88	0.03	small	0.03	–
Financial institution	–	0.54	0.96	0.73	0.58	0.27	0.36
RBNZ regulated banking subsidiary	–	1.12	0.88	0.70	0.49	0.56	0.75
Exposure-weighted average LGD (%)							
Subject to advanced IRB approach							
Corporate (including SME)	–	34.5%	24.5%	23.6%	24.5%	26.0%	28.9%
Subject to foundation IRB approach							
Corporate	–	46.1%	42.8%	38.8%	29.7%	44.1%	49.1%
Sovereign	5.0%	24.9%	25.0%	14.3%	42.0%	48.0%	n/a
Financial institution	–	44.6%	47.9%	37.8%	31.6%	28.3%	33.5%
RBNZ regulated banking subsidiary	–	44.7%	29.9%	31.7%	33.7%	37.8%	38.8%
Exposure-weighted average risk-weight (%)[3]							
Subject to advanced IRB approach							
Corporate (including SME)	–	20.6%	30.5%	48.8%	66.5%	117.8%	159.5%
Subject to foundation IRB approach							
Corporate	–	28.1%	52.1%	80.3%	89.9%	229.4%	–
Sovereign	0.8%	5.2%	50.6%	29.1%	117.6%	267.8%	–
Financial institution	–	21.2%	49.5%	97.7%	107.6%	142.1%	–
RBNZ regulated banking subsidiary	–	16.7%	36.7%	62.7%	89.1%	159.9%	278.5%

(1) Undrawn commitments are included in total exposure shown above.
(2) Simple average of exposure by number of arrangements.
(3) RWA overlay adjustments for regulatory prescribed methodology requirements have been excluded from exposure-weighted average risk weights.

	As at 31 Mar 24						
	PD risk grade						
	0<0.03%	0.03<0.11%	0.11<0.55%	0.55<2.00%	2.00<5.01%	5.01<99.99%	100%
	$m	$m	$m	$m	$m	$m	$m
Exposure at default							
Subject to advanced IRB approach							
Corporate (including SME)	–	7,400	53,225	113,400	21,736	3,770	2,536
Subject to foundation IRB approach							
Corporate	–	6,533	25,900	5,278	916	145	22
Sovereign	180,369	3,236	82	1	–	1	–
Financial institution	–	53,836	12,809	1,778	396	95	20
Total IRB approach	180,369	71,005	92,016	120,457	23,048	4,011	2,578
RBNZ regulated banking subsidiary	–	4,430	18,183	18,559	4,025	979	434
Total exposure at default	**180,369**	**75,435**	**110,199**	**139,016**	**27,073**	**4,990**	**3,012**
Undrawn commitments(1)							
Subject to advanced IRB approach							
Corporate (including SME)	–	2,626	7,150	8,829	1,825	183	117
Subject to foundation IRB approach							
Corporate	–	1,939	5,844	1,048	131	49	3
Sovereign	538	79	–	–	–	–	–
Financial institution	–	9,327	2,096	168	30	5	–
Total IRB approach	538	13,971	15,090	10,045	1,986	237	120
RBNZ regulated banking subsidiary	–	1,509	5,228	3,162	640	76	25
Total undrawn commitments	**538**	**15,480**	**20,318**	**13,207**	**2,626**	**313**	**145**
Average exposure at default ($m)(2)							
Subject to advanced IRB approach							
Corporate (including SME)	–	1.16	0.71	0.78	0.53	0.33	0.54
Subject to foundation IRB approach							
Corporate	–	6.00	2.00	1.14	1.41	0.67	0.36
Sovereign	51.55	3.37	3.89	0.03	small	0.07	–
Financial institution	–	0.68	1.01	0.61	0.59	0.30	0.42
RBNZ regulated banking subsidiary	–	1.39	0.89	0.61	0.46	0.60	0.75
Exposure-weighted average LGD (%)							
Subject to advanced IRB approach							
Corporate (including SME)	–	35.6%	25.4%	25.4%	26.6%	27.7%	30.0%
Subject to foundation IRB approach							
Corporate	–	46.2%	43.7%	38.7%	35.9%	41.6%	36.2%
Sovereign	5.0%	24.8%	25.0%	13.3%	17.7%	41.6%	n/a
Financial institution	–	45.4%	49.3%	36.4%	30.3%	32.5%	31.1%
RBNZ regulated banking subsidiary	–	41.6%	33.0%	31.6%	35.1%	37.4%	39.3%
Exposure-weighted average risk-weight (%)(3)							
Subject to advanced IRB approach							
Corporate (including SME)	–	20.3%	31.6%	53.2%	73.3%	110.8%	181.5%
Subject to foundation IRB approach							
Corporate	–	27.3%	53.9%	83.2%	107.9%	233.6%	–
Sovereign	0.6%	8.9%	51.0%	29.2%	58.5%	235.3%	–
Financial institution	–	21.6%	49.9%	92.5%	104.5%	157.2%	–
RBNZ regulated banking subsidiary	–	17.2%	38.5%	61.6%	91.6%	145.6%	263.4%

(1) Undrawn commitments are included in total exposure shown above.
(2) Simple average of exposure by number of arrangements.
(3) RWA overlay adjustments for regulatory prescribed methodology requirements have been excluded from exposure-weighted average risk weights.

Table 5.3.B Retail exposures by risk grade

The following table provides a breakdown of the retail credit exposures by PD risk grade.

	As at 30 Sep 24					
	PD risk grade					
	0<0.1%	0.1<0.5%	0.5<2.0%	2.0<5.0%	5.0<99.9%	100%
	$m	$m	$m	$m	$m	$m
Exposure at default						
Subject to advanced IRB approach						
Retail SME	523	6,284	11,136	4,462	1,168	1,173
Residential mortgage(1)	17,404	273,487	96,365	7,979	10,963	4,520
Qualifying revolving retail	–	5,621	2,202	993	425	32
Other retail	58	117	503	646	370	58
Total IRB approach	**17,985**	**285,509**	**110,206**	**14,080**	**12,926**	**5,783**
RBNZ regulated banking subsidiary	670	2,023	55,439	1,771	45	571
Total exposure at default	**18,655**	**287,532**	**165,645**	**15,851**	**12,971**	**6,354**
Undrawn commitments(2)						
Subject to advanced IRB approach						
Retail SME	281	2,609	2,761	648	132	84
Residential mortgage(1)	6,768	44,309	7,591	326	319	129
Qualifying revolving retail	–	4,184	790	187	47	–
Other retail	55	73	82	55	95	1
Total IRB approach	**7,104**	**51,175**	**11,224**	**1,216**	**593**	**214**
RBNZ regulated banking subsidiary	427	889	2,075	109	4	4
Total undrawn commitments	**7,531**	**52,064**	**13,299**	**1,325**	**597**	**218**
Average exposure at default ($m)(3)						
Subject to advanced IRB approach						
Retail SME	0.16	0.09	0.07	0.08	0.04	0.08
Residential mortgage	0.13	0.40	0.50	0.46	0.41	0.46
Qualifying revolving retail	–	0.01	0.01	0.01	0.01	0.01
Other retail	small	0.01	0.01	0.01	small	small
RBNZ regulated banking subsidiary	small	0.02	0.18	0.05	small	0.12
Exposure-weighted average LGD (%)						
Subject to advanced IRB approach						
Retail SME	21.9%	23.2%	25.0%	26.0%	27.1%	27.3%
Residential mortgage	11.6%	14.3%	19.8%	17.2%	16.6%	23.4%
Qualifying revolving retail	–	74.0%	74.8%	76.2%	76.6%	77.6%
Other retail	71.8%	72.5%	72.5%	72.7%	75.0%	82.0%
RBNZ regulated banking subsidiary	86.3%	34.9%	19.4%	22.8%	63.1%	23.0%
Exposure-weighted average risk-weight (%)(4)						
Subject to advanced IRB approach						
Retail SME	5.7%	14.5%	30.2%	48.7%	72.7%	175.6%
Residential mortgage	5.6%	12.7%	39.7%	77.7%	138.4%	192.9%
Qualifying revolving retail	–	8.1%	33.5%	74.0%	160.4%	228.5%
Other retail	12.6%	41.5%	87.9%	111.0%	157.5%	159.5%
RBNZ regulated banking subsidiary	13.4%	21.0%	28.9%	73.7%	121.9%	277.8%

(1) In the six months ended 30 September 2024, PD estimates for residential mortgage exposures subject to the advanced IRB approach were updated through the implementation of new PD models. This resulted in a change in the distribution of residential mortgage exposures across PD risk grades.
(2) Undrawn commitments are included in total exposure shown above.
(3) Simple average of exposure by number of arrangements.
(4) RWA overlay adjustments for regulatory prescribed methodology requirements have been excluded from exposure-weighted average risk weights.

Internal ratings-based portfolios (cont.)

