PILLAR 3 REPORT

as at 31 December 2019

Incorporating the requirements of APS 330

National Australia Bank Limited ABN 12 004 044 937

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Section 1

Introduction

National Australia Bank Limited (NAB) is an Authorised Deposit-taking Institution (ADI) subject to regulation by the Australian Prudential Regulation Authority (APRA) under the authority of the *Banking Act 1959* (Cth). This document has been prepared in accordance with the quarterly reporting requirements of APRA Prudential Standard APS 330 *Public Disclosure*, which requires disclosure of information to the market relating to capital adequacy and risk management practices. APS 330 was established to implement the third pillar of the Basel Committee on Banking Supervision's framework for bank capital adequacy. In simple terms, the framework consists of three mutually reinforcing pillars.

Pillar 1 **Minimum capital requirement**	**Pillar 2** **Supervisory review process**	**Pillar 3** **Market discipline**
Minimum requirements for the level and quality of capital	Management's responsibility for capital adequacy to support risks beyond the minimum requirements, including an Internal Capital Adequacy Assessment Process (ICAAP)	Disclosure to the market of qualitative and quantitative aspects of risk management, capital adequacy and various risk metrics

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

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

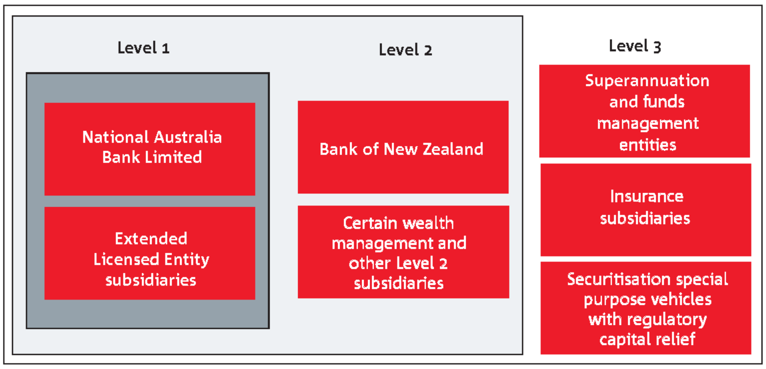
Capital Adequacy Methodologies

The Group uses the following approaches to measure capital adequacy as at 31 December 2019.

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

Scope of Application

APRA measures capital adequacy by assessing financial strength at three levels as illustrated below.



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

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

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

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

Section 2

Capital

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

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

	As at	
	31 Dec 19	30 Sep 19
	$m	$m
Credit risk		
Subject to IRB approach		
Corporate (including Small and Medium Enterprises (SME))	126,792	127,049
Sovereign	1,408	1,407
Bank	9,888	10,430
Residential mortgage	106,552	106,209
Qualifying revolving retail	3,342	3,494
Retail SME	6,380	6,467
Other retail	3,116	3,104
Total IRB approach	**257,478**	**258,160**
Specialised lending	**58,602**	**58,320**
Subject to standardised approach		
Residential mortgage	1,495	1,560
Corporate	4,806	4,798
Other	475	472
Total standardised approach	**6,776**	**6,830**
Other		
Securitisation exposures	4,964	4,865
Credit Value Adjustment	12,956	15,006
Central counterparty default fund contribution guarantee	131	306
Other[1]	9,084	8,159
Total other	**27,135**	**28,336**
Total credit risk	**349,991**	**351,646**
Market risk	9,327	10,023
Operational risk	49,934	47,698
Interest rate risk in the banking book	5,885	6,404
Total RWA	**415,137**	**415,771**

[1] *Other includes non-lending assets and RWA overlay adjustments for regulatory prescribed methodology requirements.*

The following tables provide the capital ratios and leverage ratio.

	As at	
	31 Dec 19	30 Sep 19
Capital ratios	%	%
Common Equity Tier 1	10.6	10.4
Tier 1	12.7	12.4
Total	15.3	14.7

	As at			
Leverage ratio	31 Dec 19	30 Sep 19	30 Jun 19	31 Mar 19
Tier 1 capital ($m)	52,761	51,388	50,409	50,185
Total exposures ($m)	937,042	925,973	927,846	915,138
Leverage ratio (%)	**5.6%**	**5.5%**	**5.4%**	**5.5%**

