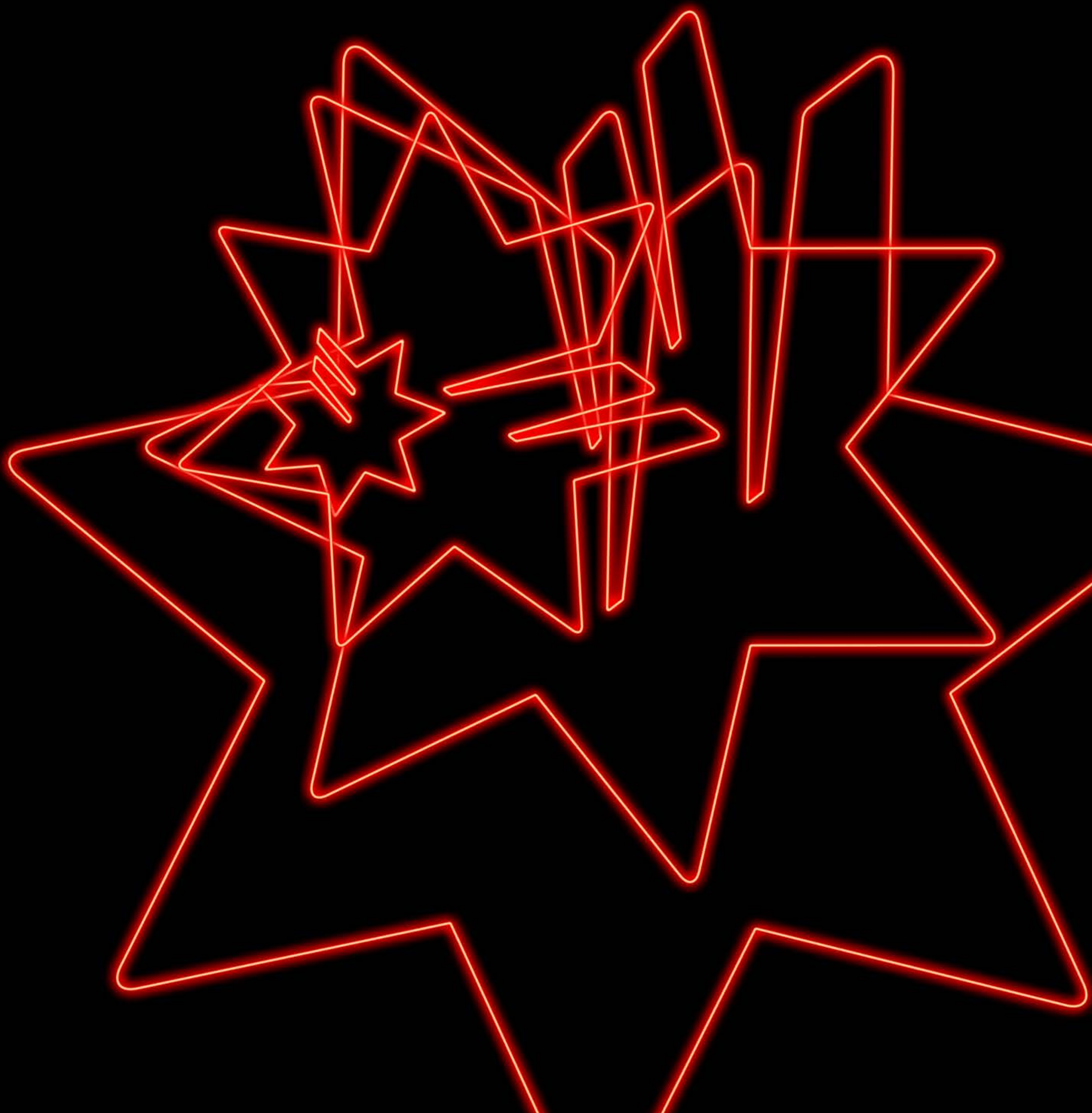
nab europe

national australia bank

Pillar 3 Report

As at 31 December 2022



Contents

1. Introduction

This document describes the approach NAB Europe SA takes to manage risk, and provides detailed information about risk exposures, capital adequacy and liquidity. Amounts are presented in Euros unless otherwise stated. It has been prepared in accordance with Article 435 Capital Requirements Regulation (CRR) from the European Banking Authority (EBA).

NAB Europe S.A. (NAB Europe) is a fully owned subsidiary of National Australia Bank Limited (“NAB” or “NAB Group”), authorised in France by the ACPR since February 2022 to operate as a credit institution providing investment services. The license delivered by the ACPR was provided after authorisation of the European Central Bank (ECB) and by the French Market Authority (AMF) for what concerns investment services. NAB Europe is incorporated under French law as a Société Anonyme (S.A.) or public limited company.

NAB Europe operates corporate and investment banking activity across Continental Europe via freedom of provision of services and European passports in targeted jurisdictions. As a licensed credit institution established in France, NAB Europe has applied for and obtained passports in 25 European countries enabling the entity to operate in the Economic European Area (EEA) (except Bulgaria, Cyprus, Liechtenstein and Malta) based on the freedom of establishment rules within the European Union (EU).

NAB Europe strategy focusses on client-led growth in Europe and is core to the NAB Group Corporate and Institutional Bank (C&IB)“Bank for Infrastructure” and “Bank for Investor” initiatives and contributes to C&IB’s aspiration to grow cash earnings. NAB Europe’s focus is on European and Australian Corporate and institutional prospects and strategic current customers having interests in financial services and products in Australia and France or the EEA.

The company is in the start-up phase. Its activity started in 2022 and NAB Europe’s customer portfolio consisted of 60 corporate customers as at 31 December 2022.

These activities comprise of:

- Lending business:
- Financial Institutions: NAB Europe Financial Institution Group (FG) primarily focus on banks and customers in the insurance and asset management industries (including funds) in select EU countries. Focus products include term loans, RCFs and letters of credit;
- Institutional Banking (IB) business lending: IB will primarily target corporates and funds including those focused on infrastructure investing in select EU countries. Focus products include RCFs, guarantees and funds finance;
- Specialised Finance (SF): Focus products include long-dated financing for infrastructure and renewables to corporates and projects sponsored by investment banks, funds, asset managers and private equity firms.

Provision of investment services and market products:

- Markets trading – focusing on repos, FX spot and forwards, bonds (and other tradeable debt instruments), commodities and interest rate trading products with UK, European, Australian and New Zealand institutional investors (for example, pension funds and insurers);
- Markets sales – divided into FI, FX and commodity sales which distribute flow products to institutional investors in the UK and the EEA, and a solution sales team which provides derivatives solutions to corporate and institutional customers (including borrowers and issuers) and distributes derivative-based solutions to such customers;
- Debt Capital Markets activities: bond issuances

2. Risk Governance and Management

NAB Europe has designed a risk strategy aligned to NAB Group Risk Management Strategy (RMS) that describes the material risks and approach to managing risks, and also articulates the adopted Risk Management Framework (RMF). The RMS (articulating the RMF) supports the Group and its entities in:

- Delivering the strategic ambition
- Protecting customers and delivering fair outcomes
- Driving sustainable business performance in a safe and responsible manner; and
- Complying with regulatory obligations.

NAB Europe's approach to Internal Control and Risk Management are consistent with the NAB Group approach to internal control which is based on a 'three lines of defence' model and is underpinned by the NAB Group risk management strategy (the "NAB Group RMS") document which describes the key elements of the NAB Group risk management framework (the "NAB Group RMF").

The NAB Group RMF consists of the systems, structures, policies, processes and people within the Group including risk management practice, that identify, measure, evaluate, mitigate, monitor and report on all internal and external sources of material risk. Material risks are those that could have a material impact, both financial and non-financial, on an institution or on the interests of customers.

The RMF comprises of key following elements as described in the below chart:

Risk Governance: Risk governance refers to the formal structure used to support risk-based decision-making and oversight across all our operations. This consists of Board committees and management committees, delegations of authority for decision-making, management structures and related reporting.

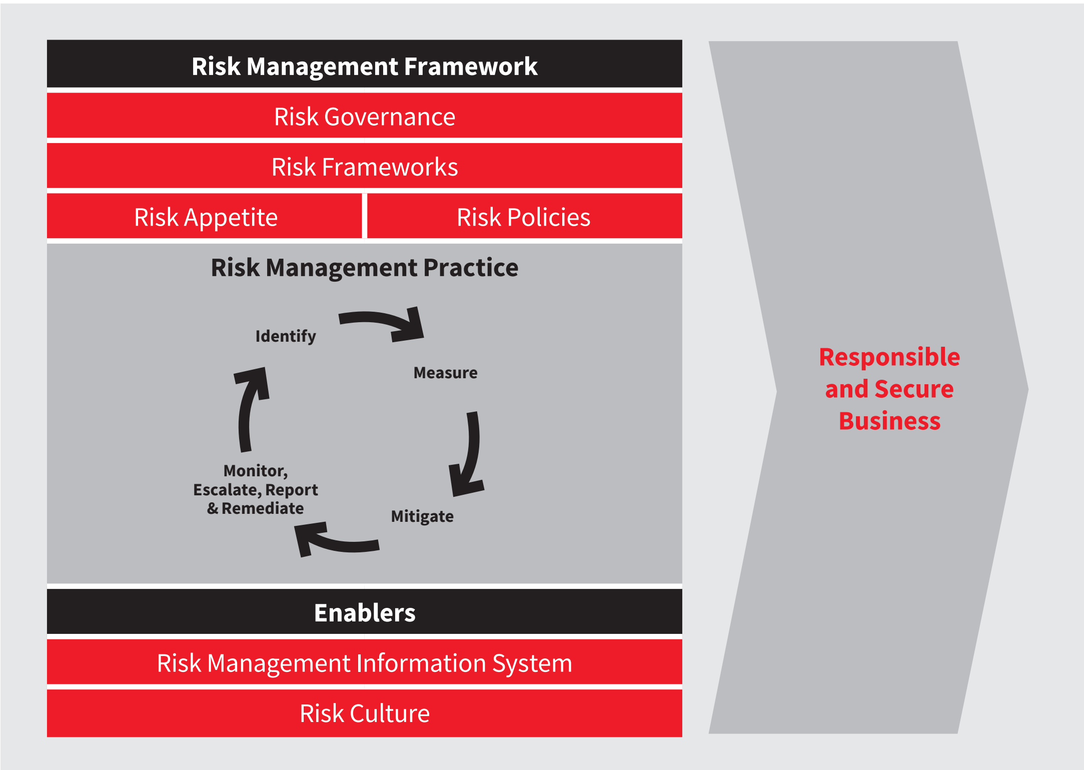
Risk Frameworks: NAB RMF is operationalised via a number of secondary risk frameworks that have been developed for the following purposes:

(i) to define in greater detail specific components of the RMF or aspects of risk management (e.g. Risk Appetite Framework),

(ii) to provide details on how the RMF is implemented within a specific material risk category (e.g. Conduct Risk Framework);

Risk appetite and Policies: Risk appetite, settings and policies all articulate boundaries that are binding on the Group and ensure that we operate within acceptable levels of risk;

Risk Management practices: Risk management practice focuses on the systematic process of identifying, measuring, mitigating, evaluating, monitoring, escalating, reporting and remediating all material risks to which the Bank is exposed in the execution of its Business Plan.