	As at 31 Mar 24					
	PD risk grade					
	0<0.1%	0.1<0.5%	0.5<2.0%	2.0<5.0%	5.0<99.9%	100%
	$m	$m	$m	$m	$m	$m
Exposure at default						
Subject to advanced IRB approach						
Retail SME	568	6,421	11,095	4,383	1,146	1,034
Residential mortgage	64,632	207,429	94,494	16,059	13,348	3,785
Qualifying revolving retail	–	5,704	2,260	1,017	437	34
Other retail	61	114	497	639	354	55
Total IRB approach	**65,261**	**219,668**	**108,346**	**22,098**	**15,285**	**4,908**
RBNZ regulated banking subsidiary	838	2,119	54,095	1,864	61	452
Total exposure at default	**66,099**	**221,787**	**162,441**	**23,962**	**15,346**	**5,360**
Undrawn commitments(1)						
Subject to advanced IRB approach						
Retail SME	312	2,766	2,908	663	141	60
Residential mortgage	28,649	24,779	3,732	607	338	121
Qualifying revolving retail	–	4,218	818	196	49	–
Other retail	58	71	72	45	78	1
Total IRB approach	**29,019**	**31,834**	**7,530**	**1,511**	**606**	**182**
RBNZ regulated banking subsidiary	589	923	2,010	118	7	4
Total undrawn commitments	**29,608**	**32,757**	**9,540**	**1,629**	**613**	**186**
Average exposure at default ($m)(2)						
Subject to advanced IRB approach						
Retail SME	0.16	0.09	0.07	0.08	0.04	0.08
Residential mortgage	0.19	0.40	0.48	0.59	0.49	0.42
Qualifying revolving retail	–	0.01	0.01	0.01	0.01	0.01
Other retail	small	0.01	0.01	0.01	small	small
RBNZ regulated banking subsidiary	small	0.02	0.17	0.05	small	0.09
Exposure-weighted average LGD (%)						
Subject to advanced IRB approach						
Retail SME	23.2%	24.4%	26.6%	27.7%	27.8%	27.9%
Residential mortgage	13.3%	15.3%	17.3%	18.9%	18.0%	22.9%
Qualifying revolving retail	–	74.0%	74.7%	76.1%	76.4%	77.4%
Other retail	71.7%	72.3%	72.4%	72.6%	74.9%	82.4%
RBNZ regulated banking subsidiary	77.4%	35.6%	19.3%	22.2%	61.7%	23.4%
Exposure-weighted average risk-weight (%)(3)						
Subject to advanced IRB approach						
Retail SME	6.1%	15.1%	32.2%	51.3%	76.5%	174.2%
Residential mortgage	5.8%	13.1%	35.1%	88.2%	142.1%	188.6%
Qualifying revolving retail	–	8.0%	33.5%	73.7%	161.7%	269.2%
Other retail	12.5%	41.2%	88.0%	110.7%	156.2%	158.4%
RBNZ regulated banking subsidiary	12.5%	20.6%	28.5%	72.5%	120.2%	274.7%

(1) Undrawn commitments are included in total exposure shown above.
(2) Simple average of exposure by number of arrangements.
(3) RWA overlay adjustments for regulatory prescribed methodology requirements have been excluded from exposure-weighted average risk weights.

5.4 Credit risk mitigation

The Group employs a range of techniques to reduce risk in its credit portfolio. Credit risk mitigation commences with an objective credit evaluation of the counterparty. This includes an assessment of the counterparty's character, industry, business model and capacity to meet its commitments without distress. Other methods to mitigate credit risk include a prudent approach to facility structure, collateral, lending covenants and terms and conditions.

Collateral

Collateral provides a secondary source of repayment for funds being advanced in the event that a counterparty cannot meet its contractual repayment obligations.

Common types of collateral include:

- fixed and floating charges over business assets.
- residential, commercial and rural property.
- cash deposits.
- fixed income products.
- listed shares, bonds or securities.
- guarantees, letters of credit and pledges.

To ensure that collateral held is sufficiently liquid, enforceable and regularly valued, credit risk policy provides a framework to:

- establish the amount and quality of collateral required to support an exposure.
- determine acceptable valuation type and revaluation requirements for each collateral class.
- record market value and bank value, being a conservative assessment of value in the event the collateral is realised.

Income-producing real estate may be recognised as eligible collateral provided the conditions in APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk* are satisfied, including that:

- losses stemming from lower risk income-producing real estate lending are less than 0.3% of outstanding income-producing real estate exposures in each of the past three years. Lower risk income-producing real estate lending are exposures up to the lower of 50% of the market value or 60% of the lending value.
- overall losses stemming from income-producing real estate lending are less than 0.5% of outstanding income-producing real estate exposures in each of the past three years.

Losses stemming from income-producing real estate exposures of the Level 2 Group excluding BNZ have been below these thresholds, and the level of losses is monitored and measured by:

- summing income-producing real estate write-offs at arrangement level over each of the past three calendar years, and dividing these amounts by the sum of all arrangement-level exposures as at the end of each calendar year.
- identifying lower risk income-producing real estate exposures based on the haircut market value of collateral assessed against income-producing real estate exposures as at the end of the calendar year.

Guarantor and credit derivative counterparties

Guarantees from financially sound parties are sometimes required to support funds advanced to a counterparty. This can reduce the consequences of a default on their obligations. Where allowed in credit risk policy, guarantors that are risk rated may enhance the counterparty customer rating. Credit hedging is utilised in the banking book to avoid counterparty concentrations and achieve portfolio diversification.

Credit risk to individual hedge counterparties is mitigated through careful selection of counterparties with strong credit quality (investment grade or supported by appropriate credit support) and/or use of collateral agreements to manage net exposures.

Credit exposure netting

Credit exposure netting may be adopted to calculate counterparty credit exposures on a net basis. This recognises that the change in value for different products over time is not perfectly correlated. Transactions with positive value when netted may offset those with negative value.

Credit exposure netting is subject to execution of supporting legal documentation. A credit exposure measurement and reporting system manages the netting pools in accordance with that documentation.

Portfolio management

The Risk function manages the overall risk of the corporate, sovereign and bank credit portfolios. A variety of techniques are used to mitigate identified credit risks, including credit derivatives and, on occasion, the sale of loan assets (in consultation with the counterparties).

Internal reporting systems are utilised to record all:

- approved derivative, money market, credit line and/or credit trading facility limits.
- credit exposure arising from securities sales and purchases, money market lines, commodities, trade, derivative and foreign exchange transactions.
- country risk exposures for country limit purposes.

Limits may be established at a facility, product group or individual product level. A specialist administration unit operating independently of relationship managers, dealers and credit approvers record and maintain the limits.

Table 5.4.A Mitigation by eligible financial collateral

The following table provides credit risk exposures, in the form of gross exposures, covered by eligible financial collateral. The gross exposure amount is before the application of eligible financial collateral, and excludes positive haircut adjustments made in the calculation of EaD for repurchase agreements.

	As at 30 Sep 24	
Exposure type	Gross exposure $m	Covered by eligible financial collateral $m
Subject to advanced IRB approach		
Corporate (including SME)	211,345	413
Retail SME	24,746	–
Residential mortgage	410,718	–
Qualifying revolving retail	9,273	–
Other retail	1,752	–
Subject to foundation IRB approach		
Corporate	41,408	3,799
Sovereign	182,827	20,838
Financial institution	184,688	120,850
Total IRB approach	**1,066,757**	**145,900**
Specialised lending	**3,189**	**–**
Subject to standardised approach		
Corporate	46,780	34,510
Residential mortgage	7,547	2
Other retail	8,554	44
Other	6,406	–
Total standardised approach	**69,287**	**34,556**
RBNZ regulated banking subsidiary	**128,655**	**4,751**
Total exposure at default	**1,267,888**	**185,207**

	As at 31 Mar 24	
Exposure type	Gross exposure $m	Covered by eligible financial collateral $m
Subject to advanced IRB approach		
Corporate (including SME)	203,882	1,872
Retail SME	24,647	–
Residential mortgage	399,747	–
Qualifying revolving retail	9,452	–
Other retail	1,720	–
Subject to foundation IRB approach		
Corporate	41,771	3,070
Sovereign	217,531	39,251
Financial institution	181,203	113,284
Total IRB approach	**1,079,953**	**157,477**
Specialised lending	**3,813**	**–**
Subject to standardised approach		
Corporate	48,262	36,406
Residential mortgage	17,027	–
Other retail	8,716	35
Other	6,960	–
Total standardised approach	**80,965**	**36,441**
RBNZ regulated banking subsidiary	**138,116**	**7,211**
Total exposure at default	**1,302,847**	**201,129**

Table 5.4.B Mitigation by guarantees and credit derivatives

The following table provides credit risk exposures covered by guarantees and credit derivatives.

	As at 30 Sep 24		
	Exposure at default	Covered by guarantees	Covered by credit derivatives
Exposure type	**$m**	**$m**	**$m**
Subject to advanced IRB approach			
Corporate (including SME)	210,932	10,045	-
Retail SME	24,746	163	-
Residential mortgage	410,718	132	-
Qualifying revolving retail	9,273	-	-
Other retail	1,752	-	-
Subject to foundation IRB approach			
Corporate	37,726	12,079	-
Sovereign	162,108	-	-
Financial institution	65,001	1,577	-
Total IRB approach	**922,256**	**23,996**	**-**
Specialised lending	**3,188**	**58**	**-**
Subject to standardised approach			
Corporate	12,297	266	-
Residential mortgage	7,545	1	-
Other retail	8,510	-	-
Other	6,406	-	-
Total standardised approach	**34,758**	**267**	**-**
RBNZ regulated banking subsidiary	**124,609**	**3,710**	**-**
Total exposure at default	**1,084,811**	**28,031**	**-**

	As at 31 Mar 24		
	Exposure at default	Covered by guarantees	Covered by credit derivatives
Exposure type	**$m**	**$m**	**$m**
Subject to advanced IRB approach			
Corporate (including SME)	202,067	10,240	-
Retail SME	24,647	165	-
Residential mortgage	399,747	134	-
Qualifying revolving retail	9,452	-	-
Other retail	1,720	-	-
Subject to foundation IRB approach			
Corporate	38,794	11,200	-
Sovereign	183,689	-	-
Financial institution	68,934	1,762	-
Total IRB approach	**929,050**	**23,501**	**-**
Specialised lending	**3,813**	**77**	**-**
Subject to standardised approach			
Corporate	11,877	278	-
Residential mortgage	17,027	1	-
Other retail	8,681	-	-
Other	6,960	-	-
Total standardised approach	**44,545**	**279**	**-**
RBNZ regulated banking subsidiary	**130,933**	**4,137**	**-**
Total exposure at default	**1,108,341**	**27,994**	**-**

5.5 Counterparty credit risk

This section describes the Group's approach to managing credit risk relating to derivatives. Counterparty credit risk is the risk that a counterparty to a derivative transaction may default before final settlement of the transaction's cash flows. An economic loss could occur if a transaction with a defaulting counterparty has a positive economic value to the Group.

