national australia bank

Pillar 3 Report

as at 30 June 2024

Incorporating the requirements of APS 330

National Australia Bank Limited ABN 12 004 044 937

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Introduction

National Australia Bank Limited (NAB or the Company) 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*. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's framework for bank capital adequacy on market discipline, and to contribute to the transparency of financial markets.

This document provides information about risk exposures, as well as the capital and liquidity adequacy of the Group, being NAB and its controlled entities.

Amounts are presented in Australian dollars unless otherwise stated, and have been rounded to the nearest million dollars ($m) except where indicated.

Capital adequacy methodologies

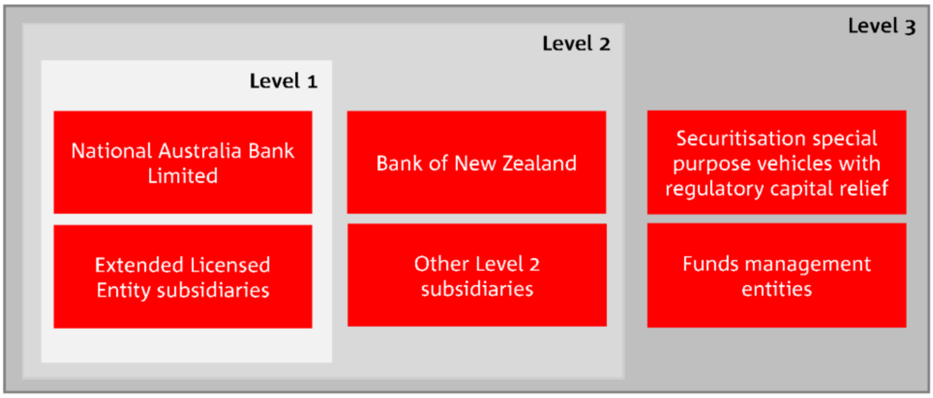
The Group uses the following approaches to measure capital adequacy as at 30 June 2024.

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 ratings-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. and other financial entities such as broking, wealth advisory and leasing companies.

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

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

Capital

Capital adequacy

The following table provides RWA for each risk type.

	As at	
	30 Jun 24	31 Mar 24
	$m	$m
Credit risk		
Subject to advanced IRB approach		
Corporate (including small and medium-sized enterprises (SME))	109,031	106,746
Retail SME	10,634	10,443
Residential mortgage[(1)]	99,638	107,716
Qualifying revolving retail	2,759	2,762
Other retail	1,914	1,873
Subject to foundation IRB approach		
Corporate	21,101	21,454
Sovereign	1,471	1,423
Financial institution	19,947	20,247
Total IRB approach	**266,495**	**272,664**
Specialised lending	**2,994**	**3,090**
Subject to standardised approach		
Corporate	7,421	6,897
Residential mortgage	6,498	6,558
Other retail	6,051	6,078
Other[(2)]	4,806	4,861
Total standardised approach	**24,776**	**24,394**
RBNZ regulated banking subsidiary	**51,231**	**53,147**
Other		
Securitisation exposures	5,545	5,939
Credit valuation adjustment	4,716	4,639
Total other	**10,261**	**10,578**
Total credit risk	**355,757**	**363,873**
Market risk	12,272	11,171
Operational risk	36,102	36,102
Interest rate risk in the banking book	21,412	21,407
Total RWA	**425,543**	**432,553**

(1) In the three months ended 30 June 2024, the probability of default (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 Group excluding BNZ.

(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 $112 million for equity exposures (31 March 2024: $112 million).

Capital

The following tables provide the capital ratios and leverage ratio.

From 1 April 2024, the Group revised its accounting treatment for the recognition of dividends. Dividends are recognised on the payment date as the Company does not incur a liability before this date. As a result, the 30 June 2024 capital and leverage ratios exclude the impact of the 2024 interim dividend that was paid on 3 July 2024.

