2011 RISK & CAPITAL REPORT

Incorporating the requirements of APS 330

Third Quarter Update

30 June 2011

National Australia Bank

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1. Introduction

The Group, as defined in *Section 2. Scope of Application*, applies the Basel II framework as a cornerstone of its risk management framework and capital strategy, and recognises it is critical for achieving the Group's strategic agenda.

This report provides quarterly information on the following:

- Capital Adequacy - Risk-Weighted Assets ("RWA") and Capital Ratios;
- Credit Risk Exposures;
- Credit Risk Provisions, Impaired and Past Due Facilities; and
- Charges for Specific Provisions and Write-offs.

In Australia, the Australian Prudential Regulation Authority ("APRA") has regulatory responsibility for the implementation of Basel II through the release of prudential standards.

This Risk and Capital Report addresses the requirements of APRA's Pillar 3 public disclosure standard, *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("APS 330") for the quarter ended 30 June 2011.

All figures are in Australian dollars ("AUD") unless otherwise noted.

The Group's Basel II Methodologies

National Australia Bank Limited and its controlled entities (the "National Australia Bank Group") operate in Australia, Asia, New Zealand, the United Kingdom and the United States of America. The following table sets out the approach to Basel II, which is applied across the Group as at 30 June 2011.

Basel II Approach	Credit Risk	Operational Risk	Non-Traded Market Risk	Traded Market Risk
National Australia Bank Limited	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	Standardised	Standardised	IRRBB (1)	n/a

(1) Calculated using an interim measure.

IRB: Internal Ratings Based approach
AMA: Advanced Measurement Approach
IRRBB: Interest Rate Risk in the Banking Book
IMA: Internal Models Approach

Bank of New Zealand credit risk exposures consolidated in the Group position are calculated under Reserve Bank of New Zealand ("RBNZ") requirements.

The National Australia Bank Group's subsidiary in the United Kingdom, Clydesdale Bank PLC, is regulated by the Financial Services Authority ("FSA"). Clydesdale Bank PLC has been accredited to apply the standardised approach to operational and credit risk management in accordance with the FSA's requirements.

Great Western Bank ("GWB") is regulated in the United States of America by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation and the Federal Reserve System.

Effective 30 June 2011, GWB Credit Risk and Operational Risk RWA were subject to APRA Basel II Standardised approach. As at 31 March 2011, GWB was subject to Basel I methodology. The net impact of the change was not material.

IRRBB RWA relating to GWB has been calculated and included in the Group's results since 31 December 2010. IRRBB for GWB is not calculated using the IRRBB internal model. A proxy measurement basis is currently being used to calculate RWA for GWB.

Disclosure Governance

The National Australia Bank Group's External Disclosure Policy defines Board and management accountabilities for APS 330 disclosure, including processes and practices to ensure the integrity and timeliness of prudential disclosures and compliance with National Australia Bank Group policies.

The National Australia Bank Group's Chief Executive Officer attests to the reliability of the Group's APS 330 disclosure within the annual declaration provided to APRA under *Prudential Standard APS 310 Audit and Related Matters*.

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

2. Scope of Application

This disclosure applies to the Level 2 consolidated Group, comprising National Australia Bank Limited and the entities it controls, subject to certain exceptions set out below ("the Group").

The controlled entities in the Level 2 Group include Bank of New Zealand, Clydesdale Bank PLC and Great Western Bank, and certain other financial entities (e.g. finance companies and leasing companies).

Life insurance and funds management entities activities are excluded from the calculation of Basel II RWA 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, certain 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, except to the extent the National Australia Bank Group provides facilities to such SPVs.

Differences arising in consolidation between Regulatory and Accounting approaches

For financial reporting, the National Australia Bank Group applies International Financial Reporting Standards ("IFRS"). Under IFRS the National Australia Bank Group consolidates all entities in which it has the power to govern the financial and operating policies so as to obtain benefit from their activities. This includes life insurance, funds management and securitisation SPVs used to house securitised assets. As noted above, these entities receive a different treatment for Level 2 regulatory consolidation purposes.

A list of material controlled entities included in the consolidated National Australia Bank Group for financial reporting purposes can be found in National Australia Bank Limited's 30 September 2010 Annual Financial Report.

3. Regulatory Environment

The regulatory reform agenda continues to evolve, with a number of key reforms underway. Reform proposals that may affect the National Australia Bank Group include:

- The Basel Committee Capital and Liquidity Reforms (Basel III);
- APRA's Level 3 Conglomerate Supervision proposals;
- APRA's proposed changes to capital adequacy for life and general insurance businesses;
- Impacts flowing from the Dodd Frank reforms in United States of America;
- Findings of the United Kingdom Independent Commission on Banking;
- APRA's Basel II enhancements; and
- The Reserve Bank of New Zealand's Open Bank Resolution.