Credit limits

Credit limits for derivatives are approved and assigned by an appropriately authorised DCA based on the same principles (i.e. amount, tenor, PD, LGD and product type) and internal credit policies as those used for approving loans.

Credit exposures for each transaction are measured as the current mark-to-market value and the potential future credit exposure which is an estimate of the future replacement cost.

Limit excesses, whether they are active or passive, are subject to formal approval by a DCA.

Collateral

Counterparty credit exposures may be collateralised by an approved list of eligible collateral via market standard master agreements (ISDA master agreements and credit support annexes). Eligible collateral may be subject to haircuts depending on asset type. Counterparties may also be subject to posting collateral before a transaction is executed.

Wrong way risk

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. Credit exposures and potential losses may increase under these circumstances as a result of market conditions. The Group manages these risks through the implementation of risk policies.

Downgrade impact

As at 30 September 2024, the Group as party to derivative transactions would need to post an estimated amount of $13 million of collateral in the event of a one-notch downgrade to the Group's credit rating, and $45 million in the event of a two-notch downgrade.

Table 5.5.A (i) Net derivatives credit exposure

The following table provides the calculation of net derivatives credit exposure.

Net derivative credit exposure is measured:

- under the standardised approach for measuring counterparty credit risk exposures (SA-CCR) for exposures of the Level 2 Group excluding BNZ.
- under the current exposure method for BNZ exposures.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Gross positive fair value of derivative contracts	30,071	27,235
Netting and collateral benefits	(22,980)	(20,592)
Replacement cost (RC)	**7,091**	**6,643**
Potential future credit exposure	11,513	12,076
Effective expected positive exposure	**18,604**	**18,719**
Impact of 1.4 multiplier and incurred credit valuation adjustment[1]	7,354	7,407
Level 2 Group excluding BNZ net derivatives credit exposure	**25,958**	**26,126**
RBNZ regulated banking subsidiary net derivatives credit exposure	**1,898**	**1,676**
Total net derivatives credit exposure	**27,856**	**27,802**

(1) Incurred credit valuation adjustment is the loss expensed for accounting purposes.

Table 5.5.A (ii) Distribution of current credit exposure

The following table provides details of the net derivatives credit exposure by type of derivative.

	As at	
	30 Sep 24	31 Mar 24
Exposure type	$m	$m
Interest rate contracts	6,409	6,020
Foreign exchange and gold contracts	15,075	16,143
Equity contracts	24	27
Commodity contracts other than precious metals	1,374	1,119
Other market related contracts	27	30
Central counterparty[1]	3,049	2,787
Level 2 Group excluding BNZ net derivatives credit exposure	**25,958**	**26,126**
RBNZ regulated banking subsidiary net derivatives credit exposure	**1,898**	**1,676**
Total net derivatives credit exposure	**27,856**	**27,802**

(1) Derivative contracts with qualifying central clearing counterparties have not been broken down by type of derivative.

Table 5.5.B Credit derivative transactions

The following table provides the notional value of credit derivative transactions, segregated between use for the Group's own credit portfolio, as well as in its intermediation activities. This is broken down further by protection bought and sold.

	As at 30 Sep 24			As at 31 Mar 24		
	Protection bought notional	Protection sold notional	Total notional	Protection bought notional	Protection sold notional	Total notional
Credit derivative products	$m	$m	$m	$m	$m	$m
Credit default swaps used for own credit portfolio	1,760	-	1,760	2,130	-	2,130
Credit default swaps used for intermediation	1,480	2,047	3,527	889	1,695	2,584
Total credit derivative notional value	**3,240**	**2,047**	**5,287**	**3,019**	**1,695**	**4,714**

Securitisation

Introduction

Securitisation is a financing structure where the cash flows from a pool of assets are used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors).

Objectives of securitisation activities

The Group engages in securitisation activities in relation to third parties, as well as its own assets.

Third party securitisation activities include arranging securitisation transactions and providing facilities and funding to securitisation SPVs. They also include investing in securities issued by third party securitisation SPVs through primary and secondary market transactions. These activities support client and portfolio management objectives, and generate fee and interest income.

Own asset securitisation activities may be used for funding, capital and liquidity management purposes. This involves the sale of assets originated by the Group to an SPV, which then issues notes to third party investors. Where significant credit risk transfer is achieved, regulatory capital relief may be achieved. Facilities such as liquidity facilities and interest rate swaps may be provided to the SPV on an arm's length basis.

The Group has also established internal securitisation SPVs and holds the issued residential mortgage-backed securities (RMBS). These internal RMBS are available as collateral for contingent liquidity purposes as outlined in Section 9.1 *Funding and liquidity risk*.

Roles

The major roles undertaken by the Group in respect of securitisation are set out in the table below.

Securitisation activity	Role
Third party	Arranger, dealer, joint lead manager, cross currency swap provider, interest rate swap provider, liquidity facility provider, funding provider, investor
Own asset	Originator, seller, arranger, lead manager, manager, trust administrator, servicer, interest rate swap provider, liquidity facility provider, redraw facility provider

Third party securitisation activity is undertaken by Corporate & Institutional Banking, while own asset activity is conducted by Group Treasury. Both third party and own asset securitisation activity is also undertaken by BNZ.

Risk management

Risks arising from securitisation activities include credit risk, market risk, balance sheet and liquidity risk and operational risk. These risks are managed in accordance with the Group's risk management policies and frameworks described in Section 3 *Risk governance and management* and the sections on these material risks in this report.

Credit risk arising from securitisation exposures is managed in line with the framework and policies outlined in Section 5.1 *General disclosures* in the credit risk section. All securitisation exposures are subject to initial credit assessment and annual review. Factors such as underlying pool composition, type and level of credit enhancement, and structural features of the transaction are considered. Future cash flows are modelled and risk factors applied as appropriate. Exposures are monitored against limits relating to overall portfolio size and other attributes such as underlying asset class and geographical split.

Balance sheet and liquidity risk includes various structural, non-traded market risks which arise from exposures held in the banking book. Debt securities held in banking book portfolios are subject to VaR limits which are set in accordance with approved risk appetite and monitored daily. An independent price validation process is conducted monthly to evaluate the holding values of portfolio exposures. Contingent liquidity and potential collateral outflows are monitored against approved limits.

In conjunction with the policies and frameworks described above, third party securitisation activity is governed by the Third Party Securitisation Risk Policy. Compliance with this policy and the prudential requirements of APS 120 is monitored by a functionally independent risk oversight team.

All securitisation exposures are identified and recorded in appropriate finance and risk management applications. Underlying pool exposure data is obtained from both internal and external providers. This provides updated information on transaction performance and provides inputs into the regulatory capital calculation. Reporting, exposure monitoring and portfolio insights are prepared on a regular basis and are reported to the relevant risk committees as appropriate.

The Group has no exposures which are classified as resecuritisation exposures and does not actively target these types of exposures for investment.

Regulatory capital and compliance

The Group's management of the risks associated with securitisation and calculation of capital held against these exposures is governed by APS 120. The Group has policies and procedures in place to ensure compliance with the requirements of this prudential standard, which include:

- having a risk management framework in place for securitisation activities.
- ensuring disclosure of the nature of obligations arising from securitisation exposures.
- not providing implicit support to securitisation vehicles.
- calculating regulatory capital for credit risk from securitisation exposures of the Level 2 Group excluding BNZ.

A self-assessment demonstrating compliance with the prudential standard is prepared covering all securitisation transactions and is reviewed annually.

The Group complies with the approaches prescribed by APS 120 for calculating regulatory capital, namely the External Ratings-based Approach (ERBA) and the Supervisory Formula Approach (SFA). Under the ERBA, risk-weights are matched to external ratings provided by External Credit Assessment Institutions (ECAIs), varying according to tranche seniority and maturity. Where the use of ECAIs is relevant, the Group applies the ratings provided by S&P Global Ratings, Moody's Investor Services and/or Fitch Ratings. For unrated transactions, the SFA adjusts risk-weights according to the structural characteristics of the transaction, as well as the nature and performance of the underlying pool assets. In the event neither approach can be applied, the exposure is deducted from CET1 capital.

Securitisation exposures held in the trading book are subject to APS 116 *Capital Adequacy: Market Risk*.

Under the revised capital framework which came into effect on 1 January 2023, securitisation exposures of the RBNZ regulated banking subsidiary are outside the scope of APS 120, and are subject to the RBNZ's internal ratings-based approach.

Accounting policies

Third party securitisation - The accounting treatment for debt securities issued by, and warehouse facilities provided to, third party securitisation SPVs reflects the Group's business model for managing the asset.

Where debt securities give rise to contractual cash flows that are solely payments of principal and interest, they are measured at amortised cost provided the underlying pool of assets in the SPV contains one or more instruments that have contractual cash flows that are solely payments of principal and interest and the exposure to credit risk in the tranche is equal to or lower than the credit risk in the underlying pool of assets. Warehouse facilities are measured at amortised cost provided they meet similar contractually linked guidance.

Where debt securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, they are measured at fair value through other comprehensive income.

Derivatives with third party securitisation SPVs are measured at fair value through profit or loss.

