2011 RISK & CAPITAL REPORT

Incorporating the requirements of APS 330
as at 30 September 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 that it is critical for achieving the Group's strategic agenda.

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 is designed to provide the Group's stakeholders with detailed information about the approach the Group takes to manage risk and to determine capital adequacy, having regard to the operating environment. The Report also addresses the requirements of APRA's Pillar 3 public disclosure standard, *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information* (APS 330).

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

Capital Ratio Summary

The Group's Tier 1 capital ratio of 9.70% at 30 September 2011 is consistent with the Group's objective of maintaining a strong capital position.

	As at	
	30 Sep 11	**31 Mar 11**
Capital ratios	**%**	**%**
Level 2 Tier 1 capital ratio	9.70%	9.19%
Level 2 total capital ratio	11.26%	11.33%

The Group remains responsive to economic conditions and continues to maintain strong balance sheet settings. These settings enable the Group to manage through difficult market conditions and ensure that it is well positioned for future regulatory change and balance sheet growth.

1.1 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 North America. The following table sets out the approach to Basel II which is applied across the Group as at 30 September 2011.

The Group's Basel II Methodologies

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	Standardised and IMA
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 (BNZ) is regulated by the Reserve Bank of New Zealand (RBNZ). Credit risk exposures consolidated in the Group position are calculated under 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 regulatory 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 risk-weighted assets (RWA) were subject to APRA Basel II Standardised methodology. As at 31 March 2011, GWB was subject to Basel I methodology. The net impact of this 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 IRRBB RWA for GWB.

1.2 APS 330 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* disclosures within the annual declaration provided to APRA under *Prudential Standard APS 310 Audit and Related Matters*.

1.3 Regulatory Reform

Basel Regulatory Reforms

The Basel Committee has released its reform package for both capital and liquidity (Basel III).

In September 2011, APRA released a discussion paper outlining its proposed implementation of the Basel III capital reforms. The proposals may be subject to amendment prior to final implementation. As currently drafted, the reforms are estimated to have an unfavourable net impact on the Group's Basel II Core Tier 1 position of approximately 45 basis points.

APRA will implement changes to the calculation of market risk and securitisation RWA on 1 January 2012, phasing in other changes and regulatory minimums from 1 January 2013.

The material changes contained in the proposed reforms include:

- most items currently deducted 50% from Tier 1 Capital and 50% from Tier 2 Capital are to be deducted 100% from Core Tier 1 Capital. This includes the Group's investment in Wealth Management net tangible assets.
- removal of the dividend and Dividend Reinvestment Plan (DRP) accrual requirement.
- additional securitisation RWA and 1,250% risk weighting of the current 50% Tier 1 and 50% Tier 2 Capital deduction.
- additional RWAs for market risk, although APRA has not yet finalised its proposals for increased RWAs associated with credit risk on market activity (Basel III counterparty credit risk proposals).

Liquidity Reforms

The implementation of the Basel III liquidity reforms remains subject to clarification by APRA. APRA has released a discussion paper on the liquidity reforms in addition to the revision of prudential standard APS120 on 16 November 2011, as part of an ongoing consultation process.

The Group will gradually transition to the new Basel III metrics, including the Liquidity Coverage Ratio (LCR) by January 2015 and the Net Stable Funding Ratio (NSFR) by January 2018. In order to transition to Basel III, the Group will increasingly focus on the quality of liquidity and stability of the funding that underpins the LCR measure.

During the period, APRA and the Reserve Bank of Australia (RBA) announced that Authorised Deposit-taking Institutions (ADIs) will be able to establish a committed, secured liquidity facility with the RBA to help facilitate compliance with the liquidity proposals.

Other Reform Proposals

In addition to the Basel Committee reforms, the Group remains focused on other areas of regulatory change.

Key reform proposals that may affect the Group's capital and funding include:

- APRA's Level 3 Conglomerate Supervision proposals, which considers capital requirements for the consolidated Banking and Wealth Management Group.
- APRA's proposed changes to capital adequacy for life and general insurance businesses.
- The potential impacts of the US Dodd-Frank bill on NAB's US operations and businesses with US connections.
- the UK Independent Commission on Banking which may impact the amount of capital held in the UK business.

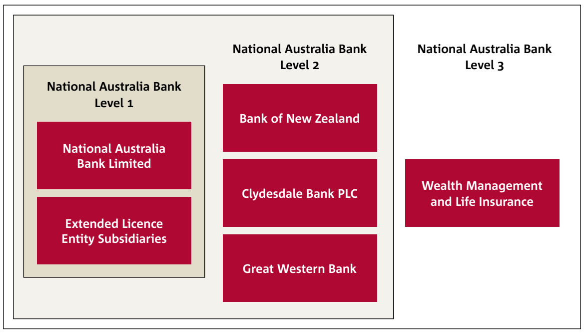
2. Scope of Application

APRA measures the National Australia Bank Group's capital adequacy by assessing financial strength at three levels:

- Level 1: comprises National Australia Bank Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity (ELE);
- Level 2: comprises National Australia Bank Limited and the entities it controls, subject to certain exceptions set out below; and
- Level 3: comprises the Conglomerate Group.

This report applies to the Level 2 consolidated Group (the Group).

National Australia Bank Group Consolidation for Regulatory Purposes



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

Life insurance and funds management entities 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.

Differences in Consolidation Arising Between the Regulatory and Accounting Approaches

For financial reporting, the National Australia Bank Group applies the International Financial Reporting Standards (IFRS) and 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 the National Australia Bank Limited 30 September 2011 Annual Financial Report.

Restrictions on the Transfer of Funds and Regulatory Capital within the National Australia Bank Group

Limits are placed on the level of capital and funding transfers and on the level of exposure (debt and equity) that the National Australia Bank Group may have to a related entity. These limits are subject to the National Australia Bank Group Capital Policy which requires that contagion risk be managed under regulatory requirements *(Prudential Standard APS 222 Associations with Related Entities*) and the Board's risk appetite for intra-group exposures.

Each major banking subsidiary works with the National Australia Bank Group to manage capital to target capital ranges recommended by Group Treasury and approved by their local Boards. Any capital transfer is subject to maintaining adequate subsidiary and National Australia Bank Limited capitalisation.

Disclosure 2A: Scope of Application

There were no capital deficiencies in non-consolidated subsidiaries of the Group as at 30 September 2011 or 31 March 2011.

Clydesdale Bank PLC

Clydesdale Bank PLC is a wholly owned subsidiary of National Australia Bank Limited and operates as a regionally autonomous retail and business bank in the United Kingdom. It applies the provisions laid down in the UK Financial Services Authority's requirements *BIPRU 2.1 Solo Consolidation Waiver*. This enables some intra-group exposures and investments of Clydesdale Bank PLC in its subsidiaries to be eliminated and the free reserves of such subsidiaries to be aggregated when calculating capital resource requirements of Clydesdale Bank PLC.

Bank of New Zealand

BNZ is a wholly owned subsidiary of National Australia Bank Limited and operates as a regionally autonomous, full-service bank in New Zealand. The BNZ Board is responsible for corporate governance and derives its authority from the Constitution of Bank of New Zealand and applicable New Zealand legislation.

BNZ is subject to the Basel II capital adequacy requirements applicable in New Zealand, mandated by the RBNZ. The capital ratios for BNZ presented in this report have been derived under the RBNZ's Capital Adequacy Framework (Internal Models Based Approach). Full Basel II disclosures for BNZ are published separately under the Disclosure Statement regime applicable to banks incorporated in New Zealand.

Great Western Bank

Effective 30 June 2011, GWB Credit Risk and Operational Risk RWA were subject to APRA Basel II Standardised methodology[1].

(1) IRRBB for GWB has been calculated and included in the Group's results since 31 December 2010.

3. Risk, Capital Oversight and Governance

The National Australia Bank Group maintains a strong risk governance and oversight framework that originates at Board level and cascades down the organisation through the Group Chief Executive Officer (Group CEO).

Board Governance

The Board derives its authority to act from the Constitution of the Company and the law governing corporations and banking and finance entities in the jurisdictions in which the Company operates.

The primary authorities and responsibilities of the Board are set out in the Board Charter which is available on the National Australia Bank Group website. Of particular relevance to the management of risk and capital is the responsibility to:

- approve major capital expenditure, acquisitions and divestitures, and monitor capital management; and
- review, ratify and monitor systems of risk management and internal control.

To help it carry out its responsibilities, the Board has established the following Committees and has adopted charters setting out the matters relevant to the composition, responsibilities and administration of these Committees:

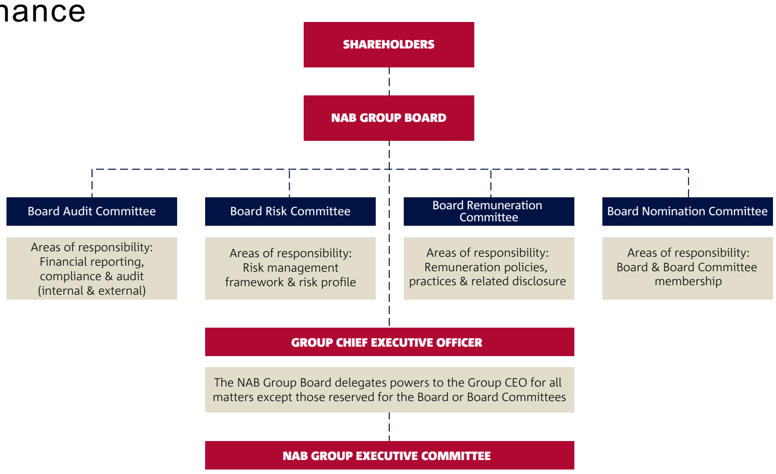
- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee

The Principal Board Risk Committee (PBRC) supports the framework for risk and capital management in the National Australia Bank Group through:

- overseeing the risk profile and risk management of the National Australia Bank Group within the context of the Board determined risk appetite;
- making recommendations to the Board concerning the National Australia Bank Group's risk appetite and particular risks or risk management practices;
- reviewing management's plans for mitigation of material risks faced by the National Australia Bank Group;
- overseeing the implementation and review of risk management and internal compliance and control systems throughout the National Australia Bank Group; and
- promoting awareness of a risk-based culture and the achievement of a balance between risk and reward for risks accepted.

The Board has reserved certain powers for itself and delegated authority and responsibility for day-to-day management of the Company to the Group CEO, subject to certain conditions and limits. These delegations are reviewed and reconfirmed annually.

The National Australia Bank Group's Governance structure is represented diagrammatically below.

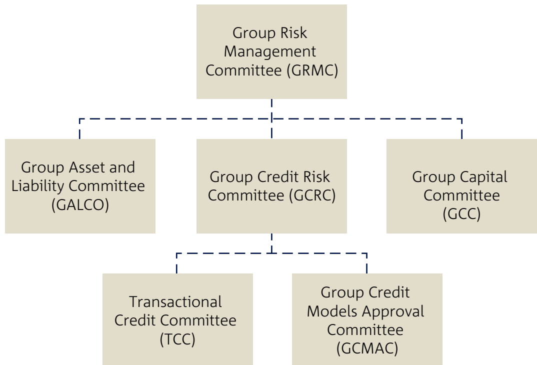


During the year the Board established three further Committees to support the Board in carrying out its responsibilities.

- Information Technology Committee – established to provide oversight of key strategic technology and infrastructure projects impacting the Group's operations.
- Litigation Committee – established to monitor significant litigation risk involving the Group.
- Capital and Funding Committee – established to exercise delegated authority on behalf of the Board in relation to the Group's capital and funding activities.

Executive Risk Governance

The Group CEO chairs the Group Risk Management Committee (GRMC) which provides management leadership in respect of risk matters relating to culture, integrated risk governance processes, and risk strategy and performance. The GRMC is supported by the following subcommittees:



- Group Asset and Liability Committee (GALCO) which performs oversight of the Group's balance sheet structure, risk settings and management performance (including the compliance and governance frameworks around balance sheet risks);
- Group Capital Committee (GCC) which performs oversight of the Group and Regional regulatory and economic capital issues; and

- Group Credit Risk Committee (GCRC) which performs oversight and management of Credit Risk. The GCRC is supported by the Transactional Credit Committee (TCC) which is the decision making body for credit facilities that are greater than a business unit's Delegated Commitment Authority (DCA), and the Group Credit Models Approval Committee (GCMAC) which oversees the performance of credit risk models including changes.

Individual businesses have risk management committees comprising senior business unit executives. Their role is to provide management focus on specific risk issues prevalent within their business.

Risk Management

The National Australia Bank Group's approach to risk management is based on the principle that, to be effective, risk management capability must be embedded in front-line teams, with independent design, oversight and objective assurance.

Identification, assessment, management and reporting of material risks, and opportunities are guided by group-wide risk management requirements and an operating model that differentiates accountabilities for risk across the following three lines:

- Management (who own the risks)
- Risk (who provide insight, oversight and appetite)
- Internal audit (who provide independent assurance)

The National Australia Bank Group maintains a Group Risk Inventory (GRI) which represents management's identification of the key categories of risk the National Australia Bank Group is exposed to and the systems in place to identify, assess, measure, monitor, mitigate and report against these risks on a consistent basis. These are described in the Group's Risk Management Systems Descriptions which is provided annually to APRA.

GRI owners are responsible for identifying how the various risks manifest in their risk category and for establishing relevant appetite, policies, frameworks, processes and tools to manage and mitigate such risks within the parameters set by the Board-approved Strategy and Risk Appetite. Criteria and thresholds for risk materiality vary by GRI category and include a mix of qualitative and quantitative settings and measures.

Individual businesses are accountable for managing risk arising from their activities (under GRI requirements). Businesses are supported by risk advisors and partners.

Further details on the risk and capital management process and the various committees are contained in Sections 4 to 9.

4. Capital

4.1 Capital Adequacy

Capital Objectives

The Group assesses capital adequacy to support its overarching capital management objectives:

- a credit rating in the AA range;
- meeting regulatory capital requirements;
- meeting internal economic capital requirements;
- maintaining flexibility to deal with unexpected events; and
- efficiency in the amount and type of capital.

Risk Identification and Measurement

The process of assessing capital adequacy begins with the identification of all the material risks of the Group within the GRI. The GRI includes consistent definitions, and the approach to measurement, including for capital adequacy purposes.

The Group measures all material risks and, where appropriate, generates a capital adequacy requirement. In managing the business, the Group considers both regulatory and economic capital requirements.

	Regulatory Capital	Economic Capital
Purpose	Regulatory view of the capital required to be held to protect against risks associated with business activities.	Management's view of the capital required to be held to support the specific risk characteristics of the business and its portfolio.
Calculation	Driven by RWA which is calculated under regulatory requirements.	Internal risk-based models.
Risk types	Credit risk, market risk, operational risk and interest rate risk in the banking book.	As per regulatory capital requirements, plus other material risks, including defined-benefit pension risk and business/strategic risk.

The economic and regulatory capital requirements of the business are captured in the Group's Risk Appetite Statement.

Capital Planning

Along with the Risk Appetite Statement, the Capital Management Plan is an integral part of the Group's strategic planning process which considers how the Group will meet its capital requirements over a three-year plan period. The Capital Management Plan covers:

- the Group's capital outlook, including capital forecast;
- risks to the forecast;
- capital initiatives over the plan period;
- dividend outlook and sustainability;
- profits test obligations; and
- other strategic initiatives.

In addition to a base case, the planning process also considers stressed scenarios to ensure the Group maintains capital adequacy in these situations. Within certain risk categories, the Group performs regular sensitivity and stress tests across material models and businesses to test the veracity of assumptions and to determine the sensitivity of key risk measures (including capital) to management actions and potential changes in the external environment. The Group then develops plans to mitigate risks in the event of a stressed scenario.

The Board sets capital targets above the internal risk-based assessment of capital. Target ranges are set by reference to factors such as the Group's Risk Appetite Statement, and market, regulatory and rating agencies expectations. The Board-approved Tier 1 target has been recalibrated from above 7% to above 8%. A target of above 8% reflects the Group's desire to maintain strong balance sheet settings and is consistent with investor risk appetite and global regulatory direction. The Group continues to operate at a comfortable buffer to the Board target.

APRA has advised the Group of its Prudential Capital Ratio (PCR) which represents the minimum ratio of regulatory capital to total RWA. The PCR is not publicly disclosed.

The Group's capital position is monitored on a monthly basis and reported to management and Board committees.

Embedding Capital Requirements in Business Decisions

Capital requirements are taken into consideration in:

- product and facility pricing decisions;
- business development, including acquisitions;
- strategy and strategic planning;
- performance measurement and management, including short- and long-term incentive determination; and
- setting of risk appetite and risk limits, including large exposure limits, industry limits and country limits.

Governance, Reporting and Oversight

A number of risks exist in the management of the Group's capital position which, if not appropriately managed, could lead to the Group not holding sufficient capital and reserves to achieve its strategic aspirations, or cover the risks to which it is exposed and protect against unexpected losses.

The annual Internal Capital Adequacy Assessment Process (ICAAP) document describes the Group's framework for assessing its capital adequacy. Key features include:

- strategic and operational planning process;
- capital adequacy assessment and risk appetite;
- stress testing and scenarios; and
- policies and frameworks.

The Group's ICAAP document, Capital Management Plan, Risk Appetite Statement and Strategic Plan cover the governance, reporting and oversight of the Group's capital adequacy. These documents and plans are reviewed and endorsed by key management committees, including the GCC and the GRMC, and are ultimately approved by the Board.

The ICAAP is also supported by the Group Capital Policy which defines the framework for the management, monitoring and governance of the Group's capital position. The framework is built around the Board's guiding principles, including preserving the Group's credit rating, maintaining capital adequacy, and an efficient capital mix.

Group Treasury is responsible for managing capital risk. Group and subsidiary Treasuries prepare the Capital Management Plan (incorporating capital targets) and execute the Board-approved strategies outlined in the Capital Management Plan.

Group Non-Traded Market Risk (GNTMR) is responsible for capital oversight and are independent of Treasury. GNTMR maintains a risk framework for effective oversight, supports stress testing of the Group's capital position, supports capital planning and forecasting, and monitors capital activities to ensure compliance with the requirements of the Group's capital framework.

An overview of the Capital Adequacy Assessment process is illustrated below.

The Group's Internal Capital Adequacy Assessment Process

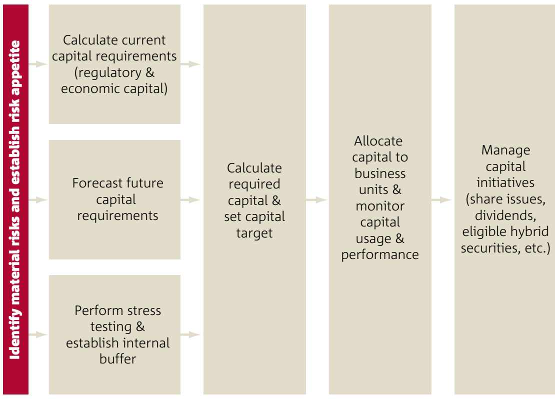


Table 4.1A: RWA

The following table provides the Basel II RWA for the Group.

