2009 Risk & Capital Report

Incorporating the requirements of APS 330

Quarterly Update

31 December 2008

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

National Australia Bank

nab Clydesdale Bank Yorkshire Bank bnz Great Western Bank nabCapital MLC

This page has been left blank intentionally

APS 330 Disclosure

The 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 to measuring credit risk and operational 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 31 December 2008.

Basel II Approach	Credit Risk	Operational Risk	Non Traded Market Risk	Traded Market Risk
Australia Region [1]	Advanced IRB	AMA	IRRBB	n/a
nabCapital [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.

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 31 December 2008
- Credit Risk Exposures - As at 31 December 2008 and 3 month average
- Credit Risk Provisions - As at 31 December 2008
- Charges for Specific Provisions and Write-offs - 3 months ended 31 December 2008

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 Group's website (www.nabgroup.com.au).

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

Certification and Disclosure

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

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

Scope of Application

Top corporate entity in the Level 2 group to which this disclosure applies

This disclosure applies to the Group, being the National Australia Bank Limited ("the Company") and the entities it controls.

Basis of consolidation for regulatory purposes

For Basel II regulatory reporting, consolidation at Level 2 ("the Group") comprises the global operations of the Company and its controlled entities, including 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 for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities. In addition, the Group deconsolidates from the Level 2 Group, 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. For regulatory purposes credit risk was removed from the sold assets, and hence, 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 in the area of investments in life insurance, funds management and securitisation. Under AIFRS, all entities, including special purpose vehicles, where the 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 Group can be found in the Group's 30 September 2008 financial report.

Restrictions on the transfer of funds or regulatory capital within the group

Transfer of Regulatory Capital

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

Further, for funding transfers within the 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. Group policy requires compliance with these limits and that the Company takes account of risks associated with dealings with other members of the Group.

Capital Adequacy

Capital Adequacy [APS 330 Table 16a – e]

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

Risk weighted assets	As at 31 December 2008 $m	As at 30 September 2008 $m
Credit risk (1)		
Australian and foreign governments (class II)	476	534
Bank (class III)	1,534	306
Residential mortgage (class IV)	18,221	18,073
Corporate	39,911	40,008
Other	9,887	9,573
Total standardised approach	**70,029**	**68,494**
Corporate (including SME) (2)	160,913	149,395
Specialised lending (SL) exposures subject to slotting criteria (3)	23,103	14,675
Sovereign	-	-
Bank	9,296	11,482
Residential mortgage	44,817	44,977
Qualifying revolving retail	4,547	4,537
Other retail	2,949	2,966
Other	6,147	6,965
Total IRB approach (4)	**251,772**	**234,997**
RWAs relating to securitisation exposures (5)	**4,244**	**5,983**
RWAs relating to equity exposures	**786**	**657**
Total credit risk weighted assets including securitisation and equity exposures	**326,831**	**310,131**
Market risk	**5,047**	**5,088**
Operational risk	**23,942**	**23,649**
Interest rate risk in the banking book	**3,268**	**4,643**
Total risk weighted assets (6)	**359,088**	**343,511**

Capital ratios		
Level 2 total capital ratio	12.1%	10.9%
Level 2 Tier 1 capital ratio	8.2%	7.3%

(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.*

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

(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) *'Specialised lending' includes the four sub-classes: project finance, object finance, commodities finance and income producing real estate ("IPRE").*

The majority of the increase in the 'Specialised lending' portfolio since 30 September 2008 is due to the reclassification of a number of counterparties from 'IRB Corporate' (including SME) to 'Specialised lending' as part of an on-going portfolio review.

(4) *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 all exposures not covered in the above categories.*

(5) *Since 30 September 2008 a number of transactions were reclassified from 'Securitisation' to 'IRB Corporate' (including SME) following an amendment of the underlying transactions from asset backed facilities to term funding facilities. These transactions comprised EAD of $1.1bn and RWA of $0.8bn as at 30 September 2008. The decrease in the 'Securitisation' asset class resulted in a corresponding increase in 'IRB Corporate' (including SME). The net RWA change caused by moving the exposures between asset categories was not material.*

(6) *As at 31 December 2008 the Group did not have a material holding of government guaranteed financial institution debt.*

Credit Risk Exposures

Credit Risk 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 on-balance sheet netting and 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. Exposures exclude non lending assets, equities and securitisation.