The RMF also includes two fundamental enablers as follows:

Risk Management Information System: Effective risk management relies on regular, accurate and timely information concerning all material risks in our Group risk profile. NAB RMF is supported by an infrastructure of information systems that enable the prompt and accurate capture, measurement, assessment and reporting of our material risks and risk events;

Risk Culture: NAB culture aims at supporting all staff members to identify and escalate risks effectively, protect customers and sustain performance. A sound risk culture exists when the mind-set, behaviour and decisions of our people are aligned to the Group's values and create fair, sustainable outcomes for our customers, shareholders and communities.

NAB Europe has adopted the same set up as its head office, the subsidiary operates a Three Lines of Risk Accountability model also aligned to the local regulatory framework:

- 1st Line represented by the Business Units;
- 2nd Line comprising functionally segregated and independent Risk functions;
- 3rd Line –as an independent Internal Audit function.

There is a Governance that refers to the formal structure used, such as Board committees and risk committees, and powers and authority of relevant stakeholders.

Many elements supporting the Risk Frameworks are used to operationalise components of the RMF such as the Risk Appetite, the Internal Control Charter and a set of policies and procedures setting the scene to enable the activity.

NAB Europe has adopted a Risk Appetite Statement (RAS) that is a component of the broader NAB Group Risk Appetite Framework. It articulates risk appetite and operationalises it, so it can be used in day-to-day decision making and management of risk. Risk Tolerances are defined quantitatively or qualitatively, where quantitative measurement is not possible, to declare a willingness or unwillingness to pursue specific activities or where risk exposures can be identified, influenced and monitored but not easily quantified.

NAB Europe RAS is reviewed regularly and updated at least annually, with oversight of performance against risk appetite and breach management, including appropriate action planning and reported to the respective NAB Europe governance bodies. Regular monitoring against the risk limits, settings and tolerance is undertaken by way of the monthly Risk Settings Dashboard. This monitoring is undertaken by the 1st line business areas with 2nd line oversight and challenge including by the Chief Risk Officer, NAB Europe and NAB Europe Head of Permanent Control & Compliance. The Risk Settings Dashboard is submitted and discussed at the monthly NAB Europe Executive Risk Committee.

Changes to Risk Appetite and associated tolerances articulated within the RAS will be made following express approval by the NAB Europe Board of Directors (Board).

The NAB Europe RAS, effective May 2022 has been:

- reviewed and noted by NAB Europe's Executive Risk Committee;
- approved by NAB Europe Board;
- reviewed and noted by C&IB Risk Management Committee and Executive Risk Committee (ERC); and
- noted by the NAB Group board.

The NAB Europe Governance Structure

The governance structure is defined in NAB Europe's Articles of Association as approved by the NAB Europe General Assembly of shareholders on 22 February 2022.

The Governance is organised around

(i) The NAB Europe Board of Directors, playing the role of a supervisory body. The Board of Directors currently comprises of four members:
   - Mr Gennaro John Comito (Chair), Executive Asset Servicing NAB Ltd,
   - Ms Krista Baetens, Executive NAB Executive Asia,
   - Mr John McClusky, Executive NAB London Branch CEO,
   - Ms Nicola Jolley, NAB Europe SA CEO.

(ii) An executive level, comprising a CEO and a Deputy-CEO, and two different executive committees (an "executive committee" and an "risk executive committee") working in close collaboration with all the executive committee members comprising the Key function Holders and the Head of the respective business lines and functions:
   - Chief Risk Officer;
   - Head of Finance and Treasury,
   - Head of Permanent Control and Compliance,
   - Head of Markets,
   - Director Client Coverage and Corporate Finance,
   - People and Culture Lead,
   - Internal Audit Manager.

The NAB Europe Board

The NAB Europe Board of Directors is the supervisory body of NAB Europe within the meaning of the Order of Nov. 3, 2014. It exercises permanent supervision over the management of NAB Europe. The Schedule of Item of the Board of Directors setting out the programme of review of the Board of Directors is presented in appendix 4 to this report.

The control and oversight exercised by the Board of Directors extends to all activities of the Bank and all areas of risks, and notably credit risk, concentration risk, market risk, settlement risk, liquidity risk, securitization, excessive leverage, model risk and operational risk.

For that purpose, the Board has adopted the criteria and thresholds of significance referred to in article 98 of the Order to identify incidents that must be brought to its attention. The Board escalation thresholds are reviewed regularly and updated at least annually, in conjunction with the Risk Appetite Statement and Permanent Control Plan.

The Executive Committee

The Executive Committee of NAB Europe (the "ExCo") derives its authorities from the Board of Directors and is the principal forum for conducting the business of NAB Europe with day-to- day responsibility for the efficient running of the business. In addition, the ExCo is responsible for the implementation of Board of Directors approved strategies and plans and for ensuring the performance of the business in accordance with the Board of Directors approved budget.

Role of the Risk Executive Committee

The Executive Risk Committee (ERiskCo) advises the ExCo and in turn the Board of Directors in respect of the overall strategy and appetite regarding current and future risks for NAB Europe and also supervising the implementation of the strategy as set out by the Board of Directors, the Executive Managers and the Chief Risk Officer.

The ERiskCo) Committee's main objectives are to ensure risks are identified and assessed, there is appropriate risk mitigation in place and that NAB Europe's control environment is commensurate to its needs, based on the strategy set by the NAB Group and adopted by the Board of Directors.

The ERiskCo operates under the authority of the ExCo.
In particular, it:

1. is responsible for NAB Europe's risk culture, risk appetite and risk monitoring and oversight consistent with the NAB Group risk management framework;
2. oversees all the risks faced by NAB Europe and advises the ExCo on all risk management matters;
3. reviews NAB Europe's risk exposures (including credit risk, market risk, capital and liquidity risks, operational risk, and regulatory compliance) in relation to the Board of Directors' risk appetite and NAB Europe's financial resources.

3. Capital

Capital Adequacy

Capital Management Strategy

NAB Europe's strategy for capital management is focused on adequacy, efficiency, and flexibility. The amount of capital that is held is informed by the ICAAP to assess required levels of capital, including regulatory requirements. This approach is consistent across the NAB Group's subsidiaries.

The strategy covers the capital outlook, potential risks and , initiatives. The strategy also considers stressed scenarios and sensitivities to ensure NAB Europe maintains appropriate capital and can respond appropriately in these situations.

The NAB Europe Board has set 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.

Risk Identification and Assessment

The process of assessing capital adequacy begins with NAB Europe measuring all material risks and where appropriate, generating a capital adequacy requirement. In managing the business, the NAB Europe considers regulatory capital requirements, as summarised in the following table.

	Regulatory capital
Nature	Regulatory view of the capital required to be held to protect against risks associated with business activities
Calculation	Calculated under regulatory requirements and expressed as a percentage of RWA
Risk Types	Credit risk, market risk, operational risk and interest rate risk in the banking book (IRRBB)

The ICAAP describes capital adequacy for NAB Europe The process is designed to assess the ability to withstand unexpected losses 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
- processes for reporting on the ICAAP and its outcomes to the NAB Europe Board and senior management and ensuring that the ICAAP is taken into account in making business decisions.

Governance, Reporting and Oversight

The ICAAP and RAS together detail the governance, management, and reporting of the NAB Group's capital adequacy. These documents are reviewed and endorsed by the NAB Europe Executive Committee and approved by the NAB Europe Board. The ICAAP is supported by the NAB Group Capital Risk Policy, which defines the framework for the management, monitoring and governance of the capital position.

Treasury is responsible for managing capital risk. NAB Europe's Board has approved capital limits, triggers, and operating targets in its ICAAP and RAS. These measures are monitored by NAB Europe Treasury.

NAB Europe Treasury, along with the Chief Risk Officer, monitor NAB Europe's capital position monthly and report the capital position to the Executive Risk Committee and the NAB Europe 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
- setting of risk appetite and risk limits, including single large exposure limits, industry limits and country limits.

Template EU OV1 – Overview of total risk exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		T	T-1	T
1	Credit risk (excluding CCR)	84,137,751		8,834,464
2	Of which the standardised approach	84,137,751		8,834,464
3	Of which the Foundation IRB (F-IRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR			
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA			
9	Of which other CCR			
10	Not applicable	–	–	–
11	Not applicable	–	–	–
12	Not applicable	–	–	–
13	Not applicable	–	–	–
14	Not applicable	–	–	–
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250% / deduction			
20	Position, foreign exchange and commodities risks (Market risk)	705,465		74,074
21	Of which the standardised approach	705,465		74,074
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	28,567,404		2,999,577
EU 23a	Of which basic indicator approach	28,567,404		2,999,577
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight)			
25	Not applicable	–	–	–
26	Not applicable	–	–	–
27	Not applicable	–	–	–
28	Not applicable	–	–	–
29	**Total**	**113,410,620**		**11,908,115**

Template EU KM1 – Key metrics template

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	126,317,008				
2	Tier 1 capital	126,317,008				
3	Total capital	126,317,008				
	Risk-weighted exposure amounts					
4	Total risk exposure amount	113,410,620				
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	111.38%				
6	Tier 1 ratio (%)	111.38%				
7	Total capital ratio (%)	111.38%				
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0%				
EU 7b	of which: to be made up of CET1 capital (percentage points)	0%				
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0%				
EU 7d	Total SREP own funds requirements (%)	8%				
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%				
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	2.50%				
9	Institution specific countercyclical capital buffer (%)	0%				
EU 9a	Systemic risk buffer (%)	0%				
10	Global Systemically Important Institution buffer (%)	0%				
EU 10a	Other Systemically Important Institution buffer (%)	0%				
11	Combined buffer requirement (%)	2.50%				
EU 11a	Overall capital requirements (%)	10.50%				
12	CET1 available after meeting the total SREP own funds requirements (%)	121,213,530				
	Leverage ratio					
13	Total exposure measure	302,890,828				
14	Leverage ratio (%)	41.70%				
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0%				
EU 14b	of which: to be made up of CET1 capital (percentage points)	0%				
EU 14c	Total SREP leverage ratio requirements (%)	3%				