Section 3

Credit Risk

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

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

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

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

	As at 31 Dec 19				3 months ended 31 Dec 19
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	159,816	78,277	22,725	**260,818**	261,403
Sovereign	60,493	491	4,445	**65,429**	63,048
Bank	25,459	2,925	10,702	**39,086**	39,209
Residential mortgage	339,240	48,143	-	**387,383**	386,700
Qualifying revolving retail	5,280	5,210	-	**10,490**	10,515
Retail SME	13,078	4,316	-	**17,394**	17,488
Other retail	2,860	1,144	-	**4,004**	4,029
Total IRB approach	**606,226**	**140,506**	**37,872**	**784,604**	**782,392**
Specialised lending	**57,032**	**8,424**	**1,451**	**66,907**	**66,709**
Subject to standardised approach					
Residential mortgage	1,832	130	-	**1,962**	2,006
Corporate	5,181	557	5,607	**11,345**	12,096
Other	1,141	2	-	**1,143**	1,132
Total standardised approach	**8,154**	**689**	**5,607**	**14,450**	**15,234**
Total exposure (EaD)	**671,412**	**149,619**	**44,930**	**865,961**	**864,335**

	As at 30 Sep 19				3 months ended 30 Sep 19
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	160,879	76,500	24,609	**261,988**	256,782
Sovereign	55,072	394	5,199	**60,665**	61,397
Bank	24,600	3,743	10,990	**39,333**	38,990
Residential mortgage	338,277	47,741	-	**386,018**	387,260
Qualifying revolving retail	5,170	5,370	-	**10,540**	10,675
Retail SME	13,385	4,196	-	**17,581**	17,709
Other retail	2,924	1,129	-	**4,053**	4,210
Total IRB approach	**600,307**	**139,073**	**40,798**	**780,178**	**777,023**
Specialised lending	**57,027**	**7,840**	**1,643**	**66,510**	**67,279**
Subject to standardised approach					
Residential mortgage	1,917	133	-	**2,050**	2,074
Corporate	5,028	532	7,286	**12,846**	12,371
Other	1,120	1	-	**1,121**	1,130
Total standardised approach	**8,065**	**666**	**7,286**	**16,017**	**15,575**
Total exposures (EaD)	**665,399**	**147,579**	**49,727**	**862,705**	**859,877**

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

The following table provides information on asset quality.

	As at 31 Dec 19			3 months ended As at 31 Dec 19	
	Impaired facilities	**Past due facilities ≥90 days**	**Specific provision for credit impairment**	**Specific credit impairment charge**	**Net write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	1,325	307	534	45	74
Bank	-	-	-	(2)	(2)
Residential mortgage	363	2,967	114	21	18
Qualifying revolving retail	-	39	-	38	33
Retail SME	87	195	51	12	12
Other retail	4	56	2	24	24
Total IRB approach	**1,779**	**3,564**	**701**	**138**	**159**
Specialised lending	**163**	**69**	**63**	**8**	**1**
Subject to standardised approach					
Residential mortgage	9	30	4	-	-
Corporate	2	2	8	2	-
Total standardised approach	**11**	**32**	**12**	**2**	**-**
Total	**1,953**	**3,665**	**776**	**148**	**160**
Additional regulatory specific provisions			1,282		
Total regulatory specific provisions			**2,058**		
General reserve for credit losses			**2,091**		

	As at 30 Sep 19			3 months ended As at 30 Sep 19	
	Impaired facilities	**Past due facilities ≥90 days**	**Specific provision for credit impairment**	**Specific credit impairment charge**	**Net write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Subject to IRB approach					
Corporate (including SME)	1,389	247	562	68	30
Residential mortgage	333	2,981	99	25	18
Qualifying revolving retail	-	42	-	48	39
Retail SME	81	185	49	18	17
Other retail	5	58	3	25	29
Total IRB approach	**1,808**	**3,513**	**713**	**184**	**133**
Specialised lending	**156**	**59**	**59**	**3**	**1**
Subject to standardised approach					
Residential mortgage	7	29	4	-	-
Corporate	1	2	6	-	1
Total standardised approach	**8**	**31**	**10**	**-**	**1**
Total	**1,972**	**3,603**	**782**	**187**	**135**
Additional regulatory specific provisions			1,256		
Total regulatory specific provisions			**2,038**		
General reserve for credit losses			**2,104**		

Section 4

Securitisation

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

There were no assets sold by the Group to securitisation special purpose vehicles in each of the three months ended 31 December 2019 or 30 September 2019.

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

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

	As at 31 Dec 19			As at 30 Sep 19		
	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	115	1,996	**2,111**	113	2,183	**2,296**
Warehouse facilities	10,267	3,931	**14,198**	10,196	3,411	**13,607**
Securities	9,435	-	**9,435**	9,355	-	**9,355**
Derivatives	-	103	**103**	-	114	**114**
Total	**19,817**	**6,030**	**25,847**	**19,664**	**5,708**	**25,372**

The Group had $547 million of derivative exposures held in the trading book subject to IMA under APS 116 *Capital Adequacy: Market Risk* as at 31 December 2019 (30 September 2019: $485 million).