Own asset securitisation - The accounting treatment for each transaction in the Group's own asset securitisation program is assessed against the requirements of the applicable accounting standards, particularly AASB 9 and AASB 10 *Consolidated Financial Statements*. Where the Group does not transfer substantially all risks and rewards associated with ownership, the assets are not derecognised from the balance sheet.

A funding liability measured at amortised cost is recognised in respect of the debt securities issued to third party investors.

Further information on the Group's accounting policies that are relevant to securitisation can be found in the 2024 Annual Report, in particular in the financial instruments overview section, and the notes on financial asset transfers and interest in subsidiaries and other entities.

Table 6.1.A Exposures securitised

The following table provides banking book exposures securitised by the Group and third party securitised assets where the Group is classified as a sponsor. The Group originated exposures can be broken down as follows:

- capital relief - significant risk transfer of the underlying exposure is achieved for regulatory purposes.
- funding only - significant risk transfer is not achieved.
- internal RMBS - securities are issued and held internally for contingent liquidity purposes (also known as self-securitisation).

	As at 30 Sep 24			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS(1)	Third party originated assets
Underlying asset	$m	$m	$m	$m
Residential mortgages	3,263	461	139,666	-

(1) Includes internal securitisation pools of RMBS that have been developed as a source of contingent liquidity to support the Group's liquid asset holdings. The amount of these securitised assets is $126,886 million.

	As at 31 Mar 24			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS(1)	Third party originated assets
Underlying asset	$m	$m	$m	$m
Residential mortgages	1,717	705	139,656	-

(1) Includes internal securitisation pools of RMBS that have been developed as a source of contingent liquidity to support the Group's liquid asset holdings. The amount of these securitised assets is $127,046 million.

There were no exposures securitised either in the trading book or synthetically by the Group as at 30 September 2024 or 31 March 2024.

Table 6.1.B Non-performing banking book exposures securitised

The following table provides non-performing exposures that have been originated and securitised by the Group in the banking book and any losses that have been recognised on these securitised exposures.

	As at 30 Sep 24			As at 31 Mar 24		
	Outstanding exposure	Non-performing exposures	Losses recognised	Outstanding exposure	Non-performing exposures	Losses recognised
Underlying asset	$m	$m	$m	$m	$m	$m
Residential mortgages	143,390	1,345	–	142,078	1,096	–

Table 6.1.C Recent securitisation activity

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 SPVs.

	6 months ended 30 Sep 24			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	$m	$m	$m	$m
Residential mortgages	1,546	(244)	10	–

	6 months ended 31 Mar 24			
	Group originated capital relief	Group originated funding only	Group originated internal RMBS	Gain or loss on sale
Underlying asset	$m	$m	$m	$m
Residential mortgages	(200)	(221)	(3,254)	–

The Group had no outstanding exposures in either the banking or trading book that were intended to be securitised as at 30 September 2024 or 31 March 2024.

Table 6.1.D Securitisation exposures retained or purchased

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 Sep 24			As at 31 Mar 24		
	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	272	1,117	**1,389**	193	1,058	**1,251**
Warehouse facilities	18,636	6,477	**25,113**	17,290	6,928	**24,218**
Securities	5,372	–	**5,372**	8,444	–	**8,444**
Derivatives	–	34	**34**	–	19	**19**
Total	**24,280**	**7,628**	**31,908**	**25,927**	**8,005**	**33,932**

The Group had $666 million of derivative exposures held in the trading book subject to the IMA under APS 116 as at 30 September 2024 (31 March 2024: $442 million). The Group had no trading book exposures subject to APS 120 which were either risk-weighted or deducted from capital at 30 September 2024 or 31 March 2024.

The Group had no exposures subject to early amortisation in either the banking or trading book at 30 September 2024 or 31 March 2024.

Table 6.1.E Securitisation exposures by risk-weight

The following table provides banking book securitisation exposures and RWA by risk-weight bands.

	As at 30 Sep 24		As at 31 Mar 24	
	Exposure	RWA	Exposure	RWA
Risk-weight bands	$m	$m	$m	$m
15% ≤ 25%	31,259	5,138	32,925	5,597
> 25% ≤ 35%	479	135	816	235
> 35% ≤ 50%	48	22	65	28
> 50% ≤ 75%	122	74	126	79
Total	**31,908**	**5,369**	**33,932**	**5,939**

The Group deducted $7 million of in-the-money derivatives provided to capital relief securitisation vehicles from CET1 capital as at 30 September 2024 (31 March 2024: $4 million).

Market risk

Introduction

The Group makes a distinction between traded and non-traded market risks for the purpose of managing market risk. This section relates to traded market risk. Non-traded market risks are discussed in Section 9 *Balance sheet and liquidity risk*.

The Group undertakes trading activities to support its customers and aims to profit in the short-term from differences in interest rate, credit, foreign exchange, commodity and equity markets. Traded market risk is the risk of gains or losses from the Group's trading activities resulting from market price movements.

The Group's exposure to market risk arises from its trading activities which are carried out by Corporate & Institutional Banking Markets, BNZ Markets and NAB Europe. This exposure is quantified for regulatory capital purposes using both the APRA-approved IMA and the standard method.

Management and governance

The Group's risk appetite for market risk is determined by the Board and is expressed in the RAS and governed by the Group Traded Market Risk Policy.

The market risk settings outlined in the Risk Setting Statement and the comprehensive market risk setting framework complement the RAS by providing further depth on the allocation of market risk appetite to asset classes, regions and trading desks as well as detailing permitted products and markets.

The overall framework of the Group Traded Market Risk Policy and the RAS provide direction for the monitoring, oversight, escalation and governance of traded market risk including delegated authorities, risk measurement, and reporting and control standards. These policies are consistent with the prudential regulatory requirements.

The market risk profile of the Group is overseen by the Board via the Board Risk & Compliance Committee, and key management committees including the Group Credit & Market Risk Committee, the Corporate & Institutional Banking Risk Committee and Corporate & Institutional Banking Markets Risk Council. These various committees and councils manage market risk with the following responsibilities:

- designing and implementing policies and procedures to ensure market risk is managed within the appetite set by the Board.
- reviewing market risks for consistency with approved market risk settings and risk appetite.
- overseeing the effectiveness and appropriateness of the Risk Management Framework.
- reviewing models.
- escalating market risk issues to the more senior committees as necessary.

Market Risk is independent of and separate from the areas that carry out trading activities and has responsibility for the daily measurement and monitoring of market risk exposures. The following key controls are in place for effective internal risk management, as well as compliance with prudential requirements:

- trading authorities and responsibilities are defined and monitored at all levels.
- a comprehensive and controlled framework of risk reporting and limit breach management.
- new product approval process and usage authority permitting desks to transact a particular product.
- daily end-of-day and intraday risk oversight as well as periodic desk review.
- back-testing of VaR results under the internal model for capital adequacy.
- segregation of duties in the origination, processing, and valuation of transactions operated under clear and independent reporting lines.
- regular and effective reporting of market risk to executive management and the Board.
- periodic review and update of compliance with internal policies and regulatory standards.
- independent and periodic review of compliance with policies, procedures, process and limits by Internal Audit.

Key methodologies for compliance with prudential requirements for positions held in the trading book are:

- models that are used to determine risk and financial profit or loss are independently validated with the review outcome documented and reported to the relevant committees on a regular basis.
- all trades are measured at fair value daily using independently sourced and validated rates in accordance with the Finance Rates and Revaluation Policy.

Measurement

VaR estimates the likelihood that a given portfolio's losses will exceed a certain amount. The Group uses VaR estimates for both regulatory capital calculations in accordance with APS 116 and for internal risk control purposes.

The Group is accredited by APRA to use a historical simulation model to simulate the daily change in market factors. VaR is calculated for all trades on an individual basis using a full revaluation approach. For capital purposes, VaR for products modelled using the IMA is calculated on a globally diversified basis and reported in Australian dollars in accordance with the following parameters:

- 99% one-tailed confidence level.
- holding period of 10 days.
- observation period of 550 days (unweighted, updated daily).

VaR limits are assigned to individual trading desks and regions or product lines in accordance with the RAS.

Market Risk monitors positions daily against the relevant limits and escalates any breaches in accordance with market risk policy and procedures. Additionally, Market Risk performs back-testing analysis to assess the validity of the VaR numbers when compared to the actual and hypothetical trading outcomes and to escalate any anomalies that may arise. Results of the back-testing are overseen by relevant risk councils and committees.

Stressed VaR is calculated using the same methodology as VaR but with an observation period based on a one-year period of significant market volatility.

Stress testing is carried out daily to test the profit or loss implications of extreme but plausible scenarios, and to reveal sensitivities in the portfolio that may only become apparent when modelling extreme market moves.

Stop loss limits represent trigger points at which an overnight or accumulated loss incurred by a trading desk would lead to escalation in accordance with agreed procedures.

Sensitivity and other market risk limits are set by Market Risk to manage market risk at a more granular level, for example, to manage concentration risk. These limits are monitored by Corporate & Institutional Banking Markets and independently by Market Risk.

Corporate & Institutional Banking Markets is responsible for managing risk and aiming to deliver profits, while ensuring compliance with all limits and policies.

Capital methodology

As detailed in the following table, the Group is accredited by APRA to use the IMA under APS 116 for all trading asset classes except for specific market risk and equities. These asset classes are managed with regulatory capital calculated as an add-on to that from the IMA. There are two types of market risk measures related to regulatory capital:

- general market risk which is related to changes in the overall market prices.
- specific market risk which is related to changes for the specific issuer.

In accordance with APS 110, the RWA equivalent for traded market risk using the IMA is the capital requirement multiplied by 12.5.