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0%				
EU 14e	Overall leverage ratio requirement (%)	3%				
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	9,176,600				
EU 16a	Cash outflows - Total weighted value	7,868,875				
EU 16b	Cash inflows - Total weighted value	5,901,656				
16	Total net cash outflows (adjusted value)	1,967,219				
17	Liquidity coverage ratio (%)	466.48%				
	Net Stable Funding Ratio					
18	Total available stable funding	135,131,097				
19	Total required stable funding	49,892,503				
20	NSFR ratio (%)	270.84%				

Template EU CC1 – Composition of regulatory own funds

		(a)	(b)
		Amounts	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	135,000,000	
	of which: Instrument type 1	135,000,000	
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	(34,795)	
3	Accumulated other comprehensive income (and other reserves)		
EU-3a	Funds for general banking risk	–	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	–	
5	Minority interests (amount allowed in consolidated CET1)	–	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend		
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**134,965,204**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)		
9	Not applicable		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(2,104,089)	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value		
12	Negative amounts resulting from the calculation of expected loss amounts		
13	Any increase in equity that results from securitised assets (negative amount)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		
15	Defined-benefit pension fund assets (negative amount)		
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)		
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		

		(a)	(b)
		Amounts	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
20	Not applicable		
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)		
EU-20c	of which: securitisation positions (negative amount)		
EU-20d	of which: free deliveries (negative amount)		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)		
22	Amount exceeding the 17,65% threshold (negative amount)		
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
24	Not applicable		
25	of which: deferred tax assets arising from temporary differences		
EU-25a	Losses for the current financial year (negative amount)	(6,544,108)	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)		
26	Not applicable		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)		
27a	Other regulatory adjustments		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(8,648,197)	
29	**Common Equity Tier 1 (CET1) capital**	**126,317,008**	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts		
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1		
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1		
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1		

		(a)	(b)
		Amounts	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		
35	of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)		
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
41	Not applicable		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)		
42a	Other regulatory adjustments to AT1 capital		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**126,317,008**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts		
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR		
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2		
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		
49	of which: instruments issued by subsidiaries subject to phase out		
50	Credit risk adjustments		
51	**Tier 2 (T2) capital before regulatory adjustments**		

		(a)	(b)
		Amounts	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
54a	Not applicable		
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
56	Not applicable		
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)		
EU-56b	Other regulatory adjustments to T2 capital		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**		
59	**Total capital (TC = T1 + T2)**	**126,317,008**	
60	**Total Risk exposure amount**	**113,410,620**	
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	126,317,008.20	
62	Tier 1 capital	126,317,008.20	
63	Total capital	126,317,008.20	
64	Institution CET1 overall capital requirements		
65	of which: capital conservation buffer requirement		
66	of which: countercyclical capital buffer requirement		
67	of which: systemic risk buffer requirement		
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement		
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage		
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**111.38%**	
	National minima (if different from Basel III)		
69	Not applicable		
70	Not applicable		
71	Not applicable		

		(a)	(b)
		Amounts	**Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation**
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)		
74	Not applicable		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

Template EU CC2 – reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	B	c
		Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
		As at period end	**As at period end**	
	Assets – ***Breakdown by asset classes according to the balance sheet in the published financial statements***			
1	Cash in bank accounts	15,670,933	15,670,933	
2	Assets with credit institutions	247,751,711	247,751,711	
3	Tangible assets	3,470,936	3,470,936	
4	Other assets	4,720,705	4,720,705	
5	Assets related to clearing operations	159,768	159,768	
	Total assets	271,774,053	271,774,053	
	Liabilities – ***Breakdown by liability classes according to the balance sheet in the published financial statements***			
1	Debts with credit institutions	138,758,667	138,758,667	
	Other liabilities	3,722,634	3,722,634	
	Liabilities related to clearing operations	871,655	871,655	
	Total liabilities	143,352,956	143,352,956	
	Shareholders' Equity			
1	Capital	135,000,000	135,000,000	
2	Retained earnings	(34,795)	(34,795)	
3	Loss for the financial period	(6,544,108)	(6,544,108)	
xxx	**Total shareholders' equity**	128,421,097	128,421,097	

4. Credit Risk

The Credit Risk Framework for NAB Europe is approved by the NAB Europe Board. These references NAB Group policies and NAB Europe Risk Appetite Statements.

The basis of NAB Group's Credit approach and limits is set out annually in the Group Risk Appetite Statement approved by the Board with more detailed breakdowns set out in sector specific Credit Appetite Strategies.

Consistent with the wider NAB Group, NAB Europe's approach to credit risk management is designed to:

- shape and inform the future credit risk portfolio and broader strategic priorities
- maintain exposure to credit risk within acceptable parameters while maximising the risk-adjusted rate of return and ensure alignment to risk appetite
- be embedded within NAB Europe's day-to-day business.

Given the early-stage nature of the NAB Europe portfolio, with loans made to 3 clients, and repo exposure to 2 client groups as at the end of December 2022, there are no issues or concerns to report. The credit quality of the NAB Europe lending and counterparty portfolio is sound with all approved limits being Investment Grade, no geographic, sectoral or counterparty concentration risks outside of appetite, and no arrears or specific provisions. Exposures are managed in line with NAB Group standards and in compliance with international standards including the Australian Prudential Risk standards and the applicable European and French regulation.

Approval Authorities

The NAB Europe Board delegates credit decision-making authority to the Effective Managers. This is further delegated via the Effective Managers and the Chief Risk Officer, who, together with senior Risk executives within the NAB Group, set the NAB Europe Delegated Commitment Authority (DCA) framework and who subdelegate the decision-making authority to individuals within NAB Europe.

The Board or its delegates are able to set limits on the amount of risk accepted at single counterparty, counterparty group, geographic or industry levels. These limits are required to be consistent with NAB Europe's risk appetite. Such risks are monitored on a regular basis and are subject to annual or more frequent reviews.

Management

Exposure to credit risk is managed by regularly analysing the ability of current and potential future counterparties to meet principal and interest repayment obligations, and by changing lending limits and lending conditions where appropriate.

The NAB Group's credit policy encompasses the NAB Group's:

- credit risk appetite and principles
- credit underwriting standards
- approach to ensure compliance with regulatory standards

The Business Unit Heads have primary responsibility for ensuring their respective areas follow NAB Europe's credit policies, processes and standards.

The Risk function is charged with implementing a sound risk framework to maintain appropriate asset quality across NAB Europe in line with credit risk appetite, credit risk underwriting standards and policy.

Risk plays a key role in managing risk appetite, credit risk oversight, portfolio measurement, assisting businesses with portfolio management, and measuring compliance with strategic targets and limits.

The Credit Officer in NAB Europe leads the credit risk function and supports the Bank's strategy. The Credit Officer has a DCA level set within the NAB Group framework appropriate to the volume and type of transactions within the Bank. The NAB Europe Credit Officer can exercise a veto at any stage of the approval process.

Key responsibilities of the Credit Officer are:

- to provide credit assessment and decisioning and the control of risk in relation to credit requests and proposals from the NAB Europe business units;
- to exercise a veto authority on behalf of NAB Europe;
- to contribute to the analytics and reporting for the monthly Executive Risk Committee meetings;
- to oversight the Credit and counterparty risk portfolios in conjunction with the relevant business units and the Chief Risk Officer

The NAB Group's Credit Assurance function is a key assurance area. This function independently reviews and reports on asset quality. It operates independently of the credit approval process and reports its findings to the NAB Europe Board and stakeholders within the NAB Group

Monitoring and Reporting

NAB Europe and the wider NAB Group have a comprehensive process for monitoring and reporting credit and asset quality incorporating key credit risk measures. Key reports are provided to the Executive Risk Committee and the Board.

Counterparty Credit Risk

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 NAB Group.

Credit Limits

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

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.

Credit risk economic capital is then allocated to individual counterparty exposures based on their relative risk contribution to unexpected loss.

Limit excesses, whether they are active or passive, are subject to formal review and approval or otherwise by appropriate DCA holders.

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. NAB Europe, together with the wider NAB Group, manages these risks through the implementation of risk policies.

5. Market Risk

Introduction

The NAB Europe SA (NAB Europe) 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 risk is discussed in Section 7 Balance Sheet and Liquidity Risk.

The NAB Europe undertakes trading activities to support its customers and to profit in the short-term from differences in markets, such as repos, interest rates, credit spreads, foreign exchange rates, commodity prices and equity prices. Traded market risk is the risk of losses or gains from the NABE's trading activities resulting from market price movements.

The NAB Europe's exposure to market risk arises out of its trading activities which are carried out by NABE Corporate & Institutional Banking Markets. This exposure is quantified for regulatory capital purposes using the standardised method.

Management and Governance

The NAB Europe risk appetite for market risk is determined by the NAB Europe Board and is expressed in its Risk Appetite Statement (RAS) and governed by the NAB 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 NAB 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 NAB Europe is overseen by the Effective Managers to ensure that appropriate limits are expressed in the RAS to provide necessary Board oversight.

The overall framework of Group Traded Market Risk Policy and the NAB Europe 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 NAB Europe is overseen by the NAB Europe Executive Risk Committee:

- 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 and approving 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 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 internal models 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 and regulatory policies
- 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 and 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 Finance Rates and Revaluation Policy
- use of Model Reserve Framework and fair value adjustments to support compliance with prudential validations.

Measurement

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

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 standards 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 NAB Europe Executive Risk Committee.

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 and 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 NABE Corporate & Institutional Banking Markets and independently by Market Risk.

NAB Europe Corporate & Institutional Banking Markets are responsible for managing risk and delivering profits, while ensuring compliance with all limits and policies.

Capital Methodology

NAB Europe utilises standardised risk weighted assets calculation based on CRR regulations. Back-testing

VaR estimates are back-tested regularly for reasonableness. Back-testing is a process that compares the NAB Europe's daily VaR estimates against both actual and hypothetical daily profit and loss (P&L) to ensure that model integrity is maintained.

The results of back-testing are reported to NAB Europe Chief Risk Officer, Executive Risk Committees.

Back-testing results

Back-testing is carried out by comparing the NABE daily VaR estimate against actual P&L, no exceptions were identified for the period to 31st December 2022.

6. 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 and reputational risk. National Australia Bank Europe S.A. (NAB Europe) 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 our obligations.

NAB Europe is aligned with the NAB Group's approach in managing operational risk. The NAB Europe seeks to maximise its operational resilience in preventing, responding to, and recovering from, adverse events adequately, thereby fulfilling its role in the financial system reliably and sustainably. To manage Operational Risk, NAB Europe utilises established risk measure and risk management systems, control frameworks, and issue identification and resolution processes.

Structure and Organisation

NAB Europe is aligned with the NAB Group's approach in managing operational risk. The NAB Europe seeks to maximise its operational resilience in preventing, responding to, and recovering from, adverse events adequately, thereby fulfilling its role in the financial system reliably and sustainably. To manage Operational Risk, NAB Europe utilises established risk measure and risk management systems, control frameworks, and issue identification and resolution processes.

