



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

## **Public Section of 2016 §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 is an international financial services organization with over 10 million customers, 35,000 employees, and more than 1000 stores and business banking centers. The majority of our financial service businesses operate in Australia and New Zealand, with other businesses located in Asia, the UK and the US. Our brands share a commitment to provide customers with quality products and services. Our relationships are based on the principles of help, guidance and advice to achieve better financial outcomes for our customers. Our portfolio includes:

- *Australian Banking and Wealth*, including Personal Banking and Business Banking, offers a range of banking products and services to retail and business customers, ranging from small and medium enterprises through to Australia’s largest institutions. Our personal banking products can be accessed through various channels including NAB, NAB Broker, nabtrade and UBank. Our business banking products cater to customers’ needs with specialist expertise in agribusiness, property, health, government, education and community. Australian Banking also comprises Fixed Income, Currencies and Commodities (FICC), Specialised Finance, Debt Markets, Asset Servicing and Treasury. Our wealth business provides superannuation, investment and insurance solutions to retail, corporate and institutional clients. It operates one of the largest networks of financial advisers in Australia under brands which include MLC, JBWere, JANA and Plum.

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



- *NZ Banking* comprises the Retail, Business, Agribusiness, Corporate and Institutional and Insurance franchises in New Zealand, operating under the Bank of New Zealand (BNZ) brand. It excludes BNZ's market operations, which form part of Australian Banking.

NAB Ltd, an Australian company that is incorporated under the Corporations Act (Australia), is a global financial services organization with approximately U.S. \$593 billion in assets as of September 30, 2016. 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 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.

### **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 2016 fiscal year.

As at 30 September	Note	Group		Company	
		2016 \$m	2015 \$m	2016 \$m	2015 \$m
<b>Assets</b>					
Cash and liquid assets	9	30,630	30,934	28,717	24,308
Due from other banks	9	45,236	50,595	43,359	37,698
Trading derivatives	10	43,131	78,384	42,440	79,149
Trading securities	11	45,971	42,937	41,513	38,512
Debt instruments at fair value through other comprehensive income	12	40,689	45,189	40,580	41,944
Investments relating to life insurance business <sup>(1)</sup>		86	89,350	-	-
Other financial assets at fair value	13	21,496	29,696	14,831	19,304
Hedging derivatives	10	6,407	11,599	5,996	11,219
Loans and advances	14	510,045	532,784	441,321	413,989
Due from customers on acceptances		12,205	19,437	12,205	19,428
Property, plant and equipment	20	1,423	1,741	520	533
Due from controlled entities		-	-	119,414	110,241
Investments in controlled entities	30	-	-	9,493	20,434
Goodwill and other intangible assets	21	5,302	7,347	2,093	1,855
Deferred tax assets	8	1,925	2,141	1,172	1,257
Other assets	22	13,076	12,918	10,681	9,832
<b>Total assets</b>		<b>777,622</b>	<b>955,052</b>	<b>814,335</b>	<b>829,703</b>
<b>Liabilities</b>					
Due to other banks	9	43,903	54,405	42,649	51,938
Trading derivatives	10	41,654	74,442	38,949	73,459
Other financial liabilities at fair value	16	33,224	30,046	5,408	6,958
Hedging derivatives	10	3,245	4,539	6,458	8,564
Deposits and other borrowings	17	459,714	489,010	416,241	391,785
Life policy liabilities <sup>(1)</sup>		-	76,311	-	-
Current tax liabilities	7	297	1,114	248	996
Provisions	23	1,432	3,575	1,157	917
Due to controlled entities		-	-	117,399	106,703
Bonds, notes and subordinated debt	18	127,942	130,518	123,226	119,136
Other debt issues	19	6,248	6,292	6,248	5,652
External unitholders' liability <sup>(1)</sup>		-	14,520	-	-
Other liabilities	24	8,648	14,767	7,800	8,378
<b>Total liabilities</b>		<b>726,307</b>	<b>899,539</b>	<b>765,783</b>	<b>774,486</b>
<b>Net assets</b>		<b>51,315</b>	<b>55,513</b>	<b>48,552</b>	<b>55,217</b>
<b>Equity</b>					
Contributed equity	25	34,285	34,651	32,524	34,407
Reserves	26	629	(362)	309	340
Retained profits	27	16,378	21,205	15,719	20,470
Total equity (parent entity interest)		51,292	55,494	48,552	55,217
Non-controlling interest in controlled entities		23	19	-	-
<b>Total equity</b>		<b>51,315</b>	<b>55,513</b>	<b>48,552</b>	<b>55,217</b>

<sup>(1)</sup> Balances were impacted by the Successor Fund Merger on 1 July 2016 and the sale of 80% of NAB Wealth's life insurance business. Refer to Note 41 - Discontinued operations for details.

## I.F. Derivative and Hedging Activities

### *Derivative financial instruments held or issued for trading purposes*

The Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate-related and credit-related contracts. In addition, the Group takes positions on its own account, and carries an inventory of capital market instruments. Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading. The held for trading classification therefore includes those derivatives used for risk management purposes which for various reasons do not meet the qualifying criteria for hedge accounting.

