2010 RISK & CAPITAL REPORT

Incorporating the requirements of APS 330

Third Quarter Update

30 June 2010

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.

This report provides quarterly information on the following:

- Capital Adequacy - Risk Weighted Assets and Capital Ratios as at 30 June 2010
- Credit Risk Exposures - As at 30 June 2010 and 3 month average
- Credit Risk Provisions - As at 30 June 2010
- Charges for Specific Provisions and Write-offs - 3 months ended 30 June 2010

Australian Prudential Regulation Authority ("APRA") has prudential oversight of the operations of all locally incorporated ADIs in Australia. 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 2010.

The Group's Basel II Methodologies

The Group operates in multiple regulatory jurisdictions. The following table sets out the methodologies applied across the Group as at 30 June 2010.

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	Basel I	n/a	n/a	n/a

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 as mandated by APRA.

Great Western Bank is regulated by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation and the Federal Reserve Bank. Great Western Bank uses Basel I methodology and is reported under 'Standardised – Other' for the purposes of calculating the consolidated Group position.

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

Disclosure Governance

The 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 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, 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 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, 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.

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 SPVs, 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 SPVs 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 2009 Annual 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. Regulatory Environment

Further to recent announcements, the Basel Committee on Banking Supervision remains on track to issue details of its capital and liquidity reforms by November 2010. The National Australia Bank Group is monitoring these reforms in addition to those being undertaken by APRA and other regulators, and is engaging broadly and actively working with industry bodies to assess the impact and provide feedback on the proposed changes to the regulatory framework.

4. Capital

Capital Adequacy [APS 330 Tables 16a – e]

The following table provides the Basel II risk weighted assets ("RWA") for the Group.

	As at 30 Jun 10 RWA $m	As at 31 Mar 10 RWA $m
Credit risk (1)		
IRB approach		
Corporate (including SME) (2)	121,342	124,314
Sovereign (3)	1,015	957
Bank (4) (5)	5,687	5,560
Residential mortgage (4)	47,708	45,932
Qualifying revolving retail (4)	4,115	4,110
Retail SME	8,139	7,973
Other retail	3,998	3,879
Total IRB approach	**192,004**	**192,725**
Specialised lending (SL) (2)	**41,231**	**30,038**
Standardised approach		
Australian and foreign governments	44	41
Bank (5)	252	312
Residential mortgage	24,078	22,910
Corporate	32,047	28,491
Other (6)	10,988	7,926
Total standardised approach	**67,409**	**59,680**
Other		
Securitisation	12,378	12,048
Equity	1,241	1,261
Other (7)	6,517	5,721
Total other	**20,136**	**19,030**
Total credit risk	**320,780**	**301,473**
Market risk	**3,567**	**3,305**
Operational risk	**22,531**	**22,402**
Interest rate risk in the banking book	**5,737**	**5,653**
Total risk weighted assets	**352,615**	**332,833**

Capital ratios	**%**	**%**
Level 2 total capital ratio	11.37 %	12.07%
Level 2 Tier 1 capital ratio	8.79 %	9.09%

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

(2) *As part of an ongoing industry review with APRA, further changes to the classification of the commercial property portfolio meeting the slotting criteria were introduced in the June 2010 quarter. This resulted in a reclassification of some Corporate exposures to Specialised Lending (Income Producing Real Estate), resulting in a net increase to RWA of approximately $2 billion. Specialised Lending exposures are subject to slotting criteria.*

(3) *Sovereign includes government guaranteed exposures.*

(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.*

(5) *As at 30 June 2010 the Group held $6.1 billion (March 2010: $5.6 billion) of government guaranteed Financial Institution Debt. This resulted in the application of lower risk weights on these holdings with a reduction in RWA of $1.5 billion (March 2010: $1.4 billion) and an effective increase in Tier 1 capital ratio of 0.04% (March 2010: 0.04%) and Total capital ratio of 0.05% (March 2010: 0.05%). This debt is assessed in accordance with normal credit approval processes. While the Australian government guarantee shall remain for existing Financial Institution Debt guaranteed under the scheme, this arrangement was revoked by the Australian Government for new issuance from 31 March 2010.*

(6) *30 June 2010 RWA include the Great Western Bank acquisition of certain assets of Tier One Bank, as outlined in the National Australia Bank ASX announcement dated 5 June 2010.*

(7) *'Other' includes non-lending asset exposures. Non-lending assets are specifically excluded from credit risk exposures shown on pages 4 to 7 of this report.*

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, excluding non-lending assets, equities and securitisation. The Group has no credit risk exposure 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 and 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.