The NAB Europe Board on the recommendation of the Executive Risk Committee, is responsible for approving and/or endorsing the Risk Appetite Statement. This is primarily achieved through NAB Europe Risk function which provides the NAB Europe Board, Executive Risk Committee, and the NAB Europe Effective Managers with the information required to manage these responsibilities. This information ultimately allows the NAB Europe Board to discharge its responsibilities for managing operational risk exposures.

Management

Operational Risk provides the framework, policies, standards, processes, and tools (Risk Management Practice Framework) for the business to use in the identification, assessment, management, monitoring, measurement and reporting of operational risks. Implementation of the Risk Management

Practice Framework 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 NAB Europe
- 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.

NAB Europe 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 Risk Management Practice Framework applies to NAB Europe and all entities within the NAB Group, including any outsourced services undertaken on behalf of NAB Europe.

Measurement

The capital attributed to operational risk is calculated under the CRR Standardised model approach based on the NAB Europe business indicators, which is a financial statement-based proxy of operational risk exposure.

Operational Risk is a component of Risk Management Framework.

The following policies have been adopted by NAB Europe:

- Business Continuity Management Policy
- Group Information Risk Policy
- Group Information Risk Policy Standards
- Group Procurement Policy
- Model Risk Policy

Monitoring and Reporting

Operational Risk provides the following reporting:

- monthly reporting on significant loss events, emerging issues, oversight, monitoring, and review activity. This information is available to the NAB Europe Board & Executive Risk Committee as part of the Risk (Line 2) reporting material.
- regular material risk update papers to the NAB Europe Board via the Executive Risk Committee.

7. Balance Sheet and Liquidity Risk

Strategies and Process in the management of liquidity risk

The Strategy covers the first 3 years of NAB Europe's existence where balance sheet activity will be limited and characterised by the following:

- Capital to support balance sheet growth initially as other sources of funding are established.
- The repurchase agreements (repo) business to be developed and used to support liquidity metrics.
- Develop diverse sources of funding across a range of tenors, including corporate deposits, to support growth and liquidity requirements. Wholesale funding to be initially sourced via the Parent.
- Facilitate and grow business with existing customer relationships held by the NAB Group and market the NAB Europe name to establish a diverse customer base.
- Steady and controlled growth to ensure a strong balance sheet is maintained at all times.
- Seek deposits from Central Banks to support the balance sheet in the event of a stress.
- Build liquidity foundations to ensure compliance with regulatory metrics and risk appetite settings.

NAB Europe's liquid asset strategy aims to support compliance with regulatory metrics as guided by its internal risk appetite settings (Appendix 2) and internal stress scenario targets as detailed in the ILAAP.

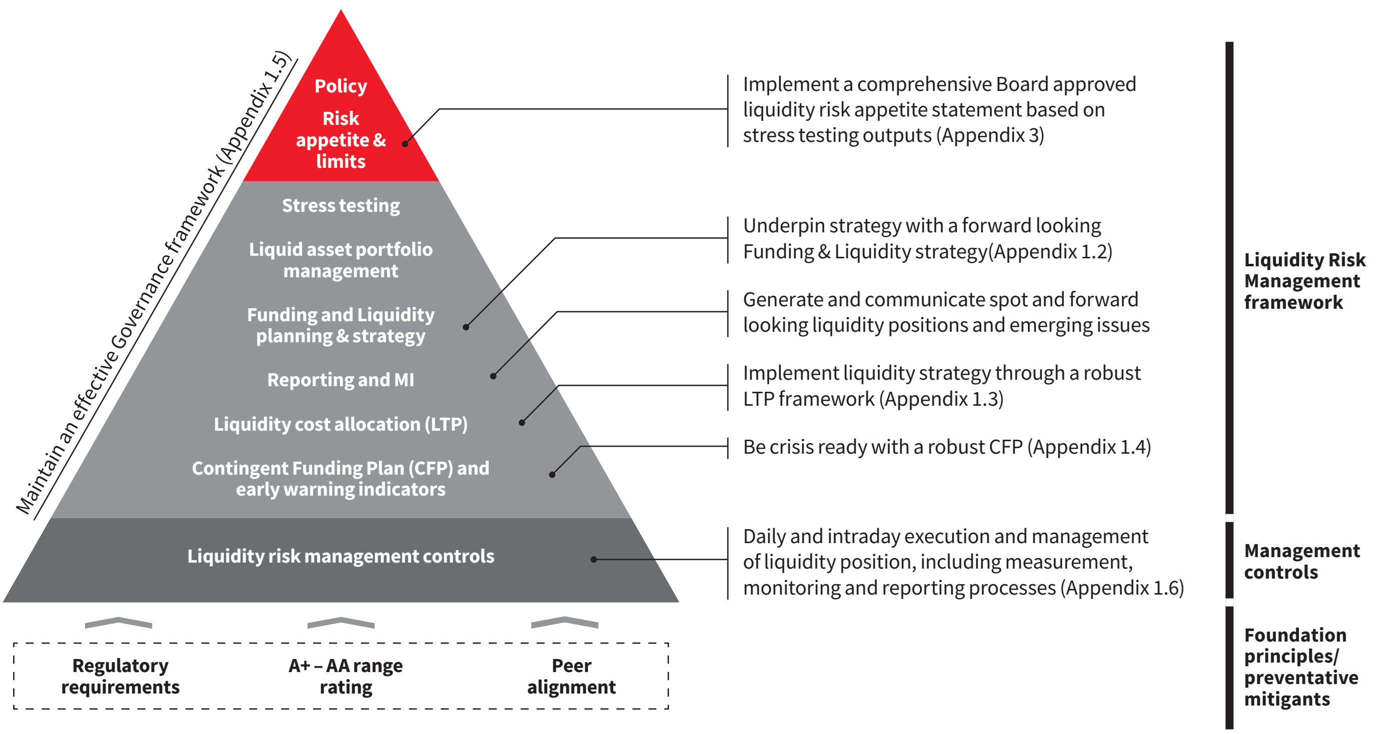
- NAB Europe HQLA levels forecast to increase to ~€50m by the end of 2023 funded via repo and wholesale funding.
- Key drivers are €20m increase in Net Cash Outflows (NCOs) which includes €8m related to wholesale funding outflows and €10m of contingent funding for undrawn committed facilities.

The HQLA portfolio composition will primarily comprise of cash reserves placed with the Central Bank, reverse repo and bond holdings as appropriate.

Structure and Organisation of the Liquidity Risk Management Function

NAB's funding and liquidity risk management approach can be broken into key objectives, within three broad categories. The successful achievement of these objectives informs the adequacy assessment of the liquidity risk management framework.

NAB funding and liquidity risk management framework



Along with these, a culture of continuous improvement is applied to the funding and liquidity risk management framework. Key components underpinning the liquidity risk management framework for NAB Europe are:

- Implement a comprehensive Board-approved liquidity risk appetite statement
- Underpin strategy with a forward-looking funding and liquidity strategy
- Continuous focus on stress testing and early warning indicators (EWIs)
- Be crisis ready with a robust Contingent Funding Plan (CFP)
- Maintain an efficient and effective governance framework
- Ensure management controls meet all policy and regulatory requirements
- Employ a highly experienced team with clear roles and responsibilities.

Scope and nature of liquidity risk reporting and measurement systems

Liquidity adequacy is reinforced by the continual assessment of the risk profile against market conditions and outlook. The liquidity position will continue to be dynamically managed based on market conditions, balance sheet growth outlook and relative cost assessment.

Funding and Liquidity Sources

NAB Europe has 135m € of start-up capital, from the NAB Group, which forms the primary funding source of HQLA. As business builds, NAB Europe will ensure its capital and liquidity requirements both continue to be met. Wholesale deposits and wholesale funding across a range of tenors will also be used to fund the liquids portfolio and maintain an adequate level of stable funding.

Outlook and Drivers

The core liquidity ratios (LCR and NSFR) are expected to remain above operating targets over the next 3 years driven by high levels of capital as a proportion of total balance sheet size. Forecasting will be a critical management tool as the balance sheet grows in year 2 and 3 resulting in liquidity ratios normalising closer towards operating targets.

Key assumptions and drivers to the forecast:

- As the balance sheet builds, a mix of wholesale funding and capital will be utilised to cover short-dated obligations and longer dated assets, including ~3-year term funding, to satisfy stable funding requirements.
- Funding maturity profiles will be managed to reduce the volatility risk in the balance sheet.
- Asset growth will be steady and controlled to ensure the balance sheet strengthens in parallel.
- Repo are required to be self-funded and maintain an LCR and NSFR of >100%

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

NAB Europe follows the NAB Group's policies for mitigating liquidity risk, specifically the Liquidity Risk Policy and the procedures for monitoring the effectiveness of hedges and mitigants, including the Contingent Funding Plan Operating Procedures, the Funding Operating Procedures, the Liquid Asset Portfolio Operating Procedures, the Liquidity Stress Testing and Scenario Analysis Operating Produces and the Liquidity Metrics Operating Procedures. The policies and procedures are operated in accordance with NAB Europe's ILAAP, Funding Strategy, Contingent Funding Plan and Recovery Plan.

Outline of the bank's contingency funding plans The Contingent Funding Plan is designed to:

- Operate if NAB Europe is experiencing an idiosyncratic or systemic crisis in the form of wholesale market related liquidity event
- Identify stressed wholesale market conditions and other early warning signs which are likely to result in a deterioration of the liquidity and funding of NAB Europe;
- Establish processes for monitoring, identifying, escalating and responding to funding pressures that impact NAB Europe's capacity to maintain its prudential liquidity ratios or prudential liquidity portfolios;
- List options available to enable a liquidity crisis recovery within a reasonable timeframe;
- Alert key stakeholders when certain conditions or defined thresholds are being approached or breached; and,
- Coordinate an immediate response and communication strategy to manage customer and market expectations in the form of disclosure and updated

Stress Testing

Liquidity adequacy is defined as having sufficient liquid assets, including a buffer to withstand unexpected material impacts, to meet operational and unexpected cash outflows, supported by a robust liquidity risk management framework.

