



# **National Australia Bank Ltd (“NAB Ltd”)**

## **Public Section of 2018 §165(d) Resolution Plan**



## Public Section

### I.A. Introduction

To promote financial stability, Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the related rule (the “Rule”) <sup>1</sup> require each nonbank financial company supervised by the Board of Governors of the Federal Reserve System (the “FRB”) and each bank holding company with total consolidated assets of \$50 billion or more (each a “Covered Company”) to periodically submit to the FRB a plan for such company’s rapid and orderly resolution in the event of material financial distress or failure. Included in Covered Companies are foreign-based covered companies, which are defined in the Rule as “any covered company that is not incorporated or organized under the laws of the United States.” National Australia Bank Ltd (“NAB Ltd”) is considered a “Covered Company” under the Rule and must file this Resolution Plan with the FRB.

Under the requirements of the Rule, Covered Companies are required to assess their U.S. banking operations for the presence of Material Entities, Critical Operations, and Core Business Lines. NAB Ltd assessed its U.S. operations and determined there are no Material Entities, Critical Operations, or Core Business Lines as defined in the Rule. Therefore, the focus of this Resolution Plan is the orderly resolution of NAB Ltd’s New York Branch, which conducts the vast majority of the Covered Company’s U.S. operations.

### I.B. Background

NAB Ltd, an Australian company that is incorporated under the Corporations Act (Australia), is a global financial services organization with approximately U.S. \$582 billion in assets as of September 30, 2018. While the vast majority of its operations are in Australia, NAB Ltd and its subsidiaries (collectively, “NAB Group”) also operate in New Zealand, Asia, the United Kingdom and the United States. NAB Ltd is an international financial services organization with over nine million customers, 33,000 employees, and more than 900 locations. NAB Ltd is a foreign-based Covered Company under the Rule, and is required to submit a resolution plan under the Dodd-Frank Act and the Rule. NAB has developed a Resolution Plan (“Plan”) that sets forth a detailed analysis of how NAB’s U.S. operations could be resolved in a rapid and orderly manner without creating adverse effects on the financial stability of the United States. In the United States, NAB Ltd operates primarily through its federally licensed New York Branch.

NAB’s brands share a commitment to provide customers with quality products and services. NAB’s relationships are based on the principles of help, guidance and advice to achieve better financial outcomes for its customers. In the September 2018 full year, the NAB Group operated the following divisions:

- ***Business and Private Banking*** focusses on serving the needs of three of NAB’s priority customer segments – small businesses, medium businesses and investors. Customers are served through an integrated banking model locally led by managing partners through business banking centers and

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<sup>1</sup> 12 C.F.R. Part 243



through the small business customer hubs. This includes specialists in Health, Agribusiness, Government, Education, Community and Franchising (GECF), Professional Services and Commercial Real Estate. The division also serves high net worth customers through the Private Bank and JBWere.

- **Consumer Banking and Wealth** comprises the NAB and UBank consumer banking divisions and the Wealth divisions of Advice, Asset Management and Superannuation. The division provides customers with access to independent advisers, including mortgage brokers and a financial planning network of self-employed, aligned and salaried advisers in Australia.
- **Corporate and Institutional Banking** provides a range of lending and transactional products and services related to financial and debt capital markets, specialized capital, custody and alternative investments. The division serves its customers in Australia and globally, including branches in the US, UK and Asia, with specialized industry relationships and product teams.
- **New Zealand Banking** comprises the Consumer Banking, Wealth, Agribusiness, Corporate and Insurance franchises and Markets Sales operations in New Zealand, operating under the 'Bank of New Zealand' brand. It excludes Bank of New Zealand's Markets Trading operations.

### **I.C. Material Entities**

As it was determined that NAB Ltd does not have any Core Business Lines or Critical Operations as defined by the Rule, there are no Material Entities. NAB Ltd has however, as an extension of the Covered Company and the entity through which the majorities of U.S. operations are carried out, analyzed the NY Branch and provided a strategy for winding down its affairs in an orderly fashion.

### **I.D. Core Business Lines**

All of NAB Ltd's U.S. business lines are viewed by management as providing ongoing strategic value to the bank. Management performed qualitative and quantitative assessments and determined that the cessation of any one of its U.S. business lines would not result in a material loss of revenue, profit, or franchise value relative to NAB Ltd's global operations. Thus, as defined by the Rule, NAB Ltd does not have any Core Business Lines.



## **I.E. Consolidated Financial Information**

The following is NAB Ltd's global balance sheet<sup>2</sup> as of the end of its 2018 fiscal year.