For the IRB approach, Exposure at Default ("EaD") is reported gross of specific provisions, 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 netting and credit risk mitigation.

	As at 30 Jun 10			
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposures
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	116,493	43,077	17,141	**176,711**
Sovereign	16,859	696	7,610	**25,165**
Bank	20,853	1,297	43,710	**65,860**
Residential mortgage	189,372	32,023	-	**221,395**
Qualifying revolving retail	5,180	5,046	-	**10,226**
Retail SME	13,740	3,158	-	**16,898**
Other retail	3,560	1,314	-	**4,874**
Total IRB approach	**366,057**	**86,611**	**68,461**	**521,129**
Specialised lending (SL)	**41,023**	**6,228**	**1,125**	**48,376**
Standardised approach				
Australian and foreign governments	3,825	192	-	**4,017**
Bank	6,540	4	615	**7,159**
Residential mortgage	39,277	2,411	-	**41,688**
Corporate	26,867	5,455	1,326	**33,648**
Other [(1)]	10,550	429	-	**10,979**
Total standardised approach	**87,059**	**8,491**	**1,941**	**97,491**
Total exposure (EaD)	**494,139**	**101,330**	**71,527**	**666,996**

(1) *30 June 2010 exposures include the Great Western Bank acquisition of certain assets of Tier One Bank, as outlined in the National Australia Bank ASX announcement dated 5 June 2010.*

	As at 31 Mar 10			
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	124,329	41,410	13,843	**179,582**
Sovereign	12,968	731	8,494	**22,193**
Bank	20,830	1,559	46,580	**68,969**
Residential mortgage	181,872	31,763	-	**213,635**
Qualifying revolving retail	5,158	4,962	-	**10,120**
Retail SME	13,775	3,174	-	**16,949**
Other retail	3,494	1,262	-	**4,756**
Total IRB approach	**362,426**	**84,861**	**68,917**	**516,204**
Specialised lending (SL)	**30,411**	**4,384**	**690**	**35,485**
Standardised approach				
Australian and foreign governments	2,588	177	-	**2,765**
Bank	5,903	334	4,962	**11,199**
Residential mortgage	36,578	2,272	-	**38,850**
Corporate	25,368	4,138	688	**30,194**
Other	7,594	321	-	**7,915**
Total standardised approach	**78,031**	**7,242**	**5,650**	**90,923**
Total exposure (EaD)	**470,868**	**96,487**	**75,257**	**642,612**

Average Credit Risk Exposures [APS 330 Table 17a]

This table provides the average credit risk exposure, being 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 10			
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	120,411	42,243	15,492	**178,146**
Sovereign	14,913	714	8,052	**23,679**
Bank	20,842	1,428	45,145	**67,415**
Residential mortgage	185,622	31,893	-	**217,515**
Qualifying revolving retail	5,169	5,004	-	**10,173**
Retail SME	13,758	3,166	-	**16,924**
Other retail	3,527	1,288	-	**4,815**
Total IRB approach	**364,242**	**85,736**	**68,689**	**518,667**
Specialised lending (SL)	**35,717**	**5,306**	**907**	**41,930**
Standardised approach				
Australian and foreign governments	3,207	184	-	**3,391**
Bank	6,221	169	2,789	**9,179**
Residential mortgage	37,928	2,341	-	**40,269**
Corporate	26,117	4,797	1,007	**31,921**
Other	9,072	375	-	**9,447**
Total standardised approach	**82,545**	**7,866**	**3,796**	**94,207**
Total exposure (EaD)	**482,504**	**98,908**	**73,392**	**654,804**