NAB Europe determines liquidity adequacy by assessing its risk profile and regulatory requirements against various levels of stress. The outcomes of this process are used to propose limits and determine operating targets against which NAB Europe can assess liquidity projections. A number of systemic and idiosyncratic scenarios are run daily and monthly, ranging in severity and duration with the following objectives:

BAU Stress	Ability to withstand unexpected but BAU event faced by banks over time (e.g. Geopolitical events triggering wholesale funding market volatility) with: (i) Minimal liquidation of assets – i.e. no forced selling; (ii) No Impact to customers; and (iii) Regulatory liquidity metrics above minimum
Severe Stress	Ability to continue operations in the face of severe but plausible circumstances (e.g. a significant economic stress, wholesale funding markets closed) with: (i) Asset liquidation; (ii) Continued extension of credit to customers; and (iii) Moderate assistance from Group and central banks required
Extreme Stress	Ability to protect depositors in the event of very remote but possible circumstances which may cause the organisation to fail with: (i) Liquidation of all/majority assets and access to central banks facilities required; (ii) Provision of credit to customers curtailed; and (iii) Regulatory liquidity metrics below regulatory minimums

Adequacy of liquidity risk management arrangements

The primary liquidity risk exposures for NAB Europe will vary in severity from a Group wide 'name' crisis stress with idiosyncratic and systemic characteristics, as an extreme case, to a French or European systemic BAU stress. The key difference between the two is the ability for NAB Europe to source funding, primarily via intragroup, from the parent, NAB Ltd. NAB Europe's key risk drivers will be determined by that of the NAB Group, largely driven by the NAB name, given its lack of history. This highlights the importance of creating multiple sources of funding such as European money market funding whilst ensuring to maintain adequate surplus liquidity to survive an interruption to a liquidity source. Other options will be considered in the longer term where appropriate, such as wholesale funding issuance and corporate deposit raising strategies.

Specific key risks, that could arise from several stress scenarios, include a run-on off-balance sheet commitments coupled with material front-book loan growth, ratings downgrades and various operational risks . Cross border funding and corresponding FX risk will be a key consideration should multiple currencies be utilised. Disruptions to the repo market are considered low risk to NAB Europe given the business is required to be self-funded with an NSFR equal to 100% and assets that are categorised as HQLA1. Furthermore, NAB Europe will not be reliant on its repo business to support its HQLA portfolio.

Initial and medium to longer term challenges faced by NAB Europe include:

- **Attracting stable funding sources to support lending and liquidity requirements.** In order to build strong liquidity foundations, NAB Europe must access multiple funding sources, whether that is externally from the market (customer deposits / wholesale funding) or intragroup funding from the Parent at arm's length.
- **Maintaining a diverse funding mix** at a range of tenors across multiple products to strengthen the balance sheet
- **Access to central bank facilities** for efficient management of High Quality Liquid Assets (HQLA) and multi ccy credit lines/facilities for stress events
- **Steady and controlled growth** to help build a balance sheet with strong resilience to stress events

Liquidity Risk Statement

The Liquidity Risk Management Framework is approved by the Board on an annual basis. The framework comprises the RAS, NAB 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 and idiosyncratic scenarios run over a mix of short and longer timeframes.

The Group Liquidity Risk Policy requires that the Group, including NAB Europe, maintains a liquid asset portfolio, comprising HQLA that can be readily converted to cash and used to support intraday payments. NAB Europe's liquid asset portfolio comprises Eurozone and other HQLA 1 qualifying securities and reflects the composition of NAB Europe's balance sheet and projected cashflows.

NAB Europe's Funding Strategy projects the size, diversity and tenor of the funding mix. The strategy is updated annually to reflect current market conditions and outlook. Presently, NAB Europe's funding is provided by its share capital. Short and medium funding lines have been put into place and a capability to take customer deposits is under development.

The 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.

8. Remuneration

Introduction

This document has been prepared in accordance with the requirements of Article 450 of the of the Capital Requirements Regulation (CRR) being Regulation (EU) No. 575/2013 of the European Parliament and amending Regulation (EU) No. 637/2021. Article 450 of the CRR requires disclosure of information to the market relating to the remuneration policy and practices of the NAB Group (Group) and NAB Europe S.A. (NAB Europe).

These disclosures outline qualitative information on the remuneration frameworks and policies of the Group and NAB Europe including how risk management is incorporated. This information is relevant for all colleagues, including:

- Colleagues whose professional activities have a material impact on the risk profile of the Group and NAB Europe
- Colleagues who are in a management function at NAB Europe

Remuneration governance

The NAB Group's Board (Board) is responsible for reviewing and approving remuneration related recommendations from the Board People & Remuneration Committee (Committee). The Committee has been established by the Board to undertake activities that support the execution of the Group's strategy, including the Colleague Strategy, and in support of the Group's purpose, values and risk appetite. The responsibilities emphasise the Committee's focus on long-term sustainable policy settings that foster NAB's desired culture while reinforcing compliance with NAB's Code of Conduct, available on nab.com.au (Code) and fulfilling regulatory requirements across jurisdictions in which the Group operates.

The NAB Europe Board provides input into remuneration related recommendations as required. The NAB Europe Board oversees NAB's European operations and undertakes activities in Europe in support of the execution of the Group's strategy and the Group's purpose, values and risk appetite

Summary of the Committee's structure and responsibilities

Committee structure

Three independent non-executive directors (including the chair)

6 meetings in 2022

12 meetings in 2021

There were less meetings required in 2022 due to improved planning and streamlining of governance processes.

Committee purpose

Supports the Board in discharging its responsibilities relating to people and remuneration strategies, policies and practices of the Group. The Committee undertakes these activities with the objective that they align with and enable the overall Group Strategy and support the Groups purpose, values, strategic objectives and risk appetite (while not rewarding conduct or behaviours that are contrary to these aims).

2022 areas of focus

Strategy execution: monitoring the impact from, and the embedding of, key elements of the Colleague Strategy, including leadership, talent development, succession and engagement.

Remuneration governance: monitoring how remuneration and performance frameworks (including consequence management) are applied across the Group, particularly ensuring effective connections between risk management and remuneration outcomes.

Executive performance: evaluating individual executive performance in the context of Group performance at least twice each reporting period, and recommending to the Board the fixed remuneration and Variable reward outcomes for the Group Chief Executive Officer (CEO). Group Executives and certain other senior executives. Information on the process for evaluating executive performance is set out in the Remuneration Report.

Group performance and variable reward: considering Group performance for 2022 (with the assistance of other Board Committees) and making a Group Performance Indicators (GPI) recommendation to the Board for the Group Variable Reward Plan.

External environment: monitoring the implementation of various regulatory requirements as mandated in various locations NAB operates in.

The NAB Group Committee may engage external remuneration consultants to independently review the Group's remuneration framework, policy and practices and provide relevant insights to inform Board and Committee decision making. In 2022, the Group engaged KPMG as an independent external consultant to review the effectiveness of the Group's remuneration framework. Overall, the review found the Group remuneration framework was mostly effective in rewarding colleagues and supporting the Group's desired culture with minor suggestions for improvement. External remuneration advisors did not make any remuneration recommendations to the Committee or the Board.

The Committee's Charter sets out its scope, authority, duties and responsibilities. The full Charter is available online at nab.com.au.

Performance, Risk and Remuneration assessment

The NAB Group Committee oversees Group performance outcomes by establishing robust performance measures and targets that support delivery of the Group's strategy and Colleague Strategy.

The NAB Group Committee also makes recommendations to the Board in relation to the assessment of performance and remuneration outcomes for the Group Chief Executive Officer (CEO), Group Executives and other persons as determined by the Board. The Committee is supported by the NAB Europe Board which provides input into recommendations as required. In assessing performance and determining remuneration outcomes for recommendation to the Board, the Committee is also supported by all other Board Committees which provide expert, independent reports, advice, and information as required. The Board receives the recommendations, challenges, and applies appropriate judgement in determining appropriate remuneration outcomes.

Identified Staff

Colleagues in management and material risk taker roles in NAB Europe for the year ended 30 September 2022 (hereafter 2022) have been identified as required by Article 450 of the CRR. The table below illustrates the characteristics of these colleagues.

Colleagues in management and material risk taker roles in NAB Europe are collectively referred to as Identified Staff throughout the remainder of this document.

NAB Europe

Material Risk Takers

Definition
Colleagues whose professional activities may have a material impact on the institutions' risk profile.

2022
8 Material Risk Takers

Permanent Insiders

Definition
Colleagues who possess information that is precise, non-public, and likely to have a significant effect on the price of financial instruments.

2022
6 Permanent Insiders

Remuneration process

Our remuneration framework and policy

Group Remuneration Policy

The Group Remuneration Policy (Policy) applies to all colleagues of the Group, including Identified Staff.[1] The objectives of the Policy are to:

support the Group's purpose to serve our customers well and help our communities prosper, through encouraging behaviours and performance consistent with the Group's values and strategic objectives:

- ensure variable reward (VR) components of remuneration are designed to encourage behaviour that supports:
- the Group's long-term financial soundness and long-term sustainable returns the Group's risk management framework
- comply with jurisdictional remuneration regulations and Group diversity, inclusion and pay equity commitments.

The Policy has been developed to support remuneration arrangements aligned with the following principles:

- reinforce our commitment to customers
- attract, retain and reward the best people
- align reward with sustainable shareholder value
- reflect risk, reputation, conduct and values outcomes
- drive delivery of long-term performance.

Remuneration is provided in four components:

- fixed remuneration (FR) provided as cash and benefits (including employer superannuation), set to attract and retain a high performing team to deliver on the Group's strategy
- annual performance-based VR earned for delivery of annual goals that drive the Group's strategy
- long-term variable reward (LTVR) to align the remuneration provided to the ELT with long-term shareholder outcomes
- an Annual Equity Award granted to certain Group 5 and 6 colleagues to create shareholder alignment, drive continued sustainable performance and emphasise focus on risk management, good conduct and behaviour outcomes.[2]

Identified Staff in NAB Europe do not participate in the LTVR plan or the Annual Equity Award.

Group remuneration principles

Our remuneration framework is informed by the Group and Colleague strategies which focus on the "Twin Peaks" of customers and colleagues. Our remuneration principles support the delivery of our strategic priorities.

NAB Group remuneration principles

Customers	**Colleagues**	**Shareholders**	**Transparent**	**Safe**	**Long-term**
Reinforce our commitment to customers	Fair and appropriate reward to attract and retain the best people	Align reward with sustainable shareholder value	Simple and easy to understand	Reflect risk, reputation, conduct and values outcome	Drive delivery of long-term performance

The principles that govern our approach to remuneration have evolved over many years, reflecting developing stakeholder expectations. Through these six broad principles we seek to demonstrate how we think about remuneration to all stakeholders, including our customers, regulators, communities and colleagues. We are committed to ensuring that our approach to remuneration is not only fair and appropriate but also simple and transparent to our stakeholders.

1. The Policy does not apply to Bank of New Zealand (BNZ) colleagues. BNZ has its own remuneration policy which complies with the Group's policy. The BNZ Remuneration Policy is approved by the BNZ Board.
2. Roles are defined in the NAB Enterprise Agreement 2016. Group 1 - 6 roles are roles below the Group CEO and Group Executives (which are Group 7 roles).

The FR and VR mix is balanced to ensure that the fixed component provides sufficient remuneration to take into account the possibility of paying no VR. VR is set to be sufficiently meaningful to drive individual performance without encouraging inappropriate risk-taking or conduct. The reward mix is based on market information and practices. In any year, actual reward will vary, given the overlay of business performance and individual performance on VR outcomes.