	As at	
	30 Jun 24	**31 Mar 24**
Capital ratios	%	%
Level 2 Common Equity Tier 1	12.6	12.1
Level 2 Tier 1	14.9	14.1
Level 2 Total	21.1	20.3
Level 1 Common Equity Tier 1	12.5	11.8
Level 1 Tier 1	15.0	14.1
Level 1 Total	21.8	20.8

	As at			
	30 Jun 24	**31 Mar 24**	**31 Dec 23**	**30 Sep 23**
Leverage ratio	**$m**	**$m**	**$m**	**$m**
Tier 1 capital	63,276	61,133	60,181	61,726
Total exposures	1,188,241	1,198,406	1,190,152	1,183,323
Leverage ratio (%)	**5.3%**	**5.1%**	**5.1%**	**5.2%**

Credit risk

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 Jun 24				3 months ended 30 Jun 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)	178,554	25,414	2,510	**206,478**	204,272
Retail SME	17,418	7,430	–	**24,848**	24,748
Residential mortgage	341,637	57,170	–	**398,807**	399,277
Qualifying revolving retail	4,116	5,203	–	**9,319**	9,385
Other retail	1,397	342	–	**1,739**	1,730
Subject to foundation IRB approach					
Corporate	18,754	13,021	6,239	**38,014**	38,404
Sovereign(1)	157,429	705	1,181	**159,315**	171,502
Financial institution	31,154	19,506	18,008	**68,668**	68,801
Total IRB approach	**750,459**	**128,791**	**27,938**	**907,188**	**918,119**
Specialised lending	**2,501**	**1,076**	**86**	**3,663**	**3,738**
Subject to standardised approach					
Corporate	7,154	2,263	3,187	**12,604**	12,240
Residential mortgage	15,741	1,113	–	**16,854**	16,941
Other retail	5,417	3,097	–	**8,514**	8,597
Other	7,446	–	–	**7,446**	7,203
Total standardised approach	**35,758**	**6,473**	**3,187**	**45,418**	**44,981**
RBNZ regulated banking subsidiary(2)	**110,520**	**8,225**	**3,151**	**121,896**	**126,415**
Total exposure at default	**899,238**	**144,565**	**34,362**	**1,078,165**	**1,093,253**

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

(2) The reduction in RBNZ regulated banking subsidiary non-market related off-balance sheet exposures from 31 March 2024 to 30 June 2024 was mainly driven by the adoption of standardised credit conversion factors for certain non-retail exposures.

Credit risk (cont.)

	As at 31 Mar 24				3 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**	199,710
Retail SME	16,965	7,682	-	**24,647**	24,564
Residential mortgage	341,521	58,226	-	**399,747**	398,353
Qualifying revolving retail	4,171	5,281	-	**9,452**	9,450
Other retail	1,395	325	-	**1,720**	1,708
Subject to foundation IRB approach					
Corporate	20,302	12,516	5,976	**38,794**	39,693
Sovereign	166,008	638	17,043	**183,689**	183,229
Financial institution	31,271	19,499	18,164	**68,934**	67,448
Total IRB approach	**755,461**	**129,322**	**44,267**	**929,050**	**924,155**
Specialised lending	**2,658**	**1,044**	**111**	**3,813**	**3,474**
Subject to standardised approach					
Corporate	6,595	2,244	3,038	**11,877**	11,791
Residential mortgage	15,696	1,331	-	**17,027**	16,904
Other retail	5,424	3,257	-	**8,681**	8,675
Other	6,960	-	-	**6,960**	6,583
Total standardised approach	**34,675**	**6,832**	**3,038**	**44,545**	**43,953**
RBNZ regulated banking subsidiary	**112,090**	**15,352**	**3,491**	**130,933**	**132,435**
Total exposure at default	**904,884**	**152,550**	**50,907**	**1,108,341**	**1,104,017**

Credit provisions and losses

The following table provides information on asset quality.