	Internal model approach	Standard method
Calculation	Internally-developed VaR calculation	As per APS 116 (Attachment B)
General market risk	Foreign exchange, commodities, credit, interest rate and inflation products	Equities
Specific market risk	n/a	All applicable products

Table 7.1.A Market risk risk-weighted assets

The following table provides a breakdown of market risk RWA.

	As at	
	30 Sep 24	31 Mar 24
	$m	$m
Market risk RWA under the internal model approach	**10,694**	**10,586**
Market risk RWA under the standard method		
Interest rate risk	729	574
Equity position risk	4	11
Total market risk RWA under the standard method	**733**	**585**
Total	**11,427**	**11,171**

Table 7.1.B Internal model approach Value-at-Risk and stressed Value-at-Risk

The following table provides information on the mean, minimum and maximum VaR and stressed VaR over the reporting period and at period end. VaR and stressed VaR provided are based on a 10-day holding period.

	6 months ended 30 Sep 24			As at
	Mean value	Minimum value	Maximum value	30 Sep 24
	$m	$m	$m	$m
At a 99% confidence level				
VaR	33.7	22.7	67.5	29.9
Stressed VaR	133.9	81.6	216.5	160.4

	6 months ended 31 Mar 24			As at
	Mean value	Minimum value	Maximum value	31 Mar 24
	$m	$m	$m	$m
At a 99% confidence level				
VaR	35.4	22.1	74.0	38.7
Stressed VaR	122.8	57.5	253.7	120.9

Back-testing

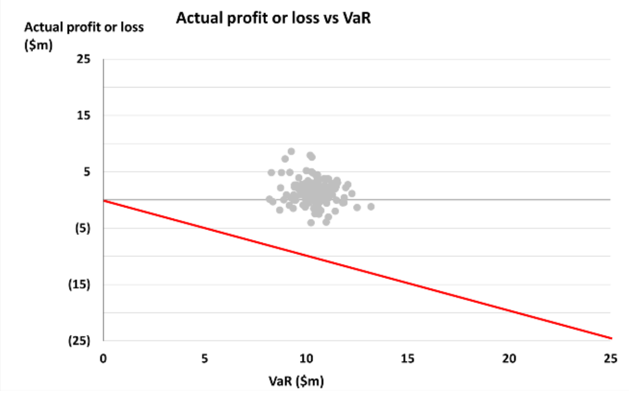
VaR estimates are back-tested regularly for reasonableness. Back-testing is a process that compares the Group's daily VaR estimates against both actual and hypothetical daily profit or loss to ensure that model integrity is maintained.

The results of back-testing are reported to senior management, risk committees and regulators. In addition to back-testing, the risk measurement model and all pricing models are subject to periodic reviews and independent validation at frequencies specified by the Group Model Risk Policy.

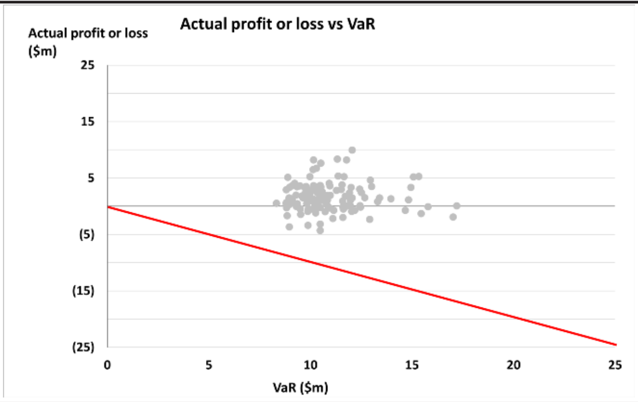
Back-testing results

The following graphs compare the Group's daily VaR estimates against actual profit or loss. The red line represents a one-to-one relationship between negative actual profit or loss and VaR, which is an indicator of the VaR model's performance.

Results for the six months ended 30 September 2024



Results for the six months ended 31 March 2024



Back-testing, carried out by comparing the Group's daily VaR estimate against actual profit or loss, identified no exceptions during the six months ended 30 September 2024 or the six months ended 31 March 2024. This remains within the model parameters and indicates acceptable operation of the VaR model within APRA's guidelines.

Operational risk

Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk but excludes strategic risk.

The Group aims to ensure that operational risk is identified, assessed and managed to acceptable levels while allowing for the achievement of business and strategic objectives and compliance with the Group's obligations.

Structure and organisation

The operational risk profile is overseen by the Board via the Board Risk & Compliance Committee and key management committees, including the Executive Risk & Compliance Committee which endorses the Risk Management Strategy and the RAS through to the Board Risk & Compliance Committee and ultimately the Board for approval. The Group's risk governance structure provides the Board and Board Risk & Compliance Committee with assurance over the performance of the overall Risk Management Framework. This is primarily achieved through the Resilience Risk team which provides the Board, Board Risk & Compliance Committee, Executive Risk & Compliance Committee, Group Non-Financial Risk Committee and the Risk Leadership Team with the information required to manage these responsibilities. This information ultimately allows the Board to discharge its responsibilities for managing the Group's operational risk exposures.

Management

Resilience Risk provides the policies, standards, processes and tools detailed in the Operational Risk Management Policy for the business to use in the identification, assessment, management, monitoring, measurement and reporting of operational risks.

Implementation of the Operational Risk Management Policy leads to:

- all colleagues taking responsibility for managing the operational risk inherent in their day-to-day activities.
- promoting and embedding a risk-conscious culture and behaviour throughout the Group.
- consistency in the identification, assessment, management, monitoring, measurement and reporting of operational risk.
- proactive identification and management of operational risks and events.
- risk decisions being made on an informed basis, considering risk appetite, thereby enhancing awareness and/or acceptance of operational risks.

The Group creates a risk-conscious environment through promoting a risk culture:

- of effective integration of operational risk management into day-to-day business decisions.
- where risk awareness and questioning are supported (including the exercise of appropriate judgement in the identification and management of risk).
- of compliance, not only within the strict parameters of the law, delegated authorities and other compliance requirements, but also extending to doing what is right.

The Operational Risk Management Policy applies to all entities within the Group, including any outsourced services undertaken on behalf of the Group.

Measurement

The capital attributed to operational risk is calculated under the SMA based on the Group's business indicator, which is a financial statement-based proxy of operational risk exposure. Should APRA consider that the regulatory capital for operational risk is not commensurate with the operational risk profile, APRA may require an adjustment to the level of capital.

Monitoring and reporting

The Resilience Risk team provides the following reporting:

- monthly reporting on significant loss events, emerging issues, oversight, monitoring, and review activity. This information is available to the Board Risk & Compliance Committee and Executive Risk & Compliance Committee as part of the Group Chief Risk Officer reporting material.
- regular material risk update papers to the Board Risk & Compliance Committee via the Executive Risk & Compliance Committee and Group Non-Financial Risk Committee.

The Group Chief Risk Officer and management risk committees may also request the Resilience Risk team to report on topics of operational risk such as technology risk, information security risk or business continuity management. Resilience Risk may also choose or be requested to undertake a deep dive review or provide analysis on a particular emerging issue or theme. Findings are reported and, if material, escalated through the risk governance structure.

Risk mitigation through insurance

The Group's insurance program is used to mitigate the financial impacts of operational risk exposures at the Group level. The Group maintains and monitors the insurance program within a defined risk appetite and ensures that it aligns with the Group's current and projected operational risk exposures.

The regulatory capital measure for operational risk does not include any adjustment for insurance.

Balance sheet and liquidity risk

9.1 Funding and liquidity risk

Introduction

Funding risk is the risk which arises due to change in appetite or capacity of the market to provide adequate short-term and long-term funds to meet the Group's strategic plans and objectives at an acceptable cost.

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. These obligations primarily include the repayment of deposits and the repayment of borrowings and loan capital as they mature.

The objectives of the Group in managing its funding and liquidity risks are to:

- ensure that the current and future payment obligations of the Group are met as they fall due.
- retain adequate liquidity buffers in the Group and subsidiary balance sheets so as to withstand severe market and institutional disruptions.
- meet planned business funding needs over a forward horizon.
- maintain access to global short-term and long-term debt capital markets and global secured funding markets.
- diversify funding sources in terms of maturity, currency, instrument, investor type and geographic region.

Liquidity and funding risk management

The Group's Liquidity Risk Management Framework is approved by the Board on an annual basis. The framework comprises the RAS, Group Liquidity Risk Policy, Funding Strategy, Contingent Funding Plan and ILAAP.

The RAS includes specific metrics relating to liquidity and funding risk. These metrics are determined with reference to outcomes of liquidity stress testing, management experience, rating agency expectations and peer alignment. Liquidity stress testing includes systemic, idiosyncratic and combined scenarios run over a mix of short and longer timeframes and severity.

The Group Liquidity Risk Policy requires that the Group maintain a liquid asset portfolio, comprising high-quality liquid assets (HQLA) that can be readily converted to cash and used to support intraday payments. The Group's liquid asset portfolio is maintained by geography, currency and legal entity across NAB, BNZ, NAB Europe and branches in London, New York and Asia. The liquidity portfolio comprises a mix of:

- cash.
- Australian government and semi-government securities, and foreign sovereign securities.
- central bank reserves.
- other securities that are eligible for repurchase with the RBA to support Exceptional Liquidity Assistance (ELA) such as the Committed Liquidity Facility (which was reduced to zero on 1 January 2023).

The target size, diversity and tenor of the Group's funding mix is set annually in the Funding Strategy. The strategy is updated quarterly to reflect current market conditions and outlook. The Group's funding is sourced from:

- customer deposits generated through transaction accounts, savings accounts and term deposits from individuals, small and medium-sized enterprises and corporations.
- wholesale funding in domestic and international markets including medium term notes, covered bonds, RMBS, commercial paper and certificates of deposits.