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



### *Derivative financial instruments held for hedging purposes*

The operations of the Group are subject to risk of interest rate fluctuations to the extent of the repricing profile of the Group's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated interest rate risk from this source which is primarily in the Group's banking operations. The Group monitors this non-trading interest rate risk by simulating future net interest income requirements, through the application of a range of possible future interest rate scenarios to its projected balance sheet. The Group also holds derivative financial instruments for the purpose of hedging foreign exchange risk. Foreign exchange derivatives are used predominantly to hedge borrowings and anticipated cash flows in currencies other than the Australian dollar.

#### *(a) Fair value hedges*

The Group applies fair value hedge accounting to hedge movements in the value of fixed interest rate assets and liabilities subject to interest rate risk, as well as assets and liabilities subject to foreign exchange risk.

#### *(b) Cash flow hedges*

The Group applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk on variable rate assets and liabilities, and assets and liabilities subject to foreign exchange risk.

The tables below set out the fair value of both trading and hedging derivatives:

#### **Trading derivative financial instruments**

	<b>Company</b>			
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Fair value assets</b>	<b>Fair value liabilities</b>
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Foreign exchange rate-related contracts</b>				
Spot and forward contracts	4,305	4,336	9,522	7,801
Cross currency swaps	14,084	13,809	25,369	23,965
Options / swaptions purchased	127	141	273	97
Options / swaptions written	52	125	64	156
<b>Total foreign exchange rate-related contracts</b>	<b>18,568</b>	<b>18,411</b>	<b>35,228</b>	<b>32,019</b>
<b>Interest rate-related contracts</b>				
Forward rate agreements	9	11	23	26
Swaps	21,749	18,480	41,482	38,965
Futures	682	766	969	1,165
Options / swaptions purchased	343	123	332	107
Options / swaptions written	484	623	420	588
<b>Total interest rate-related contracts</b>	<b>23,267</b>	<b>20,003</b>	<b>43,226</b>	<b>40,851</b>
Credit derivatives	145	147	139	130
Commodity derivatives	177	164	334	277
Other derivatives	283	224	222	182
<b>Total trading derivative financial instruments</b>	<b>42,440</b>	<b>38,949</b>	<b>79,149</b>	<b>73,459</b>



### Hedging derivative financial instruments

	Company			
	Fair value assets 2016	Fair value liabilities 2016	Fair value assets 2015	Fair value liabilities 2015
	\$m	\$m	\$m	\$m
<b>Derivatives held for hedging - fair value hedges</b>				
Foreign exchange rate-related contracts				
Spot and forward contracts	-	4	2	-
Cross currency swaps	5,093	4,354	9,649	5,510
Total foreign exchange rate-related contracts	5,093	4,358	9,651	5,510
Interest rate-related contracts				
Forward rate agreements	-	-	-	-
Swaps	671	1,885	856	2,421
Total interest rate-related contracts	671	1,885	856	2,421
Total derivatives held for hedging - fair value hedges	5,764	6,243	10,507	7,931
<b>Derivatives held for hedging - cash flow hedges</b>				
Interest rate-related contracts				
Swaps	232	215	712	633
Total interest rate-related contracts	232	215	712	633
Total derivatives held for hedging - cash flow hedges	232	215	712	633
Total hedging derivative financial instruments	5,996	6,458	11,219	8,564

### 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.

System Name	System Type
Bank of NY	Settlement
DTC	Settlement
Citibank	Payment
FICC/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), United Kingdom, 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>			
	<b>Income <sup>(1)</sup></b>		<b>Non-current assets <sup>(2)</sup></b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Australia	15,218	15,143	10,642	9,454
Europe	430	459	40	880
New Zealand	2,105	2,235	625	557
United States	151	366	1	1
Asia	264	284	18	19
Total from continuing operations before inter-geographic eliminations	18,168	18,487	11,326	10,911
Elimination of inter-geographic items	(46)	(50)	-	-
<b>Total</b>	<b>18,122</b>	<b>18,437</b>	<b>11,326</b>	<b>10,911</b>

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

<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, post-employment benefits assets or rights under insurance contracts.

## **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. 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
Antony J Cahill	Chief Operating Officer
Cathryn A Carver	Acting Chief Customer Officer - Corporate & Institutional Banking (from 1 August 2016)
A David Gall	Chief Risk Officer
Andrew P Hagger	Chief Customer Officer - Consumer Banking & Wealth Management
Anthony J Healy	Chief Executive Officer Bank of New Zealand
Matthew R Lawrance	Acting Chief Technology & Operations Officer (from 5 September 2016)
Gary A Lennon	Chief Financial Officer (from 15 March 2016)
Angela Mentis	Chief Customer Officer - Business & Private Banking
Lorraine N Murphy	Chief People Officer (from 15 March 2016)



### **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 Head of Risk New York Branch. The Plan is provided to the Office of the Chief Compliance Officer for review. The Group Chief Risk Officer has approved the Resolution Plan under delegation from the Principal Board, under advice from the Office of the Chief Compliance Officer.

### **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.