4. Capital

Capital Adequacy [APS 330 Tables 16a – e]

The following table provides the Basel II RWA and capital ratios for the Group.

	As at 30 Jun 11 RWA $m	As at 31 Mar 11 RWA $m
Credit risk (1)		
IRB approach		
Corporate (including SME)	113,387	116,297
Sovereign (2)	1,278	1,028
Bank (3)	7,418	6,651
Residential mortgage (3)	52,792	51,389
Qualifying revolving retail (3)	4,498	4,186
Retail SME	8,600	8,985
Other retail	3,773	3,699
Total IRB approach	**191,746**	**192,235**
Specialised lending (SL)	**41,136**	**41,762**
Standardised approach (4)		
Australian and foreign governments (2)	69	49
Bank	291	269
Residential mortgage	21,947	21,785
Corporate	28,305	27,698
Other	6,606	9,171
Total standardised approach	**57,218**	**58,972**
Other		
Securitisation	7,175	10,209
Equity	1,559	1,541
Other (5)	5,795	6,906
Total other	**14,529**	**18,656**
Total credit risk	**304,629**	**311,625**
Market risk	2,906	3,159
Operational risk (6)	22,475	21,862
Interest rate risk in the banking book	8,258	8,565
Total risk-weighted assets	**338,268**	**345,211**

Capital ratios	**%**	**%**
Level 2 Tier 1 capital ratio	9.43 %	9.19%
Level 2 total capital ratio	11.04 %	11.33%

(1) *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) *'Sovereign' and 'Australian and foreign governments' includes government guaranteed exposures.*

(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.*

(4) *Effective 30 June 2011, GWB credit risk RWA was calculated under the APRA Basel II Standardised approach. This resulted in RWA being reclassified from Standardised 'Other' and distributed across Standardised asset classes consistent with APRA rules. The net impact of this change was not material.*

(5) *'Other' includes non-lending asset exposures that are not covered in the above categories. Non-lending assets are specifically excluded from credit risk exposures shown on pages 4 to 7 of this report*

(6) *Effective 30 June 2011, GWB Operational Risk RWA was calculated under the APRA Basel II Standardised approach. At 31 March 2011, there was no Operational Risk RWA for GWB, as GWB was disclosed under Basel I methodology. The impact of this change was not material.*

5. Credit Risk Exposures

Total Gross 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 the Foundation IRB approach. 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 as 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.

For the IRB approach, Exposure at Default ("EaD") is reported gross of specific provisions and partial write-offs and prior to the application of on-balance sheet netting and credit risk mitigation. For the Standardised approach, EaD is reported net of any specific provision and prior to the application of on-balance sheet netting and credit risk mitigation. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Jun 11			
Exposure type	**On-balance sheet exposure $m**	**Non-market related off-balance sheet $m**	**Market related off-balance sheet $m**	**Total exposures $m**
IRB approach				
Corporate (including SME)	112,495	45,282	25,145	**182,922**
Sovereign	22,189	852	7,469	**30,510**
Bank	29,836	1,141	42,314	**73,291**
Residential mortgage	213,240	33,062	-	**246,302**
Qualifying revolving retail	5,629	5,260	-	**10,889**
Retail SME	15,913	3,894	-	**19,807**
Other retail	3,432	1,240	-	**4,672**
Total IRB approach	**402,734**	**90,731**	**74,928**	**568,393**
Specialised lending (SL)	**41,682**	**5,482**	**876**	**48,040**
Standardised approach (1)				
Australian and foreign governments	3,814	170	-	**3,984**
Bank	6,472	5	1,881	**8,358**
Residential mortgage	39,515	2,758	-	**42,273**
Corporate	23,775	4,299	548	**28,622**
Other	6,841	228	-	**7,069**
Total standardised approach	**80,417**	**7,460**	**2,429**	**90,306**
Total exposure (EaD)	**524,833**	**103,673**	**78,233**	**706,739**

(1) *Effective 30 June 2011, GWB credit risk EaD was calculated under the APRA Basel II Standardised approach. This resulted in exposures being reclassified from Standardised 'Other' and distributed across Standardised asset classes consistent with APRA rules.*