	As at 30 Sep 11 RWA $m	As at 31 Mar 11 RWA $m
Credit risk (1)		
IRB approach		
Corporate (including SME)	112,620	116,297
Sovereign	1,170	1,028
Bank	7,617	6,651
Residential mortgage	51,620	51,389
Qualifying revolving retail	4,377	4,186
Retail SME	8,227	8,985
Other retail	3,594	3,699
Total IRB approach	**189,225**	**192,235**
Specialised lending (SL)	**41,752**	**41,762**
Standardised approach (2)		
Australian and foreign governments	76	49
Bank	163	269
Residential mortgage	23,202	21,785
Corporate	32,863	27,698
Other	3,618	9,171
Total standardised approach	**59,922**	**58,972**
Other		
Securitisation	9,049	10,209
Equity	1,949	1,541
Other (3)	6,751	6,906
Total other	**17,749**	**18,656**
Total credit risk	**308,648**	**311,625**
Market risk	2,968	3,159
Operational risk (4)	22,255	21,862
Interest rate risk in the banking book	7,198	8,565
Total risk-weighted assets	**341,069**	**345,211**

(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) *Effective 30 June 2011, GWB Credit Risk RWA was calculated under APRA Basel II Standardised methodology. 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.*

(3) *'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 16 to 45 of this report.*

(4) *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.*

Table 4.1B: Capital Ratios

The table below provides the key capital ratios for each significant ADI or overseas bank subsidiary.

	As at	
	30 Sep 11	31 Mar 11
Capital ratios (1)	%	%
Level 2 Tier 1 capital ratio	9.70%	9.19%
Level 2 total capital ratio	11.26%	11.33%
Level 1 National Australia Bank Tier 1 capital ratio	11.45%	11.00%
Level 1 National Australia Bank total capital ratio	12.78%	13.08%
Significant subsidiaries		
Clydesdale Bank PLC Tier 1 capital ratio	9.85%	9.62%
Clydesdale Bank PLC total capital ratio	15.36%	15.14%
Bank of New Zealand Tier 1 capital ratio	8.99%	8.49%
Bank of New Zealand total capital ratio	11.84%	11.29%
Great Western Bank Tier 1 capital ratio	14.28%	11.90%
Great Western Bank total capital ratio	15.54%	13.15%

(1) *Level 1 Group represents the extended licence entity. The Level 2 group represents the consolidation of Group and all its subsidiary entities, other than non-consolidated subsidiaries as outlined in Section 2 Scope of Application of this report. Capital ratios for offshore banking subsidiaries reflect host regulator discretions. Clydesdale Bank PLC and Bank of New Zealand capital ratios are assessed on a consolidated basis in line with the local regulatory framework.*

4.2 Capital Structure

The Group's regulatory capital structure comprises Tier 1 and Tier 2 capital.

Eligible Tier 1 capital consists mainly of shareholders equity, retained earnings and eligible hybrid securities. Tier 1 capital represents the highest quality form of capital available and has the main characteristic of permanency while being fully available to absorb losses.

Eligible Tier 2 capital consists mainly of subordinated debt instruments. Tier 2 capital is of a lesser quality than Tier 1 but still contributes to the overall capital framework.

A number of adjustments are made to both Tier 1 and Tier 2 capital in determining Regulatory Capital.

Details of the Group's capital structure can be found in Table 4.2A in addition to the information listed below on the Group's Tier 1 and Tier 2 capital instruments. Further information on APRA's capital requirements for ADIs can be found in *Prudential Standards APS110 Capital Adequacy and APS 111 Capital Adequacy: Measurement of Capital.*

Innovative Tier 1 Capital

BNZ Income Securities

On 28 March 2008, the Group raised $380 million through the issue by BNZ Income Securities Limited of 449,730,000 perpetual non-cumulative shares (BNZIS Shares) at NZ$1 each. Each BNZIS Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 28 March 2013, of 9.89% per annum. The dividend rate is reset five yearly.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities Limited has the right to acquire the BNZIS Shares for their issue price (plus any accrued but unpaid distributions) on any dividend payment date on or after 28 March 2013, or at any time after the occurrence of certain specified events. The BNZIS Shares have no maturity date, are quoted on the New Zealand Debt Markets (NZDX), and on liquidation of BNZ Income Securities Limited, holders will hold a right to participate in its surplus assets.

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 30 June 2014, as 28 June 2014 is not a business day, of 9.10% per annum. The dividend rate is reset five yearly.

With the prior consent of APRA, any member of the Group other than BNZ Income Securities 2 Limited has the right to acquire the BNZIS 2 Shares for their issue price (plus any accrued but unpaid distributions) on any dividend payment date on or after 28 June 2014, or at any time after the occurrence of certain specified events. The BNZIS 2 Shares have no maturity date, are quoted on the NZDX, and on liquidation of BNZ Income Securities 2 Limited, holders will hold a right to participate in its surplus assets.

Trust Preferred Securities

On 29 September 2003, the Group raised GBP400 million through the issue by National Capital Trust I of 400,000 Trust Preferred Securities at GBP1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 17 December 2018 equal to 5.62% per annum and, in respect of each five year period after that date, a non-cumulative distribution payable semi-annually in arrears at a rate equal to the sum of the yield to maturity of the five year benchmark UK Government bond at the start of that period plus 1.93%.

With the prior consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, and otherwise only where certain adverse tax or regulatory events have occurred, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security. In a winding-up of the Company, holders of a Trust Preferred Security will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

On 23 March 2005, the Group raised US$800 million through the issue by National Capital Trust II of 800,000 Trust Preferred Securities at US$1,000 each, to be used by the Company's London branch. Each Trust Preferred Security earns a non-cumulative distribution, payable semi-annually in arrears until 23 March 2015 equal to 5.486%. For all distribution periods ending after 23 March 2015, each Trust Preferred Security earns a noncumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month London Interbank Offered Rate (LIBOR).

With the prior consent of APRA, the Trust Preferred Securities may be redeemed on or after 23 March 2015, in which case the redemption price is US$1,000 per Trust Preferred Security plus the unpaid distributions for the last distribution period, and otherwise only where certain adverse tax or regulatory events have occurred, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security. In a winding-up of the Company, holders of a Trust Preferred Security will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

National Capital Instruments

On 18 September 2006, the Group raised $400 million (prior to issuance costs) through the issue by National Capital Trust III of 8,000 National Capital Instruments (Australian NCIs) at $50,000 each. Each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears until 30 September 2016 at a rate equal to the bank bill rate plus a margin of 0.95% per annum. For all distribution periods ending after 30 September 2016, each Australian NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to the bank bill rate plus a margin of 1.95% per annum.

With the prior consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or at any time after the occurrence of certain regulatory and tax events. In a winding-up of the Company, holders of an Australian NCI will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

On 29 September 2006, the Group raised EUR400 million through the issue by National Capital Instruments [Euro] LLC 2 of 8,000 National Capital Instruments (Euro NCIs) at EUR50,000 each. Each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears until 29 September 2016 at a rate equal to three month EURIBOR plus a margin of 0.95% per annum. For all distribution periods ending after 29 September 2016, each Euro NCI earns a non-cumulative distribution, payable quarterly in arrears, equal to three month EURIBOR plus a margin of 1.95% per annum. The Euro NCIs are unsecured and all or some of them may be redeemed at the option of the Group with the prior consent of APRA.

Convertible Notes

On 24 September 2008, the Group issued A$300 million Convertible Notes. The Group extended the terms of the Convertible Notes on 25 August 2010. The Convertible Notes continue to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day Bank Bill Swap Rate (BBSW). Subject to APRA approval, the Convertible Notes are redeemable at the Group's option on or about 24 September 2012 or every monthly interest payment date thereafter or earlier in certain circumstances. The Convertible Notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2012 or every three months thereafter or earlier in certain circumstances.

Capital Notes

On 24 September 2009, the Group issued US$600 million hybrid tier 1 Capital Notes. The Capital Notes are perpetual capital instruments. The Capital Notes initially carry a fixed distribution of 8.0% per annum, payable semi-annually in arrears, from and including 24 September 2009 up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the seven year US Treasury benchmark rate of 3.06% per annum (the base rate) plus an initial margin of 4.94% per annum. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the Capital Notes are redeemable at the Group's option after seven years or on any interest payment date thereafter or earlier in certain circumstances.

Non-Innovative Tier 1 Capital

National Income Securities

On 29 June 1999, the Company issued 20,000,000 National Income Securities (NIS) at $100 each. These securities are stapled securities, comprising one fully paid note of $100 issued by the Company through its New York branch and one unpaid preference share issued by the Company (NIS preference share). The amount unpaid on a NIS preference share will become due in certain limited circumstances, such as if an event of default occurs. Each holder of NIS is entitled to non-cumulative distributions based on a rate equal to the Australian 90 day bank bill rate plus 1.25% per annum, payable quarterly in arrears.

With the prior consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date, are quoted on the Australian Securities Exchange (ASX) and on a winding-up of the Company, holders will rank for a return of capital behind all deposit liabilities and creditors of the Company, but ahead of ordinary shareholders.

Stapled Securities

On 24 September 2008, the Group issued A$300 million Stapled Securities (2008 Stapled Securities). The Group extended the terms of the 2008 Stapled Securities on 25 August 2010. The 2008 Stapled Securities are perpetual capital instruments. Each 2008 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the 2008 Stapled Securities are redeemable at the Group's option on or about 24 September 2012, every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the 2008 Stapled Securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 24 September 2012.

On 30 September 2009, the Group issued A$500 million Stapled Securities (2009 Stapled Securities). The Group extended the terms of the 2009 Stapled Securities on 4 March 2010 and again on 8 March 2011. The 2009 Stapled Securities are perpetual capital instruments. Each 2009 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the 2009 Stapled Securities are redeemable at the Group's option on or about 30 November 2012 or every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the 2009 Stapled Securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 30 November 2012.

Upper Tier 2

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued US$250 million undated subordinated Floating Rate Notes (Floating Rate Notes). Interest is payable semi-annually in arrears in April and October at a rate of 0.15% per annum above the arithmetic average of the rates offered by the reference banks for six month US dollar deposits in London. The Floating Rate Notes are unsecured and have no final maturity. All or some of the Floating Rate Notes may be redeemed at the option of the Company with the prior consent of APRA. In July 2009, the Group repurchased US$82.5 million Floating Rate Notes, which were subsequently cancelled by the Group.

Lower Tier 2

Subordinated Medium-term Notes

Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes may constitute Lower Tier 2 capital under APRA Prudential Standards provided the notes satisfy APRA's eligibility criteria, including that the notes have a minimum term of five years. The amount of the instrument eligible for inclusion in Lower Tier 2 capital is amortised on a straight line basis at a rate of 20 per cent per annum over the last four years to maturity.

Subordinated notes have been issued under the following programmes of the Group:

- under the Euro medium-term note programme of the Company, nil are outstanding (2010: $1,054 million fixed rate notes, fixed rates between 4.50% - 5.38%);
- under the domestic debt issuance programme of the Company, $300 million (2010: $317 million) fixed rate notes maturing in 2017 with a fixed rate of 7.25% (2010: 7.25%) and $1,200 million (2010: $1,200 million) floating rate notes maturing in 2017 and 2018 are outstanding;
- under the global medium-term note programme, $2,963 million (2010: $4,175 million) fixed rate notes maturing between 2016 and 2020 with fixed rates between 4.63% - 7.13% (2010: 4.55% - 7.13%) and $852 million (2010: $2,151 million) floating rate notes maturing in 2016 and 2028 are outstanding; and
- the Group has conducted a number of stand-alone subordinated medium-term note issues: $51 million (2010: $56 million) fixed rate notes maturing up to five years with a fixed rate of 5.47% (2010: 5.47%), $40 million (2010: $40 million) fixed rate notes maturing greater than five years with a fixed rate of 7.50% (2010: 7.50%), $51 million (2010: $52 million) floating rate notes maturing up to five years, and NZ$350 million (2010: NZ$350 million) with a fixed yield of 8.42% payable semi-annually in arrears based on the fixed coupon rate, maturing 15 June 2017 but can be called by BNZ on 15 June 2012. If the bonds are not called by BNZ on 15 June 2012, they will continue to pay interest to maturity at the five-year swap mid-rate plus 0.75% p.a.

Table 4.2A: Capital Structure [(1)]

	As at	
	30 Sep 11	**31 Mar 11**
	$m	**$m**
Tier 1 capital		
Paid-up ordinary share capital	21,470	20,708
Reserves	(1,612)	(2,366)
Retained earnings including current year earnings	15,972	15,517
Minority interests	20	15
Innovative Tier 1 capital	4,495	4,414
Non-innovative Tier 1 capital	2,742	2,742
Gross Tier 1 capital	**43,087**	**41,030**
Deductions from Tier 1 capital		
Banking goodwill	1,695	1,667
Wealth management goodwill and other intangibles	4,253	4,277
Deferred tax assets	990	717
Other deductions from Tier 1 capital only	1,840	1,352
50/50 deductions from Tier 1 capital		
Investment in non-consolidated controlled entities	801	866
Expected loss in excess of eligible provisions	348	252
Other	85	161
Total Tier 1 capital deductions	**10,012**	**9,292**
Net Tier 1 capital	**33,075**	**31,738**
Tier 2 capital		
Upper Tier 2 capital	909	900
Lower Tier 2 capital	5,733	7,836
Gross Tier 2 capital	**6,642**	**8,736**
Deductions from Tier 2 capital		
Deductions from Tier 2 capital only	75	75
50/50 deductions from Tier 2 capital		
Investment in non-consolidated controlled entities	801	866
Expected loss in excess of eligible provisions	348	252
Other	85	161
Total Tier 2 capital deductions	**1,309**	**1,354**
Net Tier 2 capital	**5,333**	**7,382**
Total capital	**38,408**	**39,120**

(1) *Regulatory Capital has been calculated in accordance with APRA definitions in Prudential Standard APS 111 Capital Adequacy: Measurement of Capital. The regulatory approach to calculating capital differs from the accounting approach as defined under IFRS.*

5. Credit Risk

5.1 General Disclosure

Credit is any transaction that creates an actual or potential obligation for a counterparty to pay the Group.

Credit risk is the potential that a counterparty may fail to meet its obligations to the Group under agreed terms.

The Group's approach to credit risk management is designed to:

- inform future direction and broader strategic priorities;
- achieve effective credit risk management through maintaining exposure to credit risk within acceptable parameters while maximising the Group's risk-adjusted rate of return; and
- be embedded in every aspect of the Group's day-to-day business.

Structure and Organisation

The Board delegates credit decision-making authority to the PBRC and then through the organisation via the Group CEO and Group Chief Risk Officer (CRO), who set the Delegated Commitment Authority (DCA). The DCA is cascaded to the TCC and the Group's business units.

The GRMC and its subcommittees oversee the Group's credit risk appetite, principles, policies, models and systems for the management of credit risk across the Group.

Business unit risk management committees are responsible for implementing these disciplines at a business unit level.

Either the PBRC or its delegates set limits on the amount of risk accepted concerning one counterparty or group of counterparties, and geographic and industry segments. These limits are consistent with the Group's risk appetite. Such risks are monitored on a regular basis and are subject to annual or more frequent reviews.

Management

Exposure to credit risk is managed by regularly analysing the ability of counterparties and potential counterparties to meet interest and capital repayment obligations, and by changing lending limits and lending conditions where appropriate.

Group Credit Policy applies globally and encompasses the Group's:

- credit risk appetite and principles;
- credit underwriting standards; and
- approach to ensure compliance with regulatory standards.

Senior and line management within each business unit have primary responsibility to ensure their respective areas follow the Group's credit policies, processes and standards.

The Credit Risk functions at the Group and business unit levels are charged with implementing a sound risk framework to maintain appropriate asset quality across the Group in line with credit risk appetite, credit risk underwriting standards and policy.

Group Credit Risk plays a key role in managing risk appetite, portfolio measurement, assisting businesses with portfolio management, and measuring compliance to strategic targets and limits. Group Credit Risk also:

- owns and is accountable for the credit risk policies and systems, concentration limits, large counterparty credit approvals and the management of large underperforming loans;
- ensures that such policies and systems comply with the various regulatory and prudential requirements; and
- owns and monitors the performance of Group-wide models and methodology.

A key assurance area across non-retail banking activities is the Asset Quality Assurance function. This function is responsible and accountable for the independent review and reporting of asset quality, lending process standards and credit policy compliance across transaction-managed lending portfolios. The function operates independently from the credit approval process and reports its findings to the respective business units and risk management committees highlighting adverse trends and required remedial action.

Retail lending teams undertake independent reviews and report these results to senior management in the respective business and risk management committees.

Measurement

Later sections of this report detail the credit risk measurement approaches.

Monitoring and Reporting

The Group has a comprehensive process for reporting credit and asset quality.

The Group and business unit CROs receive regular reports covering credit risk parameters, asset concentrations and asset quality for both business and retail credit. These reports incorporate key credit risk measures including economic capital and detailed analysis of concentration risk, TCC approvals and updates on defaulted counterparties. Key reports are provided to the internal committees and the PBRC.

On a monthly basis, the Group and business unit Credit Risk Committees receive a detailed analysis of asset quality measures. Periodically, the business unit Credit Risk functions provide the PBRC and the GRMC with portfolio and industry reviews, as well as the outcome of portfolio stress testing.

Definitions of Default and Impairment

Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full without recourse to actions, such as realisation of security. There are no material exceptions to the Group's definition of default.

A facility is classified as impaired when the ultimate ability to collect principal and interest and other amounts (including legal, enforcement and realisation costs) is compromised, and the bank's security is insufficient to cover these amounts, leading to a loss occurring.

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 which are 180 days past due (if not written off);
- 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.

Creation of Specific Provisions, Collective Provisions and the General Reserve for Credit Losses

Specific provisions

Specific provisions are raised for assets classified as default loss expected. A specific provision will be raised when the estimated cash flows accruing to an asset, including the estimated realisable value of securities after meeting security realisation costs, are less than the face value of the asset.

The calculation and raising of specific provisions is subject to tight controls with only appropriate Categorised Asset Approval Authority (CAAA) holders capable of establishing these provisions.

Collective provisions

Collective provisions are raised for assets which are neither impaired nor default-no-loss assets. This process involves grouping of financial assets with similar credit risk characteristics and collectively assessing them for incurred loss in accordance with the requirements of IFRS.

For retail assets the calculation relies on the portfolio delinquency profile and historical loss experience while the non-retail calculation relies on the risk characteristics of credit rating models.

In addition, the Group uses its expert judgement to estimate the amount of incurred loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact the reliability of the calculations as all assessments are conducted within the requirements of IFRS, which requires that provisions only be raised for loss events that have occurred at or before the reporting date.

The Group's collective provision as at 30 September 2011 is as disclosed in the Group's 2011 Annual Financial Report.

Default-no-loss assets are defaulted or otherwise non-performing assets, such as 90+ days past due retail and in default-no-loss non-retail exposures. Provisions for default-no-loss assets are reported as additional regulatory specific provisions within this report.

General reserve for credit losses

The general reserve for credit losses (GRCL) is an estimate of the reasonable and prudent expected credit losses over the remaining life of the portfolio and on non-defaulted assets.

The GRCL is calculated as a collective provision for doubtful debts, excluding securitisation and provisions on default-no-loss assets. The difference between the GRCL and accounting collective provisions is covered with an additional top up, created through a deduction from retained earnings to reflect losses expected as a result of future events that are not recognised in the Group's collective provision for accounting purposes.

Write-offs

When an asset is considered uncollectible, it is written off against the related provision. Such assets are written off after all the necessary recovery procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts written off reduce the amount of the expense in the income statement.

