2009 Risk & Capital Report

Incorporating the requirements of APS 330

Third Quarter Update

30 June 2009

National Australia Bank Limited ABN 12 004 044 937 (the 'Company')

National Australia Bank

nab Clydesdale Bank Yorkshire Bank bnz Great Western Bank MLC

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National Australia Bank

1. APS 330 Disclosure Governance

Australian Prudential Regulation Authority ("APRA") has prudential oversight of the operations of all locally incorporated ADIs in Australia. Under Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information ("APS 330"), ADIs that are Australian owned and have been approved by APRA to use the advanced approaches for the measurement of risk are required to disclose a range of both quantitative and qualitative prudential information annually, semi-annually and quarterly.

The Group operates in multiple regulatory jurisdictions. The following table sets out the methodologies applied across the Group as at 30 June 2009.

Basel II Approach	Credit Risk	Operational Risk	Non Traded Market Risk	Traded Market Risk
National Australia Bank Limited[1]	Advanced IRB	AMA	IRRBB	Standardised and IMA
Bank of New Zealand	Advanced IRB	AMA	IRRBB	n/a
Clydesdale Bank PLC	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Basel I	n/a	n/a	n/a

1. Australia Region and nabCapital are accredited under the Basel II accreditation of National Australia Bank Limited.

Great Western Bank is reported under 'Standardised – Other' for the purposes of calculating the consolidated banking group position.

This quarterly update of the Group's capital adequacy and risk disclosures has been prepared in accordance with APS 330. This report provides quarterly information on the following:

- Capital Adequacy - Risk Weighted Assets and Capital Ratios as at 30 June 2009
- Credit Risk Exposures - As at 30 June 2009 and 3 month average
- Credit Risk Provisions - As at 30 June 2009
- Charges for Specific Provisions and Write-offs - 3 months ended 30 June 2009

More detailed qualitative and quantitative disclosure of the Group's risk and capital disclosures for the year ended 30 September 2008 is available on the National Australia Bank Group's website (www.nabgroup.com).

The Group Disclosure and External Communications Policy (available on the National Australia Bank Group's website www.nabgroup.com) requires processes and practices to ensure the integrity and timeliness of Prudential Disclosures.

Certification and Disclosure

The National Australia Bank Group's Chief Executive Officer attests to the reliability of the Group's APS 330 disclosures in the annual declaration provided to APRA under APS 310.

Disclosure controls and procedures have been designed and implemented to effectively manage prudential reporting risk.

2. Scope of Application

Scope of Disclosure

As required under APS 330, this disclosure applies to the Level 2 consolidated Group, being the National Australia Bank Limited ("the Company") and the entities it controls subject to certain exceptions set out in this part ("the Group").

The controlled entities in the Group include controlled banking entities (Bank of New Zealand, Clydesdale Bank PLC and Great Western Bank), and other financial entities (e.g. finance companies and leasing companies).

Under guidelines issued by APRA, life insurance and funds management entities activities are excluded from the calculation of Basel II risk weighted assets and the related controlled entities are deconsolidated from the National Australia Bank Group for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities.

In addition, securitisation special purpose vehicles ("SPVs") to which assets have been transferred in accordance with APRA's requirements as set out in Prudential Standard APS 120: Securitisation ("APS 120") have been deconsolidated from the National Australia Bank Group for the purposes of this disclosure. For regulatory purposes credit risk is removed from the sold assets, and there is no requirement to hold capital against them.

Differences arising in consolidation between Regulatory and Accounting approaches

The primary difference in consolidation between the regulatory approach and the accounting approach as defined by the Australian equivalents to the International Financial Reporting Standards ("AIFRS") is the area of investments in life insurance, funds management and securitisation. Under AIFRS, all entities, including special purpose vehicles, where the National Australia Bank Group has the power to govern the financial and operating policies so as to obtain benefit from their activities, are consolidated. This includes life insurance funds management and special purpose vehicles used to house assets securitised. A list of material controlled entities included in the consolidated National Australia Bank Group for accounting purposes can be found in the National Australia Bank Group's 30 September 2008 financial report.