	As at 31 Mar 11			
Exposure type	**On-balance sheet exposure $m**	**Non-market related off-balance sheet $m**	**Market related off-balance sheet $m**	**Total exposure $m**
IRB approach				
Corporate (including SME)	112,137	44,138	21,296	**177,571**
Sovereign	17,151	625	9,137	**26,913**
Bank	25,247	995	31,981	**58,223**
Residential mortgage	205,396	33,644	-	**239,040**
Qualifying revolving retail	5,462	5,231	-	**10,693**
Retail SME	15,738	3,968	-	**19,706**
Other retail	3,361	1,181	-	**4,542**
Total IRB approach	**384,492**	**89,782**	**62,414**	**536,688**
Specialised lending (SL)	**40,843**	**5,273**	**726**	**46,842**
Standardised approach				
Australian and foreign governments	2,764	187	-	**2,951**
Bank	5,195	3	1,555	**6,753**
Residential mortgage	38,318	2,705	-	**41,023**
Corporate	23,281	4,334	450	**28,065**
Other	9,374	350	-	**9,724**
Total standardised approach	**78,932**	**7,579**	**2,005**	**88,516**
Total exposure (EaD)	**504,267**	**102,634**	**65,145**	**672,046**

Average Credit Risk Exposures [APS 330 Table 17a]

The average credit risk exposure is the sum of the gross credit risk exposure at the beginning of the reporting period plus the gross credit risk exposure at the end of the reporting period divided by two.

	3 months ended 30 Jun 11			
Exposure type	Average on-balance sheet exposure $m	Average non-market related off-balance sheet $m	Average market related off-balance sheet $m	Average total exposure $m
IRB approach				
Corporate (including SME)	112,316	44,710	23,220	**180,246**
Sovereign	19,670	739	8,303	**28,712**
Bank	27,541	1,068	37,148	**65,757**
Residential mortgage	209,318	33,353	-	**242,671**
Qualifying revolving retail	5,546	5,245	-	**10,791**
Retail SME	15,825	3,931	-	**19,756**
Other retail	3,397	1,210	-	**4,607**
Total IRB approach	**393,613**	**90,256**	**68,671**	**552,540**
Specialised lending (SL)	**41,262**	**5,378**	**801**	**47,441**
Standardised approach				
Australian and foreign governments	3,289	178	-	**3,467**
Bank	5,834	4	1,718	**7,556**
Residential mortgage	38,917	2,731	-	**41,648**
Corporate	23,528	4,317	499	**28,344**
Other	8,107	289	-	**8,396**
Total standardised approach	**79,675**	**7,519**	**2,217**	**89,411**
Total exposure (EaD)	**514,550**	**103,153**	**71,689**	**689,392**

	6 months ended 31 Mar 2011			
Exposure type	Average on-balance sheet exposure $m	Average non-market related off-balance sheet $m	Average market related off-balance sheet $m	Average total exposure $m
IRB approach				
Corporate (including SME)	111,479	42,918	18,481	**172,878**
Sovereign	16,026	679	9,395	**26,100**
Bank	23,031	1,102	37,483	**61,616**
Residential mortgage	199,588	33,186	-	**232,774**
Qualifying revolving retail	5,294	5,191	-	**10,485**
Retail SME	16,002	3,941	-	**19,943**
Other retail	3,392	1,194	-	**4,586**
Total IRB approach	**374,812**	**88,211**	**65,359**	**528,382**
Specialised lending (SL)	**40,602**	**5,650**	**885**	**47,137**
Standardised approach				
Australian and foreign governments	3,224	183	-	**3,407**
Bank	5,612	3	1,568	**7,183**
Residential mortgage	38,043	2,546	-	**40,589**
Corporate	23,616	4,570	747	**28,933**
Other	9,991	760	-	**10,751**
Total standardised approach	**80,486**	**8,062**	**2,315**	**90,863**
Total exposure (EaD)	**495,900**	**101,923**	**68,559**	**666,382**

6. Credit Provisions and Losses

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

The following tables set 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 or return instructions. The determination of specific provisions is in accordance with APRA Guidance Note AGN 220.2: Impairment, Provisioning and the General Reserve for Credit Losses.

	As at 30 Jun 11			3 months ended 30 Jun 11	
	Impaired facilities (1)	**Past due facilities ≥90 days** (2)	**Specific provisions** (3)	**Charges for specific provisions**	**Net Write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,337	400	647	176	167
Sovereign	-	-	-	-	-
Bank	36	-	36	-	-
Residential mortgage	647	1,118	152	33	29
Qualifying revolving retail	-	70	-	44	44
Retail SME	170	152	86	23	19
Other retail	10	46	4	24	23
Total IRB approach	**3,200**	**1,786**	**925**	**300**	**282**
Specialised lending (SL)	**1,542**	**142**	**304**	**63**	**8**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	92	189	17	8	8
Corporate	1,272	297	184	86	107
Other	73	78	10	31	30
Total standardised approach	**1,437**	**564**	**211**	**125**	**145**
Total	**6,179**	**2,492**	**1,440**	**488**	**435**
Additional regulatory specific provisions (3)			540		
General reserve for credit losses (4)			2,823		

(1) *Impaired facilities includes $173 million of restructured loans (March 2011: $212 million), which includes $25 million of restructured fair value assets (March 2011: $24 million).*

Impaired facilities includes $213 million of gross impaired fair value assets (March 2011: $255 million).