Table 5.1A: Credit Risk Exposures Summary

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 Sep 11					6 months ended 30 Sep 11
	Total exposure (EaD) [(1)]	Risk-weighted Assets	Regulatory expected loss	Impaired facilities [(2)]	Specific provisions [(3)]	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach						
Corporate (including SME)	189,882	112,620	3,345	2,430	691	255
Sovereign	35,881	1,170	41	-	-	-
Bank	71,438	7,617	88	34	34	-
Residential mortgage	250,960	51,620	828	667	161	69
Qualifying revolving retail	10,978	4,377	240	-	-	96
Retail SME	19,656	8,227	352	177	87	43
Other retail	4,590	3,594	143	9	4	50
Total IRB approach	**583,385**	**189,225**	**5,037**	**3,317**	**977**	**513**
Specialised lending (SL)	**49,406**	**41,752**	**1,703**	**1,463**	**287**	**192**
Standardised approach						
Australian and foreign governments	4,412	76	-	-	-	-
Bank	10,508	163	-	-	-	-
Residential mortgage	45,533	23,202	-	117	31	10
Corporate	33,202	32,863	-	1,472	243	221
Other	4,095	3,618	-	8	4	22
Total standardised approach [(4)]	**97,750**	**59,922**	**-**	**1,597**	**278**	**253**
Total	**730,541**	**290,899**	**6,740**	**6,377**	**1,542**	**958**
Additional regulatory specific provisions [(3)]					454	
General reserve for credit losses [(5)]					2,805	

(1) *Total credit risk exposure is EaD estimates of potential exposure, according to product type, for a period of one year.*

(2) *Impaired facilities includes $235 million of restructured loans (March 2011: $212 million) which includes $16 million of restructured fair value assets (March 2011: $24 million).*

Impaired facilities includes $186 million of gross impaired fair value assets (March 2011: $279 million).

In the United States there is US$100 million (March 2011: US$135 million) of "Other Real Estate Owned" assets where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$83 million (March 2011: US$ 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 Group's balance sheet and are not included as impaired facilities.

(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 $71million (March 2011: $120 million) of specific provisions on gross impaired fair value assets.

(4) *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.*

(5) *The General Reserve for Credit Losses (GRCL) at 30 September 2011 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,398*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(160)*
Less collective provisions reported as additional regulatory specific provisions	*(454)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,784*
Less tax effect	*(695)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,089*
Plus reserve created through a deduction from retained earnings	*716*
General reserve for credit losses (after-tax basis)	*2,805*

Exposure type	Total exposure (EaD) $m	Risk-weighted Assets $m	Regulatory expected loss $m	Impaired facilities $m	Specific provisions $m	Net write-offs $m
	As at 31 Mar 11					6 months ended 31 Mar 11
IRB approach						
Corporate (including SME)	177,571	116,297	3,192	2,542	645	321
Sovereign	26,913	1,028	2	-	-	-
Bank	58,223	6,651	86	36	36	-
Residential mortgage	239,040	51,389	823	626	142	47
Qualifying revolving retail	10,693	4,186	230	-	-	90
Retail SME	19,706	8,985	320	160	79	37
Other retail	4,542	3,699	160	10	5	36
Total IRB approach	**536,688**	**192,235**	**4,813**	**3,374**	**907**	**531**
Specialised lending (SL)	**46,842**	**41,762**	**1,733**	**1,355**	**253**	**259**
Standardised approach						
Australian and foreign governments	2,951	49	-	-	-	-
Bank	6,753	269	-	-	-	-
Residential mortgage	41,023	21,785	-	97	18	2
Corporate	28,065	27,698	-	1,329	214	157
Other	9,724	9,171	-	103	23	81
Total standardised approach	**88,516**	**58,972**	**-**	**1,529**	**255**	**240**
Total	**672,046**	**292,969**	**6,546**	**6,258**	**1,415**	**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*

Credit Exposures by Measurement Approach

Table 5.1B: Total and Average Credit Risk Exposures

This table provides the amount of credit risk exposures subject to the Standardised and Advanced IRB approaches. Exposures exclude non-lending assets, equities and securitisation. 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.

	As at 30 Sep 11				6 months ended 30 Sep 11
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**		**$m**	**$m**
IRB approach					
Corporate (including SME)	115,493	45,225	29,164	**189,882**	**183,727**
Sovereign	27,104	631	8,146	**35,881**	**31,397**
Bank	27,995	920	42,523	**71,438**	**64,831**
Residential mortgage	217,224	33,736	-	**250,960**	**245,000**
Qualifying revolving retail	5,597	5,381	-	**10,978**	**10,835**
Retail SME	15,696	3,960	-	**19,656**	**19,681**
Other retail	3,376	1,214	-	**4,590**	**4,566**
Total IRB approach	**412,485**	**91,067**	**79,833**	**583,385**	**560,037**
Specialised lending (SL)	**42,389**	**5,516**	**1,501**	**49,406**	**48,124**
Standardised approach					
Australian and foreign governments	4,215	197	-	**4,412**	**3,681**
Bank	8,841	13	1,654	**10,508**	**8,631**
Residential mortgage	42,904	2,629	-	**45,533**	**43,278**
Corporate	28,278	4,370	554	**33,202**	**30,634**
Other	3,918	177	-	**4,095**	**6,909**
Total standardised approach	**88,156**	**7,386**	**2,208**	**97,750**	**93,133**
Total	**543,030**	**103,969**	**83,542**	**730,541**	**701,294**

	As at 31 Mar 11				6 months ended 31 Mar 11
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**		**$m**	**$m**
IRB approach					
Corporate (including SME)	112,137	44,138	21,296	**177,571**	**172,878**
Sovereign	17,151	625	9,137	**26,913**	**26,100**
Bank	25,247	995	31,981	**58,223**	**61,616**
Residential mortgage	205,396	33,644	-	**239,040**	**232,774**
Qualifying revolving retail	5,462	5,231	-	**10,693**	**10,485**
Retail SME	15,738	3,968	-	**19,706**	**19,943**
Other retail	3,361	1,181	-	**4,542**	**4,586**
Total IRB approach	**384,492**	**89,782**	**62,414**	**536,688**	**528,382**
Specialised lending (SL)	**40,843**	**5,273**	**726**	**46,842**	**47,137**
Standardised approach					
Australian and foreign governments	2,764	187	-	**2,951**	**3,407**
Bank	5,195	3	1,555	**6,753**	**7,183**
Residential mortgage	38,318	2,705	-	**41,023**	**40,589**
Corporate	23,281	4,334	450	**28,065**	**28,933**
Other	9,374	350	-	**9,724**	**10,751**
Total standardised approach	**78,932**	**7,579**	**2,005**	**88,516**	**90,863**
Total	**504,267**	**102,634**	**65,145**	**672,046**	**666,382**

Table 5.1C: Exposures by Geography

This table provides the total gross credit risk exposures, by major geographical areas, derived from the booking office where the exposure was transacted. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 11				
	Australia	Europe	New Zealand	Other [(1)]	Total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	139,772	21,228	23,469	5,413	**189,882**
Sovereign	22,839	2,002	3,756	7,284	**35,881**
Bank	41,480	17,534	3,128	9,296	**71,438**
Residential mortgage	227,342	-	23,618	-	**250,960**
Qualifying revolving retail	10,978	-	-	-	**10,978**
Retail SME	17,821	-	1,835	-	**19,656**
Other retail	2,527	-	2,063	-	**4,590**
Total IRB approach	**462,759**	**40,764**	**57,869**	**21,993**	**583,385**
Specialised lending (SL)	**43,073**	**1,553**	**3,407**	**1,373**	**49,406**
Standardised approach					
Australian and foreign governments	-	1,983	-	2,429	**4,412**
Bank	-	10,181	-	327	**10,508**
Residential mortgage	11,970	31,637	4	1,922	**45,533**
Corporate	4,074	24,819	23	4,286	**33,202**
Other	1,217	2,685	-	193	**4,095**
Total standardised approach	**17,261**	**71,305**	**27**	**9,157**	**97,750**
Total exposure (EaD)	**523,093**	**113,622**	**61,303**	**32,523**	**730,541**

(1) *'Other' comprises North America and Asia.*

	As at 31 Mar 11				
	Australia	Europe	New Zealand	Other	Total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	135,067	15,698	22,471	4,335	**177,571**
Sovereign	18,145	1,844	2,810	4,114	**26,913**
Bank	37,661	11,805	1,996	6,761	**58,223**
Residential mortgage	217,358	-	21,682	-	**239,040**
Qualifying revolving retail	10,693	-	-	-	**10,693**
Retail SME	18,116	-	1,590	-	**19,706**
Other retail	2,590	-	1,952	-	**4,542**
Total IRB approach	**439,630**	**29,347**	**52,501**	**15,210**	**536,688**
Specialised lending (SL)	**41,813**	**1,234**	**2,602**	**1,193**	**46,842**
Standardised approach					
Australian and foreign governments	-	2,951	-	-	**2,951**
Bank	-	6,753	-	-	**6,753**
Residential mortgage	9,744	30,079	4	1,196	**41,023**
Corporate	4,013	23,972	24	56	**28,065**
Other	1,353	2,827	-	5,544	**9,724**
Total standardised approach	**15,110**	**66,582**	**28**	**6,796**	**88,516**
Total exposure (EaD)	**496,553**	**97,163**	**55,131**	**23,199**	**672,046**

Table 5.1D: Exposures by Industry

This table provides the distribution of gross credit risk exposures, excluding non-lending assets, equities and securitisation exposures, by major industry type. Industry classifications follow ANZSIC Level 1 classifications [(1)].

	As at 30 Sep 11												
	Accommodation cafes, pubs and restaurants	**Agriculture, forestry, fishing and mining**	**Business services and property services**	**Commercial property**	**Construction**	**Finance and insurance**	**Manufacturing**	**Personal**	**Residential mortgages**	**Retail and wholesale trade**	**Transport and storage**	**Other [(2)]**	**Total**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach													
Corporate (including SME)	7,684	32,363	10,629	17,120	7,076	40,883	18,944	430	-	22,122	10,314	22,317	**189,882**
Sovereign	-	-	-	-	-	16,323	-	-	-	-	-	19,558	**35,881**
Bank	-	-	-	-	-	70,583	-	-	-	-	-	855	**71,438**
Residential mortgage	-	-	-	-	-	-	-	-	250,960	-	-	-	**250,960**
Qualifying revolving retail	-	-	-	-	-	-	-	10,978	-	-	-	-	**10,978**
Retail SME	1,088	3,999	2,213	2,430	1,984	726	1,138	111	-	3,390	880	1,697	**19,656**
Other retail	-	-	-	-	-	-	-	4,590	-	-	-	-	**4,590**
Total IRB approach	**8,772**	**36,362**	**12,842**	**19,550**	**9,060**	**128,515**	**20,082**	**16,109**	**250,960**	**25,512**	**11,194**	**44,427**	**583,385**
Specialised lending (SL)	**3**	**239**	**233**	**42,789**	**286**	**198**	**173**	**-**	**-**	**-**	**1,218**	**4,267**	**49,406**
Standardised approach													
Australian and foreign governments	-	-	-	36	-	1,536	-	-	-	-	-	2,840	**4,412**
Bank	-	-	-	-	-	10,508	-	-	-	-	-	-	**10,508**
Residential mortgage	-	-	-	-	-	-	-	-	45,533	-	-	-	**45,533**
Corporate	2,314	4,112	3,399	7,087	1,015	1,004	3,257	60	-	3,513	1,257	6,184	**33,202**
Other	1	2	5	4	3	1	1	3,973	-	5	1	99	**4,095**
Total standardised approach	**2,315**	**4,114**	**3,404**	**7,127**	**1,018**	**13,049**	**3,258**	**4,033**	**45,533**	**3,518**	**1,258**	**9,123**	**97,750**
Total exposure (EaD)	**11,090**	**40,715**	**16,479**	**69,466**	**10,364**	**141,762**	**23,513**	**20,142**	**296,493**	**29,030**	**13,670**	**57,817**	**730,541**

(1) *To provide for a meaningful differentiation and quantitative estimates of risk that are consistent, verifiable, relevant and soundly based, exposures are disclosed based on the counterparty to which the Group is exposed to for credit risk, including guarantors and derivative counterparties.*

(2) *Immaterial categories are grouped collectively under 'Other'.*

Exposure type	Accommodation cafes, pubs and restaurants	Agriculture, forestry, fishing and mining	Business services and property services	Commercial property	Construction	Finance and insurance	Manufacturing	Personal	Residential mortgages	Retail and wholesale trade	Transport and storage	Other	Total
	As at 31 Mar 11												
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
IRB approach													
Corporate (including SME)	7,313	30,222	10,935	17,675	6,762	32,747	18,577	465	-	21,951	9,749	21,175	**177,571**
Sovereign	-	-	-	-	-	12,763	-	-	-	-	-	14,150	**26,913**
Bank	-	-	-	-	-	57,467	-	-	-	-	-	756	**58,223**
Residential mortgage	-	-	-	-	-	-	-	-	239,040	-	-	-	**239,040**
Qualifying revolving retail	-	-	-	-	-	-	-	10,693	-	-	-	-	**10,693**
Retail SME	1,105	3,884	2,200	2,563	2,002	708	1,150	104	-	3,405	899	1,686	**19,706**
Other retail	-	-	-	-	-	-	-	4,542	-	-	-	-	**4,542**
Total IRB approach	**8,418**	**34,106**	**13,135**	**20,238**	**8,764**	**103,685**	**19,727**	**15,804**	**239,040**	**25,356**	**10,648**	**37,767**	**536,688**
Specialised lending (SL)	**6**	**233**	**219**	**40,771**	**267**	**311**	**215**	**-**	**-**	**-**	**1,179**	**3,641**	**46,842**
Standardised approach													
Australian and foreign governments	-	-	-	-	-	-	-	-	-	-	-	2,951	**2,951**
Bank	-	-	-	-	-	6,670	-	-	-	-	-	83	**6,753**
Residential mortgage	-	-	-	-	-	-	-	-	41,023	-	-	-	**41,023**
Corporate	1,989	2,852	3,690	5,871	922	838	2,807	54	-	2,832	1,072	5,138	**28,065**
Other	4	6	32	4	10	1	6	4,094	-	14	3	5,550	**9,724**
Total standardised approach	**1,993**	**2,858**	**3,722**	**5,875**	**932**	**7,509**	**2,813**	**4,148**	**41,023**	**2,846**	**1,075**	**13,722**	**88,516**
Total exposure (EaD)	**10,417**	**37,197**	**17,076**	**66,884**	**9,963**	**111,505**	**22,755**	**19,952**	**280,063**	**28,202**	**12,902**	**55,130**	**672,046**

Table 5.1E: Exposures by Maturity

This table sets out the residual contractual maturity breakdown of gross credit risk exposures, excluding non-lending assets, equities and securitisation exposures. Overdraft and other similar revolving facilities are allocated to the category that most appropriately captures the maturity characteristics of the product.

	As at 30 Sep 11			
	<12 months	1 – 5 years	>5 years	No specified maturity (1)
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	78,838	83,939	21,715	5,390
Sovereign	19,899	8,850	7,045	87
Bank	52,577	9,133	9,581	147
Residential mortgage	49,691	7,808	192,995	466
Qualifying revolving retail	1	-	-	10,977
Retail SME	6,958	7,758	4,267	673
Other retail	202	997	1,222	2,169
Total IRB approach	**208,166**	**118,485**	**236,825**	**19,909**
Specialised lending (SL)	**19,565**	**23,575**	**4,832**	**1,434**
Standardised approach				
Australian and foreign governments	633	289	3,490	-
Bank	8,905	226	163	1,214
Residential mortgage	3,362	4,631	36,970	570
Corporate	14,375	10,797	7,090	940
Other	1,395	1,482	240	978
Total standardised approach	**28,670**	**17,425**	**47,953**	**3,702**
Total exposure (EaD)	**256,401**	**159,485**	**289,610**	**25,045**

(1) *No specified maturity includes exposures related to credit cards, on demand facilities and guarantees given by the Group with no fixed maturity date.*

	As at 31 Mar 11			
	<12 months	1 – 5 years	>5 years	No specified maturity
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	74,669	77,457	20,148	5,297
Sovereign	15,549	6,910	4,341	113
Bank	44,839	6,572	6,677	135
Residential mortgage	48,306	8,180	182,129	425
Qualifying revolving retail	1	-	-	10,692
Retail SME	6,986	7,858	4,273	589
Other retail	203	962	1,285	2,092
Total IRB approach	**190,553**	**107,939**	**218,853**	**19,343**
Specialised lending (SL)	**18,684**	**22,979**	**3,806**	**1,373**
Standardised approach				
Australian and foreign governments	1,468	138	1,345	-
Bank	4,645	688	219	1,201
Residential mortgage	3,467	4,128	32,981	447
Corporate	12,406	8,529	5,914	1,216
Other	1,470	1,530	5,735	989
Total standardised approach	**23,456**	**15,013**	**46,194**	**3,853**
Total exposure (EaD)	**232,693**	**145,931**	**268,853**	**24,569**

Credit Provisions and Losses

Table 5.1F: Provisions by Asset Class

The following tables set out information on credit risk provision by Basel II asset class, excluding non-lending assets, equities and securitisation exposures. Definitions of impairment and past due facilities are based on 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 Sep 11			6 months ended 30 Sep 11	
	Impaired facilities (1)	Past due facilities ≥90 days	Specific provisions (2)	Charges for specific provisions	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,430	350	691	330	255
Sovereign	-	-	-	-	-
Bank	34	-	34	-	-
Residential mortgage	667	1,006	161	90	69
Qualifying revolving retail	-	65	-	96	96
Retail SME	177	135	87	43	43
Other retail	9	38	4	53	50
Total IRB approach	**3,317**	**1,594**	**977**	**612**	**513**
Specialised lending (SL)	**1,463**	**83**	**287**	**201**	**192**
Standardised approach					
Australian and foreign governments (3)	-	89	-	-	-
Bank	-	-	-	-	-
Residential mortgage	117	183	31	28	10
Corporate	1,472	168	243	245	221
Other	8	33	4	30	22
Total standardised approach	**1,597**	**473**	**278**	**303**	**253**
Total	**6,377**	**2,150**	**1,542**	**1,116**	**958**
Additional regulatory specific provisions (2)			454		
General reserve for credit losses (4)			2,805		

(1) *Impaired facilities includes $235 million of restructured loans (March 2011: $212 million) which includes $16 million of restructured fair value assets (March 2011: $24 million).*

Impaired facilities includes $186 million of gross impaired fair value assets (March 2011: $279 million).

In the United States there is US$100 million (March 2011: US$135 million) of "Other Real Estate Owned" assets where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$83 million (March 2011: US$ 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 Group's balance sheet and are not included as impaired facilities.

(2) *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 $71 million (March 2011: $120 million) of specific provisions on gross impaired fair value assets.

(3) *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.*

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

	$m
Collective provision for doubtful debts	*3,398*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(160)*
Less collective provisions reported as additional regulatory specific provisions	*(454)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,784*
Less tax effect	*(695)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,089*
Plus reserve created through a deduction from retained earnings	*716*
General reserve for credit losses (after-tax basis)	*2,805*

	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*

Factors Impacting Loss Experience in the Preceding Period

Non-Impaired facilities 90+ Days Past Due

90+ days past due facilities decreased modestly during the September 2011 half year, and volume decreased across most divisions.

The change in GWB methodology from Basel I to Basel II Standardised during the September 2011 half year resulted in the transfer of 90+ days past due facilities from the 'Other' asset class to 'Corporate', 'Residential mortgage' and 'Australian and foreign governments'. The majority of 90+ Days past due facilities relate to the acquired TierOne assets, which are covered by a loan loss sharing agreement with the Federal Deposit Insurance Corporation (FDIC). Excluding loans relating to the TierOne asset acquisition, the 90+ days past due facilities at September 2011 is negligible.