Restrictions on the transfer of funds or regulatory capital within the National Australia Bank Group

The transfer of regulatory capital and funding within the National Australia Bank Group is subject to restrictions imposed by National Australia Bank Group or local regulatory requirements as reflected in internal policies.

Further, for funding transfers within the National Australia Bank Group, APS 222: Associations with Related Entities establishes limits on the level of exposure (for example debt and equity) that the Company may have to a related entity. National Australia Bank Group policy requires compliance with these limits and that the Company takes account of risks associated with dealings with other members of the National Australia Bank Group.

3. Capital

Capital Adequacy [APS 330 Tables 16a – e]

The following table provides the Basel II risk weighted assets for the Group. Calculations are in accordance with APRA defined methodology.

	As at 30 Jun 09 RWA $m	As at 31 Mar 09 RWA $m
Credit risk [(1)]		
IRB approach		
Corporate (including SME) [(2)]	152,767	156,070
Sovereign	-	-
Bank	6,936	6,584
Residential mortgage	45,333	44,449
Qualifying revolving retail	4,560	4,610
Other retail	2,931	2,991
Other	6,604	6,585
Total IRB approach [(3)]	**219,131**	**221,289**
Specialised lending (SL) [(4)]	**23,243**	**21,598**
Standardised approach		
Australian and foreign governments	354	334
Bank	850	1,084
Residential mortgage	22,314	20,376
Corporate	36,852	37,921
Other	9,808	10,323
Total standardised approach	**70,178**	**70,038**
Other		
Securitisation [(5)]	8,902	7,860
Equity	1,083	831
Total credit risk	**322,537**	**321,616**
Market risk [(6)]	**4,510**	**5,121**
Operational risk	**23,442**	**24,336**
Interest rate risk in the banking book	**1,580**	**1,300**
Total risk weighted assets [(7)]	**352,069**	**352,373**

Capital ratios	**%**	**%**
Level 2 total capital ratio	11.00%	12.19%
Level 2 Tier 1 capital ratio [(8)]	8.06%	8.31%

(1) Risk Weighted Assets ("RWA"), which are calculated in accordance with APRA's requirements under Basel II, are required to incorporate a scaling factor of 1.06 to assets that are not subject to specific risk weights.

(2) The Group's 'Corporate' portfolio includes all corporate credit exposures and exposures that could potentially fit a Retail SME portfolio, and as such contains a range from large corporates at the investment grade level to smaller retail SME customers. The Group has a large middle market corporate portfolio in its Australian portfolio.

(3) For IRB approach: 'Bank' includes ADIs, overseas banks and non-commercial public sector entities. 'Residential mortgage' includes exposures that are partly or fully secured by residential properties. 'Qualifying revolving retail' exposures are revolving, unsecured and unconditionally cancellable (both contractually and in practice), for individuals and not explicitly for business purposes. 'Other' includes non-lending asset exposures which are not covered in the above categories. Non-lending assets are specifically excluded from credit risk exposures shown on pages 3 to 6 of this report.

(4) 'Specialised lending' exposures are subject to slotting criteria and include the four sub-classes: project finance, object finance, commodities finance and income producing real estate ("IPRE").

(5) APRA outlined accreditation requirements for the APS 120 portfolio in March 2009, which provide for the application of standardised, ratings-based and internal assessment approaches to the different asset classes comprising the APS 120 portfolio. These requirements apply for the periods after 31 March 2009. The impact of the new accreditation requirements accounts for a large part of the net increase in securitisation RWA of approximately $1.0bn between 31 March 2009 and 30 June 2009. The Group is continuing to engage with APRA around the accreditation requirements of APS 120.

(6) The majority of the decrease in Market Risk RWA since 31 March 2009 is due to an APRA approved change in methodology to calculate regulatory capital for general market risk. The change in methodology from a 'sum of regions' basis to a 'global diversified VaR' basis, contributed to a decrease in the Internal Model general market risk RWA of approximately $0.4bn.