In the United States there is US$109 million (March 2011: US$135 million) of "Other Real Estate Owned" assets where the National Australia Bank Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$ 94 million (March 2011: US$113 million) is covered by the Federal Deposit Insurance Corporation ("FDIC") Loss Sharing Agreement, where the FDIC will absorb 80% of losses arising in recovery of these assets. The real estate assets are included in other assets on the National Australia Bank Group's balance sheet and are not included as impaired facilities.

(2) *Past due facilities ≥ 90 days includes amounts relating to the acquisition of certain assets of TierOne Bank in June 2010. These amounts are reported gross of the FDIC loss sharing agreement, where the FDIC absorbs 80% of the credit losses arising on the majority of the acquired loan portfolio.*

(3) *Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation. All collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures, have been reported as additional regulatory specific provisions and shown in this report as a separate item.*

Specific provisions includes $98 million (March 2011: $120 million) of gross impaired fair value assets.

(4) *The General Reserve for Credit Losses ("GRCL") at 30 June 2011 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,482*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(160)*
Less collective provisions reported as additional regulatory specific provisions	*(540)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,782*
Less tax effect	*(710)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,072*
Plus reserve created through a deduction from retained earnings	*751*
General reserve for credit losses (after-tax basis)	*2,823*

	As at 31 Mar 11			6 months ended 31 Mar 11	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions	Net Write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,542	439	645	298	321
Sovereign	-	-	-	-	-
Bank	36	-	36	-	-
Residential mortgage	626	1,091	142	59	47
Qualifying revolving retail	-	64	-	88	90
Retail SME	160	152	79	32	37
Other retail	10	44	5	31	36
Total IRB approach	**3,374**	**1,790**	**907**	**508**	**531**
Specialised lending (SL)	**1,355**	**121**	**253**	**146**	**259**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	97	186	18	8	2
Corporate	1,329	212	214	187	157
Other	103	232	23	90	81
Total standardised approach	**1,529**	**630**	**255**	**285**	**240**
Total	**6,258**	**2,541**	**1,415**	**939**	**1,030**

Additional regulatory specific provisions	522
General reserve for credit losses [1]	2,867

(1) *The General Reserve for Credit Losses ("GRCL") at 31 March 2011 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,488*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(160)*
Less collective provisions reported as additional regulatory specific provisions	*(522)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,806*
Less tax effect	*(690)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,116*
Plus reserve created through a deduction from retained earnings	*751*
General reserve for credit losses (after-tax basis)	*2,867*

7. 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 ADI Prudential Standards ("APS").
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. It is used in the calculation of RWA.
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 *Section 2 Scope of Application*.
IFRS	International Financial Reporting Standards
Impaired facilities	Impaired facilities consist of Retail loans (excluding unsecured portfolio-managed facilities) which are contractually 90 days or more past due with security insufficient to cover principal and arrears of interest revenue. Unsecured portfolio managed facilities are classified as impaired assets when they become 180 days past due (if not written off) as per ARF 220 instructions; Non-retail loans that are contractually 90 days or more past due and/or sufficient doubt exists about the ultimate ability to collect principal and interest; and Impaired off-balance sheet credit exposures, where current circumstances indicate that losses may be incurred.
IRRBB	Interest rate risk in the banking book ("IRRBB") arises from changes in market interest rates that adversely affect the Group's financial condition in terms of its earnings (net interest income) or the economic value of its Balance Sheet. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings or economic value due to the interest rate risk profile of the balance sheet.
LGD	Loss Given Default ("LGD") is an estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default. It is used in the calculation of RWA.
National Australia Bank Group	National Australia Bank Limited and its consolidated entities
Net write-offs	Write-offs on loans at amortised cost net of recoveries.
Past due facilities ≥ 90 days	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.
PD	Probability of Default ("PD") is an estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations to the Group within the next 12 months.
SME	Small and medium-sized entities.
Specific provisions	Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation; all collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, are reported as additional regulatory specific provisions.
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 RWA.

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