	As at 30 Jun 24			3 months ended 30 Jun 24	
	Non-performing exposures	Provision for non-performing exposures[1]	Of which: Individually assessed provision	Individually assessed credit impairment charge	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to advanced IRB approach					
Corporate (including SME)	2,835	703	258	23	13
Retail SME	1,103	268	126	11	10
Residential mortgage	4,238	440	49	10	6
Qualifying revolving retail	40	26	–	22	23
Other retail	58	53	3	15	23
Subject to foundation IRB approach					
Corporate	4	2	2	1	–
Financial institution	29	11	8	–	–
Total IRB approach	**8,307**	**1,503**	**446**	**82**	**75**
Specialised lending	**–**	**–**	**–**	**–**	**–**
Subject to standardised approach					
Corporate	60	28	23	1	1
Residential mortgage	117	15	1	–	–
Other retail	104	41	3	15	14
Total standardised approach	**281**	**84**	**27**	**16**	**15**
RBNZ regulated banking subsidiary	**1,038**	**185**	**95**	**22**	**8**
Total	**9,626**	**1,772**	**568**	**120**	**98**

Provision for performing exposures[2]	**4,034**
Total provision for credit impairment on loans at amortised cost[3]	**5,806**

(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 $22 million of provisions on certain loans measured at amortised cost for regulatory capital purposes and at fair value for accounting purposes.

Exposure type	As at 31 Mar 24			3 months ended 31 Mar 24	
	Non-performing exposures	Provision for non-performing exposures[1]	Of which: Individually assessed provision	Individually assessed credit impairment charge	Net write-offs
	$m	$m	$m	$m	$m
Subject to advanced IRB approach					
Corporate (including SME)	2,512	655	260	26	11
Retail SME	1,040	256	121	19	9
Residential mortgage	3,763	371	46	6	7
Qualifying revolving retail	41	25	-	21	17
Other retail	59	56	3	14	25
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**	**48**	**45**
Specialised lending	**-**	**-**	**-**	**-**	**-**
Subject to standardised approach					
Corporate	68	31	23	1	17
Residential mortgage	83	19	4	-	-
Other retail	89	34	-	17	17
Total standardised approach	**240**	**84**	**27**	**18**	**34**
RBNZ regulated banking subsidiary	**998**	**184**	**81**	**24**	**12**
Total	**8,691**	**1,642**	**546**	**90**	**91**

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.

Securitisation

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.

	3 months ended 30 Jun 24			
Underlying asset	Group originated capital relief $m	Group originated funding only $m	Group originated internal RMBS $m	Gain or loss on sale $m
Residential mortgages	1,897	(41)	(52)	–

	3 months ended 31 Mar 24			
Underlying asset	Group originated capital relief $m	Group originated funding only $m	Group originated internal RMBS $m	Gain or loss on sale $m
Residential mortgages	(85)	(47)	(3,878)	–

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 Jun 24			As at 31 Mar 24		
Securitisation exposure type	On-balance sheet $m	Off-balance sheet $m	Total $m	On-balance sheet $m	Off-balance sheet $m	Total $m
Liquidity facilities	283	1,094	**1,377**	193	1,058	**1,251**
Warehouse facilities	17,182	6,379	**23,561**	17,290	6,928	**24,218**
Securities	6,633	–	**6,633**	8,444	–	**8,444**
Derivatives	–	41	**41**	–	19	**19**
Total	**24,098**	**7,514**	**31,612**	**25,927**	**8,005**	**33,932**

The Group had $472 million of derivative exposures to third party securitisation vehicles held in the trading book as at 30 June 2024 (31 March 2024: $442 million).

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) for the three months ended 30 June 2024 and 31 March 2024 presented in the disclosure template below is based on a simple average of daily LCR outcomes, excluding non-business days. There were 62 daily LCR data points used in calculating the average for the current and previous quarters.

Average LCR for the three months ended 30 June 2024 decreased to 137% driven by an increase in average net cash outflows of $2.0 billion, which was partially offset by an increase in liquid assets of $0.8 billion.

The increase in average net cash outflows was largely due to repayment of the final tranches of the Term Funding Facility during the quarter, which was partially offset by reductions in short term wholesale funding and deposit cash outflows.

The increase in liquid assets was mainly attributable to an increase in RBNZ securities, partially offset by lower high-quality liquid assets (HQLA).