The decrease in 90+ days past due facilities was evident within the 'Corporate (including SME)' portfolio largely due to the migration to impaired status.

IRB and Standardised 'Residential mortgage' GWB 90+ days past due facilities decreased during the September 2011 half year, largely in the Australia and the United Kingdom (UK) mortgage portfolios.

Impaired facilities

Impaired facilities (inclusive of gross impaired fair value assets) increased during the September 2011 half year. Whilst the increase in impaired facilities has slowed when compared to the March 2011 half year, impaired facilities remained at relatively high levels.

The largest increase was experienced in the Standardised 'Corporate' portfolio predominately due to the GWB methodology change which reclassified facilities from the Standardised 'Other' asset class (as outlined above), followed by an increase in GWB impaired legacy facilities with a high level of collateral and no significant losses expected.

The increase in impaired facilities in the 'Specialised Lending' asset class, was largely driven by the impairment of commercial property exposures in Australia and to a lesser extent in New Zealand, partly offset by the debt sale and write-offs of commercial property exposures during the September 2011 half year.

The increase in impaired facilities in the IRB and Standardised 'Residential mortgage' asset classes was mainly driven by impairments in Australia and UK.

Charges for specific provisions

In the September 2011 half year, the total charge for specific provisions was higher when compared to the March 2011 half year. This was primarily due to higher charges for 'Corporate (including SME)' and 'Specialised lending' asset classes in Australia, followed by higher specific provision charges in the UK 'Corporate' portfolio.

Net Write-Offs

Net write-offs decreased from $1,030 million for the March 2011 half year to $958 million for the September 2011 half year. The Group continues to manage bad debt write-offs on a timely basis.

Table 5.1G: Loss Experience

This table represents the regulatory expected loss (which are forward-looking loss estimates) compared to the realised actual losses calculated as an exposure weighted average since Basel II accreditation at 30 September 2008.

Actual losses (net write-offs) measured over the short-term will differ to regulatory expected loss estimates as actual losses are a lag indicator of the quality of the assets in prior periods. Other differences between these measures are:

- *Actual losses do not take into account modelled economic costs such as internal workout costs factored into estimates of loss;*
- *Regulatory expected loss is based on the quality of exposures at a point-in-time using long run PDs and stressed LGDs. In most years actual losses would be below the regulatory expected loss estimate; and*
- *Regulatory expected loss includes expected losses on non-defaulted assets which is a function of long-run PD and downturn stressed LGD. For defaulted exposures, regulatory expected loss is based on the Bank's best estimate of expected loss.*

	30 Sep 11	
	Exposure weighted average actual loss (net write-offs) [1]	**Exposure weighted average regulatory expected loss** [2]
	$m	**$m**
IRB approach		
Corporate	780	2,620
Sovereign	-	2
Bank	9	55
Residential mortgage	123	712
Qualifying revolving retail	179	222
Retail SME	85	293
Other retail	104	164
Total IRB approach	**1,280**	**4,068**

[1] *Calculated as an exposure weighted average of actual losses (net write-offs) experienced through each respective financial year since 30 September 2008.*

[2] *Calculated as an exposure weighted average of regulatory expected loss at the beginning of each financial year since 30 September 2008.*

Table 5.1H: Provisions by Industry

This table shows provisioning information by industry. Industry classifications follow ANZSIC Level 1 classifications. Totals do not include amounts relating to non-lending assets, equities or securitisation.

	As at 30 Sep 11			6 months ended 30 Sep 11	
	Impaired facilities $m	Past due facilities ≥90 days $m	Specific provisions $m	Charges for specific provisions $m	Net write-offs $m
Industry sector					
Accommodation, cafes, pubs and restaurants	322	49	79	90	83
Agriculture, forestry, fishing and mining	706	111	141	(17)	(1)
Business services and property services	270	60	98	81	80
Commercial property	2,656	275	450	323	309
Construction	263	44	93	81	41
Finance and insurance	197	100	97	5	6
Manufacturing	218	37	65	29	11
Personal	17	143	10	163	198
Residential mortgages	784	1,189	192	118	79
Retail and wholesale trade	535	81	190	136	79
Transport and storage	110	24	44	40	10
Other	299	37	83	67	63
Total	**6,377**	**2,150**	**1,542**	**1,116**	**958**
Additional regulatory specific provision			454		

	As at 31 Mar 11			6 months ended 31 Mar 11	
	Impaired facilities $m	Past due facilities ≥90 days $m	Specific provisions $m	Charges for specific provisions $m	Net write-offs $m
Industry sector					
Accommodation, cafes, pubs and restaurants	464	56	113	82	87
Agriculture, forestry, fishing and mining	915	94	184	59	45
Business services and property services	211	61	66	37	33
Commercial property	2,422	364	386	296	326
Construction	242	43	77	63	72
Finance and insurance	217	27	110	28	83
Manufacturing	204	57	58	18	28
Personal	20	156	12	172	195
Residential mortgages	723	1,277	160	67	49
Retail and wholesale trade	469	62	145	76	74
Transport and storage	48	16	12	(2)	7
Other	323	328	92	43	31
Total	**6,258**	**2,541**	**1,415**	**939**	**1,030**
Additional regulatory specific provision			522		

Table 5.1I: Provisions by Geography

	As at 30 Sep 11			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
	$m	$m	$m	$m
Geographic region				
Australia [1]	3,836	1,547	942	2,069
Europe	1,869	318	397	865
New Zealand	516	158	178	226
Other [2]	156	127	25	78
Total [3]	**6,377**	**2,150**	**1,542**	**3,238**
Regulatory specific provisions			454	(454)
Less tax effect				(695)
Plus reserve created through retained earnings				716
General reserve for credit losses				**2,805**

(1) *The Australian geography contains a central bad and doubtful debt provision against the current uncertain global environment.*

(2) *'Other' comprises North America and Asia.*

(3) *The GRCL balance allocated across geographic regions of $3,238 million includes $2,505 million of provisions on loans at amortised cost and $733 million of provisions held on assets at fair value.*

	As at 31 Mar 11			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
	$m	$m	$m	$m
Geographic region				
Australia	3,673	1,749	855	2,230
Europe	1,865	407	343	815
New Zealand	614	194	191	222
Other	106	191	26	61
Total	**6,258**	**2,541**	**1,415**	**3,328**
Regulatory specific provisions			522	(522)
Less tax effect				(690)
Plus reserve created through retained earnings				751
General reserve for credit losses [1]				**2,867**

(1) *The GRCL balance allocated across geographic regions of $3,328 million includes $2,781 million of provisions on loans at amortised cost and $547 million of provisions held on assets at fair value.*

Table 5.1J: Movement in Provisions

This table discloses the movements in the balance of provisions over the reporting period for both specific provisions and the general reserve for credit losses. Totals do not include amounts relating to non-lending assets, equities or securitisation.

	6 months ended 30 Sep 11	6 months ended 31 Mar 11
	$m	$m
General reserve for credit losses		
Collective provision balance at start of period	2,781	2,855
Total charge to income statement for impairment loss	819	914
Net transfer to specific provision	(1,116)	(939)
Recoveries	-	-
Balances written off	-	-
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	21	(49)
Collective provision on loans at amortised cost	2,505	2,781
Plus provisions held on assets at fair value [(1)]	733	547
Less additional regulatory specific provisions	(454)	(522)
Less tax effect	(695)	(690)
Plus reserve created through retained earnings	716	751
General reserve for credit losses	**2,805**	**2,867**
Specific provisions		
Balance at start of period	1,295	1,405
Net transfer from general reserve for credit losses	1,116	939
Bad debts recovered	91	93
Bad debts written off	(1,049)	(1,123)
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	18	(19)
Specific provisions excluding provisions for assets at fair value	1,471	1,295
Specific provisions held on assets at fair value	71	120
Additional regulatory specific provisions	454	522
Total regulatory specific provisions	**1,996**	**1,937**
Total provisions	**4,801**	**4,804**

(1) *Provisions held on assets at fair value are presented gross of $18 million regulatory specific provisions for assets held at fair value (March 2011: $7 million).*

5.2 Standardised and Supervisory Slotting Portfolios

Standardised Credit Risk Portfolios

The Group uses the standardised methodology in the Basel II Framework, as interpreted by APRA, for the calculation of Basel II credit RWA for Clydesdale Bank PLC and Great Western Bank, and for defined assets that are immaterial in terms of RWA or are not required to be treated as IRB under the Basel II Framework. For its local regulatory reporting to the FSA, Clydesdale Bank PLC uses the standardised methodology in the Basel II Framework, as interpreted by the UK FSA. Clydesdale Bank PLC, and other applicable portfolios, will move to more advanced accreditation for Credit Risk at a time agreed with APRA and the supervisors in the respective jurisdictions.

Fitch, Moody's and Standard & Poor's credit ratings are used to determine the risk weights within the APRA standardised approach, as presented in the table below. APRA's external rating grades table is used to map external ratings into an "external rating grade" or Credit Rating Grade that defines the appropriate risk weight as outlined in *APS 112 Capital Adequacy Standardised Approach to Credit Risk (APS 112)*.

External Rating Grade Classification

External rating grade	S & P	Moody's	Fitch
1	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-
2	A+, A, A-	A1, A2, A3	A+, A, A-
3	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
4	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-
5	B+, B, B-	B1, B2, B3	B+, B, B-
6	CCC+, CCC, CCC-, CC, C, D	Caa1, Caa2, Caa3, Ca, C	CCC+, CCC, CCC-, CC, C, D

Table 5.2A: Standardised Exposures by Risk Weight

The following table shows the credit exposure amount before and after risk mitigation [(1)] in each risk category, subject to the standardised approach.

	As at 30 Sep 11		As at 31 Mar 11	
	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m
Standardised approach – risk weights				
0%	12,550	12,543	7,341	7,339
20%	2,849	1,924	2,785	2,295
35%	27,991	27,965	23,976	23,948
50%	6,957	6,955	6,224	6,222
75%	3,512	3,510	3,342	3,340
100%	42,288	41,241	43,269	42,156
150%	1,603	1,598	1,579	1,571
Total standardised approach (EaD)	**97,750**	**95,736**	**88,516**	**86,871**

(1) The Group recognises the mitigation of credit risk as a result of eligible financial collateral and mitigation providers. Eligible financial collateral refers to cash and cash equivalents as defined in APS 112 .

Table 5.2B: Standardised Exposures by Risk Grade

	As at 30 Sep 11		As at 31 Mar 11	
Asset class by rating grade	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m
Australian and foreign governments				
Credit rating grade 1	3,702	4,241	2,943	2,761
Credit rating grade 2	12	12	-	-
Unrated	698	9	8	8
Sub-total	4,412	4,262	2,951	2,769
Bank				
Credit rating grade 1	9,294	9,171	5,420	5,704
Credit rating grade 2	19	19	23	23
Credit rating grade 3	10	10	-	-
Unrated	1,185	161	1,310	246
Sub-total	10,508	9,361	6,753	5,973
Residential mortgage				
Unrated	45,533	45,457	41,023	40,953
Sub-total	45,533	45,457	41,023	40,953
Corporate				
Credit rating grade 2	35	35	32	32
Unrated	33,167	32,591	28,033	27,484
Sub-total	33,202	32,626	28,065	27,516
Other				
Unrated	4,095	4,030	9,724	9,660
Sub-total	4,095	4,030	9,724	9,660
Total standardised approach (EaD)	**97,750**	**95,736**	**88,516**	**86,871**

Portfolios Subject to Supervisory Risk Weights in the IRB Approaches

Specialised lending is represented by the following four sub-asset classes:

- Project Finance Exposures;
- Income-Producing Real Estate Exposures;
- Object Finance Exposures; and
- Commodities Finance Exposures.

The Group maps its internal rating grades for Specialised Lending to the five supervisory slotting categories of strong, good, satisfactory, weak and default. The criteria to map these exposures are found in *APS113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (Attachment F)*.

For Income-Producing Real Estate, the Group maps a combination of internal rating grade and loss given default to the supervisory slotting categories. Each slotting category is associated with a specific risk weight for unexpected loss that broadly corresponds to a range of external credit assessments as detailed below.

Supervisory category	Risk weight	External rating equivalent
Strong	70%	BBB- or better
Good	90%	BB+ or BB
Satisfactory	115%	BB- or B+
Weak	250%	B to C
Default	0%	N/A

Table 5.2C: Supervisory Slotting by Risk Weight

The following table shows the credit exposure, reported after risk mitigation and net of any specific provisions, in each risk bucket for Specialised Lending products subject to supervisory slotting.

	As at 30 Sep 11 Exposure after risk mitigation $m	As at 31 Mar 11 Exposure after risk mitigation $m
IRB supervisory slotting – unexpected loss risk weights		
70%	20,001	17,578
90%	19,161	17,562
115%	6,204	7,046
250%	1,282	2,168
Default	2,380	2,303
Total IRB supervisory slotting (EaD)	**49,028**	**46,657**

Equity exposures are also applied a supervisory risk weight under *APS 113*. Further information on the Group's equity exposures can be found in *Section 9.3 Equities Banking Book Position*.

5.3 Internal Ratings Based Portfolios

General Disclosure on the Internal Rating Based System (IRB)

The Group has been accredited by APRA to use its internal credit models and processes in determining RWA for its retail and non-retail credit portfolios across its Australian, New Zealand[1] and Wholesale Banking operations.

The Group's internal ratings system measures credit risk using: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EaD). Distinct PD, EaD and LGD models exist for the retail and non-retail credit portfolios, based on asset categories and customer segments.

Non-retail customers are assessed individually using a combination of expert judgement and statistical risk rating tools. For retail customers, operational scorecards are the primary method of risk rating. The following table summarises exposures type and rating approach for each asset class.

Basel II Asset Class	Type of exposures	Rating approach
Non-Retail		
Corporate (including SME)	Companies, including investment banks and non-government entities.	Statistical risk model, external credit rating and expert judgement
Sovereign	Sovereigns and Australian dollar claims on the Reserve Bank of Australia. Sovereign includes government guaranteed exposures.	Statistical risk model, external credit rating and expert judgement
Bank	ADIs and overseas banks.	Statistical risk model, external credit rating and expert judgement
Specialised lending	Exposures associated with the financing of individual projects where the repayment is highly dependent on the performance of the underlying pool or collateral, rather than the obligor's creditworthiness. Includes project finance, income-producing real estate, object finance and commodities finance.	Statistical risk model, expert judgement, supervisory slotting
Retail		
Residential mortgage	Exposures partly or fully secured by residential properties.	Statistical risk model
Qualifying revolving retail	Consumer credit cards excluding BNZ credit cards (which are classified as Other Retail under RBNZ rules).	Statistical risk model
Retail SME	Small business and agriculture exposures where the total aggregated business related exposures of the obligor and its related entities are less than $1 million.	Statistical risk model
Other retail	Retail exposures other than Residential Mortgage, Qualifying revolving retail and Retail SME. Includes personal loan products, overdrafts, transaction account exposures and BNZ credit cards.	Statistical risk model

Internal Risk Rating and External Ratings

The structure of the internal risk rating system and its relationship with external ratings is detailed below.

Description	Internal rating	Probability of default (%)
Super senior investment grade	1, 2	0<0.03
Senior investment grade	3, 4, 5	0.03<0.1
Investment grade	6, 7, 8, 9, 10, 11	0.1<0.5
Acceptable	12, 13, 14, 15, 16, 17, 18, 19	0.5<5
Weak/doubtful	20, 21, 22, 23	5<99.99
Default	98, 99	100

Description	S&P rating	Moody's rating
Super senior investment grade	AAA, AA+, AA, AA-	Aaa, Aa1, Aa2, Aa3
Senior investment grade	A+, A, A-	A1, A2, A3
Investment grade	BBB+, BBB, BBB-	Baa1, Baa2, Baa3
Acceptable	BB+, BB, BB-, B+	Ba1, Ba2, Ba3, B1
Weak/doubtful	B, B-, CCC+, CCC, CCC-	B2, B3, Caa,Ca
Default	D	C

(1) *RBNZ IRB discretions are used for the New Zealand (BNZ) portfolio.*

Internal Ratings Process Overview

Probability of Default (PD)

PD measures the likelihood that a customer will default within a 12-month period. The Group uses two types of PD estimates:

- Point in Time (PiT) which estimates the likelihood of default in the next 12 months taking account of the current economic conditions. PiT PDs are used for management of the portfolio; and
- Through the Cycle (TTC) which estimates the likelihood of default through a full credit cycle. TTC PDs are used for regulatory and economic capital calculation.

The Group has a common masterscale across all counterparties (non-retail and retail) for PD.

Loss Given Default (LGD)

LGD measures the portion of the exposure owed to the Group that would be lost in the event of the customer defaulting. LGD is calculated by using a set of estimated parameters including Loss Given Realisation (LGR), post-default cure rates and the bank value of collateral.

The Group applies stresses to the model factors to obtain downturn LGD estimates using internal data, external reference data and benchmarks, and by applying expert judgement.

Exposure at Default (EaD)

EaD is calculated according to the facility type. The Group's EaD models predict the dollar amount that a customer is likely to have outstanding if they were to default within a 12 month period. This amount includes principal, fees and interest owed at the time of default.

The Group applies stresses to the model factors to obtain downturn EaD estimates using internal data, benchmark studies and expert judgement.

Use of PD, LGD and EaD

PD, LGD and EaD estimates are used for various regulatory and internal Credit Risk calculations, such as Regulatory Expected Loss, RWA, economic capital and provisioning.

Credit Rating System Control

In addition to monthly performance reporting, credit models are reviewed at least annually in accordance with the Group's Model Risk Policy. Regular independent reviews are also conducted.

The outcomes of the model validation process, including proposed actions, are presented to the authorised Risk Committees for review and endorsement of any actions for implementation.

Non-Retail Credit - Internal Ratings Process

Non-Retail – Probability of Default Models

The Group has a number of PD models that differentiate by industry or segment, counterparty size and incorporate regional variances. The rating model used is dependent on:

- industry, based on ANZSIC classification;
- financial information available;
- qualitative information; and
- net sales/total assets and exposure.

The quantitative (financial) factors consist of financial ratios and indicators (eg profitability, leverage and debt service coverage). The qualitative (non-financial) factors are based on qualitative data using the expert judgement of the lender and credit officer (eg management ability and industry outlook).

While factors predictive of default have broad similarities across segments (eg debt service capability, management quality), the modelling process establishes those factors that are most predictive for each segment, along with their relative weightings. External benchmarking is used for certain segments that have insufficient internal data, a small population and/or low defaults. This is the case for externally rated banks and sovereigns, where external rating agencies data is used. The resulting rating is updated at least annually.

Long run adjustments are made to the models to account for performance over an economic cycle.

Non-Retail – Exposure at Default Models

EaD is calculated according to the facility type. The basic formula is:

EaD = Balance + Credit Conversion Factor x Undrawn Limit

Conversion factors are used for estimating off-balance sheet exposures into an equivalent on-balance sheet amount, based on internal data.

Non-Retail – Loss Given Default Models

LGD for the non-retail portfolio is calculated by using a set of estimated parameters including bank value of collateral, Loss Given Realisation and the probability of realisation occurring subsequent to default. LGD is segmented by customer type, customer size and nature of facility.

Loss Given Realisation is the loss sustained, as a proportion of EAD, following the realisation of security held. It is based on the bank values assigned to each asset type along with the Group's experience with unsecured recoveries. As the market value of the collateral is affected by credit cycle changes, the impact of a credit cycle downturn on LGD has been incorporated.

The Group also uses the following factors for non-retail credit LGD models:

- relevant external benchmarks
- recovery rates
- time value of money
- write-offs

Where limited internal default data exists, data is supplemented by external benchmarks, market data and expert judgement.