(7) As at 30 June 2009 the Group held $4.8 billion (31 March 2009: $4.0bn) of government guaranteed Financial Institution Debt. The application of lower risk weights on these holdings resulted in a reduction of RWA by $1.4 billion (31 March 2009: $1.2bn) and an effective increase in Tier 1 capital ratio of 0.03 % (31 March 2009: 0.03%) and Total capital ratio of 0.04 % (31 March 2009: 0.04%). This debt is assessed in accordance with normal credit approval processes.

(8) This report should be read in conjunction with NAB's Trading Update dated 22 July 2009, which outlines the key movements in the Tier 1 ratio since 31 March 2009 and shows a Tier 1 Capital ratio of 8.76% on a pro-forma basis, and subsequent ASX announcements.

4. Credit Risk Exposures

Total Gross Credit Exposures [APS 330 Table 17a]

This table provides the amount of gross credit risk exposure subject to the Standardised and Advanced IRB approaches. The Group has no credit risk exposures subject to Foundation IRB approaches. Gross credit risk exposure refers to the potential exposure as a result of a counterparty default prior to the application of credit risk mitigation. It is defined to be the outstanding amount on drawn commitments plus a credit conversion factor on undrawn commitments on a given facility. For derivatives, the exposure is defined as the mark-to-market value plus a potential value of future movements. Exposures exclude non-lending assets, equities and securitisation.

Total Gross Credit Exposures [APS 330 Table 17a]

	As at 30 Jun 09			
	On-balance sheet exposures	Non-market related off-balance sheet	Market related off-balance sheet	Total exposures
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	152,772	48,816	15,057	**216,645**
Sovereign	-	-	-	**-**
Bank	21,907	1,961	48,559	**72,427**
Residential mortgage	174,377	31,360	-	**205,737**
Qualifying revolving retail	5,893	5,787	-	**11,680**
Other retail	2,543	524	-	**3,067**
Other	-	-	-	**-**
Total IRB approach	**357,492**	**88,448**	**63,616**	**509,556**
Specialised lending (SL)	**21,502**	**4,511**	**920**	**26,933**
Standardised approach				
Australian and foreign governments	15,568	712	619	**16,899**
Banks	13,620	481	1,809	**15,910**
Residential mortgage	31,938	2,482	-	**34,420**
Corporate	32,798	5,548	723	**39,069**
Other	9,264	504	-	**9,768**
Total standardised approach	**103,188**	**9,727**	**3,151**	**116,066**
Total exposures (EaD)	**482,182**	**102,686**	**67,687**	**652,555**

	As at 31 Mar 09			
	On-balance sheet exposures	Non-market related off-balance sheet	Market related off-balance sheet	Total exposures
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	156,122	49,201	18,417	223,740
Sovereign	-	-	-	-
Bank	23,631	2,329	42,424	68,384
Residential mortgage	171,271	30,091	-	201,362
Qualifying revolving retail	5,864	5,732	-	11,596
Other retail	2,527	485	-	3,012
Other	-	-	-	-
Total IRB approach	**359,415**	**87,838**	**60,841**	**508,094**
Specialised lending (SL)	**20,889**	**4,175**	**1,541**	**26,605**
Standardised approach				
Australian and foreign governments	16,523	758	4,527	21,808
Banks	11,525	421	3,347	15,293
Residential mortgage	31,748	1,511	-	33,259
Corporate	33,325	5,565	956	39,846
Other	9,593	711	-	10,304
Total standardised approach	**102,714**	**8,966**	**8,830**	**120,510**
Total exposures (EaD)	**483,018**	**100,979**	**71,212**	**655,209**

Average Credit Risk Exposure [APS 330 Table 17a]

This table provides average credit exposures for the Standardised and Advanced IRB approach within the Group, including both on- and off-balance sheet exposures, excluding non-lending assets, equities and securitisation exposures.

