



ASX ANNOUNCEMENT

Monday, 17 December 2018

NAB responds to RBNZ paper on capital framework

Further to NAB's announcement on 14 December 2018, the Reserve Bank of New Zealand (RBNZ) has released a consultation paper titled "Capital Review Paper 4: *How much capital is enough?*" This consultation is the latest in a series of proposed reforms to the capital adequacy framework for the New Zealand banking system.

RBNZ is proposing to raise the amount of capital New Zealand banks must hold, including NAB's New Zealand subsidiary, Bank of New Zealand (BNZ). The proposed changes aim to strengthen the New Zealand banking system and further protect depositors by reducing the likelihood of bank failures. Responses to the consultation paper are due on 29 March 2019.

RBNZ is proposing a five year transition period for banks to meet these new requirements which include:

- A potential increase to risk-weighted assets (RWA) for internal ratings based banks such as BNZ.
- An increase in the Tier 1 capital requirement equal to 16 per cent of RWA for banks deemed systemically important (including BNZ), and 15 per cent for all other banks.
- Maintaining the current Tier 2 capital requirement of 2 per cent of RWA, but questioning whether Tier 2 should remain part of the capital framework.

BNZ and NAB will collectively engage with RBNZ and APRA through the consultation process, noting a staged transition for different components of the revised framework over the coming years.

Based on the proposals set out by the RBNZ and BNZ's balance sheet as at 30 September 2018, the recommendations would imply a potential Tier 1 capital increase of NZ\$4-5bn (A\$3.8-4.7bn¹) for BNZ. The impact to the NAB Group's capital position is expected to be materially lower than this given:

- NAB's capital is primarily measured and reported on a Level 2 (or NAB Group) basis. Additional capital required by BNZ does not impact the NAB Group capital position, other than the potential increase in RWA related to BNZ exposures.
- Level 1 (NAB Limited) capital ratios will be solely impacted by the increase in RWA associated with its investment in its subsidiary, which is risk-weighted at 400 per cent.

The ultimate impact on the NAB Group will be dependent on various factors, including the final outcome of this consultation, BNZ's balance sheet size over the phased implementation period and the extent to which APRA incorporates aspects of the RBNZ's proposal as part of its review of the capital framework.

¹ Assuming AUD/NZD FX rate of 1.05

At 30 September 2018, BNZ Tier 1 capital was NZ\$7.7bn, the NAB Group Common Equity Tier 1 capital ratio was 10.2 per cent and the NAB Level 1 Common Equity Tier 1 capital ratio was 10.4 per cent.

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