Retail Credit - Internal Ratings Process

Retail Credit – Probability of Default Models

Retail PD models include the results of:

- application scorecards, utilising external credit bureau data;
- behaviour scorecards, updated monthly; and
- transactional characteristics, such as limit utilisation and delinquency.

Each account is "scored" to assign a PD. This process allows groups of accounts with similar scores to be pooled together and mapped to the PD masterscale.

Appropriate long run adjustments have been made to the models to account for performance over an economic cycle.

Retail Credit – Exposure at Default Models

Retail EaD models use a combination of Credit Conversion Factors (CCF) similar to those used in non-retail, and scaling factors.

CCFs have been developed mainly for revolving credit products, such as credit cards and overdrafts and estimate the amount of unutilised credit a customer may draw in the lead up to default.

Scaling factors have been applied mainly to term lending products, where the customer has less availability of unutilised credit from which to draw in the lead up to default.

Retail Credit – Loss Given Default Models

Key account variables, such as months exposure held and balance, are identified and modelled to provide an estimate of the probability that a loan that has defaulted would return to full performance (i.e. cure).

For accounts that do not cure and are written off, internal recovery data is used to assess the ultimate loss (i.e. initial loss less recoveries achieved plus costs of recovery).

Adjustments based on external data and expert judgement are made to the LGD to account for a downturn in the economic cycle, and are applied by varying the cure and recovery rates.

In Australia, the only credit risk mitigation measure applies to the residential mortgage portfolio, where Lenders Mortgage Insurance (LMI) is normally taken for borrowing above 80% Loan to Value Ratio at origination. For loans secured by residential property, APRA has mandated the use of a supervisory floor of 20% for RWA purposes.

Note: LMI does not currently influence the retail LGD metrics used.

Portfolios Subject to IRB Approach

Table 5.3A: Non-Retail Exposure by Risk Grade

This table provides a breakdown of gross non-retail credit exposures by PD risk grade, categorised into bands that broadly correspond to externally recognised risk grades. Moody's risk grades have been included as a reference point. Exposures have been categorised into PD grades as assessed by the Group's own internal ratings system and exclude non-lending assets, equities, securitisation and specialised lending.

	As at 30 Sep 11						
	PD risk grade mapping						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2, Ba3**	**B1, B2**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.15%**	**0.15<0.5%**	**0.5<3.0%**	**3.0<10.0%**	**10.0<100%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Corporate	1,229	32,353	58,105	70,078	21,352	1,868	4,897
Sovereign	32,414	3,326	17	27	10	-	87
Bank	26,864	39,683	4,183	589	40	9	70
Total exposure (EaD)	**60,507**	**75,362**	**62,305**	**70,694**	**21,402**	**1,877**	**5,054**
Undrawn commitments							
Corporate	374	10,496	14,147	10,626	2,475	197	245
Sovereign	381	234	3	6	-	-	1
Bank	367	363	103	8	-	-	-
Total undrawn commitments [(1)]	**1,122**	**11,093**	**14,253**	**10,640**	**2,475**	**197**	**246**

IRB approach							
Exposure weighted average EaD ($m) [(2)]							
Corporate	0.55	1.03	0.60	0.28	0.25	0.25	0.56
Sovereign	20.69	1.37	0.10	0.04	0.17	-	3.02
Bank	2.37	1.90	2.18	1.33	0.81	1.96	4.14
Exposure weighted average LGD (%)							
Corporate	52.4 %	43.0 %	34.7 %	34.2 %	36.3 %	40.1 %	46.1 %
Sovereign	4.9 %	34.1 %	44.5 %	44.2 %	44.6 %	-	45.0 %
Bank	38.3 %	28.9 %	30.8 %	40.6 %	59.6 %	-	59.6 %
Exposure weighted average risk weight (%)							
Corporate	19.7 %	27.0 %	40.7 %	68.5 %	103.6 %	195.7 %	126.5 %
Sovereign	1.0 %	24.3 %	45.0 %	97.0 %	154.7 %	-	-
Bank	8.4 %	8.6 %	34.1 %	76.9 %	188.5 %	-	2.6 %

(1) *Total undrawn commitments are included in the calculation of Total Exposures (EaD) shown above.*

(2) *Simple average of exposure by number of arrangements.*

	As at 31 Mar 11						
	PD risk grade mapping						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2, Ba3**	**B1, B2**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.15%**	**0.15<0.5%**	**0.5<3.0%**	**3.0<10.0%**	**10.0<100%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Corporate	1,528	26,869	49,845	67,927	23,912	2,177	5,313
Sovereign	23,767	3,076	28	28	14	-	-
Bank	33,017	20,738	4,000	377	19	-	72
Total exposure (EaD)	**58,312**	**50,683**	**53,873**	**68,332**	**23,945**	**2,177**	**5,385**
Undrawn commitments							
Corporate	728	10,021	13,684	10,336	2,899	194	334
Sovereign	414	187	7	7	5	-	-
Bank	382	475	97	6	-	-	2
Total undrawn commitments	**1,524**	**10,683**	**13,788**	**10,349**	**2,904**	**194**	**336**

IRB approach							
Exposure weighted average EaD ($m)							
Corporate	1.39	0.91	0.58	0.29	0.22	0.35	0.59
Sovereign	12.44	1.24	0.16	0.04	0.24	-	-
Bank	2.56	1.31	1.97	0.89	0.37	-	5.13
Exposure weighted average LGD (%)							
Corporate	50.2%	43.4%	39.6%	33.7%	36.1%	42.0%	47.8%
Sovereign	5.7%	27.9%	44.4%	44.2%	44.9%	-	-
Bank	33.4%	39.1%	29.3%	55.1%	35.8%	-	59.6%
Exposure weighted average risk weight (%)							
Corporate	18.4%	26.6%	44.0%	66.6%	100.1%	217.4%	244.4%
Sovereign	0.9%	24.4%	48.0%	95.7%	149.9%	-	-
Bank	7.7%	11.5%	31.5%	112.6%	143.2%	-	9.3%

Table 5.3B: Retail Exposure by Risk Grade

This table provides a break down of gross retail credit exposures by PD risk grade, categorised into bands that broadly correspond to externally recognised risk grades, ranging from Super Senior Investment Grade to Defaulted exposures. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 11						
	PD risk grade mapping						
	0<0.1%	0.1<0.3%	0.3<0.5%	0.5<3.0%	3.0<10.0%	10.0<100%	100%
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Residential mortgage	36,895	75,579	30,323	89,625	14,411	2,145	1,982
Qualifying revolving retail	3,300	2,276	1,079	2,343	1,444	478	58
Retail SME	70	505	2,897	11,932	3,246	455	551
Other retail	771	803	270	1,366	1,068	249	63
Total exposure (EaD)	**41,036**	**79,163**	**34,569**	**105,266**	**20,169**	**3,327**	**2,654**
Undrawn commitments							
Residential mortgage	11,459	12,644	3,671	5,727	224	4	7
Qualifying revolving retail	2,570	1,356	669	570	182	33	1
Retail SME	13	161	985	1,972	312	28	52
Other retail	549	267	71	212	86	28	1
Total undrawn commitments (1)	**14,591**	**14,428**	**5,396**	**8,481**	**804**	**93**	**61**

IRB approach							
Exposure weighted average EaD ($m) (2)							
Residential mortgage	0.04	0.26	0.23	0.25	0.30	0.36	0.19
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.04	0.04	0.04	0.04	0.03	0.04	0.03
Other retail	small	0.01	small	0.01	0.01	small	0.01
Exposure weighted average LGD (%)							
Residential mortgage	20.0 %	20.0 %	19.9 %	20.3 %	19.9 %	20.0 %	21.1 %
Qualifying revolving retail	83.4 %	84.2 %	84.6 %	86.5 %	87.2 %	87.6 %	88.4 %
Retail SME	24.2 %	26.4 %	30.3 %	33.2 %	34.9 %	36.8 %	43.4 %
Other retail	79.8 %	78.4 %	78.8 %	78.3 %	76.7 %	71.4 %	66.2 %
Exposure weighted average risk weight (%)							
Residential mortgage	3.6 %	8.2 %	14.9 %	27.4 %	66.1 %	105.9 %	163.5 %
Qualifying revolving retail	4.0 %	8.5 %	17.1 %	42.0 %	112.7 %	226.9 %	297.1 %
Retail SME	5.7 %	13.5 %	22.1 %	36.8 %	54.2 %	83.4 %	177.9 %
Other retail	12.4 %	29.5 %	54.8 %	92.0 %	119.9 %	161.6 %	276.2 %

(1) *Total undrawn commitments are included in the calculation of Total Exposures (EaD) shown above.*

(2) *Simple average of exposure by number of arrangements.*

IRB approach	As at 31 Mar 11 PD risk grade mapping 0<0.1% $m	0.1<0.3% $m	0.3<0.5% $m	0.5<3.0% $m	3.0<10.0% $m	10.0<100% $m	100% $m
Total exposure							
Residential mortgage	34,882	66,342	30,406	88,254	14,735	2,463	1,958
Qualifying revolving retail	3,243	2,216	1,105	2,259	1,379	431	60
Retail SME	86	2,983	628	10,629	4,544	270	566
Other retail	719	763	262	1,328	1,074	323	73
Total exposure (EaD)	**38,930**	**72,304**	**32,401**	**102,470**	**21,732**	**3,487**	**2,657**
Undrawn commitments							
Residential mortgage	11,418	12,027	4,370	5,587	224	11	7
Qualifying revolving retail	2,498	1,322	676	537	168	29	1
Retail SME	18	878	222	1,844	511	17	51
Other retail	513	257	68	208	81	53	1
Total undrawn commitments	**14,447**	**14,484**	**5,336**	**8,176**	**984**	**110**	**60**

IRB approach							
Exposure weighted average EaD ($m)							
Residential mortgage	0.04	0.25	0.23	0.24	0.28	0.32	0.19
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.05	0.03	0.04	0.04	0.04	0.04	0.03
Other retail	small	0.01	small	0.01	0.01	small	small
Exposure weighted average LGD (%)							
Residential mortgage	20.0%	20.0%	19.9%	20.3%	19.9%	20.0%	21.2%
Qualifying revolving retail	83.4%	84.2%	84.6%	86.4%	87.2%	87.4%	88.6%
Retail SME	25.7%	32.1%	26.8%	33.9%	35.2%	37.3%	43.4%
Other retail	79.4%	78.2%	78.6%	78.2%	77.1%	66.4%	70.6%
Exposure weighted average risk weight (%)							
Residential mortgage	3.5%	8.2%	15.0%	27.7%	66.1%	105.2%	172.1%
Qualifying revolving retail	3.9%	8.5%	17.4%	42.7%	113.5%	225.6%	297.6%
Retail SME	5.8%	16.2%	18.9%	38.9%	54.1%	85.0%	275.8%
Other retail	12.4%	29.4%	54.7%	91.8%	120.6%	151.7%	326.7%

5.4 Credit Risk Mitigation

The Group employs a range of techniques to reduce risk in its credit portfolio.

Credit risk mitigation commences with an objective credit evaluation of the counterparty. This includes an assessment of the counterparty's character, industry, business model and capacity to meet its commitments without distress. Other methods to mitigate credit risks include a prudent approach to facility structure, collateral, lending covenants, terms and conditions.

Collateral Management

Collateral provides a secondary source of repayment for funds being advanced, in the event that a counterparty cannot meet its contractual repayment obligations.

Collateral commonly includes:

- fixed and floating charges over business assets;
- residential, commercial and rural property;
- cash deposits;
- fixed income products;
- listed shares, bonds or securities; and
- guarantees, letters of credit and pledges.

To ensure that collateral held is sufficiently liquid, legally valid, enforceable and regularly valued, credit risk policy provides a framework to:

- establish the amount and quality of collateral required to support an exposure;
- determine acceptable valuation type and revaluation requirements for each collateral class; and
- record market value and 'bank value' (a conservative assessment of value in the event the collateral is realised).

Guarantees from financially sound parties are sometimes required to support funds advanced to a counterparty, and can reduce the risk of default on their obligations. Where allowed in credit risk policy, guarantors that are risk rated may enhance the counterparty customer rating.

Credit Hedging

Credit hedging is utilised in the banking book to avoid counterparty concentrations against protection sellers and achieve portfolio diversification.

Credit risk to individual hedge counterparties is mitigated through careful selection of investment grade equivalent counterparties and use of collateral agreements to manage net exposures.

Credit Exposure Netting

Credit Exposure Netting may be adopted to calculate counterparty credit exposures on a net basis. This recognises that the change in value for different products over time is not perfectly correlated; transactions with positive value when netted may offset those with negative value.

Credit Exposure Netting is subject to execution of supporting legal documentation. A credit exposure measurement and reporting system manages the netting pools in accordance with that documentation.

Portfolio Management

Group Credit Risk, together with Business Unit Risk functions, manage the overall risk of the corporate, sovereign and bank credit portfolios. Where credit risks are identified, a variety of techniques are used to mitigate the risk, including credit derivatives and on occasion, the sale of loan assets (in consultation with the counterparties).

Internal reporting systems are utilised to record all:

- approved derivative, money market, credit line and/or credit trading facility limits;
- credit exposure arising from securities sales and purchases, money market lines, commodities, trade, derivative and foreign exchange transactions; and
- country risk exposures for country economic capital limit purposes.

Limits may be established at a facility, product group or individual product level, based on the level of financial sophistication exhibited by the counterparty. A specialist administration unit operating independently from relationship managers, dealers and credit approvers record and maintain the limits.

Table 5.4A: Mitigation by Eligible Collateral

This table discloses the total credit exposures subject to the standardised and supervisory slotting criteria approaches which are covered by eligible financial collateral. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 11	
	Total exposure	of which is covered by eligible financial collateral [1]
	$m	$m
Specialised lending (SL)	**49,406**	**378**
Standardised approach		
Australian and foreign governments	4,412	150
Bank	10,508	1,147
Residential mortgage	45,533	76
Corporate	33,202	576
Other	4,095	65
Total standardised approach	**97,750**	**2,014**

(1) Eligible financial collateral, when used to reduce levels of exposure, refers to cash and cash equivalents as defined in APS 112. Exposures covered by eligible financial collateral are measured after the application of regulatory haircuts.

	As at 31 Mar 11	
	Total exposure	of which is covered by eligible financial collateral
	$m	$m
Specialised lending (SL)	**46,842**	**185**
Standardised approach		
Australian and foreign governments	2,951	182
Bank	6,753	780
Residential mortgage	41,023	70
Corporate	28,065	549
Other	9,724	64
Total standardised approach	**88,516**	**1,645**

Table 5.4B: Mitigation by Guarantees and Credit Derivatives

This table discloses the total credit exposures which are covered by the guarantees and credit derivatives relating to each portfolio. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 11		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	189,882	21,277	-
Sovereign	35,881	2	-
Bank	71,438	264	1,331
Residential mortgage	250,960	-	-
Qualifying revolving retail	10,978	-	-
Retail SME	19,656	-	-
Other retail	4,590	-	-
Total IRB approach	**583,385**	**21,543**	**1,331**
Specialised lending (SL)	**49,406**	**-**	**-**
Standardised approach			
Australian and foreign governments	4,412	689	-
Bank	10,508	227	-
Residential mortgage	45,533	-	-
Corporate	33,202	-	-
Other	4,095	-	-
Total standardised approach	**97,750**	**916**	**-**

	As at 31 Mar 11		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	177,571	18,300	-
Sovereign	26,913	2	-
Bank	58,223	223	1,020
Residential mortgage	239,040	-	-
Qualifying revolving retail	10,693	-	-
Retail SME	19,706	-	-
Other retail	4,542	-	-
Total IRB approach	**536,688**	**18,525**	**1,020**
Specialised lending (SL)	**46,842**	**-**	**-**
Standardised approach			
Australian and foreign governments	2,951	-	-
Bank	6,753	285	-
Residential mortgage	41,023	-	-
Corporate	28,065	-	-
Other	9,724	-	-
Total standardised approach	**88,516**	**285**	**-**

5.5 Counterparty Credit Risk

This section describes the Group's approach to manage credit risk concerning market-related instruments. Counterparty Credit Risk (CCR) is the risk that a counterparty to a transaction may default before the final settlement of the transactions cash flows. An economic loss would occur if a transaction(s) with a defaulting counterparty has a positive economic value to NAB.

Credit Limits

Credit limits for derivatives are approved and assigned by an appropriately authorised DCA based on the same principles (amount, tenor, probability of default, loss given default and product type), and internal credit policies used for approving bank loans.

Credit exposures for each transaction are measured as the current mark-to-market value and the Potential Credit Exposure (PCE) which is an estimate of the future replacement cost.

Credit risk economic capital is then allocated to individual counterparty exposures based on their relative risk contribution to Unexpected Loss (UL).

Limit excesses, whether they are active or passive, are subject to formal approval by a DCA.

Collateral

Counterparty credit exposures may be collateralised by an approved list of eligible collateral via market standard master agreements (ISDA and credit support annex). Eligible collateral may be subject to haircuts depending on asset type. Counterparties may also be subject to posting additional collateral prior to transacting.

Bank systems are in place to support daily marking-to-market of net exposures and margin requirements, marking-to-market of collateral value and reconciliation of collateral receipt and holdings against collateral due.

Wrong Way Risk

Wrong way risk occurs when credit exposure to a counterparty is positively correlated with collateral held and any market risk factors impacting the transaction. Credit exposures and potential losses may increase under these circumstances as a result of market conditions. These risks are addressed in a number of risk policies including, but not limited to: Single Large Exposure policy; credit concentration risk policies; Aggregation policy; Collateralisation policy; and various product restrictions.

Downgrade Impact

As at 30 September 2011, with respect to counterparty derivatives, the Group would need to post $114 million of collateral in the event of a one notch downgrade to the Group's credit rating, and $443 million in the event of a two notch downgrade.

For transactions that would be affected by a downgrade clause, planning for, and the impact of, the event for the Group is managed by Group Treasury.

6. Securitisation

Introduction

Securitisation is a structure where the cash flow from a pool is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors). An exception to this is a warehouse special purpose vehicle (SPV) which is a securitisation even if it does not have at least two different tranches of creditors or securities.

Securitisation risk is the potential for losses to arise from credit and operational risks associated with the Group's securitisation activities, as well as any losses on the sale of securitised assets. Risks such as interest rate risk and securities price risk are managed as part of the market and non-traded market risk processes.

The Group engages in securitisation activities for two purposes:

- securitisation for business purposes, including arranging and managing securitisations for third parties (clients) and securitisation arbitrage activities. These activities are undertaken primarily through securitisation SPVs that provide funding for single or multiple transactions including via Asset-Backed Commercial Paper (ABCP) conduits. Securities arbitrage activities within Group-sponsored SPVs have been quarantined and these exposures are being managed by the Group as part of the Specialised Group Assets (SGA) portfolio; and
- securitisation of its own assets for funding, liquidity (including contingent liquidity), risk and capital management purposes.

The Group's securitisation exposures are generally categorised according to the requirements of *APS 330*. Key definitions are provided below.

Special Purpose Vehicle

- A special purpose vehicle, or an SPV, is an entity set up solely for the purpose of securitisation, usually a trust or a company.