The Board approves individual remuneration arrangements for the ELT and any other senior executives of the Group as determined by the Board. Individual remuneration for other Identified Staff is approved by the appropriate manager in accordance with the Policy. The Board approves and monitors the remuneration framework and overall outcomes for Identified Staff. The NAB Europe Board is consulted and provides input into the remuneration arrangements prior to NAB Group Board approval.

Policy changes for 2022

NAB Group Management undertook an annual review of the Remuneration Policy in 2022. The Remuneration Policy was updated to incorporate changes to the remuneration framework as a result of “Reshaping Reward” and the implementation of the Australian Prudential Regulatory Authority Standard CPS 511 Remuneration (CPS 511). CPS 511 only impacts specific colleagues based in Australia.

Reshaping Reward

In 2022 the Group finished implementing a project called “Reshaping Reward”. This project implemented changes to the remuneration framework for all colleagues below Group Executive level[1]. The changes made reward simpler and more consistent, gave colleagues greater certainty by placing more emphasis on FR and enhanced colleagues’ focus on the needs of NAB’s customers. The changes:

- removed VR for most Group 1 and 2 colleagues (with limited exceptions)
- standardised VR targets by role level for colleagues in Group 3 – 6 in Australia as well as international jurisdictions.

The changes also introduced an Annual Equity Award of NAB shares for senior leaders in certain Group 5 and Group 6 roles to create shareholder alignment and emphasise focus on risk management, good conduct and behaviour outcomes.

1. Colleagues below Group Executive level refers to colleagues in Group 1 - 6 roles. Roles are defined in the NAB Enterprise Agreement 2016.

Risk measures and aligning risk and reward

Conduct, Risk and Consequence management

The Committee regularly reviews the Group and individual outcomes for risk, reputation, conduct and performance considerations. This includes oversight of the Group's Colleague Conduct Framework (Framework) which supports an appropriate risk culture across the Group. The Board, Group CEO and Group Executives influence culture by focusing on leadership behaviour, systems and colleagues, reinforced through performance and remuneration outcomes. The NAB Europe Board undertakes this accountability in respect of colleagues in NAB Europe.

How conduct and risk are integrated in our remuneration framework

	Conduct management	Risk assessment
Scope	• Applies to all colleagues including the Group CEO and Group Executives • Colleagues are required to comply with the Code and Framework	• Applies to all colleagues including the Group CEO and Group Executives • All colleagues (excluding the Group CEO) have a mandatory risk goal in their annual performance scorecard. The Group CEO has a risk modifier applied to his annual VR outcome
Assessment touch points	• **Throughout the year:** Employee conduct matters are managed as they occur "in the moment" • **Quarterly:** Conduct history is reviewed and conduct matters are discussed during quarterly performance check-ins as appropriate • **Annually:** A comprehensive review and update is undertaken to calibrate any breaches of the Code	• **Throughout the year:** Risk goals are monitored throughout the year along with continuous risk evaluation • **Quarterly:** Risk goals and risk issues are discussed during quarterly performance check-ins as appropriate • **Annually:** A comprehensive review and update is undertaken to calibrate any risk events
Individual assessment	• **Throughout the year:** Leaders assess the severity of any employee conduct and risk matters and determine the appropriate consequence depending on the severity of the matter • Consequences may include any combination of coaching, counselling, formal warnings, termination of employment, impacts to in-year performance assessment, reduction to VR outcomes and the application of malus or clawback • **At year end:** Leaders undertake a holistic conduct history review and evaluate achievement of the risk goal. These are translated into the colleague's performance rating. Remuneration decisions are informed by the performance rating	
Executive and Board oversight	• In assessing conduct and consequence, each business and enabling unit maintains a Professional Standards Forum which makes recommendations to the Executive Remuneration Committee (members include the Group Executive People and Culture, Group Chief Risk Officer and the Group Executive Legal and Commercial Services) • The Executive Remuneration Committee oversees the effectiveness of the Framework, reviews material events, accountability and the application of suitable consequences • The NAB Europe Board provides input to the Committee and the Board in relation to consequences for colleagues in Europe. • The Committee and the Board oversee consequences for the Group CEO and Group Executives	• Divisional Chief Risk Officers provide oversight, challenge and independent input into the performance review process • The Group Chief Risk Officer prepares a detailed assessment of the risk outcomes for the Group CEO and each of the Group Executives • The Board Risk & Compliance Committee assesses the Group Chief Risk Officer's outcomes. These assessments are used by the Board in determining individual VR outcomes for the Group CEO and Group Executives • The Group CEO, Group Executives and employees receive higher VR if they are driving improvements in the management of risk and compliance. If risk is not appropriately managed, the individual's VR will be reduced and other consequences may be applied

Potential impacts on remuneration

Risk adjustment: On recommendation from the Committee, the Board may adjust the "in-year" funding level of VR outcomes. The Board may also reduce VR for individuals to align with employee conduct or risk outcomes (with input from the NAB Europe Board as required)

Malus: Grant and vesting of all VR is subject to the employee meeting the conduct standards outlined in the Code and risk expectations. The Board may determine that unvested awards should be adjusted or forfeited (including to zero) in circumstances where these conduct standards or risk expectations are not met

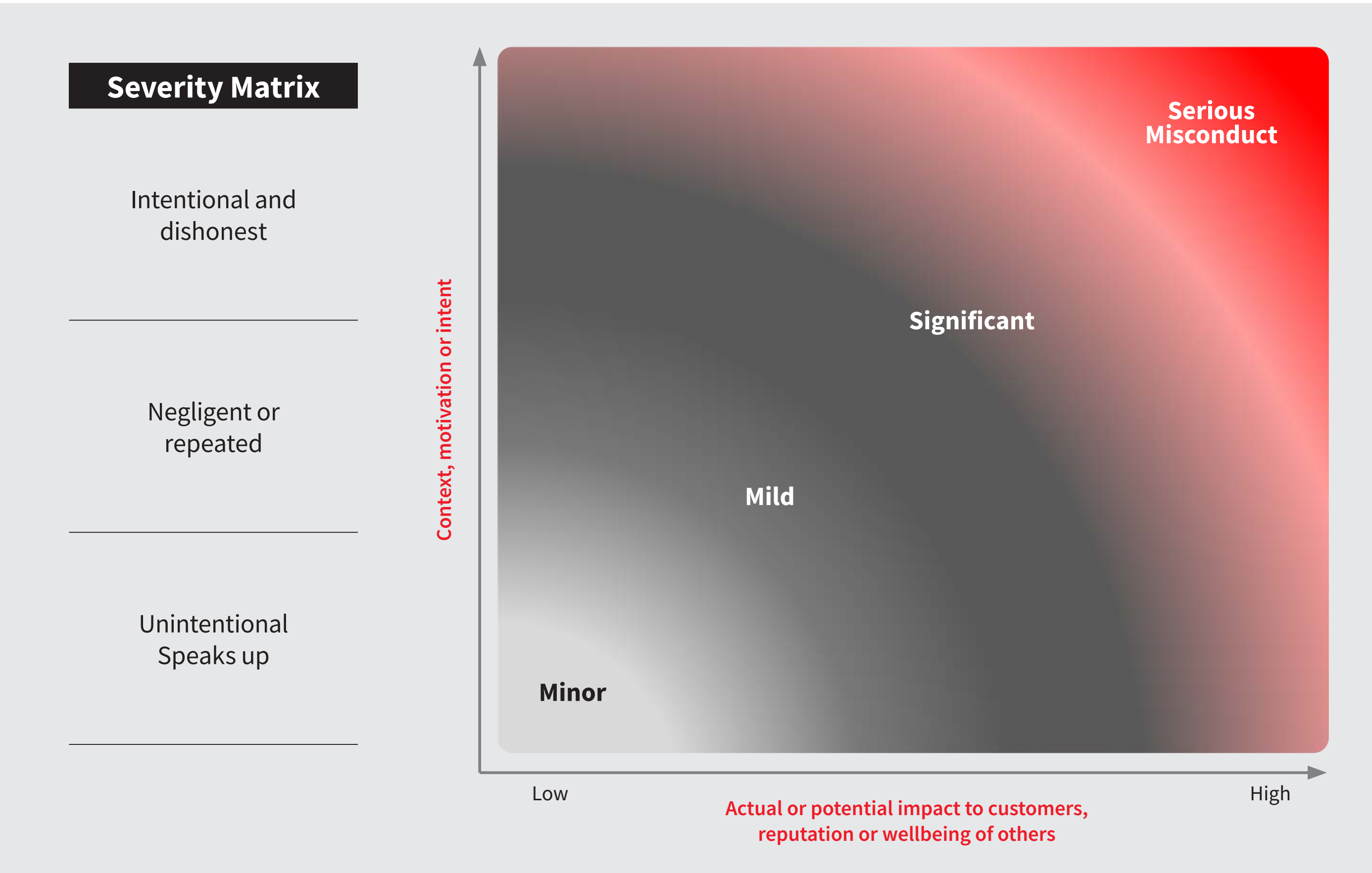
Clawback: Clawback may be applied to paid and vested VR provided to any colleague including the Group CEO and Group Executives

Risk and conduct

Effective consequence management supports an appropriate risk culture across the Group. The Group's enhanced focus on risk and conduct management has been sustained in 2022:

- The Code outlines what is expected of directors, leaders, colleagues and contractors who perform services on behalf of the Group. It captures not only the Group's legal and regulatory obligations, but also an expectation to act ethically and responsibly towards customers, colleagues and communities.
- The Code emphasises 'How We Work' and the key policies and guidelines which must be followed to achieve expected outcomes. There is a strong emphasis on speaking up about concerns and a guide to ethical decision making.
- The Code is supported by an approach to conduct and consequence management that focuses on fair, consistent and proportionate consequence outcomes when expectations are not met. Consequences are informed by the severity of the matter, including an assessment of intention or repetitive conduct.
- Professional Standards Forums in each business and enabling unit continue to review or note breach of the Code at least quarterly, taking action to set the tone and reinforce the Group's standards of conduct and culture. Any material breach or conduct that is materially inconsistent with the expected outcomes in the Code are reported to the Committee.
- The Executive Remuneration Committee, a management committee, meets quarterly to make recommendations to the Board to consider applying their discretion to adjust VR for current or former employees (excluding the Group CEO and Group Executives) for material risk, conduct and reputational issues.
- Speak Up training deployed to every colleague, and a network of 158 whistleblower champions foster psychological safety to speak up about concerns.
- The Group performance framework (Peak performance) further embeds non-financial metrics with a stronger focus on risk, customer outcomes, and leadership and culture goals to align with Group strategy and values.
- Regular reporting, insights and data to support informed decision making on risk and remuneration outcomes.

Consequences the severity of the matter. The severity of the misconduct and consequence applied are determined using the Severity Matrix (below).