	3 months ended 30 Jun 09			
	On-balance sheet exposures	Non-market related off-balance sheet	Market related off-balance sheet	Average total exposures [1]
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	154,447	49,008	16,737	**220,192**
Sovereign	-	-	-	**-**
Bank	22,769	2,145	45,492	**70,406**
Residential mortgage	172,824	30,726	-	**203,550**
Qualifying revolving retail	5,878	5,760	-	**11,638**
Other retail	2,535	504	-	**3,039**
Other	-	-	-	**-**
Total IRB approach	**358,453**	**88,143**	**62,229**	**508,825**
Specialised lending (SL)	**21,196**	**4,343**	**1,230**	**26,769**
Standardised approach				
Australian and foreign governments	16,046	735	2,573	**19,354**
Banks	12,573	451	2,578	**15,602**
Residential mortgage	31,843	1,996	-	**33,839**
Corporate	33,061	5,556	840	**39,457**
Other	9,428	608	-	**10,036**
Total standardised approach	**102,951**	**9,346**	**5,991**	**118,288**
Total exposures (EaD)	**482,600**	**101,832**	**69,450**	**653,882**

[1] *Average credit exposure is equal to the sum of the Gross Credit Exposure at the beginning of the period plus the Gross Credit Exposure at the end of the reporting period divided by two.*

	6 months ended 31 Mar 09			
	On-balance sheet exposures	Non-market related off-balance sheet	Market related off-balance sheet	Average total exposures
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	157,587	51,314	16,942	**225,843**
Sovereign	-	-	-	**-**
Bank	25,375	3,248	54,060	**82,683**
Residential mortgage	169,926	29,607	-	**199,533**
Qualifying revolving retail	5,860	5,695	-	**11,555**
Other retail	2,501	481	-	**2,982**
Other	-	-	-	**-**
Total IRB approach	**361,249**	**90,345**	**71,002**	**522,596**
Specialised lending (SL)	**16,936**	**3,957**	**947**	**21,840**
Standardised approach				
Australian and foreign governments	10,729	609	2,870	**14,208**
Banks	12,367	436	7,377	**20,180**
Residential mortgage	32,270	1,576	-	**33,846**
Corporate	35,418	6,575	659	**42,652**
Other	9,314	597	-	**9,911**
Total standardised approach	**100,098**	**9,793**	**10,906**	**120,797**
Total exposures (EaD)	**478,283**	**104,095**	**82,855**	**665,233**

5. Credit Risk Provisions

Credit Risk Provisions [APS 330 Table 17b – c]

The following table sets out credit risk provision information by Basel II asset class, excluding non-lending assets, equities and securitisation exposures. Definitions of impairment and past due facilities are based on APRA Prudential Standard APS 220: Credit Quality and related guidance notes. The determination of specific provisions is in accordance with APRA Guidance Note AGN 220.2: Impairment, Provisioning and the General Reserve for Credit Losses. Impaired facilities are disclosed in accordance with APRA's definition of impaired facilities under Guidance Note AGN 220.1: Impaired Asset Definitions paragraph 7.

	As at 30 Jun 09			3 months ended 30 Jun 09	
	Impaired facilities (1)	Past due facilities ≥90 days (2)	Specific provision balance (3)	Charges for specific provision	Write-offs (4)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,981	528	1,303	450	104
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	755	946	136	74	42
Qualifying revolving retail	-	71	-	58	47
Other retail	12	64	7	23	27
Other	-	-	-	-	-
Total IRB approach	**3,748**	**1,609**	**1,446**	**605**	**220**
Specialised lending (SL)	**416**	**17**	**29**	**9**	**32**
Standardised approach					
Australian and foreign governments	-	1	-	-	-
Banks	-	-	-	-	-
Residential mortgage	63	233	9	2	1
Corporate	1,113	362	250	174	107
Other	51	93	23	57	73
Total standardised approach	**1,227**	**689**	**282**	**233**	**181**
Total exposures	**5,391**	**2,315**	**1,757**	**847**	**433**

	Balance
	$m
General reserve for credit losses	3,032
Provision held on assets at fair value (5)	628
Collective provision	**3,660**

(1) *'Impaired facilities' consist of retail loans (excluding credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities when they become 180 days past due, and loans where some concerns exist as to the ongoing ability of the borrowers to comply with the present loan repayment terms, are classified as impaired assets.*

The presentation of impaired facilities has been updated and now includes impaired loans recorded at fair value of $188m (31 March 2009: $142m). 31 March 2009 has not been restated as it is immaterial.