The Group's Contingent Funding Plan provides guidance on how the Group will respond in the event of a liquidity crisis including clear instructions on accountabilities, communication, escalation process, asset liquidation options and operational requirements. The Contingent Funding Plan is tested and updated annually. Early warning indicators provide insight into emerging periods of funding or liquidity stress and when to trigger the Contingent Funding Plan.

Measurement, monitoring and reporting

Liquidity risk is measured, managed and monitored daily on a cash flow basis, using scenario analysis, gap analysis and stress testing. Regulatory liquidity metric results are reported to the Board, Board Risk & Compliance Committee, Executive Risk & Compliance Committee and Group Asset & Liability Committee. The Group has clearly defined escalation procedures whereby liquidity events, both systemic and name-specific, are monitored and appropriate actions outlined against triggers.

9.2 Interest rate risk in the banking book

Introduction

Interest rate risk in the banking book (IRRBB) arises from changes in market interest rates that adversely impact the Group's financial condition in terms of earnings (net interest income) or economic value of the balance sheet. This includes:

- repricing risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- yield curve risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- basis risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- optionality risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risk types.

The Group aims to ensure that IRRBB is managed to optimise and stabilise the Group's economic value and earnings over an investment horizon.

Management

The Board approves the risk appetite for IRRBB as limits for RWA and earnings at risk.

Key elements of the management framework for IRRBB include the following:

- the Interest Rate Risk in the Banking Book Policy and standard operating procedures define the compliance and management framework to ensure that all interest rate risk positions in the banking book are identified, measured, managed and reported, and are aligned to the requirements of APS 117.
- the Group and subsidiary treasury functions are responsible for managing the interest rate risk profile of the balance sheet in line with the approved risk appetite. This includes development and execution of interest rate risk management strategies, and measurement of IRRBB exposures.
- the Funds Transfer Pricing Policy and guidance notes define the funds transfer pricing mechanism in place to transfer interest rate risk from originating divisions to Group Treasury for the management of interest rate risk.
- the Group's Line 2 risk teams are responsible for IRRBB monitoring and oversight and are independent of the Group and subsidiary treasury functions. They maintain a risk framework for IRRBB and have responsibility for limit compliance monitoring and reporting.
- periodic reporting to management and governance committees of IRRBB exposures and compliance.

Measurement

The Group has been accredited by APRA to use the IMA for the measurement of IRRBB. Interest rate risk is measured, managed and monitored using both the economic valuation approach and the earnings approach. The principal metrics used to measure and monitor IRRBB are as follows:

Measure	**Definition**
VaR	The potential loss in economic value implied by the static balance sheet that arises from changes to the current yield curve based upon historical observations for a given holding period and confidence level.
Earnings at risk	The potential loss in earnings implied by the static balance sheet over a 12-month forecast period, that arises from changes in the current yield curve based on historical observations for a given holding period and confidence level.
Market value	The present value of all known future cash flows implied by the static balance sheet on both a spot and historically cumulative basis.
Embedded value	The economic gain or loss implied by the static balance sheet which equates to the market value less the book value, less accrued interest.
Economic value sensitivity	The potential impact of a parallel decrease in interest rates on the present value of all known future cash flows implied by the static balance sheet.
Net interest income sensitivity	The potential impact of a parallel decrease in interest rates on the earnings over a 12-month forecast period implied by the static balance sheet.
Stress testing	The potential loss in earnings and economic value from large parallel and non-parallel yield curve shocks.

VaR and earnings at risk are measured with a three-month holding period and 99% confidence level for internal reporting purposes.

The Group incorporates behavioural modelling where contractual-based modelling is inappropriate for measuring IRRBB, such as for prepayments, non-interest bearing accounts, rate locks and CET1 capital. Any changes to the material assumptions require approval by subsidiary asset, liability and capital committees or the Group Asset & Liability Committee.

IRRBB regulatory capital includes amounts for repricing and yield curve risk, basis risk, optionality risk and embedded value. The components of IRRBB regulatory capital are calculated using a historical VaR simulation using at least six years of historical data at a 99% confidence level, a one-year investment term of capital, and a 12-month holding period.

The investment term of capital can be invested for a tenor between one year and five years. When invested for longer than a one-year tenor, the earnings offset will differ from regulatory capital.

Monitoring and reporting

The IRRBB metrics are measured and monitored on a monthly basis at a minimum. Compliance with limits is reported to subsidiary asset, liability and capital committees and the Group Asset & Liability Committee at each meeting. IRRBB regulatory capital is also calculated monthly.

Table 9.2.A Impact on economic value from rate shocks

The following table provides the increase or decrease in economic value for upward and downward rate shocks broken down by currency. The Group's major currencies are modelled on an individual basis. The remaining minor currencies are aggregated and modelled using a single yield curve. The 200 basis point (bp) interest rate shock results also account for earnings offset.

	As at 30 Sep 24		As at 31 Mar 24	
	200 bp parallel increase $m	200 bp parallel decrease $m	200 bp parallel increase $m	200 bp parallel decrease $m
Change in economic value				
AUD	(508)	533	(405)	431
NZD	(299)	310	(240)	270
USD	(55)	60	(111)	122
GBP	(18)	18	(11)	11
EUR	(6)	7	(3)	5
Other	(3)	3	(2)	4
Total change in economic value	**(889)**	**931**	**(772)**	**843**

9.3 Equity holdings in the banking book

Introduction

The Group mainly holds equities in the banking book for strategic purposes. From time to time, the Group also takes an equity stake in a customer as part of debt management activities. This exposes the Group to non-traded equity risk, which is the potential for financial loss as a result of reduction in the value of an equity investment.

Management

Banking book equity risk is managed via investment policy and Group Corporate Structure protocols. The Group Equity Risk in the Banking Book Policy defines the compliance and management framework in relation to undertaking, valuation and measurement, monitoring and reporting of equity investments outside of the trading book.

Business units are responsible for managing their approved equity investments in line with the requirements of the non-traded equity risk framework. Line 2 review and challenge the effectiveness of non-traded equity risk management.

Reporting of equity risk is included in reporting provided to senior management and risk committees.

Valuation and accounting

The accounting treatment for equity investments is dependent on whether the Group has significant influence over the investee. Where significant influence exists, the investment is classified as an associate and is accounted for using the equity method. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The Group's profit or loss includes its share of the associate's profit or loss, and the Group's other comprehensive income includes its share of the associate's other comprehensive income.

Equity investments that are not associates are classified on initial recognition as fair value through other comprehensive income or fair value through profit or loss. Fair value is defined as the sales price that would be received in an orderly transaction between market participants. Fair value for unlisted equities is determined using accepted market valuation techniques.

Table 9.3.A Equity holdings in the banking book

The following table provides the carrying value of equity investments as reported on the Level 2 Group's balance sheet, as well as the estimated fair value of those investments.

	As at 30 Sep 24		As at 31 Mar 24	
	Carrying value	Fair value	Carrying value	Fair value
	$m	$m	$m	$m
Listed equities	7	7	4	4
Unlisted equities	850	1,118	532	763
Total equities	**857**	**1,125**	**536**	**767**

Table 9.3.B Gains and losses from equity holdings

The following table provides realised and unrealised gains or losses before tax effect from equity investments, where:

- realised gains or losses represent the difference between the cost of equity investments and proceeds where there has been a sale in the six months to the end of the reporting period.
- cumulative unrealised gains or losses represent the difference between the cost of equity investments and their carrying value.

	30 Sep 24	31 Mar 24
	$m	$m
Gains/(losses) on equity investments		
Realised gains	-	-
Cumulative unrealised losses	(256)	(303)

9.4 Foreign exchange risk in the banking book

The Group's banking book has exposure to risk arising from currency movements as a result of participation in global financial markets and international operations. Foreign Exchange Risk in the Banking Book (FXRBB) arises from both operating business activities and structural foreign exchange exposures from foreign investments and capital management activities. The Group's main structural foreign exchange exposures are due to its investment in BNZ. Currency movements can impact profit or loss, cash flows and the balance sheet.

The Group's objective in relation to foreign exchange risk is to protect the Group's capital from the impact of currency movements and to manage non-structural foreign exchange risk within approved risk appetite.

The Board approves the risk appetite for FXRBB as a limit for RWA. In addition, with guidance from the Group Asset & Liability Committee and Board Risk & Compliance Committee, the Board monitors and reviews the adequacy of the Group's foreign exchange risk compliance and management framework developed by management.

Key elements of the management framework for FXRBB include the following:

- the Group Foreign Exchange Risk in the Banking Book Policy, which defines the compliance and management framework to ensure all foreign exchange positions (both structural and non-structural) in the banking book are identified, measured, managed and reported.
- the Group and subsidiary treasury functions are responsible for the development and execution of foreign exchange risk management strategies approved by the Board and the Group Asset & Liability Committee.
- the Group and subsidiary Line 2 risk teams provide independent oversight. They are responsible for monitoring and challenge and review of Line 1 to ensure FXRBB is managed in compliance with policy.
- periodic reporting to management and governance committees of FXRBB exposures and compliance.

9.5 Liquidity disclosures

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) measures the adequacy of HQLA available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario. The Board sets LCR targets above regulatory minimums and the Group manages its LCR position daily across the legal entity structure, major currencies and jurisdictions in which business activities are undertaken. The APRA minimum LCR is 100%. Liquid assets surplus to APRA minimums in New Zealand dollars are not included in LCR for the Level 2 Group, reflecting constraints on transferability.