Variable reward (VR)

Identified Staff may participate in the Group Variable Reward Plan and Year End Share Offer.

Group Variable Reward Plan (GVRP)

The purpose of the GVRP is to reward participants for the delivery of annual goals which drive long-term sustainable performance. The GVRP applies to the majority of colleagues in the Group. It provides an appropriate level of remuneration that varies based on Group performance (as determined by the Board) and the participant's performance for the financial year. The plan is not wholly formulaic. Judgement is applied through qualitative assessment (as determined by the Board).

The table below outlines the key features of the FY22 GVRP.

Feature	Description
Annual VR opportunity	Annual VR opportunity is expressed as a percentage of FR and is set having regard to a range of factors including the participant's role scope and accountabilities and market competitiveness. An eligible participant's actual VR outcome can be higher or lower than their target VR opportunity, but will: • not exceed their maximum VR opportunity (250% of target VR opportunity for Identified Staff) • depend on the participant's individual score and the Group's performance for the financial year.
Group performance	Group performance is assessed on achievement of financial and non-financial measures (referred to as Group Performance Indicators (GPI)) linked to the Group's key strategic priorities, overlaid by a qualitative assessment. The qualitative assessment may result in the outcome being adjusted upwards or downwards (including to zero) for risk, quality of performance (including consideration of financial, sustainability, customer outcomes, environmental and social impact matters, and progress made against strategy) and any other matters as determined by the Board. Further detail on the 2022 GPI and outcome are provided in Section 5 of the Remuneration Report (available on nab.com.au).
Individual performance	Individual performance is assessed against a scorecard comprised of key financial and non-financial goals. The measures and weighting of each measure reflect the responsibilities for each individual's role. **Individual performance modifiers:** The Board or leadership group (as appropriate) consider three individual performance modifiers which may result in an adjustment to the individual's performance and VR outcomes: • Risk: the individual's management of risk and compliance • Employee Conduct: individual performance and VR outcomes may be reduced where expected standards of conduct are not met • How We Work: the individual's demonstration of NAB's values
Annual VR calculation	Individual annual VR awards are calculated as follows: **Target Opportunity**: FR x Annual VR target % + **Group Performance Indicators**: Key financial and non-financial measures to deliver the Group's strategy V **Qualitative Assessment**: Risk Modifier Quality of performance + **Individual Balanced Scorecard**: Individual Scorecards based on individual performance measures V **Individual Modifier**: Risk Employee Conduct How We Work **Discretionary adjustments:** Annual VR is discretionary and will vary in line with Group and individual performance and available funding. The Board may determine any amount be awarded from zero up to the maximum VR opportunity.
Award delivery and deferral	Annual VR may be delivered in cash or a combination of cash and equity (shares or deferred rights) where the annual VR outcome is above a certain threshold. Cash components of annual VR are paid following the performance year to which they relate. Equity components of annual VR vest over a defined vesting period.
Separation	If an employee resigns they will not receive any annual VR for that year and any unvested deferred VR will be forfeited. Unvested awards may be retained on separation in other circumstances prior to the end of the vesting period. The Board retains discretion to determine a different treatment. Vesting of any unvested awards retained will generally not be accelerated and will continue to be held by the individual on the same terms.
Board discretion	The Board has absolute discretion to adjust the VR of any employee down, or to zero, where appropriate including in circumstances where Group or individual performance outcomes have changed over time or for an act or omission that has impacted performance outcomes. Further detail on the governance of the VRP is provided on page 2.

Year End Share Offer

The Year End Share Offer is an annual award provided to the majority of colleagues. The purpose of the plan is to build alignment with shareholder experience and recognise the role colleagues play in growing the business over the longer term.

Feature	Description
Award value	For 2022, a grant of NAB shares equivalent to approximately AUD$1,000 was made to colleagues who: • were a permanent employee of the Group with at least 12 months' continuous service as at 30 September 2022 and resided in Australia (excluding casual, fixed term and temporary employees and employees on career break) • were still a permanent employee of the Group on the allocation date (15 December 2022) • were not an Accountable Person or a senior executive (Group 6 or 7 colleagues) • did not receive a serious or significant conduct issue for the performance year ended 30 September 2022. Eligible colleagues in NAB Europe do not meet the Australian residency requirement and receive a cash equivalent payment in their local currency instead of the share grant (except where regulatory deferral requirements apply).

Deferral arrangements

Long-term performance is reflected in the design of the GVRP. The GVRP contain performance metrics that are set to encourage long-term decision making, critical to creating long-term value for shareholders. Deferral of a portion of the GVRP allows for the reward to be adjusted after the initial performance assessment to reflect longer-term performance outcomes.

The quantum and period of deferral is commensurate with the level of risk within a role and the ability to reliably measure business outcomes. This allows time to confirm that the initial individual performance and business performance outcomes are realised and if not, for the deferred VR to be adjusted downwards. A summary of deferral arrangements applicable to the GVRP is provided below.

Colleague category	Deferral arrangement
Material risk takers[1]	
All material risk takers	40% of VR is deferred for 4 years[2]
Non-material risk takers	
All colleagues	None

1. As defined by the French Financial and Monetary Code. Deferral does not apply to material risk takers if de minimis requirements are met: VR is €50,000 or less and VR is one third or less of total annual remuneration, If VR exceeds €1 million then 60% of VR must be deferred.
2. Eligible to vest on a pro rata basis at the end of years 1 to 4 (inclusive).

Deferred VR is generally provided in either shares or rights.

The Board has absolute discretion to extend the deferral period for any reason, including if the Board has reason to believe an individual is likely to have failed to meet threshold measures of conduct or comply with their accountability obligations. Deferred awards are subject to malus and clawback (see Other features of the Group remuneration framework below for more information).

Unvested awards may be retained on separation in other circumstances, such as retrenchment or retirement. Where unvested awards do not lapse on cessation of employment, they will continue to be held by the individual subject to the terms and conditions of the offer.

Once deferred VR has vested, no further adjustment (including as a result of malus) applies. Clawback may be applied to vested VR.

Forms of variable reward

The Group provides VR to Identified Staff in the following forms:

Form	When used
Cash	• All or a portion of the VR that relates to the current performance year • Where a colleague is entitled to receive deferred VR but has ceased employment with the Group prior to allocation of any shares or rights, or for jurisdictional reasons • Retention and recognition awards • Commencement awards
Shares/Rights	• Deferred VR • Year End Share Offers • Retention and recognition awards • Commencement awards

Generally, the Group aims to provide deferred VR as equity to align the interests of colleagues and shareholders. The mix of different forms of VR is dependent on the colleague's role as well as external market relativities and practice.

All permanent colleagues (except colleagues in Internal Audit and most Group 1-2 colleagues) are eligible to participate in a VR plan. VR will generally be provided in a combination of cash and equity.

Retention, recognition, and commencement awards are provided to a colleague depending on circumstances. The quantum and form will vary depending on the specific circumstances at the time of the award.

Other features of the Group remuneration framework

Malus (forfeiture or lapsing of unvested VR)

Unvested VR will generally be forfeited or lapsed prior to vesting (or milestone) date if:

- the employee resigns; or
- the Board determines that some or all of the unvested VR should be forfeited or lapsed as a result of:
  - cessation of employment with the Group (other than due to resignation)
  - conduct standards not being met as set out in the Code
  - the occurrence of a Malus Event[1]
  - any other circumstances contemplated by the Remuneration Policy.

Deferred amounts not forfeited on cessation of employment are generally retained, subject to the initial forfeiture conditions, restriction hurdles and all other terms of the relevant VR and equity plan.

Clawback (recovery of paid and vested VR)

Paid and vested VR, including retention rewards, is subject to clawback. The Board may apply clawback to Identified Staff and other colleagues in certain circumstances depending on their individual employment arrangements and the terms and conditions of the GVRP.

Minimum shareholding requirements

The Group encourages Identified Staff and other colleagues to hold shares to increase alignment with the interests of shareholders. The Group promotes this by awarding deferred VR as equity. Identified Staff and other colleagues (except the Group CEO and Group Executives) are not subject to a minimum shareholder requirement.[2]

Commencement, Retention and Guaranteed awards

Commencement awards are used to buy out equity or other benefits from a new colleague's previous employer. The amount and timing of any commencement award is based on evidence provided by the new colleague of the benefit offered by their previous employer. Commencement awards are provided in the form of NAB equity or cash, subject to restrictions and certain forfeiture conditions, including forfeiture on resignation.

The Group provides retention awards for key individuals in roles where retention is critical over a medium-term timeframe (generally two to three years). These may be delivered in the form of NAB equity or cash, and are subject to performance, conduct, forfeiture conditions and clawback as appropriate.

Guaranteed VR awards (not subject to performance conditions) do not support the Group's performance focus and are not consistent with sound risk management. There may be circumstances where, in order to attract and retain key talent, a colleague may be awarded VR or a bonus, without explicit performance conditions, using tenure-based requirements. Awards of this nature are rare and are generally provided only as part of a commencement award.

Remuneration of Risk and Financial control colleagues

Risk and financial control colleagues are critical to the effective operation of the Group. Independence from the business for these colleagues is assured through the following:

- Setting the reward mix to ensure that VR is not significant enough to encourage inappropriate behaviours, while remaining competitive with the external market.
- That the risk, compliance and financial control business areas determine remuneration decisions for these colleagues rather than the business the role supports (except for the Group Chief Risk Officer).
- Performance measures and targets are aligned to Group and individual objectives that are specific to the risk, compliance and financial control roles, and not linked to the performance of the business the role supports.
- Group performance is used to calculate individual VR outcomes as appropriate. The Group's GPI is one of two factors used to determine individual reward outcomes. Risk and financial control personnel are impacted by the Group GPI and the Individual Performance Multiple, both of which are used for to calculate an individual's reward outcomes.
- Group 1 to 5 Internal Audit colleagues do not receive VR. These colleagues are eligible to participate in the Year End Share Offer.

Following Committee review, the Board will approve remuneration structures for these colleagues and oversee the overall remuneration outcomes for colleagues in these roles at least annually.

1. Examples include where the individual has engaged in fraud, dishonesty, gross misconduct, behaviour that may negatively impact the Group's long-term financial soundness or prudential standing or behaviour that brings the Group into disrepute; has materially breached a representation, warranty, undertaking or obligation to the Group; or the executive has failed to comply with their accountability obligations under the Banking Act.
2. The Group CEO and Group Executives are required to hold NAB shares to the value of 200% of FR (for the Group CEO) and 100% of FR (for Group Executives).

Linking performance and remuneration

Performance is linked to remuneration through FR and VR.

FR is set with consideration to role complexity and responsibilities, the individual's capabilities, experience and knowledge, individual performance, internal and external market role relativities and pay equity considerations.

VR is determined based on a combination of individual performance and business performance. Performance measures are selected which capture the effects of material risks and minimise actions that promote short-term results at the expense of longer-term business growth and success.

