

**Answer to question in writing:**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE APRA ANNUAL REPORT 2019**

**APRA13QW:**

Journalist Adele Ferguson gave an account of an NAB 'error' from 2018 in her book *Banking Bad* (p. 351):

*"One of the leaked documents, prepared in April 2018, revealed that NAB had made an 'error' – which it described as an 'emerging issue' – with regard to the prudential rules requiring it to report quarterly on how much capital it is holding as a measure of its financial health. The 'error', made in March 2018, involved understating its risk-weighted assets by \$2.8 billion, which made it look like it was in a stronger capital position than it really was" and that "a 'significant event review' was to be held on 26 April and then a fix implemented to correct the results in time for the 31 March 2018 half-year results."*

- a) Is APRA aware of the error? If so, when? If not, why not?
- b) Did the error represent a breach of prudential standards:
  - i. APS110 or APS111 relating to capital adequacy and its measurement?
  - ii. APS310 relating to audit?
  - iii. APS330 relating to public disclosure?
- c) What was the outcome of NAB's 'significant event review'?
- d) How was the error resolved and was it disclosed to the market? When? If not, why not?
- e) have further errors been identified that are pending fixes?
- f) Did APRA previously withdraw NAB's accreditation for using the Advanced Measurement Approach (AMA) after persistent concerns about miscalculating capital several years ago?

**Answer:**

- a) APRA was made aware of this issue by NAB in March 2018.
- b) (i – iii) NAB's significant events review process concluded that the error was not a significant (formally reportable) breach of APS 112, based on materiality, but determined that the bank should contact APRA to ensure it was aware of the error. NAB implemented a manual fix for the error in March 2018 Capital Adequacy reporting.
- c) See above.

- d) NAB implemented a manual fix for March 2018 Capital Adequacy reporting and commenced an uplift in its controls and systems for the recording of downturn Loss given default estimates (LGDs). The specific issue was not reported to the market, but the related adjustment in credit risk RWA impacted NAB's Pillar 3 disclosure as at March 2018. APRA also requested that the bank report progress of its strategic solution to the problems to supervisors at regular modelling update meetings.
- e) The uplift of the quality of enterprise data management is a work stream in NAB's governance and risk transformation work in response to its Risk Governance Self-Assessment.
- f) APRA has not withdrawn NAB's accreditation for using the Advanced Measurement Approach (AMA). However, APRA has applied adjustments to NAB's operational risk capital requirement, including in 2012 and 2019.