Origination

- Originating ADI: The Group is an "Originating ADI" if it originally sold the asset to the SPV (directly or indirectly), manages the SPV or provides a non-derivative facility to an ABCP Program.
- Non-originating ADI facilities: Any facility provided by the Group in which the Group is not an Originating ADI.
- Originated Assets: These refer to assets that were originally written by the Group and transferred to the SPV, or in the case of indirect origination, written directly by the SPV at the direction of the Group.
- Traditional Securitisations: Securitisations in which the pool of assets is assigned to a SPV, usually by a sale.
- Synthetic Securitisations: Securitisations in which the risk of the pool of assets is transferred to an SPV through a derivative, usually a credit default swap.

The Group's assessment and management of securitisation risk is required to comply with *Prudential Standard APS 120 Securitisation (APS 120).*

6.1 Third Party Securitisation

The Group may undertake any of the following roles in its third party securitisation activities:

Role	Definition
Arranger	Structurer of securitisation transactions.
Asset liquidity provider	Provider of liquidity facilities to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV.
Buyer of protection over assets	Entering into derivative transactions that provide credit protection over assets on the Group's balance sheet.
Dealer	Buyer and seller in the primary and secondary markets of securities.
Derivative provider	Counterparty to swaps and other derivative transactions, including interest rate and currency derivatives provided to securitisation SPVs and credit derivative transactions.
First loss provider	Principally for securitisation of the Group's own assets, the provider of credit enhancement that bears the first losses (if any) incurred by the securitised pool of assets.
Investor	Investor in asset-backed securities.
Letter of credit provider	Provider of credit enhancement to securitisation transactions.
Manager	Operator of securitisation SPVs, including managing assets and liabilities and providing accounting and administrative services.
Redraw provider	Provider of liquidity to cover redraws of underlying loans for residential mortgage-backed securitisation transactions
Securitisation funding facility provider	Lender to securitisation SPVs where the term of the funding extends beyond one year and may match the expected redemption date of the underlying security held by the SPV.
Security holder	Purchaser of securitisation debt securities for either trading or banking book purposes.
Sponsor	The entity that establishes the securitisation SPVs including ABCP conduits and often provides other services
Standby liquidity provider	Provider of liquidity facilities to an SPV to cover the inability of the SPV to roll over ABCP.
Warehouse facility provider	Provider of lending (warehouse) facilities to an SPV for the financing of exposures in a pool.

Structure and Organisation

The Principal Board approves risk appetite limits and periodically monitors and reviews the third party asset securitisation framework, management and reporting with guidance from the Wholesale Banking Risk Management Committee (Wholesale Banking RMC), the GRMC and the PBRC.

The Third Party Asset Securitisation Policy sets out how securitisation activity is governed and managed within the Group.

The Wholesale Banking Risk function is responsible for ensuring that securitisation activity is conducted within the approved limits and maintaining ongoing reporting and compliance.

Management

The Group's securitisation business has been segregated into an ongoing core client-based business managed as part of the Wholesale Banking portfolio and exposures managed by the Group's SGA portfolio. SGA exposures comprise "non-franchise" activities (largely Northern Hemisphere originated exposures) and are set for an orderly run-off by the Group.

Third party securitisation activities follow the Group's credit decision-making and oversight process. The Wholesale Banking Credit Risk function is responsible for independent credit decisions for securitisation transactions.

Expert knowledge specialists within the securitisation business work with customers, trustees and rating agencies to structure each transaction according to the requirements of Group policies, *APS 120* and the rating agencies. Approvals must be in accordance with the delegated commitment authority schedule.

Initial structuring and assessment includes an analysis of matters such as portfolio composition and quality, the level and type of credit enhancement, due diligence on the quality of the servicer of the assets, and specific structural enhancements such as trigger events.

Measurement

Securitisation exposures and RWA are measured in accordance with regulatory requirements outlined in *APS 120.* Key metrics include any external rating (if available), internal risk grading, the seniority of the exposure and the composition of the pool of securitised assets. The Group views securitisation exposures for facilities provided to securitisation transactions as "hold to maturity" exposures.

Depending on the asset class, the Group uses either the ratings-based approach, the internal assessment approach (IAA) or other *APS 120* methodologies, as approved by APRA, to calculate RWA for the portfolio. The IAA methodology is applied to the following asset classes:

- Residential mortgages
- Equipment receivables
- Auto loan receivables

The IAA approval also includes an additional risk weighting approach for unrated securitisation facilities to "non-IAA" asset classes that applies the higher (most conservative) risk weight of: (i) *APS 120* or *APS 112 standardised risk weights*, or (ii) *APS 120 IAA risk weights* based on the Group's internal assessments. The outcome is that for a majority of the non-IAA asset classes the standardised risk weights apply.

The Group predominately uses Standard & Poor's for rating securitisations for which the Group is an originating ADI. Moody's rates some term transactions and some ABCP programs for the Group. Fitch rates some term transactions.

Monitoring and Reporting

Finance and risk functions perform regular measurement and reporting around securitisation, including revenue, capital, asset and facility quality and exceptions (where credit or other limits are exceeded). Key elements of these reports are also provided to the various risk committees.

Accounting Treatment

In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty.

Interest and line fees received are treated as revenue in the period in which they are accrued. Arrangement fees are treated as revenue and recognised as revenue over the life of the securitisation transaction.

Most of these facilities fund NAB-sponsored securitisation SPVs which are consolidated by the Group. On consolidation the facilities are eliminated and the underlying liabilities and assets, including held to maturity investments in the SPVs, are brought onto the Group's balance sheet. Held to maturity investments are accounted for at amortised cost, net of any provision for impairment.

Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

This section provides information about assets that the Group manages as securitisations for third parties (clients) and for any retained exposure to assets securitised by the Group.

Table 6.1A: Total Securitisation Exposures

This table is the sum of tables 'Traditional Securitisation Exposures' (Table 6.1B) and 'Synthetic Securitisation Exposures' (Table 6.1C) on the following pages. It shows the amounts by facility and provides an indication of the relative extent to which the Group has exposure to each type of asset within the securitisation SPV. These tables do not provide information on Group assets that have been sold to securitisations.

	As at 30 Sep 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	9,609	60	-	1,210	1,915
Credit cards and other personal loans	-	-	-	47	-
Auto and equipment finance	154	-	-	23	-
CDOs/CLOs	600	-	-	-	1,528
Commercial loans	-	-	-	-	-
Commercial mortgages	54	-	-	-	587
Corporate bonds	-	-	-	-	714
Other	1,096	-	-	-	606
Total underlying asset	**11,513**	**60**	**-**	**1,280**	**5,350**

	As at 31 Mar 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	6,752	59	-	900	2,286
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	195	-	-	127	-
CDOs/CLOs	1,452	397	-	-	1,479
Commercial loans	-	61	-	-	-
Commercial mortgages	78	-	-	-	608
Corporate bonds	-	-	-	-	1,010
Other	921	-	-	-	600
Total underlying asset	**9,398**	**517**	**-**	**1,027**	**5,983**

Table 6.1B: Traditional Securitisation Exposures

Traditional securitisations are those in which the pool of assets is assigned to an SPV, usually by a sale. The table below shows the amounts by facility and provides an indication of the relative extent to which the Group has exposure.

	As at 30 Sep 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	9,609	60	-	1,210	1,915
Credit cards and other personal loans	-	-	-	47	-
Auto and equipment finance	154	-	-	23	-
CDOs/CLOs	-	-	-	-	1,528
Commercial loans	-	-	-	-	-
Commercial mortgages	54	-	-	-	587
Corporate bonds	-	-	-	-	714
Other	1,096	-	-	-	606
Total underlying asset	**10,913**	**60**	**-**	**1,280**	**5,350**

	As at 31 Mar 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	6,752	59	-	900	2,286
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	195	-	-	127	-
CDOs/CLOs	-	-	-	-	1,479
Commercial loans	-	61	-	-	-
Commercial mortgages	78	-	-	-	608
Corporate bonds	-	-	-	-	1,010
Other	921	-	-	-	600
Total underlying asset	**7,946**	**120**	**-**	**1,027**	**5,983**

Table 6.1C: Synthetic Securitisation Exposures

Synthetic securitisations are those in which the risk of the pool of assets is transferred to an SPV through a derivative, usually a credit default swap.

	As at 30 Sep 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
CDOs/CLOs	600	-	-	-	-
Commercial loans	-	-	-	-	-
Commercial mortgages	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**600**	**-**	**-**	**-**	**-**

	As at 31 Mar 11				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI			
		Directly originated assets	Indirectly originated assets	ABCP facilities provided	Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
CDOs/CLOs	1,452	397	-	-	-
Commercial loans	-	-	-	-	-
Commercial mortgages	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**1,452**	**397**	**-**	**-**	**-**

Table 6.1D: Type of Exposure

The table below breaks down the securitisation exposures by type of facility as defined in the Glossary.

	As at	
	30 Sep 11	31 Mar 11
	$m	$m
Securitisation exposure type		
Liquidity facilities	1,597	1,218
Warehouse facilities	11,695	10,961
Credit enhancements	-	61
Derivative transactions	133	185
Securities	278	38
Credit derivatives transactions	600	1,452
Other	3,934	3,026
Total securitisation exposures	**18,237**	**16,941**

Table 6.1E: New Facilities Provided

The table below shows new securitisation facilities provided in the six months to 30 September 2011.

	6 months ended 30 Sep 11	6 months ended 31 Mar 11
	Notional amount of facilities provided	
	$m	$m
Securitisation exposure type		
Liquidity facilities	133	22
Warehouse facilities	1,949	263
Credit enhancements	-	-
Derivative transactions	14	137
Securities	231	-
Credit derivatives transactions	-	-
Other	1,347	1,211
Total new facilities provided	**3,674**	**1,633**

Table 6.1F: Exposures by Risk Weight

This table shows the risk weights for securitisation exposures as calculated under APS 120, predominately using the Internal Assessment Approach.

	As at 30 Sep 11		As at 31 Mar 11	
	Exposure	RWA	Exposure	RWA
	$m	$m	$m	$m
Risk weight bands				
≤10%	8,027	563	7,149	514
> 10% ≤ 25%	5,801	862	4,205	640
> 25% ≤ 35%	172	59	236	82
> 35% ≤ 50%	915	459	972	486
> 50% ≤ 75%	411	298	349	250
> 75% ≤ 100%	1,547	1,547	1,769	1,769
> 100% ≤ 650%	1,190	5,261	2,041	6,468
Deductions	140	-	204	-
Total securitisation exposures	**18,203**	**9,049**	**16,925**	**10,209**

Table 6.1G: Exposures Deducted from Capital

The table below shows securitisation exposures that have been deducted from capital, divided into those that relate to securitisations of Group assets and other securitisations.

	As at 30 Sep 11						
	Deductions relating to ADI-originated assets securitised					Deductions relating to other securitisation exposures	Total
	Residential mortgage	Credit cards and other personal loans	Auto and equipment finance	Commercial loans	Other		
	$m	$m	$m	$m	$m	$m	$m
Securitisation exposures deducted from capital [(1)]							
Deductions from Tier 1 capital	-	-	-	-	-	70	70
Deductions from Tier 2 capital	-	-	-	-	-	70	70
Total securitisation exposures deducted from capital	**-**	**-**	**-**	**-**	**-**	**140**	**140**

(1) *These exposures fall into three categories:*
- *Exposures that have an internal rating below an equivalent Standard & Poor's rating of BB- or are unrated (deducted 50/50 from Tier 1 and Tier 2 capital).*
- *First loss facilities (deducted 50/50 from Tier 1 and Tier 2 capital).*
- *Capitalised securitisation start up costs (deducted from Tier 1 capital).*

All exposures are net of specific provisions.

	As at 31 Mar 11						
	Deductions relating to ADI-originated assets securitised					Deductions relating to other securitisation exposures	Total
	Residential mortgage	Credit cards and other personal loans	Auto and equipment finance	Commercial loans	Other		
	$m	$m	$m	$m	$m	$m	$m
Securitisation exposures deducted from capital							
Deductions from Tier 1 capital	-	-	-	30	-	72	102
Deductions from Tier 2 capital	-	-	-	30	-	72	102
Total securitisation exposures deducted from capital	**-**	**-**	**-**	**60**	**-**	**144**	**204**

6.2 Group Owned Securitised Assets

The Group securitises its own assets for funding, liquidity risk and capital management purposes.

In doing this, the Group acts as the originator and seller of assets from the Group's balance sheet. This includes responsibility for collecting interest and principal on the securitised assets. The Group may or may not retain an exposure to securitisation special purpose vehicles (SPVs) to which the Group has sold assets. It may also undertake the role of managing the securitisation, or of providing facilities for the securitisation (including credit enhancements, liquidity and funding facilities) which are outlined in *Section 6.1 Third Party Securitisation*.

This section does not include information about the Group's internal securitisation pools of residential mortgage-backed securities. These securities have been developed as a source of contingent liquidity to further support the Group's liquid asset holdings outlined in *Section 9.1 Funding and Liquidity Risk*. The amount of these securitised assets is $21 billion as at 30 September 2011.

Structure and Organisation

GALCO and subsidiary Asset and Liability Committees (subsidiary ALCOs) are responsible for the oversight of management's performance, and of the compliance and governance frameworks around balance sheet risks, including owned asset securitisation.

The Group Owned Asset Securitisation Policy sets out the principles and control framework for owned asset securitisation. It applies to traditional securitisation, synthetic securitisation, and combinations of the two.

The risk appetite for owned asset securitisation is reviewed annually and is set as part of the Group Annual Funding Plan, approved by the Board.

Management

Securitisation exposures, risks and capital must comply with the requirements outlined in *APS 120*. Compliance with the requirements of *APS120* is achieved through ensuring that the Group:

- deals with the SPV and its investors on an arm's length basis and on market terms and conditions;
- clearly discloses the nature and limitations of its involvement in a securitisation; and
- takes the necessary precautions to ensure that the Group does not give the perception that it will support a securitisation that is in excess of its explicit contractual obligations (i.e. implicit support).

Group and subsidiary Treasuries have responsibility for the management of owned asset securitisation, including:

- securitisation strategy and plan development, incorporating the setting of funding indices and securitisation targets (forming part of the Annual Funding Plan);
- execution of securitisation transactions; and
- ongoing management of securitisation transactions.

At the Group level, Group Treasury is also responsible for the oversight of securitisation plans and strategies, and for ensuring that activities across the Group are coordinated and Group objectives are achieved.

Non-Traded Market Risk is responsible for the independent oversight of securitisation execution and management conducted by Group and Subsidiary Treasuries, monitoring securitisation activity to ensure it is conducted within the requirements of the Group's securitisation framework.

Measurement

The Group's measurement framework for own asset securitisation is consistent with the framework outlined in *Section 6.1 Third Party Securitisation*. Business unit finance and risk functions perform regular measurement and reporting around owned asset securitisation, including the impact to capital, provisioning, outstanding issuance and run-off. Clydesdale Bank PLC is also governed by local regulatory requirements and reports own asset securitisation to the FSA using local regulatory methodology.

Monitoring and Reporting

Internal management reporting is conducted monthly including pool performance for each securitisation transaction and funding plan updates to GALCO and subsidiary ALCOs. In addition, periodic external reporting is conducted, including investor, regulatory, rating agency and financial reporting.

Any key issues arising are also presented to the GRMC and PBRC each month via the GCRO report.

Accounting Treatment

Through its loan securitisation program, the Group packages and sells loans (principally housing mortgage loans) as securities to investors through a series of securitisation vehicles. The Group is entitled to any residual income of the vehicles after all payments to investors and costs of the program have been met. The Group is considered to hold the majority of the residual risks and benefits within the vehicles and all relevant financial assets continue to be held on the Group balance sheet. A liability is recognised for the proceeds of the funding transaction.

Table 6.2A: Assets Securitised by the Group

This table shows the classes of assets that have been securitised by the Group.

	As at 30 Sep 11				
	Total outstanding exposures securitised assets originated by ADI		Impaired assets relating to exposures securitised	Total past due assets from exposures securitised	ADI recognised loss from exposures securitised
	Traditional	Synthetic			
	$m	$m	$m	$m	$m
Underlying asset [(1)]					
Residential mortgage	1,044	-	4	2	-
Credit cards	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**1,044**	**-**	**4**	**2**	**-**

[(1)] *The definition of impaired and past due assets are consistent with the definitions provided in the Glossary of this report.*

	As at 31 Mar 11				
	Total outstanding exposures securitised assets originated by ADI		Impaired assets relating to exposures securitised	Total past due assets from exposures securitised	ADI recognised loss from exposures securitised
	Traditional	Synthetic			
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	4,161	-	17	42	-
Credit cards	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	1,557	-	-	-
Other	-	-	-	-	-
Total underlying asset	**4,161**	**1,557**	**17**	**42**	**-**

Table 6.2B: Recent Securitisation Activity

This table shows the amount of assets sold by the Group to securitisation SPVs and any gain or loss on sale.

	6 months ended 30 Sep 11			6 months ended 31 Mar 11		
	Amount securitised during period directly originated	Amount securitised during period indirectly originated	Recognised gain or loss on sale	Amount securitised during period directly originated	Amount securitised during period indirectly originated	Recognised gain or loss on sale
	$m	$m	$m	$m	$m	$m
Underlying asset						
Residential mortgage	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**-**	**-**	**-**	**-**	**-**	**-**

Disclosure 6.2C: Securitisation Subject to Early Amortisation

Attachment G of *APS 120* provides for specific regulatory treatment for securitisations of certain types of assets. As at September 2011 and 31 March 2011, none of these securitisations have been undertaken by the Group.

7. Market Risk

Introduction

The Group makes a distinction between traded and non-traded market risks for the purpose of managing market risk. This section relates to traded-market risk. Non-traded market risk is discussed in *Section 9 Non-Traded Market Risk*.

The Group undertakes trading activities to support its clients and to profit in the short term from differences in market factors, such as interest rates, foreign exchange rates, commodity prices, equity prices and credit spreads. Traded market risk is the potential for losses to arise from trading activities undertaken by the Group as a result of adverse movement in market prices.

The Group's exposure to market risk arises out of its trading activities which are principally carried out by Wholesale Banking (WB) Fixed Income, Currencies & Commodities (FICC) and BNZ. This exposure is quantified for regulatory capital purposes using both the APRA-approved internal model approach and the standard method, details of which are provided below.

Clydesdale Bank PLC and Great Western Bank do not have trading books. Clydesdale Bank PLC offers a range of treasury risk management products to its customers to assist with the customers' management of interest rate risk and foreign exchange risk. Any market risk associated with treasury risk management products offered by Clydesdale Bank PLC is managed by NAB so that, other than immaterial positions, market risk positions are not held on Clydesdale Bank PLC's balance sheet. Great Western Bank does not offer treasury risk management products.

Structure and Organisation

The Group's risk appetite in relation to market risk is determined by the Board and is expressed in the Group Risk Appetite Statement Policies and limit framework.

Market risk policies and procedures provide direction and a framework for the monitoring, oversight and governance of traded market risk. This includes articulating approved risk appetite limits and risk metrics, approved products for exposure management, delegated authorities, risk measurement, and reporting and control standards.

The PBRC, GRMC and the WB RMC oversee market risk activities by monitoring key indicators, such as Value at Risk (VaR), back-testing exceptions, limit breaches and actions taken, and significant market risk events.

The WB Market Risk Subcommittee (WB MRSC) monitors the Group-wide market risk profile and exposures. It provides recommendations on policies, models and risk appetite. It also escalates market risk issues to these committees as necessary.

Management

Market Risk is an independent unit, separate from the trading activities units, with responsibility for the daily measurement and monitoring of market risk exposures. Key market risk measurement and monitoring limits are outlined in the following paragraphs.

VaR estimates the likelihood that a given portfolio's losses will exceed a certain amount. The Group uses VaR estimates for both regulatory capital calculation in accordance with *APS 116*, and for internal risk control purposes.