Section 5

Liquidity Coverage Ratio

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

The Group's LCR increased to 129% for the three months ended 31 December 2019. Average liquid assets have increased from the prior quarter with a marginal decrease in net cash outflows. NAB adopted changes in credit rating agency criteria which lowered the modelled liquidity risk exposure in the event of a three-notch downgrade of NAB's long-term credit rating. This was the primary driver of the reduction in net cash outflows and was partially offset by additional outflows associated with the Group's deposit portfolio.

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

		3 months ended			
		31 Dec 19		30 Sep 19	
		63 data points		66 data points	
		Total unweighted value (average) $m[1]	Total weighted value (average) $m	Total unweighted value (average) $m[1]	Total weighted value (average) $m
Liquid assets, of which:			**146,050**		**143,382**
1	High-quality liquid assets (HQLA)[2]	n/a	90,726	n/a	87,967
2	Alternative liquid assets (ALA)	n/a	52,055	n/a	52,048
3	Reserve Bank of New Zealand securities[2]	n/a	3,269	n/a	3,367
Cash outflows					
4	Retail deposits and deposits from small business customers	201,966	24,065	195,686	23,394
5	of which: stable deposits	61,274	3,064	59,646	2,982
6	of which: less stable deposits	140,692	21,001	136,040	20,412
7	Unsecured wholesale funding	131,055	66,280	128,840	64,529
8	of which: operational deposits (all counterparties) and deposits in networks for cooperative banks	56,047	15,579	54,995	15,064
9	of which: non-operational deposits (all counterparties)	62,575	38,268	61,954	37,574
10	of which: unsecured debt	12,433	12,433	11,891	11,891
11	Secured wholesale funding	n/a	1,589	n/a	1,155
12	Additional requirements	167,579	30,122	171,033	33,457
13	of which: outflows related to derivatives exposures and other collateral requirements	14,564	14,564	18,220	18,220
14	of which: outflows related to loss of funding on debt products	-	-	-	-
15	of which: credit and liquidity facilities	153,015	15,558	152,813	15,237
16	Other contractual funding obligations	1,157	638	1,273	801
17	Other contingent funding obligations	71,377	4,879	71,438	4,849
18	**Total cash outflows**	**n/a**	**127,573**	**n/a**	**128,185**
Cash inflows					
19	Secured lending	70,782	2,126	65,162	1,342
20	Inflows from fully performing exposures	19,624	11,433	21,243	12,306
21	Other cash inflows	1,008	1,008	583	583
22	**Total cash inflows**	**91,414**	**14,567**	**86,988**	**14,231**
23	**Total liquid assets**		**146,050**		**143,382**
24	**Total net cash outflows**		**113,006**		**113,954**
25	**Liquidity Coverage Ratio (%)**		**129%**		**126%**

(1) *Unweighted inflow and outflow values are outstanding balances maturing or callable within 30 days.*

(2) *Weighted values are calculated after applying caps to the New Zealand dollar (NZD) liquid asset holdings in excess of NZD LCR of 100%.*