Liquidity Coverage Ratio disclosure template

		3 months ended			
		30 Jun 24		31 Mar 24	
		Unweighted value (average)[1]	Weighted value (average)	Unweighted value (average)[1]	Weighted value (average)
		$m	$m	$m	$m
Liquid assets, of which:			**207,855**		**207,086**
1	High-quality liquid assets (HQLA)[2][3]		204,668		205,306
2	Alternative liquid assets (ALA)[3]		–		–
3	Reserve Bank of New Zealand (RBNZ) securities[2][3]		3,187		1,780
Cash outflows					
4	Retail deposits and deposits from small business customers	279,039	28,339	277,862	29,510
5	of which: stable deposits	126,904	6,345	122,849	6,142
6	of which: less stable deposits	152,135	21,994	155,013	23,368
7	Unsecured wholesale funding	170,515	79,842	178,480	85,935
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	83,922	20,981	85,282	21,320
9	of which: non-operational deposits (all counterparties)	74,457	46,725	76,748	48,165
10	of which: unsecured debt	12,136	12,136	16,450	16,450
11	Secured wholesale funding[3]		19,051		7,840
12	Additional requirements	210,323	38,411	211,856	39,941
13	of which: outflows related to derivatives exposures and other collateral requirements	8,695	8,691	8,957	8,955
14	of which: outflows related to loss of funding on debt products	–	–	–	–
15	of which: credit and liquidity facilities	201,628	29,720	202,899	30,986
16	Other contractual funding obligations	106	106	4	4
17	Other contingent funding obligations	89,135	6,029	82,080	5,667
18	**Total cash outflows**		**171,778**		**168,897**
Cash inflows					
19	Secured lending (e.g. reverse repos)	43,496	4,455	40,277	3,949
20	Inflows from fully performing exposures	21,953	13,464	22,496	13,843
21	Other cash inflows	2,505	2,502	1,793	1,792
22	**Total cash inflows**	**67,954**	**20,421**	**64,566**	**19,584**
23	**Total liquid assets**		**207,855**		**207,086**
24	**Total net cash outflows**		**151,357**		**149,313**
25	**Liquidity Coverage Ratio (%)**		**137%**		**139%**

(1) Unweighted inflow and outflow values are outstanding balances maturing or callable within 30 days.
(2) Weighted values exclude New Zealand dollar (NZD) liquid asset holdings in excess of NZD LCR of 100%, reflecting liquidity transferability considerations. The amount excluded during the three months to 30 June 2024 and 31 March 2024 was on average $6.3 billion and $8.1 billion, respectively.
(3) Disclosed on a weighted basis only, consistent with the disclosure template prescribed by APS 330.

Glossary

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.

ADI
Authorised Deposit-taking Institution.

Advanced Internal Ratings-based (Advanced IRB) approach
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.

APRA
Australian Prudential Regulation Authority.

APS
Prudential Standards issued by APRA applicable to ADIs.

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.

CET1 capital ratio
CET1 capital divided by risk-weighted assets.

Common Equity Tier 1 (CET1) capital
The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 'Capital Adequacy: Measurement of Capital'.

Company
National Australia Bank Limited (NAB) ABN 12 004 044 937.

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.

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.

Default
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.

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.

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 (Foundation IRB) approach
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'.

Individually assessed provision for credit impairment
The provision assessed on an individual basis in accordance with Australian Accounting Standard AASB 9 'Financial Instruments'.

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.

Leverage ratio
Tier 1 capital divided by exposures as defined by APS 110 'Capital Adequacy'. It is a non-risk based measure to supplement the risk-weighted assets based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

Liquidity Coverage Ratio (LCR)
A metric that measures the adequacy of high-quality liquid assets available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.

Loss given default (LGD)
An estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default.

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

Non-performing exposures
Exposures which are in default aligned to the definition in APS 220 'Credit Risk Management'.

Probability of default (PD)
An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.

Qualifying revolving retail
Revolving exposures to individuals less than $100,000, unsecured and unconditionally cancellable by the Group.

RBNZ
Reserve Bank of New Zealand.

Risk-weighted assets (RWA)
A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.

RMBS
Residential mortgage-backed securities.

Securitisation exposures
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
The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.

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

Tier 2 capital
Includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Total capital
The sum of Tier 1 capital and Tier 2 capital.

Total capital ratio
Total capital divided by risk-weighted assets.

Trading book
Positions in financial instruments, including derivatives and other off-balance sheet instruments, that are held either with a trading intent or to hedge other elements of the trading book.

Write-offs
A reduction in the carrying amount of loans and advances at amortised cost and fair value where there is no reasonable expectation of recovery of a portion or the entire exposure.