The LCR for the three months ended 30 September 2024 and 30 June 2024 are presented in Table 9.5.A *Liquidity Coverage Ratio disclosure template*, and are based on a simple average of daily LCR outcomes excluding non-business days. There were 66 daily LCR data points used in calculating the average for the current quarter and 62 in the previous quarter.

Average LCR for the three months ended 30 September 2024 remained unchanged at 137%, with a $6.8 billion increase in average liquid assets, and a $5.4 billion increase in average net cash outflows,

The increase in average liquid assets was mainly a result of higher HQLA, partially offset by lower RBNZ securities.

The increase in average net cash outflows was largely due to modelling changes in derivative collateral requirements and higher cash outflows from wholesale deposits and unsecured wholesale funding in the 30-day stress period, partially offset by a decrease in cash outflows from secured wholesale funding related to repayment of the final tranches of the TFF in the prior quarter.

Table 9.5.A Liquidity Coverage Ratio disclosure template

		3 months ended			
		30 Sep 24		30 Jun 24	
		Unweighted value (average)(1)	Weighted value (average)	Unweighted value (average)(1)	Weighted value (average)
		$m	$m	$m	$m
Liquid assets, of which:			**214,662**		**207,855**
1	High-quality liquid assets (HQLA)(2)(3)		212,400		204,668
2	Alternative liquid assets (ALA)(3)		–		–
3	Reserve Bank of New Zealand (RBNZ) securities(2)(3)		2,262		3,187
Cash outflows					
4	Retail deposits and deposits from small business customers	286,005	29,101	279,039	28,339
5	of which: stable deposits	129,441	6,472	126,904	6,345
6	of which: less stable deposits	156,564	22,629	152,135	21,994
7	Unsecured wholesale funding	178,708	84,817	170,515	79,842
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	85,926	21,481	83,922	20,981
9	of which: non-operational deposits (all counterparties)	78,887	49,441	74,457	46,725
10	of which: unsecured debt	13,895	13,895	12,136	12,136
11	Secured wholesale funding(3)		15,058		19,051
12	Additional requirements	214,238	41,109	210,323	38,411
13	of which: outflows related to derivatives exposures and other collateral requirements	12,632	12,629	8,695	8,691
14	of which: outflows related to loss of funding on debt products	–	–	–	–
15	of which: credit and liquidity facilities	201,606	28,480	201,628	29,720
16	Other contractual funding obligations	81	81	106	106
17	Other contingent funding obligations	87,070	5,834	89,135	6,029
18	**Total cash outflows**		**176,000**		**171,778**
Cash inflows					
19	Secured lending (e.g. reverse repos)	50,074	5,345	43,496	4,455
20	Inflows from fully performing exposures	20,074	12,359	21,953	13,464
21	Other cash inflows	1,580	1,579	2,505	2,502
22	**Total cash inflows**	**71,728**	**19,283**	**67,954**	**20,421**
23	**Total liquid assets**		**214,662**		**207,855**
24	**Total net cash outflows**		**156,717**		**151,357**
25	**Liquidity Coverage Ratio (%)**		**137%**		**137%**

(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 September 2024 and 30 June 2024 was on average $7.0 billion and $6.3 billion respectively.
(3) Disclosed on a weighted basis only, consistent with the disclosure template prescribed by APS 330.

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the extent to which assets are funded with stable sources of funding in order to mitigate the risk of future funding stress. Available Stable Funding (ASF) is calculated by applying weightings to regulatory capital and liabilities to reflect the portion that is expected to be available over a one-year time horizon. The maturity of funding is taken as being the earliest date at which the funding can be withdrawn. Required Stable Funding (RSF) reflects the liquidity characteristics of the assets and the expectation that these assets and off-balance sheet exposures will require funding over the next year. The maturity of assets is taken as being the latest possible date at which the asset may mature. The APRA minimum NSFR is 100%.

The NSFR as at 30 September 2024 and 30 June 2024 are presented in Table 9.5B *Net Stable Funding Ratio disclosure template*, and are based on spot balances.

The NSFR increased from 116% at 30 June 2024 to 117% as at 30 September 2024, with a $4.5 billion increase in ASF to $677.7 billion, combined with a $1.5 billion decrease in RSF to $577.6 billion.

The increase in ASF was largely driven by growth in deposits from retail and small business customers, partially offset by lower wholesale funding and regulatory capital. The decrease in RSF was primarily due to a lower balance of securities that do not qualify as HQLA, combined with a decrease in RSF required on overall lending exposures, including reverse repurchase agreements.

Table 9.5.B Net Stable Funding Ratio disclosure template

		As at 30 Sep 24				
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
		$m	$m	$m	$m	$m
	Available Stable Funding (ASF) Item					
1	Capital	63,735	–	–	32,650	96,385
2	of which: regulatory capital	63,735	–	–	32,650	96,385
3	of which: other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers	270,271	94,462	53	–	335,513
5	of which: stable deposits	125,751	18,340	–	–	136,887
6	of which: less stable deposits	144,520	76,122	53	–	198,626
7	Wholesale funding	116,281	279,537	51,114	116,039	240,901
8	of which: operational deposits	82,539	–	–	–	41,269
9	of which: other wholesale funding	33,742	279,537	51,114	116,039	199,632
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	–	23,934	–	4,858	4,858
12	of which: NSFR derivative liabilities[1]			9,287		
13	of which: all other liabilities and equity not included in the above categories	–	14,647	–	4,858	4,858
14	**Total ASF**					**677,657**
	Required Stable Funding (RSF) Item					
15a	High-quality liquid assets (HQLA) for NSFR purposes					4,386
15b	Alternative liquid assets (ALA)					–
15c	RBNZ securities					296
16	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
17	Performing loans and securities	22,444	169,487	72,501	561,984	526,116
18	of which: performing loans to financial institutions secured by Level 1 HQLA	–	66,424	2,948	–	8,116
19	of which: performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	141	40,702	17,178	17,288	32,391
20	of which: performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs):	22,287	54,085	47,059	140,716	187,012
21	of which: with a risk-weight of less than or equal to 35% under APS 112	–	6,627	2,621	7,781	9,681
22	of which: performing residential property loans	–	4,534	4,514	398,845	290,312
23	of which: standard loans to individuals with a LVR of 80% or below[2]	–	–	–	274,246	178,260
24	of which: securities that are not in default and do not qualify as HQLA, including exchange-traded equities	16	3,742	802	5,135	8,285
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	13,726	6,407	94	40,770	36,027
27	of which: physical traded commodities, including gold	73				62
28	of which: assets posted as initial margin for derivative contracts and contributions to default funds of CCPs[1]			3,017		2,565
29	of which: NSFR derivative assets[1]			7,966		–
30	of which: NSFR derivative liabilities before deduction of variation margin posted[1]			16,424		3,285
31	of which: all other assets not included in the above categories	13,653	6,407	94	13,363	30,115
32	Off-balance sheet items[1]			216,368		10,743
33	**Total RSF**					**577,568**
34	**Net Stable Funding Ratio (%)**					**117%**

(1) Disclosed in total and not by maturity bucket, consistent with the disclosure template prescribed by APS 330.
(2) Comprises performing, unencumbered standard residential property loans to individuals with a maturity of one year or more and a LVR of 80% or below, as defined under APS 112.

		As at 30 Jun 24				
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
		$m	$m	$m	$m	$m
	Available Stable Funding (ASF) Item					
1	Capital	64,670	–	–	33,143	97,813
2	of which: regulatory capital	64,670	–	–	33,143	97,813
3	of which: other capital instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers	262,714	92,129	30	–	326,436
5	of which: stable deposits	123,044	17,955	–	–	133,950
6	of which: less stable deposits	139,670	74,174	30	–	192,486
7	Wholesale funding	118,427	270,727	64,739	115,220	244,436
8	of which: operational deposits	83,855	–	–	–	41,928
9	of which: other wholesale funding	34,572	270,727	64,739	115,220	202,508
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	–	15,827	–	4,428	4,428
12	of which: NSFR derivative liabilities(1)			4,306		
13	of which: all other liabilities and equity not included in the above categories	–	11,521	–	4,428	4,428
14	**Total ASF**					**673,113**
	Required Stable Funding (RSF) Item					
15a	High-quality liquid assets (HQLA) for NSFR purposes					4,448
15b	Alternative liquid assets (ALA)					–
15c	RBNZ securities					280
16	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
17	Performing loans and securities	24,942	167,248	68,271	561,777	528,585
18	of which: performing loans to financial institutions secured by Level 1 HQLA	–	59,881	4,033	–	8,005
19	of which: performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	598	40,890	19,675	15,864	32,782
20	of which: performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs):	22,842	58,375	38,823	141,899	186,920
21	of which: with a risk-weight of less than or equal to 35% under APS 112	–	5,579	3,365	8,104	9,739
22	of which: performing residential property loans	–	4,405	4,512	397,770	290,602
23	of which: standard loans to individuals with a LVR of 80% or below(2)	–	–	–	262,852	170,854
24	of which: securities that are not in default and do not qualify as HQLA, including exchange-traded equities	1,502	3,697	1,228	6,244	10,276
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	12,092	4,368	34	34,314	35,418
27	of which: physical traded commodities, including gold	3				2
28	of which: assets posted as initial margin for derivative contracts and contributions to default funds of CCPs(1)			3,101		2,636
29	of which: NSFR derivative assets(1)			5,323		1,017
30	of which: NSFR derivative liabilities before deduction of variation margin posted(1)			12,456		2,491
31	of which: all other assets not included in the above categories	12,089	4,368	34	13,434	29,272
32	Off-balance sheet items(1)			209,037		10,355
33	**Total RSF**					**579,086**
34	**Net Stable Funding Ratio (%)**					**116%**

(1) Disclosed in total and not by maturity bucket, consistent with the disclosure template prescribed by APS 330.