The Group is accredited by APRA to use a historical simulation model to simulate the daily change in market factors. VaR is calculated for all trades on an individual basis using a full revaluation approach. For capital purposes, VaR for products modelled using the Internal Model is calculated in Australian dollars on a globally diversified basis in accordance with the following parameters:

- Confidence Level - 99 per cent one tail;
- Holding Period - 10 days (1 day VaR scaled by square root of time); and
- Observation Period - 550 days (unweighted, updated daily).

VaR limits are assigned to regions and individual desks based on a Board approved delegation process (note, with the move towards a globally managed Markets business strategy, limits by business unit, subdivided by region if necessary, are permitted as an alternative to regional limits).

Market Risk monitors positions daily against the relevant limits and escalates any breaches in accordance with policy and procedures. Additionally, Market Risk performs extensive portfolio analysis to assess the validity of the VaR numbers when compared to the underlying trading exposures and to escalate any anomalies that may arise. Results of the portfolio analyses are communicated to senior management within both WB FICC and the WB Market Risk teams.

Extreme Event Risk (stress testing) is carried out daily to test the profit and loss implications of extreme, but plausible, market movement scenarios, and also to reveal hidden sensitivities in the portfolio that only become transparent when modelling very severe market moves.

Stop Loss Limits represent trigger points at which an overnight or accumulated loss incurred by a trading desk would lead to escalation in accordance with agreed procedures.

Sensitivity and Position Limits are established to more comprehensively control market risk, and are monitored at a desk level intra-day by Market Risk.

Desk heads are responsible for managing risk, in order to deliver profits, while ensuring compliance with all limits and policies.

Measurement

As detailed in the following table the Group uses both the Standard Method and the Internal Model Approach (IMA) for measuring traded market risk. There are two types of market risk measures related to regulatory capital:

- general market risk which is related to changes in the overall market prices; and
- specific market risk which is related to changes for the specific issuer.

In accordance with *APS 110*, the RWA equivalent for traded market risk using the IMA is the capital requirement multiplied by 12.5.

	Standard Method	Internal Model Approach
Calculation	As per *APS 116 Attachment B*	Internally developed VaR calculation
General Market Risk	Equities, carbon trading, FX Risk in the Banking Book and some CPI-linked instruments	Foreign Exchange, Commodities, Credit, Interest Rate, Consumer Price Index Swaps and Retail Price Index Swaps
Specific Market Risk	All applicable products	

Table 7.1A: Standard Method Risk-Weighted Assets

	As at	
	30 Sep 11	31 Mar 11
	$m	$m
Risk-Weighted Assets		
Interest rate risk	1,488	1,674
Equity position risk	79	3
Foreign exchange risk	150	217
Commodity risk	-	37
Total risk-weighted assets - standard method	**1,717**	**1,931**

Table 7.1B: Total Risk-Weighted Assets

	As at	
	30 Sep 11	31 Mar 11
	$m	$m
Market risk		
Standard method	1,717	1,931
Internal model approach	1,251	1,228
Total market risk RWA	**2,968**	**3,159**

Table 7.1C: Internal Model Approach Value at Risk

The following table provides information on the high, mean and low value at risk (VaR) over the reporting period and at period end.

	6 months ended 30 Sep 11			As at
	Mean value	Minimum value	Maximum value	30 Sep 11
	$m	$m	$m	$m
Value at risk at a 99% confidence level [(1)]				
Foreign exchange risk	2	-	6	2
Interest rate risk	6	4	12	5
Volatility risk	1	1	2	1
Commodities risk	1	-	2	-
Credit risk	8	5	10	9
Inflation risk	-	-	1	-
Diversification benefit	(8)	n/a	n/a	(9)
Total value at risk for physical and derivative positions	**10**	**7**	**16**	**8**

(1) *The maxima / minima by risk types are likely to occur during different days in the period. As such, the sum of these figures will not equal the total maximum/ minimum VaR which is the maximum/ minimum aggregate VaR position during the period.*

	6 months ended 31 Mar 11			As at 31 Mar 11
	Mean value $m	Minimum value $m	Maximum value $m	$m
Value at risk at a 99% confidence level				
Foreign exchange risk	3	1	7	2
Interest rate risk	9	5	15	10
Volatility risk	1	1	2	1
Commodities risk	1	-	2	1
Credit risk	7	4	9	6
Inflation risk	1	-	1	-
Diversification benefit	(10)	n/a	n/a	(8)
Total value at risk for physical and derivative positions	12	7	23	12

Monitoring and Reporting

VaR estimates are back-tested for reasonableness on a daily basis. Back-testing is a process that compares the Group's daily VaR estimates against both theoretical and actual daily profit and loss to ensure that model integrity is maintained.

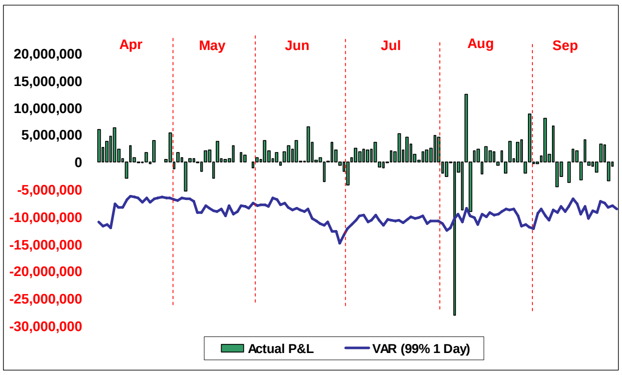
The results of back-testing are reported to senior management, risk committees and the regulators. In addition to back-testing, the risk measurement model and all pricing models are subject to periodical reviews and independent validation at frequencies specified by the Group Model Risk Policy.

Table 7.1D: Back-testing Results

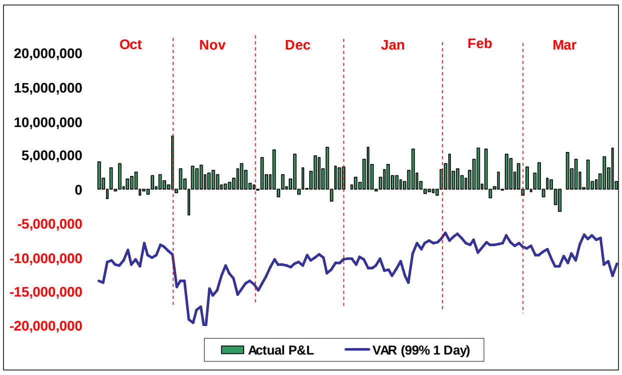
Comparison of value at risk estimates to actual gains/losses	6 months ended 30 Sep 11	6 months ended 31 Mar 11
Number of "outliers" incurred for the trading portfolio	2	-

The following graph compares the Group's daily VaR estimates against actual profit and loss.

6 months ended 30 Sep 11



6 months ended 31 Mar 11



Back-testing Outliers

Back-testing, carried out by comparing the Group's daily VaR estimate against actual P&L numbers, identified two exceptions during the six month period to 30 September 2011. This remains within the model parameters and indicates acceptable operation of the VaR model within APRA's Guidelines.

8. Operational Risk

Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk, but excludes strategic risk and reputational risk.

The primary objective for the management of operational risk is to ensure that where operational risk exists, it is identified, assessed and mitigated to acceptable levels, and at the same time, allowing for the achievement of business and strategic objectives.

Structure and Organisation

The PBRC, on the recommendation of the GRMC, is responsible for approving and/or endorsing the:

- Group Operational Risk Framework (GORF)
- Group Operational Risk Appetite Statement
- Operational Risk Capital Calculation Model

The Group's Risk Governance structure provides the Board and PBRC with the assurance in the performance of the overall risk management framework. This is primarily achieved through Group Operational Risk (GOR) which provides the Board, PBRC, GRMC and Risk Leadership Team (RLT) with the information required to manage these responsibilities.

This flow of information ultimately allows the Board to discharge its responsibilities for managing the Group's operational risk exposures.

Management

GOR provides the framework, policies, process and tools for the business to use in the identification, assessment, mitigation, monitoring and reporting of operational risks.

The implementation of the GORF leads to:

- All staff taking responsibility and ownership for managing the Operational Risk inherent in their day-to-day activities.
- Promoting and embedding a risk conscious culture and behaviour throughout the Group.
- Consistency in the identification, assessment, mitigation, monitoring and reporting of operational risk.
- Proactive identification and management of operational risks and events to contain: direct and indirect financial loss, disruption to business processes, and non-financial impacts including regulatory, reputation, customer and management remediation.
- Credible estimates of Operational Risk Capital that reflects the Operational Risk Profile of the Group.
- Risk-reward decisions being made on an informed basis, considering Risk Appetite and the Capital implications, thereby enhancing Operational Risk awareness and/or acceptance of Operational Risks.

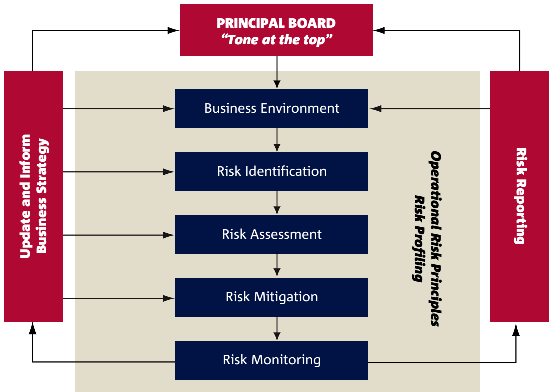
Risk culture and behaviour is paramount to the effective management of risk. When individuals at all levels of the Group are aware of the risks (in standard and non-standard activities) and expectations on how to manage them within agreed appetite, a strong risk culture is evident.

The Group creates a risk conscious environment through promoting an operational risk culture:

- of effective integration of operational risk management into day-to-day business decisions;
- where thought, risk-awareness and questioning are supported (including the exercise of appropriate judgement in the identification and management of risk); and
- of compliance, not only within the strict parameters of the law, delegated authorities and other compliance requirements, but also extending to doing what is right.

The GORF applies to all entities within the Group, as represented pictorially below, including any outsourced services undertaken on behalf of any business within the Group.

The Group's Operational Risk Framework



GOR Policies define the principles, minimum standards and key components for the management of operational risk throughout the Group.

GOR Processes have been developed to enhance policy and support the GORF. These include:

- Group Event Management Process
- Group Risk Profiling Process
- Group Change Assessment Process
- Group Business Continuity Management Process
- Operational Risk Capital Calculation Reference Manual

New policies and processes are developed when there is a critical need to manage a specific risk area.

Measurement

The Group has been accredited to use its internal operational risk models and processes to determine regulatory capital for its Australian, New Zealand and Wholesale Banking operations. The Group uses APRA's standardised approach for Clydesdale Bank PLC and Great Western Bank. These businesses will move to advanced accreditation for operational risk at a time agreed with APRA and the supervisors in the respective jurisdictions.

The Group's Advanced Measurement Approach (AMA) calculation of regulatory capital for operational risk uses data captured from:

- historical internal loss data which is representative of the Group's operational loss profile; and
- scenario analysis data received from business and risk management professionals which considers potential extreme events faced by the Group, relevant data from losses incurred by other financial institutions and factors reflecting the business environment and internal control.

The Operational Risk Capital Calculation Model is illustrated below as an end-to-end capital allocation process.

Calculation of Operational Risk Capital

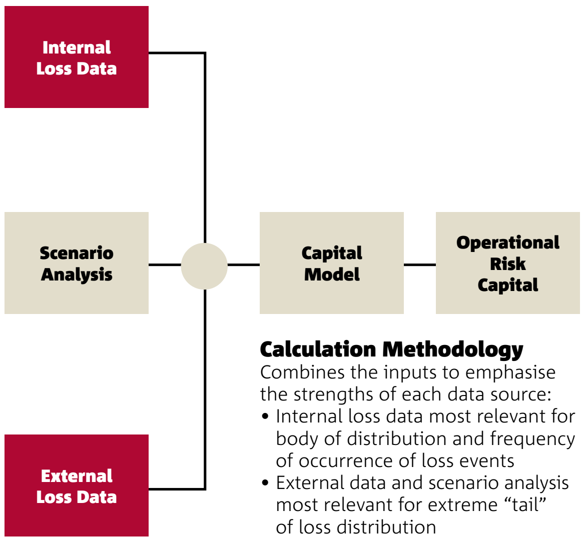


Table 8A: Total Risk-Weighted Assets

	As at 30 Sep 11 $m	As at 31 Mar 11 $m
Operational risk		
Standardised approach	4,274	4,065
Advanced measurement approach	17,981	17,797
Total operational risk RWA	22,255	21,862

Monitoring and Reporting

The success of the operational risk management processes is determined by the ability of management to articulate and consistently demonstrate behaviours that promote a strong risk awareness and culture throughout the Group.

GOR provides monthly reporting on significant loss events, emerging issues, change initiatives, oversight, monitoring, and review activity. This information is included in the Group CRO report which is provided to the GRMC and PBRC.

At times, the RLT and Risk committees may also request GOR to report on topics of operational risk such as Business Continuity Management (BCM) and physical security. GOR may also chose or be requested to undertake a deep dive review or provide analysis on a particular emerging issue or environmental theme. Findings are reported to the requestor and, if material, escalated up through the risk committee structure.

Risk Mitigation through Insurance

A key strategy to mitigate operational risk exposure at a consolidated Group level is the Group's insurance program. The GOR function maintains and monitors the Group's insurance program and ensures that it aligns with the Group's current and projected operational risk exposures. The quantitative modelling and measurement of the Group's operational risk profile forms a significant input into the design of the Group's insurance cover.

The regulatory capital measure for operational risk does not include any adjustment for insurance.

Regulatory and Compliance Management

The Group is committed to complying with all applicable laws, regulations, licences, codes and rules, and to building constructive regulatory relationships.

The Group is regulated in all jurisdictions in which it operates and each of the Group's businesses, Boards and governance structures are subject to extensive regulatory and compliance requirements. Accordingly, the Group has in place dedicated frameworks and policies that are designed to ensure the effective management of regulatory and compliance obligations across the Group.

9. Non-Traded Market Risk

Non-traded market risk is primarily concerned with the management of various structural risks within the Group's balance sheet. Non-traded market risk arises from the Group's banking book activity and includes capital risk, owned asset securitisation risk, non-traded equity risk, interest rate risk, funding risk, liquidity risk and foreign exchange risk.

Structure and Organisation

The Board approved risk appetite limits are outlined in the Non-Traded Market Risk policies, which collectively provide direction for the management, measurement, monitoring and reporting of non-traded market risks.

The PBRC receives regular reporting on balance sheet management activities, along with monthly reporting of non-traded market risk compliance and activity.

The GALCO and subsidiary ALCOs review risk management strategies, compliance with risk limits and controls and remedial action undertaken for limit breaches. They approve policies and models relating to balance sheet and non-traded market risks.

With the exception of non-traded equity risk, Group and relevant subsidiary Treasuries are responsible for the management of non-traded market risks. For non-traded equity risk, individual business lines that have been allocated equity risk limits are responsible for managing their risk exposures.

GNTMR and the regional Non-Traded Market Risk teams (NTMR) provide independent operational oversight over the non-traded market risk framework. GNTMR is the owner of the Non Traded Market Risk policies and the APRA-approved models used to meet regulatory requirements.

Further information on the management of non-traded market risk is included in the following sections of this report: *Section 4.1 Capital Adequacy*, *Section 6.2 Group Owned Securitised Assets*, *Section 9.1 Funding and Liquidity Risk*, *Section 9.2 Interest Rate Risk in the Banking Book*, *Section 9.3 Equities Banking Book Position* and *Section 9.4 Foreign Exchange Risk in the Banking Book*.

9.1 Funding and Liquidity Risk

Introduction

Liquidity risk is the risk of the Group being unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and taxes, the payment of dividends to shareholders, and the ability to fund the NAB Group's strategic plan and growth initiatives.

Funding risk is the risk arising due to change in appetite and capacity of the market to provide adequate long-term and short-term funds to meet the Group's strategic plans and objectives at an acceptable cost. This includes the risk of over-reliance on any source of funding to the extent that a lack of diversified funding sources jeopardises the Group's ability to raise funds at acceptable costs under adverse business conditions.

The objectives of the Group in managing its funding and liquidity risks are:

- to ensure that the current and future payment obligations of the Group are met as they become due;
- to retain adequate liquidity buffers in the Group and regional balance sheets so as to withstand severe market and institutional disruptions;
- to meet planned business funding needs over a three-year forward horizon;
- to maintain access to global short-term and long-term debt capital markets consistent with the target credit ratings of the Group and its subsidiaries; and
- to diversify funding sources in terms of maturity, currency, instrument, investor type, geographic region and by the issuing entity.

Management

Target funding indices are set by the GALCO at both Group and subsidiary levels, and communicated for approval by the Board in the Annual Funding Plan. The target indices determine the split between retail funding and wholesale term funding.

The Annual Funding Plan outlines the Group's funding strategy and targets for a three-year period. In addition the plan outlines the key funding and liquidity metrics which Treasury manage towards, including a wholesale refinancing and cash flows days' positive target.

The Group Liquidity Policy and Group Funding Policy detail the Board's risk appetite and guiding principles regarding liquidity and funding. In addition, they define the framework to ensure that the Group can meet its current and future payment obligations as they become due under diverse operating scenarios and the framework to ensure that Group and subsidiary balance sheet management practices do not introduce unacceptable levels of funding risk.

Group and relevant subsidiary Treasuries are responsible for managing funding and liquidity risk for the Group. This includes the development and execution of liquidity and funding strategies consistent with the Annual Funding Plan, mandates and limits in place.

Group and regional NTMR teams are independent of Treasury and are responsible for liquidity and funding risk measurement and monitoring, developing and maintaining systems and models to support monitoring, and reporting of liquidity and funding compliance against limits.

Measurement

Liquidity risk is measured, managed and monitored on a cash flow basis, using appropriate scenario analysis, gap analysis and stress testing, and addresses all regulatory requirements. Key scenarios include going concern and name crisis scenarios.

Although managed on an individual currency basis, operational liquidity is measured and reported in accordance with cumulative cash flow mismatch limits. Mismatch limits are set as a percentage of total liabilities and are established (with some minor exceptions) for defined time buckets and scenarios. Concentration levels of funding sources, investor base and maturity terms are also monitored to avoid excessive concentration.

Monitoring and Reporting

Funding and liquidity risk are measured and monitored on a daily basis, with any non-compliance escalated to the GALCO and Group CRO. Monthly results are reported to Group and subsidiary ALCOs, GRMC and PBRC. The Group has clearly defined escalation procedures whereby liquidity events, both systemic and name specific, are monitored and appropriate actions outlined against triggers.

9.2 Interest Rate Risk in the Banking Book

Introduction

Interest Rate Risk in the Banking Book (IRRBB) arises from changes in market interest rates that adversely impact the Group's financial condition in terms of earnings (net interest income) or economic value of the balance sheet. This includes:

- Repricing Risk, arising from changes to the overall level of interest rates and inherent mismatches in the repricing term of banking book items.
- Yield Curve Risk, arising from a change in the relative level of interest rates for different tenors and changes in the slope or shape of the yield curve.
- Basis Risk, arising from differences between the actual and expected interest margins on banking book items over the implied cost of funds of those items.
- Optionality Risk, arising from the existence of stand-alone or embedded options in banking book items, to the extent that the potential for those losses is not included in the above risk types.

The objective of the Group's framework is to ensure that IRRBB is managed to optimise and stabilise the Group's economic value and earnings over an investment horizon.