(2) *'Past due facilities ≥ 90 days' consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.*

(3) *'Specific provisions' for prudential purposes include all provisions for impairment assessed by an ADI on an individual basis in accordance with AIFRS.*

The presentation of specific provisions has been updated and now includes specific credit risk adjustments on loans recorded at fair value of $62m (31 March 2009: $39m). 31 March 2009 has not been restated as it is immaterial.

(4) *'Write-offs' represent credit loss expenses recognised in the Consolidated Income Statement during the reporting period in accordance with accounting rules.*

(5) *The provisions held on assets at fair value recorded at 30 June 2009 include:*

(i) A management overlay of $160 million (31 March 2009: $160 million) that has been taken in respect of conduit related assets and derivative transactions to reflect the uncertainty created by the rapid deteriorating economic conditions and the impact of any consequent default.

(ii) Collective credit Risk Adjustments on loans recorded at fair value of $269m (31 March 2009: $249m).

	As at 31 Mar 09			6 months ended 31 Mar 09	
	Impaired facilities (1)	**Past due facilities ≥90 days**	**Specific provision balance** (2)	**Charges for specific provision**	**Write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,255	393	960	652	122
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	648	1,056	108	53	26
Qualifying revolving retail	-	62	-	90	89
Other retail	12	60	5	38	42
Other	-	-	-	-	-
Total IRB approach	**2,915**	**1,571**	**1,073**	**833**	**279**
Specialised lending (SL)	**150**	**16**	**52**	**46**	**-**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Banks	-	-	-	-	-
Residential mortgage	48	186	12	9	1
Corporate	750	229	118	217	190
Other	61	91	22	93	70
Total standardised approach	**859**	**506**	**152**	**319**	**261**
Total exposures	**3,924**	**2,093**	**1,277**	**1,198**	**540**

	Balance
	$m
General reserve for credit losses	2,870
Provision held on assets at fair value	675
Collective provision	**3,545**

(1) *Totals do not include $142m of impaired loans recorded at fair value.*

(2) *Totals do not include $39m of specific credit risk adjustments on loans recorded at fair value.*

6. Glossary

Term	Description
ADI	Authorised Deposit-taking Institution ("ADI") as defined by APRA, and authorised by APRA to take deposits from customers.
Advanced IRB approach	The Advanced Internal Ratings Based ("IRB") approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess potential credit losses using the outputs from the PD, LGD and EaD models.
APRA	The Australian Prudential Regulation Authority ("APRA") is the prudential regulator of the Australian financial services industry. APRA has defined its Basel II requirements in a series of Australian Prudential Standards ("APS").
APS 120	APS 120 refers to APRA's prudential standard that defines the expectations for the management of an ADI's risk in the area of securitisation.
APS 330	APS 330 refers to APRA's prudential standard which defines the requirements for the public disclosure of capital adequacy for a Basel II accredited ADI.
Company	National Australia Bank Limited ABN 12 004 044 937.
EaD	Exposure at Default ("EaD") is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the Group would incur in the event of a default within the next 12 months. It is used in the calculation of regulatory capital.
Foundation IRB	Foundation Internal Ratings Based ("FIRB") approach refers to an alternative approach to Advanced IRB for non-retail credit risk defined under Basel II where a Group develops its own PD models and seeks approval from its regulator to use these in the calculation of regulatory capital, and the regulator provides a supervisory estimate for LGD and EaD.
Group	The Level 2 Group, being the Company and the entities it controls subject to certain exceptions set out in the Scope of Application.
IRRBB	Interest Rate Risk in the Banking Book ("IRRBB") quantifies the inherent risk arising from the Group's banking operations as a result of movements in interest rates. This also includes the impact of differing maturities between assets and liabilities. Quantification of the resulting risk is used in determining capital adequacy.
RWA	Risk Weighted Assets ("RWAs") is an estimate of the Group's banking assets after allowance for the likelihood of loss within the next 12 months.
Special purpose vehicles	Special Purpose Vehicles ("SPVs") are companies that have been established for a special purpose. Within the context of this report SPVs refer to those companies established to house assets securitised by the Group.
Standardised approach	Standardised refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWAs.

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