	As at 31 December 2008	3 months ended 31 December 2008	As at 30 September 2008
	Total credit exposure	Average credit exposure	Total credit exposure
Exposure type	**$m**	**$m**	**$m**
Standardised approach			
Australian and foreign governments (class II)	15,161	10,884	6,608
Banks (class III)	24,898	24,983	25,068
Residential mortgage (class IV)	32,282	33,357	34,432
Corporate	42,343	43,900	45,458
Other	9,831	9,675	9,518
Total standardised approach	**124,515**	**122,799**	**121,084**
IRB approach			
Corporate (including SME)	235,967	231,956	227,945
Specialised lending (SL)	26,481	21,778	17,074
Sovereign	-	-	-
Bank	94,812	95,898	96,983
Residential mortgage	200,036	198,870	197,704
Qualifying revolving retail	11,715	11,615	11,515
Other retail	2,982	2,966	2,951
Other	-	-	-
Total IRB approach	**571,993**	**563,083**	**554,172**
Total exposures (EaD)	**696,508**	**685,882**	**675,256**

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 31 December 2008			3 months ended 31 December 2008	
	Impaired facilities (1)	Past due facilities ≥90 days (2)	Specific provision balance (3)	Charges for specific provision (4)	Write-offs (5)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Standardised approach					
Australian and foreign governments (class II)	-	-	-	-	-
Banks (class III)	-	-	-	-	-
Residential mortgage (class IV)	35	171	6	3	-
Corporate	662	230	114	78	43
Other	45	82	8	62	66
Total standardised approach	**742**	**483**	**128**	**143**	**109**
IRB approach					
Corporate (including SME)	1,546	341	662	299	81
Specialised lending (SL)	22	-	6	-	-
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	549	954	89	21	6
Qualifying revolving retail	5	63	1	41	43
Other retail	28	48	8	17	22
Other	-	-	-	-	-
Total IRB approach	**2,150**	**1,406**	**766**	**378**	**152**
Total	**2,892**	**1,889**	**894**	**521**	**261**

	Balance
	$m
General reserve for credit losses (6)	**2,574**

(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.*

(2) *Non-impaired 90 days past due facilities 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 portion of provisions assessed on a collective basis in accordance with AIFRS which are deemed ineligible to be included in the 'general reserve for credit losses'; and any provisions not already charged against profit and loss which an ADI is required to recognise as a specific provision.*

(4) *'Charges for specific provisions' relate to the net increase in specific provisions from the beginning of the reporting period to the end of the reporting period.*

(5) *'Write-offs' represent credit loss expenses recognised in the Statement of Financial Performance during the reporting period in accordance with accounting rules.*

(6) *The 'general reserve for credit losses' for the purposes of this disclosure is calculated as the pre-tax collective provisions (excluding credit risk adjustments for fair value assets and trading derivatives) in accordance with accounting rules.*

	As at 30 September 2008			12 months ended 30 September 2008	
	Impaired facilities	Past due facilities ≥90 days	Specific provision balance	Charges for specific provision	Write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
Standardised approach					
Australian and foreign governments (class II)	-	-	-	-	-
Banks (class III)	-	-	-	-	-
Residential mortgage (class IV)	29	134	5	6	2
Corporate	379	138	86	305	244
Other	36	84	19	157	158
Total standardised approach	**444**	**356**	**110**	**468**	**404**
IRB approach					
Corporate (including SME)	1,154	224	442	431	164
Specialised lending (SL)	21	-	6	-	4
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	507	824	82	65	44
Qualifying revolving retail	2	48	-	160	168
Other retail	21	54	5	78	76
Other	-	-	-	-	-
Total IRB approach	**1,705**	**1,150**	**535**	**734**	**456**
Total	**2,149**	**1,506**	**645**	**1,202**	**860**

	Balance
	$m
General reserve for credit losses	**2,318**

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 Company and the entities it controls.
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.