(2) Comprises performing, unencumbered standard residential property loans to individuals with a maturity of one year or more and a LVR of 80% or below, as defined under APS 112.

Reference to APS 330 tables

Table number	Table title	APS 330 reference
Table 4.1.A	Risk-weighted assets	APS 330 Table 6b-f and 6h
Table 4.1.B	Capital floor	APS 330 Table 6i
Table 4.1.C	Capital and leverage ratios	APS 330 Table 6g
Table 4.2.A	Regulatory capital structure	n/a
Table 4.3.A	Regulatory capital disclosure template	APS 330 Table 1
Table 4.3.B	Reconciliation between the Group and Level 2 Group balance sheet	APS 330 paragraph 13a, 13c and 13d
Table 4.3.C	Reconciliation between the Level 2 Group balance sheet and regulatory capital disclosure template	APS 330 paragraph 13d
Table 4.3.D	Entities excluded from the Level 2 Group balance sheet	APS 330 paragraph 13b and 14
Table 4.3.E	Countercyclical capital buffer	APS 330 Attachment A, paragraph 2
Table 4.4.A	Leverage ratio disclosure template	APS 330 Table 18
Table 4.4.B	Summary comparison of accounting assets vs leverage ratio exposure measure	APS 330 Table 19
Table 5.1.A	Credit risk summary	APS 330 Table 7b
Table 5.1.B	Total and average credit risk exposures	APS 330 Table 7b and 7i
Table 5.1.C	Credit risk exposures by geography	APS 330 Table 7c
Table 5.1.D	Credit risk exposures by industry	APS 330 Table 7d
Table 5.1.E	Credit risk exposures by maturity	APS 330 Table 7e
Table 5.1.F	Provisions by asset class	APS 330 Table 9e
Table 5.1.G	Provisions by industry	APS 330 Table 7f
Table 5.1.H	Provisions by geography	APS 330 Table 7g
Table 5.1.I	Movement in provisions	APS 330 Table 7h and 7j
Table 5.1.J (i)	Loss experience	APS 330 Table 9f
Table 5.1.J (ii)	Accuracy of risk estimates for probability of default and exposure at default	APS 330 Table 9f
Table 5.1.J (iii)	Accuracy of risk estimates for loss given default	APS 330 Table 9f
Table 5.2.A	Standardised exposures by risk-weight	APS 330 Table 8b
Table 5.2.B	Supervisory slotting exposures by risk-weight	APS 330 Table 8b
Table 5.3.A	Non-retail exposures by risk grade	APS 330 Table 9d
Table 5.3.B	Retail exposures by risk grade	APS 330 Table 9d
Table 5.4.A	Mitigation by eligible financial collateral	APS 330 Table 10b
Table 5.4.B	Mitigation by guarantees and credit derivatives	APS 330 Table 10c
Table 5.5.A (i)	Net derivatives credit exposure	APS 330 Table 11b
Table 5.5.A (ii)	Distribution of current credit exposure	APS 330 Table 11b
Table 5.5.B	Credit derivative transactions	APS 330 Table 11c
Table 6.1.A	Exposures securitised	APS 330 Table 12g and 12o
Table 6.1.B	Non-performing banking book exposures securitised	APS 330 Table 12h
Table 6.1.C	Recent securitisation activity	APS 330 Table 12i, 12j, 12p and 12q
Table 6.1.D	Securitisation exposures retained or purchased	APS 330 Table 12k, 12m, 12r, 12s, 12t and 12v
Table 6.1.E	Securitisation exposures by risk-weight	APS 330 Table 12l
Table 7.1.A	Market risk risk-weighted assets	APS 330 Table 13b
Table 7.1.B	Internal model approach Value-at-Risk and stressed Value-at-Risk	APS 330 Table 14f
Table 9.2.A	Impact on economic value from rate shocks	APS 330 Table 17b
Table 9.3.A	Equity holdings in the banking book	APS 330 Table 16b-c
Table 9.3.B	Gains and losses from equity holdings	APS 330 Table 16d-f
Table 9.5.A	Liquidity Coverage Ratio disclosure template	APS 330 Table 20
Table 9.5.B	Net Stable Funding Ratio disclosure template	APS 330 Table 21

Glossary

ADI
Authorised Deposit-taking Institution.

Advanced Internal Ratings-based Approach (Advanced IRB)
The approach used by the Group, under approval from APRA, to calculate the capital requirement for credit risk, which utilises the outputs of internally developed models for probability of default, loss given default and exposure at default.

ANZSIC
Australian and New Zealand Standard Industrial Classification.

APRA
Australian Prudential Regulation Authority.

APS
Prudential Standards issued by APRA applicable to ADIs.

Available Stable Funding (ASF)
The portion of an ADI's capital and liabilities expected to be reliably provided over a one-year time horizon.

Bank of New Zealand (BNZ)
Bank of New Zealand, a banking subsidiary regulated by the Reserve Bank of New Zealand.

Banking book
Exposures not contained in the trading book.

BCBS
Basel Committee on Banking Supervision.

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
Common Equity Tier 1 capital.

Citi consumer business
Citigroup's Australian consumer business, acquired by the Group in June 2022.

Citigroup
Citigroup Pty Limited and Citigroup Overseas Investment Corporation.

Common Equity Tier 1 capital ratio
Common Equity Tier 1 capital divided by risk-weighted assets.

Corporate
The corporate asset class in the credit risk disclosures consists of corporations, partnerships, public sector entities and any other credit exposure not classified elsewhere.

CPS
Prudential Standards issued by APRA applicable to regulated entities, including ADIs.

Credit valuation adjustment
A capital charge to reflect potential mark-to-market losses due to counterparty migration risk for bilateral over-the-counter derivative contracts.

D-SIB
Domestic Systemically Important Bank.

DCA
Delegated Commitment Authority.

Default
Aligned to the definition in APS 220 'Credit Risk Management', default occurs when a loan obligation is contractually 90 days or more past due, or when it is considered unlikely that the credit obligation will be paid in full without remedial action, such as realisation of security.

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 'Capital Adequacy: Standardised Approach to Credit Risk'. Recognition of EFC is subject to the minimum conditions detailed in APS 112.

ESG
Environmental, Social or Governance.

Exceptional Liquidity Assistance (ELA)
The provision of secured funding from the Reserve Bank of Australia to solvent banks through a term repurchase agreement for a short period of time during periods of acute liquidity difficulties.

Expected loss (EL)
Expected Loss for non-defaulted exposures is a function of long-run probability of default and stressed loss given default. Expected Loss for defaulted exposures:

- is the best estimate of expected loss for advanced IRB exposures.
- is a function of EaD and supervisory estimates of LGD for foundation IRB exposures.
- is a supervisory prescribed percentage of EaD for specialised lending exposures.

Expected Loss is not required to be calculated for exposures subject to the standardised approach.

Exposure at default (EaD)
An estimate of the credit exposure amount outstanding if a customer defaults. EaD is presented net of eligible financial collateral, except where indicated.

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'.

Foundation Internal Ratings-based Approach (Foundation IRB)
An approach to calculate the capital requirement for credit risk, which utilises the outputs of internally developed models for probability of default, and supervisory estimates for loss given default and exposure at default.

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'.

ICAAP
Internal Capital Adequacy Assessment Process.

ILAAP
Internal Liquidity Adequacy Assessment Process.

Internal Model Approach (IMA) - Non-traded Market Risk
The approach used by the Group, under approval from APRA, to calculate the capital requirement for non-traded market risk. The IMA is used to calculate interest rate risk in the banking book for transactions in the banking book.

Internal Model Approach (IMA) - Traded Market Risk
The approach used by the Group, under approval from APRA, to calculate the capital requirement for traded market risk. The IMA is used to calculate general market risk for transactions in the trading book, other than those covered by the standard method.

IRRBB
Interest rate risk in the banking book.

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.

LVR
Loan-to-valuation ratio.

NAB
National Australia Bank Limited ABN 12 004 044 937.

NAB Europe
National Australia Bank Europe S.A.

Net Stable Funding Ratio (NSFR)
A ratio of the amount of available stable funding to the amount of required stable funding.

Net write-offs
Write-offs, net of recoveries.

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.

RAS
Risk Appetite Statement.

RBA
Reserve Bank of Australia.

RBNZ
Reserve Bank of New Zealand.

Required Stable Funding (RSF)
The amount of stable funding an ADI is required to hold measured as a function of the liquidity characteristics and residual maturities of the various assets held by an ADI, including off-balance sheet exposures.

Revised capital framework
Revisions to APRA's capital adequacy and credit risk capital requirements for ADIs, which came into effect on 1 January 2023. The revised requirements are contained in APS 110 'Capital Adequacy', APS 112 'Capital Adequacy: Standardised Approach to Credit Risk' and APS 113 'Capital Adequacy: Internal Ratings-based Approach to Credit Risk'.

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.

SA-CCR
Standardised approach for measuring counterparty credit risk exposures.

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.

SPV
Special purpose vehicle.

Standard method
An alternative approach used to calculate the capital requirement for traded market risk, which applies supervisory risk-weights to positions arising from trading activities.

Standardised approach
An alternative approach used to calculate the capital requirement for 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.

Term Funding Facility (TFF)
A facility provided by the Reserve Bank of Australia to certain ADIs to support lending to Australian businesses. The facility was fully repaid by 30 June 2024.

Tier 1 capital ratio
Tier 1 capital divided by risk-weighted assets.

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.

Value-at-Risk (VaR)
A mathematical technique that uses statistical analysis of historical data to estimate the likelihood that a given portfolio's losses will exceed a certain amount.

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.

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