



Monday, 20 July 2015

ASX Announcement

APRA to increase IRB mortgage risk weights

National Australia Bank (NAB) today noted the Australian Prudential Regulation Authority (APRA) announcement of an increase in the amount of capital required for Australian residential mortgage exposures by authorised deposit-taking institutions (ADIs) accredited to use the internal ratings-based (IRB) approach to credit risk.

NAB Group Executive Finance and Strategy Craig Drummond said: "Today's announcement by APRA of an increase in mortgage risk weights aligns with our expectations. NAB has built a capital buffer in anticipation of such changes, making it well placed to respond to changes in regulatory capital requirements."

The change for impacted ADIs means the average risk weight on Australian residential mortgage exposures will increase from approximately 16 per cent to at least 25 per cent. The increase in mortgage risk weights will come into effect from 1 July 2016, for both existing and new residential mortgages.

This addresses a recommendation of the Financial System Inquiry (FSI) that APRA raise the average IRB mortgage risk weights and is also consistent with the work being undertaken by the Basel Committee on Banking Supervision (Basel Committee) on changes to the global capital adequacy framework for banks.

APRA has estimated that the variation to Australian mortgage risk weights will increase the capital requirements for the major banks by approximately 80 basis points.

Based on NAB's March 2015 capital ratios the impact would be approximately 70 basis points of Common Equity Tier 1 (CET1). This is likely to rise by a further 10 to 20 basis points when the impact of the \$5.5 billion capital raising and other potential strategic transactions are factored in. NAB's average risk weight of its total Australian and New Zealand mortgage portfolio is expected to increase from 18.2 per cent at 31 March 2015 to approximately 27.7 per cent post implementation.

At the 1H15 result NAB announced it was raising \$5.5 billion of capital, in part to provide a buffer for likely regulatory changes, including higher mortgage risk weights, stemming from the FSI. In conjunction with various other strategic initiatives NAB expected to have a pro forma CET1 ratio of approximately 10 per cent¹, 100 basis points above the mid point of its target range of 8.75-9.25 per cent. Taking into account the impact of the increase in mortgage risk weights, this is now likely to result in a pro forma CET1 ratio within NAB's target range.

¹ This is not a projection of NAB's future capital position or intended to be a forecast of that position, but sets out the potential capital impact of the proposed strategic initiatives outlined in NAB's 1H15 investor result presentation on the basis of certain assumptions which may or may not reflect the actual position at the relevant time. These strategic initiatives involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of NAB. There is no certainty that all of these strategic initiatives will occur or will occur as currently proposed.

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