Section 6

Glossary

Term	Description
Additional regulatory specific provisions	In line with APRA's July 2017 guidance "Provisions for regulatory purposes and AASB 9 Financial Instruments", regulatory specific provisions include collective provisions for facilities in Stage 2 with identified deterioration (that do not meet the two exception clauses per the APRA guidance), and Stage 3 in default. All other facilities are classified as general reserve for credit losses.
Additional Tier 1 capital	Additional Tier 1 capital comprises high quality components of capital that satisfy the following essential characteristics: - provide a permanent and unrestricted commitment of funds - are freely available to absorb losses - rank behind the claims of depositors and other more senior creditors in the event of winding up of the issuer - provide for fully discretionary capital distributions.
ADI	Authorised Deposit-taking Institution.
Advanced Internal Ratings-Based approach (IRB)	The process used to estimate credit risk through the use of internally developed models to assess potential credit losses using the outputs from the probability of default, loss given default and exposure at default models.
Advanced Measurement Approach (AMA)	The risk estimation process used for operational risk, combining internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
Alternative Liquid Assets (ALA)	Assets that qualify for inclusion in the numerator of the Liquidity Coverage Ratio in jurisdictions where there is insufficient supply of high-quality liquid assets in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency in the Liquidity Coverage Ratio framework. The committed liquidity facility provided by the Reserve Bank of Australia to ADIs is treated as an ALA in the Liquidity Coverage Ratio.
APRA	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
Central Counterparty (CCP)	A clearing house which interposes itself, directly or indirectly, between counterparties to contracts traded in one or more financial markets, thereby insuring the future performance of open contracts.
CET1 capital ratio	CET1 capital divided by RWA.
Committed Liquidity Facility (CLF)	A facility provided by the Reserve Bank of Australia to certain ADIs to assist them in meeting the Basel III liquidity requirements.
Common Equity Tier 1 (CET1) capital	The highest quality component of capital. It is subordinated to all other elements of funding, absorbs losses as and when they occur, has full flexibility of dividend payments and has no maturity date. It is predominately comprised of paid-up ordinary share capital, retained profits plus certain other items as defined in APS 111 *Capital Adequacy: Measurement of Capital*.
Credit derivatives	Credit derivatives include single-name credit default and certain total return swaps, cash funded credit linked notes and first-to-default and second-to-default credit derivative basket products. ADIs may also recognise many more complex credit derivatives that do not fall into the list above, that have been approved by APRA.
Credit Value Adjustment (CVA)	A capital charge to reflect potential mark-to-market losses due to counterparty migration risk for bilateral over-the-counter derivative contracts.
Default fund	Clearing members' funded or unfunded contributions towards, or underwriting of, a central counterparty's mutualised loss sharing arrangements.
Eligible Financial Collateral (EFC)	Under the standardised approach, EFC is the amount of cash collateral, netting and eligible bonds and equities. Under the IRB 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 an ADI may be exposed consequent to default of an obligor. EaD is presented net of eligible financial collateral.
Extended Licensed Entity	The ADI and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in APS 222 *Associations with Related Entities*.
General Reserve for Credit Losses (GRCL)	An estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio of non-defaulted assets, as set out under APS 220 *Credit Quality*. The GRCL is calculated as a collective provision for credit impairment, excluding securitisation exposures and provision on default no loss assets. Where the GRCL (regulatory reserve) is greater than the accounting provision, the difference is covered with an additional top-up, created through an appropriation of retained profits to a non-distributable reserve.
Group	NAB and its controlled entities.
High-quality Liquid Assets (HQLA)	Consists primarily of cash, deposits with central banks, Australian semi-government and Commonwealth government securities and securities issued by foreign sovereigns as defined in APS 210 *Liquidity*.
Impaired facilities	Impaired facilities consist of: - retail loans (excluding unsecured portfolio managed facilities) which are contractually 90 days past due with insufficient security to cover principal and interest - unsecured portfolio managed facilities that are 180 days past due (if not written off) - non-retail loans which are contractually past due and / or sufficient doubt exists about the ability to collect principal and interest in a timely manner - off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
Internal Model Approach (IMA) - Non-traded Market Risk	The approach used in the assessment of non-traded market risk. The Group uses, under approval from APRA, the IMA to calculate interest rate risk in the banking book for all transactions in the banking book.
Internal Model Approach (IMA) - Traded Market Risk	The approach used in the assessment of traded market risk. The Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the standardised approach.
Level 2 Group	NAB and the entities it controls excluding superannuation and funds management entities, insurance subsidiaries and securitisation special purpose vehicles to which assets have been transferred in accordance with the requirements for regulatory capital relief in APS 120 *Securitisation*.
Leverage ratio	Tier 1 capital divided by exposures as defined by APS 110 *Capital Adequacy*. It is a simple, non-risk based supplementary measure to supplement the RWA based capital requirements. Exposures include on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.
Liquidity Coverage Ratio (LCR)	A metric that measures the adequacy of high-quality liquid assets available to meet net cash outflows over a 30-day period during a severe liquidity stress scenario.
Loss Given Default (LGD)	An estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default.
NAB	National Australia Bank Limited ABN 12 004 044 937.

Term	Description
Net write-offs	Write-offs, net of recoveries.
Past due facilities ≥ 90 days	Well-secured assets that are more than 90 days past due and portfolio managed facilities that are not well secured and between 90 and 180 days past due.
Probability of Default (PD)	An estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations in the next 12 months.
Qualifying revolving retail	Revolving exposures to individuals less than $100,000, unsecured and unconditionally cancellable by the Group. Only Australian retail credit cards qualify for this asset class.
Risk-weighted Assets (RWA)	A quantitative measure of risk required by the APRA risk-based capital adequacy framework, covering credit risk for on and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
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 - credit enhancements: protection provided against credit losses to parties holding a securitisation exposure - securities: holding of debt securities issued by securitisation vehicles - derivatives: derivatives provided to securitisation vehicles, other than credit derivatives.
SME	Small and medium sized enterprises.
Specific provision for credit impairment	The provision assessed on an individual basis in accordance with Australian Accounting Standard AASB 9 *Financial Instruments*.
Standardised approach	An alternative approach to the assessment of credit, operational and traded market risk whereby an ADI uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk-weighted assets.
Tier 1 capital	Tier 1 capital comprises CET1 capital and instruments that meet the criteria for inclusion as Additional Tier 1 capital set out in APS 111 *Capital Adequacy: Measurement of Capital*.
Tier 1 capital ratio	Tier 1 capital divided by risk-weighted assets.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.
Total capital	The sum of Tier 1 capital and Tier 2 capital.
Total capital ratio	Total capital divided by risk-weighted assets.
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.