	6 months ended 31 Mar 10			
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	131,245	41,786	14,405	**187,436**
Sovereign	11,189	1,080	5,607	**17,876**
Bank	21,885	1,634	41,814	**65,333**
Residential mortgage	179,202	31,825	-	**211,027**
Qualifying revolving retail	5,056	4,997	-	**10,053**
Retail SME	12,892	3,168	-	**16,060**
Other retail	3,498	1,283	-	**4,781**
Total IRB approach	**364,967**	**85,773**	**61,826**	**512,566**
Specialised lending (SL)	**26,095**	**4,251**	**736**	**31,082**
Standardised approach				
Australian and foreign governments	4,058	201	37	**4,296**
Bank	7,612	352	4,331	**12,295**
Residential mortgage	32,952	2,289	-	**35,241**
Corporate	27,469	4,312	715	**32,496**
Other	7,962	379	-	**8,341**
Total standardised approach	**80,053**	**7,533**	**5,083**	**92,669**
Total exposure (EaD)	**471,115**	**97,557**	**67,645**	**636,317**

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. 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 10			3 months ended 30 Jun 10	
	Impaired facilities (1)	Past due facilities ≥90 days	Specific provisions (2)	Charges for specific provisions	Write-offs (3)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,845	466	895	177	154
Sovereign	1	-	-	-	-
Bank	39	-	39	-	2
Residential mortgage	649	1,006	145	25	23
Qualifying revolving retail	-	66	-	44	49
Retail SME	165	132	97	23	27
Other retail	14	51	8	28	22
Total IRB approach	**3,713**	**1,721**	**1,184**	**297**	**277**
Specialised lending (SL)	**987**	**65**	**278**	**47**	**24**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	81	216	14	3	1
Corporate	1,402	298	242	127	82
Other (4)	66	58	17	50	50
Total standardised approach	**1,549**	**572**	**273**	**180**	**133**
Total	**6,249**	**2,358**	**1,735**	**524**	**434**
Additional regulatory specific provisions (2)			614		
General reserve for credit losses (5)			2,914		

(1) *Impaired facilities include $503 million of restructured loans (March 2010: $465 million). These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude $299 million of facilities (March 2010: $281 million) which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty.*

Impaired facilities also include $343 million of gross impaired fair value assets (March 2010: $344 million).

(2) *Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with AIFRS 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 include $134 million (March 2010: $111 million) of gross impaired fair value assets.

(3) *Write-offs are net of recoveries.*

(4) *Impaired facilities, facilities 90+ days past due, specific provisions, charges for specific provisions & write-offs do not include amounts relating to the Great Western Bank acquisition of Tier One Bank.*

(5) *The General Reserve for Credit Losses at 30 June 2010 is calculated as follows:*

	$m
Collective provision for doubtful debts	3,634
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	(170)
Less collective provisions reported as additional regulatory specific provisions	(614)
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	2,850
Less tax effect	(745)
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	2,105
Plus reserve created through a deduction from retained earnings	809
General reserve for credit losses (after-tax basis)	2,914

	As at 31 Mar 10			6 months ended 31 Mar 10	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions	Write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,719	449	908	345	450
Sovereign	-	1	-	-	-
Bank	39	-	39	-	29
Residential mortgage	692	998	144	48	48
Qualifying revolving retail	-	60	-	99	101
Retail SME	170	124	95	40	38
Other retail	11	51	7	47	57
Total IRB approach	**3,631**	**1,683**	**1,193**	**579**	**723**
Specialised lending (SL)	**908**	**54**	**205**	**180**	**-**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	54	190	11	3	6
Corporate	1,128	261	156	200	186
Other	80	58	16	116	105
Total standardised approach	**1,262**	**509**	**183**	**319**	**297**
Total	**5,801**	**2,246**	**1,581**	**1,078**	**1,020**

Additional regulatory specific provisions	572
General reserve for credit losses [(1)]	2,820

[(1)] *The General Reserve for Credit Losses at 31 March 2010 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,610*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(190)*
Less collective provisions reported as additional regulatory specific provisions	*(572)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,848*
Less tax effect	*(766)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,082*
Plus reserve created through a deduction from retained earnings	*738*
General reserve for credit losses (after-tax basis)	*2,820*

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 Australian 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 within the next 12 months. 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*.
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.
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 regulatory capital.
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 in the next 12 months.
SME	Small and medium-sized entities.
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 risk weighted assets.

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