As at 30 September	Note	Group		Company	
		2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Assets</b>					
Cash and liquid assets	8	50,188	43,826	49,717	42,152
Due from other banks	8	30,568	37,066	28,293	35,030
Trading instruments	9	78,228	80,091	72,961	76,020
Debt instruments	10	42,056	42,131	41,957	42,029
Other financial assets	11	10,041	16,058	8,581	11,825
Hedging derivatives	18	3,840	3,892	2,703	3,816
Loans and advances	12	567,981	540,125	492,508	468,277
Due from customers on acceptances		3,816	6,786	3,816	6,786
Current tax assets		-	-	82	-
Property, plant and equipment		1,199	1,315	423	476
Due from controlled entities		-	-	100,483	109,163
Investments in controlled entities		-	-	10,331	8,673
Goodwill and other intangible assets	22	5,787	5,601	2,445	2,361
Deferred tax assets	6	2,083	1,988	1,447	1,242
Other assets	23	10,723	9,446	8,187	6,666
<b>Total assets</b>		<b>806,510</b>	<b>788,325</b>	<b>823,934</b>	<b>814,516</b>
<b>Liabilities</b>					
Due to other banks	8	38,192	36,683	36,371	35,201
Trading instruments	9	22,422	27,187	25,863	27,065
Other financial liabilities	16	30,437	29,631	7,381	5,930
Hedging derivatives	18	2,547	1,674	1,818	3,859
Deposits and other borrowings	13	503,145	500,604	448,616	450,010
Current tax liabilities		103	230	-	71
Provisions	24	2,196	1,961	1,879	1,734
Due to controlled entities		-	-	102,888	107,601
Bonds, notes and subordinated debt	14	140,222	124,871	136,110	121,315
Other debt issues	15	6,158	6,187	6,158	6,187
Other liabilities	25	8,376	7,980	7,108	6,942
<b>Total liabilities</b>		<b>753,798</b>	<b>737,008</b>	<b>774,192</b>	<b>765,915</b>
<b>Net assets</b>		<b>52,712</b>	<b>51,317</b>	<b>49,742</b>	<b>48,601</b>
<b>Equity</b>					
Contributed equity	26	35,982	34,627	34,221	32,866
Reserves	27	46	237	108	190
Retained profits		16,673	16,442	15,413	15,545
Total equity (parent entity interest)		52,701	51,306	49,742	48,601
Non-controlling interest in controlled entities		11	11	-	-
<b>Total equity</b>		<b>52,712</b>	<b>51,317</b>	<b>49,742</b>	<b>48,601</b>

<sup>2</sup> All figures are in Australian dollars unless otherwise noted.



## I.F. Derivative and Hedging Activities

### Hedging strategy

The Group's hedging strategy is to manage its exposure to interest rate risk on a net variable basis in Australian dollars. For Australian denominated exposures this requires the Group to enter into interest rate swaps where the exposure is to a fixed interest rate. In some instances cash flow hedges of interest rate risk are also used to arrive at a net variable rate position. Foreign currency exposures are swapped to Australian dollars using cross-currency interest rate swaps. These may be float-to-float or fixed-to-float cross currency swaps depending on whether the underlying interest rate exposure is floating or fixed, respectively.

Not all exposures are automatically managed under the above strategy. Where a risk is within acceptable limits the Group may decide not to apply hedge accounting to that risk. Instead, the Group will manage its exposure under broader risk management processes.

### Hedging instruments

The table below sets out hedging derivative assets and liabilities by the hedged risk and type of hedge relationship in which they are designated. The Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps the Group will often designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

	Hedging Instrument	Risk	Group				Company			
			2018 <sup>(1)</sup>		2017		2018 <sup>(1)</sup>		2017	
			Carrying amount \$m	Notional \$m	Carrying amount \$m	Notional <sup>(2)</sup> \$m	Carrying amount \$m	Notional \$m	Carrying amount \$m	Notional <sup>(2)</sup> \$m
<b>Derivative assets</b>										
Cash flow hedges	Interest rate swaps	Interest	83	190,263	160	73,674	82	184,112	152	68,966
Cash flow hedges	Cross-currency swaps	Currency	3,101	91,719	-	-	2,120	83,899	-	-
Cash flow hedges	Foreign exchange contracts	Currency	80	8,444	-	-	80	8,444	-	-
Fair value hedges	Interest rate swaps	Interest	134	17,255	256	37,107	64	14,097	227	37,338
Fair value and cash flow hedges <sup>(3)</sup>	Cross-currency swaps	Interest and currency	438	6,629	3,476	17,549	353	4,052	3,437	29,143
Cash flow hedges	Futures	Interest	4	12,921	-	17,489	4	8,617	-	11,972
<b>Derivative liabilities</b>										
Cash flow hedges	Interest rate swaps	Interest	86	150,117	115	81,289	86	145,559	115	76,787
Cash flow hedges	Cross-currency swaps	Currency	881	32,184	-	-	834	30,961	-	-
Cash flow hedges	Foreign exchange contracts	Currency	30	5,479	-	-	30	5,479	-	-
Fair value hedges	Interest rate swaps	Interest	135	75,050	756	63,428	136	53,646	782	49,263
Fair value and cash flow hedges <sup>(3)</sup>	Cross-currency swaps	Interest and currency	1,410	18,073	786	3,986	727	11,466	2,945	2,485
Cash flow hedges	Futures	Interest	5	15,597	-	15,178	5	11,705	-	8,143
Net investment hedges	Foreign exchange contracts	Currency	-	3	17	921	-	3	17	877
<b>Financial liabilities</b>										
Net investment hedges	Financial liabilities	Currency	1,846	1,846	1,746	1,746	-	-	-	-

<sup>(1)</sup> Adoption of the hedge accounting requirements in AASB 9 Financial Instruments resulted in a significant increase in designation of derivatives for hedge accounting purposes.