Linking individual remuneration to business performance

Individual remuneration is linked to business and individual performance through the Group's VR plans' design elements:

- Group performance is a component of the GVRP, ensuring remuneration outcomes are smaller when business performance is less than target and higher when business performance is above target
- A colleague's performance plan defines goals comprising performance measures and targets relevant to the colleague's role that support delivery of the Group's long-term sustainable performance
- Deferral of a portion of VR links remuneration to the future value of NAB shares and allows for adjustments to remuneration outcomes to be made if necessary.

Adjusting for poor performance, conduct and risk outcomes

During a performance period, poor performance, conduct and risk outcomes at a business and individual level will be reflected in the individual's VR outcome for the current year and vesting of other VR awards from prior years. If performance, conduct and/or risk outcomes are significantly weak, this may result in no VR being awarded for the performance year, forfeiture of prior year awards for malus and/or clawback of awards.

Exemptions from the Capital Requirements Directive (CRD)

The NAB Group and NAB Europe did not benefit from a derogation outlined in Article 94(3) of the CRD in relation to remuneration awarded in 2022.

Appendix

Tables

Template EU REM1 – renumeration awarded for the financial year[1]

		a	b	c	d
		MB Supervisory function	**MB Management function[2]**	**Other senior management**	**Other identified staff**
Fixed remuneration	Number of identified staff	0	2	4	2
	Total fixed remuneration	€ 0	€ 745,541	€ 680,881	€ 151,994
	Of which: cash-based	€ 0	€ 745,053	€ 679,542	€ 151,994
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
	Of which: other forms	€ 0	€ 489	€ 1,339	€ 0
	(Not applicable in the EU)				
Variable remuneration	Number of identified staff	0	2	4	2
	Total variable remuneration	€ 0	€ 167,774	€ 190,963	€ 16,671
	Of which: cash-based	€ 0	€ 110,096	€ 190,963	€ 16,671
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred	€ 0	€ 57,677	€ 0	€ 0
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
Total remuneration (2 + 10)		**€ 0**	**€ 913,315**	**€ 871,844**	**€ 168,666**

Note: 1. Remuneration has been pro-rated for the period an individual was in a French regulated role during the calendar year.
2. Nicola Jolley transferred to France on 29 January 2022 in order to commence the establishment of the Paris office. Official material risk taker duties began on 9 June 2022.

Template EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

Note – no French identified staff were awarded guaranteed variable remuneration or severance payments during the year.

	a	b	c	d
	MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards – Number of identified staff	€ 0	€ 0	€ 0	€ 0
Guaranteed variable remuneration awards – Total amount	€ 0	€ 0	€ 0	€ 0
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	€ 0	€ 0	€ 0	€ 0
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	€ 0	€ 0	€ 0	€ 0
Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	€ 0	€ 0	€ 0	€ 0
Severance payments awarded during the financial year				
Severance payments awarded during the financial year – Number of identified staff	€ 0	€ 0	€ 0	€ 0
Severance payments awarded during the financial year – Total amount	€ 0	€ 0	€ 0	€ 0
Of which paid during the financial year	€ 0	€ 0	€ 0	€ 0
Of which deferred	€ 0	€ 0	€ 0	€ 0
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	€ 0	€ 0	€ 0	€ 0
Of which highest payment that has been awarded to a single person	€ 0	€ 0	€ 0	€ 0

Template EU REM3 – Deferred remuneration

Note – no French identified staff were awarded deferred remuneration for prior year performance or had deferred remuneration vesting during the year.

	a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration	**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**	**Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods**
MB Supervisory function	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Cash-based	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Shares or equivalent ownership interests	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Share-linked instruments or equivalent non-cash instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other forms	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
MB Management function	€ 0	€ 0	€ 0	€ 0	€ 0	€ 620	€ 0	€ 0
Cash-based	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Shares or equivalent ownership interests	€ 0	€ 0	€ 0	€ 0		€ 620	€ 0	€ 0
Share-linked instruments or equivalent non-cash instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other forms	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other senior management	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Cash-based	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0

Deferred and retained remuneration	a Total amount of deferred remuneration awarded for previous performance periods	b Of which due to vest in the financial year	c Of which vesting in subsequent financial years	d Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	e Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	f Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	EU - g Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	EU - h Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
Shares or equivalent ownership interests	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Share-linked instruments or equivalent non-cash instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other forms	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other identified staff	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Cash-based	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Shares or equivalent ownership interests	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Share-linked instruments or equivalent non-cash instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other instruments	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Other forms	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Total amount	€ 0	€ 0	€ 0	€ 0	€ 0	€ 620	€ 0	€ 0

Template EU REM4 – Remuneration of 1 million EUR or more per year

		a
	EUR	**Identified staff that are high earners as set out in Article 450(i) CRR**
1	1 000 000 to below 1 500 000	0
2	1 500 000 to below 2 000 000	0
3	2 000 000 to below 2 500 000	0
4	2 500 000 to below 3 000 000	0
5	3 000 000 to below 3 500 000	0
6	3 500 000 to below 4 000 000	0
7	4 000 000 to below 4 500 000	0
8	4 500 000 to below 5 000 000	0
9	5 000 000 to below 6 000 000	0
10	6 000 000 to below 7 000 000	0
11	7 000 000 to below 8 000 000	0
x	To be extended as appropriate, if further payment bands are needed.	

Template EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	a	b	c	d	e	f	g	h	i	j
	Management body remuneration			**Business areas**						
	MB Supervisory function	**MB Management function**	**Total MB**	**Investment banking**	**Retail banking**	**Asset management**	**Corporate functions**	**Independent internal control functions**	**All other**	**Total**
Total number of identified staff										**8**
Of which: members of the MB	0	2	2							
Of which: other senior management				0	0	0	2	3	1	
Of which: other identified staff				0	0	0				
Total remuneration of identified staff	€ 0	€ 913,315	€ 913,315	€ 0	€ 0	€ 0	€ 375,436	€ 506,407	€ 158,666	
Of which: variable remuneration	€ 0	€ 167,774	€ 167,774	€ 0	€ 0	€ 0	€ 70,316	€ 95,486	€ 41,833	
Of which: fixed remuneration	€ 0	€ 745,541	€ 745,541	€ 0	€ 0	€ 0	€ 305,120	€ 410,921	€ 116,834	

Appendix

Glossary

Accountable Person
An accountable person for the purposes of the Banking Act 1959 (Cth). Members of the Executive Leadership Team are included in the list of Accountable Persons for NAB.

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.

Alternative liquid assets (ALA)
Assets that qualify for inclusion in the numerator of the Liquidity Coverage Ratio in jurisdictions where there is insufficient supply of high-quality liquid assets in the domestic currency to meet the aggregate demand of banks with significant exposure in the domestic currency in the Liquidity Coverage Ratio framework. The Committed Liquidity Facility and Term Funding Facility provided by the Reserve Bank of Australia to ADIs are treated as ALAs in the Liquidity Coverage Ratio.

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 oneyear time horizon.

Banking book
Exposures not contained in the trading book.

BCBS
Basel Committee on Banking Supervision.

BNZ
Bank of New Zealand.

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.

Collective provision for credit impairment
The provision assessed on a collective basis in accordance with Australian Accounting Standard AASB 9 'Financial Instruments'.

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. APRA has announced that the CLF will be reduced to zero by the end of 2022 subject to financial market conditions. The CLF reduction is expected to be offset by ADIs increasing holdings of high-quality liquid assets.

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

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

Credit valuation adjustment (CVA)
A capital charge to reflect potential markto-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 fund
Clearing members' funded or unfunded contributions towards, or underwriting of, a central counterparty's mutualised loss sharing arrangements.

Economic capital
Economic capital represents the NAB Group's internal assessment of the amount of capital required to protect against potential unexpected future losses arising from its business activities, in line with its target credit rating.

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.

Executive Leadership Team (ELT)
The Group CEO and the Group Executives.

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

Extended Licensed Entity
The ADI and any APRA approved subsidiaries assessed as effectively part of a single 'stand-alone' entity, as defined in APS 222 'Associations with Related Entities'.

Fixed remuneration (FR)
Base salary and superannuation paid regularly during the year.

Group
NAB and its controlled entities.

Group Performance Indicators (GPI)
A scorecard of financial and non-financial performance measures linked to the Group's key strategic priorities, overlaid by a qualitative assessment. The GPI is used to assess the Group's performance for the purpose of the annual VR plan.

Group Variable Reward Plan (GVRP)
The annual variable reward plan that the majority of colleagues across the Group participate in.

NAB 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'.

How We Work
How We Work identifies the core elements of behaviour expected of colleagues for the Group to deliver its strategy and clearly articulate the Group's target culture. The core elements are: Excellence for customers, Grow together, Be respectful and Own it.

ICAAP
Internal Capital Adequacy Assessment Process.

ILAAP
Internal Liquidity Adequacy Assessment Process.

Internal Model Approach (IMA) - Non-traded Market Risk
The approach used in the assessment of nontraded market risk. The NAB 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 NAB Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the standard method.

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.

NAB
National Australia Bank Limited ABN 12 004 044 937.

NAB Europe
National Australia Bank Europe S.A., a subsidiary established in Paris in 2022.

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.

Past due facilities ≥ 90 days
Assets that are contractually 90 days or more past due, but not impaired.

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.

Regulatory expected loss (EL)
A calculation of the estimated loss that may be experienced over the next 12 months. Regulatory expected loss calculations are based on the probability of default, loss given default and exposure at default values of the portfolio at the time of the estimate which includes stressed loss given default for economic conditions. As such, regulatory expected loss is not an estimate of long-run average expected loss.

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.

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

RMBS
Residential mortgage-backed securities.

Securitisation exposures Securitisation exposures include the following exposure types:
- liquidity facilities: facilities provided to securitisation vehicles for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the securitisation vehicle or to cover the inability of the securitisation vehicle to roll-over securities due to market disruption.
- warehouse facilities: lending facilities provided to securitisation vehicles for the financing of exposures in a pool. These may be on a temporary basis pending the issue of securities or on an on-going basis.
- securities: holding of debt securities issued by securitisation vehicles.
- derivatives: derivatives provided to securitisation vehicles, other than for credit risk mitigation purposes.

SME
Small and medium-sized enterprises.

SPV
Special purpose vehicle.

Standard method
An alternative approach to the assessment of traded market risk which applies supervisory risk-weights to positions arising from trading activities.

Standardised approach
An alternative approach to the assessment of 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. This approach was applied by the NAB Group from 1 January 2022.

Term Funding Facility (TFF)
A facility provided by the Reserve Bank of

Australia to certain ADIs to support lending to Australian businesses. The facility closed to new drawdowns of funding on 30 June 2021.

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.

Variable reward (VR)
The variable reward component(s) of a colleague's total reward.

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