Management

The Board approves the risk appetite for IRRBB, and sets the overall limits for Value at Risk (VaR) and Earnings at Risk (EaR).

The key elements of the management framework for IRRBB include:

- The Group Interest Rate Risk in the Banking Book Policy defines the compliance and management framework to ensure that all interest rate risk positions in the banking book are identified, measured, managed and reported, and is aligned to the requirements of *APS117*.
- Group and subsidiary Treasuries are responsible for managing the interest rate risk profile of the balance sheet in line with the approved risk appetite. This includes development and execution of interest rate risk management strategies.
- Funds Transfer Pricing (FTP) is a mechanism in place to transfer interest rate risk out of originating business units and into the Treasury functions for the management of interest rate risk.
- Group and regional NTMR teams are responsible for IRRBB monitoring and are independent of Treasury. They maintain a risk framework for IRRBB, the systems and model for IRRBB measurement, and have responsibility for IRRBB measurement of exposures, compliance monitoring and reporting.
- Periodic reporting to management and governance committees of IRRBB exposures and compliance.

Measurement

The Group has been accredited by APRA to use its internal model for the measurement of IRRBB. Interest rate risk is measured, managed and monitored using both the valuation approach and the earnings approach.

The principal metrics used to measure and monitor IRRBB are as follows:

Measurement	Definition
VaR	The potential loss in economic value implied by the static balance sheet that arises from changes to the current yield curve based upon historical observations for a given holding period and confidence level.
EaR	The potential loss in earnings implied by the static balance sheet over a 12-month forecast period, that arises from changes in the current yield curve based on historical observations for a given holding period and confidence level.
Market Value	The present value of all known future cash flows implied by the static balance sheet on both a spot and historically cumulative basis.
Embedded Value	The economic gain or loss implied by the static balance sheet which equates to the market value less the book value, less accrued interest.
Economic Value Sensitivity (EVS)	The potential impact of a one basis point parallel decrease in interest rates on the present value of all known future cash flows implied by the static balance sheet.
Net Interest Income Sensitivity (NIIS)	The potential impact of a one basis point parallel decrease in interest rates on the earnings over a 12-month forecast period implied by the static balance sheet.

VaR and EaR are measured with a three-month holding period and 99% confidence level for internal reporting purposes.

To complement these static measures, a series of stress tests are also modelled, measuring the impact of large parallel and non-parallel yield curve shocks.

The Group incorporates behavioural modelling where contractual-based modelling is inappropriate for measuring IRRBB, such as for prepayments, non-bearing interest accounts, rate locks and fundamental Tier 1 capital. Any changes to the assumptions require subsidiary ALCO or GALCO approval.

IRRBB regulatory capital includes a value for repricing and yield curve risk, basis risk, optionality risk and embedded value. The components of IRRBB regulatory capital are calculated using a historical VaR simulation using at least eight years of historical data at a 99% confidence level, one-year investment term of capital, and a 12-month holding period.

Monitoring and Reporting

The IRRBB metrics are measured and monitored on a monthly basis as a minimum. Compliance with limits is reported to subsidiary ALCOs, GALCO, GRMC and PBRC on a monthly basis. IRRBB regulatory capital is also calculated monthly.

Table 9.2A: Interest Rate Risk in the Banking Book

This table provides the increase or decrease in economic value for upward and downward rate shocks broken down by currency.

	As at 30 Sep 11		As at 31 Mar 11	
	200 bp parallel increase $m	200 bp parallel decrease $m	200 bp parallel increase $m	200 bp parallel decrease $m
Change in economic value [(1)]				
AUD	56	(46)	122	(115)
CAD	-	-	-	-
CHF	-	-	-	-
EUR	(4)	5	(27)	28
GBP	3	4	(61)	68
HKD	1	(1)	2	(1)
JPY	(1)	1	(1)	1
NZD	(12)	13	68	(70)
SGD	-	-	-	-
USD	(10)	10	(19)	19
Other	6	(6)	-	-
Total change in economic value	**39**	**(20)**	**84**	**(70)**

(1) *The Group's 10 major currencies are modelled on an individual basis. The remaining immaterial currencies are aggregated and modelled using a single yield curve. The 200 basis point interest rate shock results include earnings offset.*

Table 9.2B: Total Risk-Weighted Assets

	As at 30 Sep 11 $m	As at 31 Mar 11 $m
IRRBB risk-weighted assets	7,198	8,565

9.3 Equities Banking Book Position

Introduction

Non-traded equity risk refers to the direct loss that may be incurred as a result of reduction in the fair value of an equity investment in the Group's banking book. Fair value represents mark-to-market valuations derived from market prices or independent valuation and methodologies.

The objective of the Group in managing non-traded equity risk is to protect the value of equity investments over the long term and to create value within an approved risk appetite. Key strategies include:

- strategic investments
- capital gains
- distressed debt management (eg Debt for Equity swaps)

Management

Equity risk appetite limits are reflected in the Group Risk Appetite Statement and the Group Non Traded Equity Risk Policy and supporting Guidance Notes. The policy and guidance notes define the compliance and management framework in relation to undertaking, measurement, monitoring and reporting equity investments outside of the Trading Book. They apply to both direct equity investments and equity underwriting activities.

Business units with a non-traded equity risk limit are responsible for managing equity risk in line with the requirements of the non-traded equity risk framework. Business units and embedded review committees are responsible for monitoring of, and compliance with, all material risks, and ensuring that all commercial and risk aspects of the transactions are addressed.

GNTMR is responsible for maintaining independent oversight of the non-traded equity risk framework, including independent review of proposed equity transactions for compliance under the equity risk delegated authority, oversight of the periodic valuation and impairment assessments of investments, and monitoring and reporting of equity investment against limits.

Measurement

In line with Group Accounting Policy, changes in the value of equity investments in the banking book are recognised in profit and loss, or equity reserve accounts based on their accounting classification. For equities with liquid markets and observable market value, market data is used to provide fair valuation. For equities where no observable market data is available, a valuation is provided by the business with oversight provided by the Equity Revaluation Committee.

Monitoring and Reporting

Monthly reports are provided to senior management and risk committees. The overall monitoring and reporting framework is shown below.

Monitoring and Reporting Framework

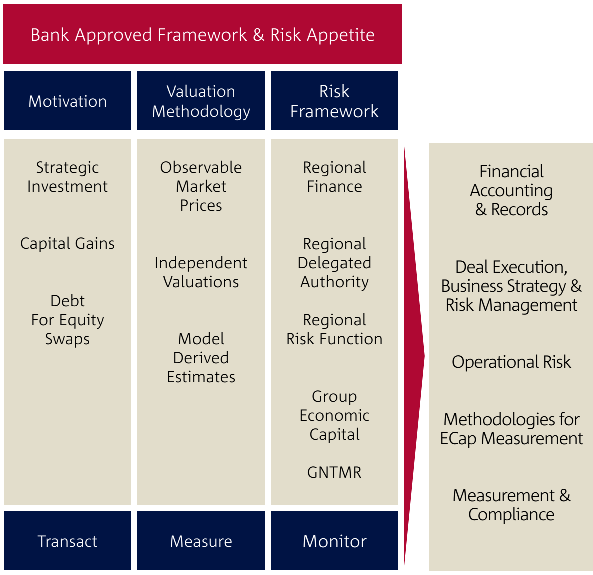


Table 9.3A: Equities Banking Book Position

This table provides the value of investments disclosed in the balance sheet, as well as the fair value of those investments.

	As at 30 Sep 11		As at 31 Mar 11	
	Carrying value (1)	Fair value (2)	Carrying value	Fair value
	$m	$m	$m	$m
Total listed equities (publicly traded)	55	55	56	56
Total unlisted equities	446	446	343	343

(1) *Carrying value as recorded in the Balance Sheet, in accordance with accounting standards.*

(2) *The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, fair value is established by using a valuation technique.*

Table 9.3B: Gains and Losses on Equity Investments

This table provides the realised (actual) gains/losses arising from sales and liquidations in the reporting period recognised through the profit and loss account. Unrealised (expected) gains/losses included in Tier 1 and Tier 2 capital are gains/losses recognised in the balance sheet but not through the profit and loss account.

	6 months ended	
	30 Sep 11	31 Mar 11
	$m	$m
Gains (losses) on equity investments		
Cumulative realised gains (losses) in reporting period	39	5
Total unrealised gains (losses)	20	10
Total unrealised gains (losses) included in Tier 1/Tier 2 capital	9	4

Table 9.3C: Risk-Weighted Assets by Equity Asset Class

This table shows RWAs by equity asset class. Equity investments subject to a 300% risk-weight are those exposures that fall within the equity IRB asset class that are not deducted from capital and that are listed on a recognised exchange. Equity investments subject to a 400% risk-weight are those exposures that fall within the equity IRB asset class that are not deducted from capital and that are not listed on a recognised exchange.

	As at	
	30 Sep 11	31 Mar 11
	$m	$m
Risk-weighted Assets		
Equities subject to 300% RW	166	167
Equities subject to 400% RW	1,783	1,374
Total risk-weighted assets	**1,949**	**1,541**

Disclosure 9.3D: Equity Investments Subject to Grandfathering Provision

The Group does not have any equity investments that are subject to grandfathering provisions.

9.4 Foreign Exchange Risk in the Banking Book

The Group's banking book has exposure to risk arising from currency movements as a result of participation in the global financial markets and international operations. Foreign Exchange Risk in the Banking Book (FXRBB) arises from both operating business activities and structural foreign exchange exposures from foreign investments and capital management activities. Currency movements can impact profit and loss, cash flows and the balance sheet.

The Group's objective in relation to foreign exchange risk is to protect the Group's capital ratio from the impact of currency movements, and to manage non-structural Foreign Exchange risk within risk appetite. The Group's main structural Foreign Exchange exposures are due to its investment in BNZ and Clydesdale Bank.

The Board approves the risk appetite for FXRBB, setting the overall VaR limit. In addition, with guidance from the PBRC, it monitors and reviews the adequacy of the Group's foreign exchange risk compliance and management framework developed by management.

The key elements of the management framework for FXRBB include:

- The Group Foreign Exchange Risk in the Banking Book Policy and supporting Guidance Notes define the compliance and management framework to ensure all Foreign Exchange positions (both structural and non-structural) in the banking book are identified, measured, managed and reported.
- Treasuries are responsible for the development and execution of foreign exchange risk management strategies.
- GNTMR and regional NTMR provide independent oversight. They are responsible for monitoring and oversight to ensure FXRBB is managed in compliance with policy requirements.
- There is periodic reporting to management and governance committees of FXRBB exposures and compliance.

10. 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.
AMA	Advanced Measurement Approach (AMA) is the risk estimation process used for the Group's operational risk. It combines internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
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).
Back-testing	Back-testing refers to the process undertaken to monitor performance of the Group's risk models. Historical data is used to compare the actual outcomes to the expected outcomes. Theoretical (or hypothetical) back-testing refers to process whereby the trading positions at the end of the preceding day are revalued using the end-of-day rates for that day and then again at the succeeding day's closing rates. The difference between the two mark-to-market values of the portfolio which represents the profit and loss that would have occurred had there been no transactions on the day, is compared with the VaR. VaR is also compared with the actual daily traded profit and loss as a cross-check of the reasonableness of the theoretical portfolio movement.
BIPRU	BIPRU refers to the UK Financial Services Authority's requirements and guidance for accreditation under Basel II. It refers to the Prudential Sourcebook for Banks, Building Societies and Investment Firms.
Board	Principal Board of Directors of NAB
Capital adequacy	Capital adequacy is the outcome of identifying and quantifying the major risks the Group is exposed to, and the capital that the Group determines as an appropriate level to hold for these risks, as well as its strategic and operational objectives, including its target credit rating.
CDO	Collateralised Debt Obligation
CLO	Collateralised Loan Obligation
Company	National Australia Bank Limited ABN 12 004 044 937
Credit derivatives	Credit derivatives include single-name credit default and certain total rate of return swaps, cash funded credit linked notes and first-to-default and second-to-default credit derivative basket products. ADIs may also recognise many more complex credit derivatives that do not fall into the list above, that have been approved by APRA.
Credit derivative transactions	In relation to securitisation exposures, credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the Group, usually through the use of credit default swaps.
Credit enhancements	Credit enhancements are arrangements in which the Group holds a securitisation exposure that is able to absorb losses in the pool, providing credit protection to investors or other parties to the securitisation. A first loss credit enhancement is available to absorb losses in the first instance. A second loss credit enhancement is available to absorb losses after first loss credit enhancements have been exhausted.
The Credit Risk function	All areas reporting directly to the Chief Credit Officer including Credit Insight & Appetite, Credit Frameworks, Credit Oversight, Counterparty Credit and Strategic Business Services.
Derivative transactions	In relation to securitisation exposures, derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transactions.
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.
Economic capital	Economic capital represents the Group's internal assessment of the amount of capital required to protect against potential unexpected future losses arising from its business activities, in line with its target credit rating.
ELE	The Extended License Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in *APS 110.*
Eligible financial collateral	Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach, for corporate, sovereign and bank portfolios, is limited to the collateral items detailed in paragraphs 4 and 23 of Attachment G of *APS 112*. Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment, paragraph 6.
Economic value sensitivities	Economic value sensitivities (EVS) refer to a modelling technique whereby the value of an asset is assessed through a number of different scenarios, such as different interest rates or period in time for loan repayment. This allows the Group to establish a price with some degree of certainty across the various scenarios and develop risk management techniques to protect the assets value.
Foundation IRB	Foundation Internal Ratings Based (FIRB) approach refers to an alternative approach to advanced IRB 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* of this report.
Guarantees	Guarantors under the standardised approach are recognised according to *APS 112 Attachment F paragraph 3*. The secured portion of an exposure is weighted according to the risk weight appropriate to the guarantor and the unsecured portion is weighted according to the risk weight applicable to the original counterparty (Refer to Attachment A for the appropriate risk weights). Under the IRB approach, for corporate, sovereign and bank portfolios, the ADI may recognise credit risk mitigation in the form of guarantees and credit derivatives according to the FIRB substitution approach where an ADI uses supervisory estimates of LGD (refer to *APS 113 Attachment B* paragraph 49), an AIRB substitution approach where the ADI has approval from APRA to use its own estimates of LGD (refer to APS 113 Attachment B paragraph 60) and, for certain exposures, a double default approach (refer to APS 113 Attachment B paragraph 67). An ADI may decide, separately for each eligible exposure, to apply either the relevant substitution approach or the double default approach. For retail portfolios there are two approaches for the recognition of credit risk mitigation in the form of guarantees and credit derivatives under the retail IRB approach, a substitution approach (refer to *APS 113 Attachment C* paragraph 19) and, for certain exposures, a double default approach (refer to *APS 113 Attachment C* paragraph 28). An ADI may decide separately for each eligible exposure to apply either the substitution approach or the double default approach.

Term	Description
ICAAP	Internal Capital Adequacy Assessment Process (ICAAP) is the mechanism developed and used by the Group to determine capital requirements as outlined under Basel II. It results in the Group identifying and assessing all risks to which it is exposed and allocating an appropriate level of capital to each.
IFRS	International Financial Reporting Standards
ISDA	International Swaps & Derivatives Association
IMA	Internal Model Approach (IMA) describes the approach used in the assessment of traded market risk. The Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the Standard Method.
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.
IRB	Internal Ratings Based (IRB) describes the approach used in the assessment of credit risk. Within this document it is used interchangeably with the term advanced Internal Ratings Based approach. This reflects the Group's development of internal credit risk estimation models covering both retail and non-retail credit.
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.
Level 3 Conglomerate Group	Contains APRA-regulated entities with material operations across more than one APRA-regulated industry and/or in unregulated entities.
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.
LGR	Loss Given Realisation (LGR) is a parameter used for estimating LGD.
Liquidity facilities	Liquidity facilities are provided by the Group to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV (asset liquidity facilities), or to cover the inability of the SPV to roll over ABCP (standby liquidity facilities).
Loan to value ratio	Loan to Value Ratio (LVR) is the ratio between the loan and value of the security provided.
Masterscale	Masterscale is a consistent series of grades applied to credit exposures that allows the Group to place every credit exposure into a specific grade or range that represents the likelihood of a credit default. This allows comparison of customers and portfolios.
NAB	National Australia Bank Limited ABN 12 004 044 937
National Australia Bank Group	NAB and its controlled entities
Net write-offs	Write-offs on loans at amortised cost net of recoveries.
Non-retail credit	Non-retail credit broadly refers to credit exposure to business customers. It excludes retail credit defined below.
Non-traded book	Non-traded book refers to the investment in securities held by the Group through to maturity.
The Operational Risk function	All areas reporting directly to the Executive General Manager, Operational Risk.
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 in the next 12 months.
Point in time	Point in Time (PiT) within this document refers to risk models that estimate the likelihood of default and resulting loss over a 12-month period having regard to the current economic conditions.
Qualifying revolving retail exposures	For the purposes of regulatory reporting, credit cards are referred to as qualifying revolving retail.
Regulatory capital	Regulatory capital is the total capital held by the Group as a buffer against potential losses arising from the business the Group operates in. Unlike economic capital, it is calculated based on guidance and standards provided by the Group's regulators, including APRA. It is designed to support stability in the banking system and protect depositors.
Regulatory expected loss	Regulatory Expected Loss (EL) is a calculation of the estimated loss that may be experienced by the Group over the next 12 months. Regulatory EL calculations are based on the PD, LGD and EAD values of the portfolio at the time of the estimate which include stressed LGDs for economic conditions. As such, regulatory EL is not an estimate of long-run average expected loss (as was the case previously under dynamic provisioning).
Retail credit	For the purposes of managing credit, two broad categories are used: retail credit and non-retail credit. This reflects the different approaches to the sales and ongoing management of credit and is consistent with the approach taken by Basel II. Retail credit refers to the credit provided to retail or personal customers. For the purposes of regulatory capital, retail credit is categorised into four groups: residential mortgages, credit cards (or qualifying revolving credit), retail SME and other.
Risk appetite	Risk appetite defines the level of risk the Group is prepared to accept as part of its business. The resulting level of risk is a direct input into the Group's capital requirements.
RWA	Risk-Weighted Assets
Securities	Securities include the purchase of securitisation debt securities for either trading or banking book purposes.
SME	Small and medium sized enterprises
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.
Stress testing	Stress testing refers to a technique whereby the Group's capital position is assessed against a number of different scenarios used to determine the movement on expected losses and subsequent impact on capital.
Through the cycle	Through the Cycle (TtC) within this document refers to risk models that estimate the likelihood of default and resulting loss over a 12-month period having regard to the impact of an economic downturn.

Term	Description
Tier 1 capital	Tier 1 capital comprises the highest quality components of capital that fully satisfy all of the following essential characteristics: provide a permanent and unrestricted commitment of funds; are freely available to absorb losses; do not impose any unavoidable servicing charge against earnings; and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an entity as a going concern. It is divided into: Upper Tier 2 capital comprising components of capital that are essentially permanent in nature, including some forms of hybrid capital instrument; and Lower Tier 2 capital comprising components of capital that are not permanent.
Traded book	Traded book refers to the Group's investment portfolio that is traded or exchanged in the market from time to time that reflects market opportunities.
Value at Risk	Value at Risk (VaR) is a mathematical technique that uses statistical analysis of historical data to estimate the likelihood that a given portfolio's losses will exceed a certain amount.
Warehouse facilities	Warehouse facilities are lending facilities provided by the Group to an SPV for the financing of exposures in a pool. These may be on a temporary basis pending the issue of securities or on an on-going basis.
Write-offs	Write-offs represent credit losses in accordance with accounting rules.

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