<sup>(2)</sup> Comparative information has not been restated to reflect the effect of separate derivatives hedging different risk components of one hedged item.

<sup>(3)</sup> Prior to adoption of the hedge accounting requirements in AASB 9 Financial Instruments cross-currency swaps were designated in fair value hedges only.

All figures are in Australian dollars unless otherwise noted.



## **I.G. Payment, Clearing, and Settlement Systems**

The following is a table outlining the payment, clearing, and settlement systems used in conjunction with NAB Ltd's U.S. operations.

<b>System Name</b>	<b>System Type</b>
Bank of NY	Settlement
DTC	Settlement
Citibank	Payment
Markets/GSD	Settlement
Fedwire Securities Service	Payment
Fedwire Funds Service	Payment
GMM	Payment
SWIFT	Payment

## **I.H. Description of Foreign Operations**

The Group has operations in Australia (the Company's country of domicile), Europe, New Zealand, the United States and Asia. The allocation of income and non-current assets is based on the geographical location in which transactions are booked.

	<b>Group</b>			
	Income <sup>(1)</sup>		Non-current assets <sup>(2)</sup>	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Australia	15,825	14,966	10,293	10,283
New Zealand	2,368	2,176	741	677
Other International	965	939	41	45
Total before inter-geographic eliminations	19,158	18,081	11,075	11,005
Elimination of inter-geographic items	(57)	(57)	-	-
<b>Total</b>	<b>19,101</b>	<b>18,024</b>	<b>11,075</b>	<b>11,005</b>

<sup>(1)</sup> Information is presented on a continuing operations basis.

<sup>(2)</sup> Non-current assets refer to assets that include amounts expected to be recovered more than 12 months after the reporting date. They do not include financial instruments, deferred tax assets or post-employment benefits assets.

All figures are in Australian dollars unless otherwise noted.



### **I.I. Material Supervisory Authorities**

In Australia, the lead authority responsible for safety and soundness of authorized deposit-taking institutions like NAB Ltd is the Australian Prudential Regulatory Authority (“APRA”). In the United States, the New York Branch is primarily regulated by its licensing authority, the Office of the Comptroller of the Currency (“OCC”), and the Federal Reserve Bank of New York.

### **I.J. Identities of Principal Officers**

The following people are the members of National Australia Bank’s Executive Leadership Team.

<b>Name</b>	<b>Role/Title</b>
Andrew G Thorburn	Group Chief Executive Officer
Mike Baird	Chief Customer Officer - Consumer Banking
Sharon Cook	Chief Legal and Commercial Counsel
David Gall	Chief Customer Officer - Corporate & Institutional Banking
Anthony Healy	Chief Customer Officer - Business & Private Banking
Gary A Lennon	Chief Financial Officer
Angela Mentis	Managing Director and Chief Executive Officer Bank of New Zealand
Lorraine N Murphy	Chief People Officer
Patrick Wright	Chief Technology and Operations Officer
Rachel Slade	Chief Customer Experience Officer
Shaun Dooley	Group Chief Risk Officer

### **I.K. Corporate Governance Structure and Processes Related to Resolution Planning**

NAB Ltd has developed and implemented comprehensive processes, including robust internal controls, and incorporated Resolution Planning into its Global Risk Management Framework. Regular updates on the development of the Resolution Plans are provided to the Compliance Steering Committee by the Chief Risk Officer of the New York Branch. The Plan is provided to the Group Chief Risk Officer for review. The Group Chief Risk Officer has approved the Resolution Plan under delegation from the Board.



### **I.L. Description of Material Management Information Systems**

NAB Ltd's management information systems ("MIS") are applications that aggregate, analyze, and report financial data necessary for prudent decision making and risk management. The applications consist of third-party and in-house platform technologies and user interfaces that staff use to generate reports on both a periodic and ad-hoc basis. The key MIS at NAB Ltd generate numerous reports used in the normal course of business to monitor the financial health, risks, and operations of NAB Ltd.

The ability of NAB Ltd's MIS to aggregate and analyze data locally and globally is robust. Additionally, NAB Ltd maintains detailed business continuity plans with respect to all technology platforms, including its MIS.

### **I.M. High level Description of the Resolution Strategy for the Covered Company**

The New York Branch will be resolved by the OCC through a receivership pursuant to the governing provisions of the International Banking Act of 1978 and the National Banking Act. The receivership will include liquidation of NAB Ltd's U.S. assets to satisfy the claims of New York Branch creditors to the fullest extent possible. Pursuant to this strategy, the plan outlines the asset sales that could occur during the resolution process. These plans include assessments as to the marketability and liquidity of the various classes of New York Branch assets.