2010 RISK & CAPITAL REPORT

Incorporating the requirements of APS 330

as at 30 September 2010

National Australia Bank

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Contents

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1. Introduction

Maintaining balance sheet strength and a strong Tier 1 capital position is inextricably connected to National Australia Bank Limited's core purpose: to create long-term value for shareholders, and to enable our customers and the communities in which we operate to realise their potential.

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

Issued in 2004, the Basel Committee on Banking Supervision Capital Measurement and Capital Adequacy Framework ("Basel II") sets the standard for the measurement of risk and capital that applies to all banks internationally. 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.

1.1 The Group's Basel II Methodologies

National Australia Bank Limited and its controlled entities operate in Australia, Asia, New Zealand, United Kingdom, and the United States of America. The following table sets out the methodologies applied across the Group as at 30 September 2010.

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	n/a
Clydesdale Bank PLC	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Basel I	n/a	n/a	n/a

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

The Group's Australian, New Zealand and Wholesale Banking operations were granted Basel II advanced status for credit and operational risk management by APRA on 1 July 2008. The Reserve Bank of New Zealand ("RBNZ") has granted Basel II advance status for credit and operational risk management to the Bank of New Zealand ("BNZ"). The Group was also accredited for interest rate risk in the banking book for its banking operations, excluding Great Western Bank. The Group's internal model for calculating traded market risk was re-accredited by APRA in 2006.

BNZ credit risk exposures consolidated in the Group position are calculated under RBNZ requirements.

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

The Group's subsidiary in the United States of America, Great Western Bank, is regulated by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation and the Federal Reserve Bank. Great Western Bank is subject to Basel I methodology, and is reported under "Standardised – Other" for the purposes of calculating the consolidated Group position.

Under the advanced approaches, the Group uses internal models and data to calculate regulatory capital including any regulatory adjustments. For loans secured by residential property, APRA requires a 20% Loss Given Default ("LGD") floor under the Internal Ratings Based approach ("IRB"). APRA has also provided guidance with respect to LGD and Exposure at Default ("EaD") estimates for other asset categories in order to conservatively model the impact of an economic downturn. The standardised approach uses the Basel II Framework methodology.

1.2 APS 330 Disclosure Governance

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

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

Disclosure controls and procedures are in place to effectively manage prudential reporting risk.

1.3 Regulatory Reform

The Group is closely monitoring the regulatory reform agenda as it evolves and will adjust our balance sheet settings as required, taking into account transition periods. The major elements of reform are the December 2009 Capital and Liquidity proposals released by the Basel Committee on Banking Supervision (“BCBS”), along with subsequent follow-up consultative documents that have provided additional detail. The fully calibrated and finalised package of capital and liquidity reforms are expected to be delivered by the BCBS by the end of 2010. The following proposals are expected as baseline components of the capital reforms:

	Core Tier 1	Tier 1	Total Capital
	%	%	%
Regulatory minimum	4.5	6.0	8.0
Capital conservation buffer	2.5	2.5	2.5
Total	**7.0**	**8.5**	**10.5**

- The Basel Core Tier 1 minimum has been increased from 2% to 4.5% after adjustments consistent with the expectation for higher levels of better quality capital;
- A capital conservation buffer of 2.5% (comprising of common equity) will be implemented. Discretionary distributions may be restricted below this threshold which will seek to limit discretionary distributions should Core Tier 1 fall below 7%;
- A counter cyclical capital buffer of between 0 and 2.5% designed to reduce capital pro-cyclicality will be implemented when credit growth is deemed to be inappropriately above norms; and
- A leverage ratio of 3% will be implemented in 2018 after a period of market observation and calibration.

Major components of liquidity reforms include a Liquidity Coverage Ratio which will be in place from 2015 and a Net Stable Funding Ratio from 2018. These will be introduced after a period of market observation and calibration.

A number of areas of the Basel reform proposals remain unclear and further detail is expected by the end of the year. APRA is expected to release draft prudential standards in the second half of 2011 followed by broad industry consultation.

2. Scope of Application

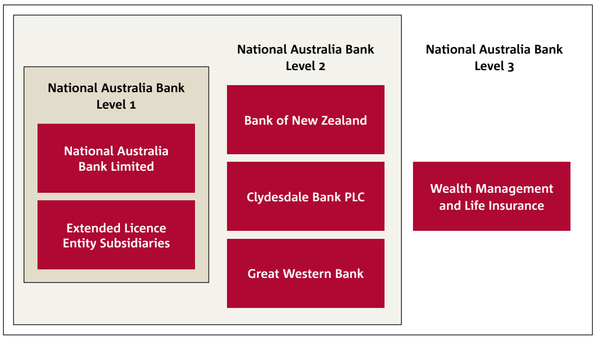
Consolidation, Capital Reporting and Measurement

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 (e.g. finance companies and leasing companies).

Life insurance and funds management entities are excluded from the calculation of Basel II Risk-Weighted Assets ("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 Australian equivalents to the International Financial Reporting Standards ("AIFRS"). Under AIFRS the National Australia Bank Group consolidates all entities in which it has the power to govern the financial and operating policies so as to obtain benefit from their activities. This includes life insurance, funds management and securitisation SPVs used to house securitised assets. As noted above, these entities receive a different treatment for Level 2 regulatory consolidation purposes.

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

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 Group Capital Policy, which requires that contagion risk be managed in accordance with 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 Group to manage capital to target capital ranges recommended by Treasury and approved by their local Boards. Any capital transfer is subject to maintaining adequate subsidiary and National Australia Bank Limited capitalisation.

Table 2A: Scope of Application

	As at	
	30 Sep 10	31 Mar 10
Capital deficiencies in non-consolidated subsidiaries	$m	$m
Aggregate amount of under capitalisation in non-consolidated subsidiaries of the ADI group	-	-

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 General Disclosure Statement regime applicable to banks incorporated in New Zealand.

3. Risk and Capital Oversight & Governance

Introduction

The 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's ("Group CEO") delegations.

The Principal 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 Group operates.

The primary authorities and responsibilities of the Board are set out in the Board Charter. This includes the establishment of committees to assist the Board in carrying out its responsibilities. Of particular relevance to the Group's Principal Board is the Principal Board Risk Committee ("PBRC").

The Principal Board and/or the PBRC set the framework for risk and capital management in the Group through:

- Approving and overseeing material risk and capital policies and limits;
- Overseeing and reviewing the adequacy of the risk and capital management frameworks as developed by management, including overseeing the material risks faced by the Group; and
- Reviewing management plans for risk mitigation and the implementation of these plans by management.

This framework also establishes responsibility and accountability for risk and capital management through clearly defined authorities, policies and controls.

The Principal Board approves, and regularly reviews, the formal Risk Appetite Statement for the Group. The Risk Appetite Statement sets an overall limit on the total amount of risk that the Group is prepared to take based on the returns that the Group seeks to provide to shareholders, the credit rating that the Group seeks to maintain, the Group's capital position, and the Group's desired capital ratios.

The Principal Board delegates authority to the boards of subsidiary companies to oversee the management of these entities on behalf of National Australia Bank Limited. The role of the subsidiary boards must be consistent with the legal and regulatory obligations the boards have in their respective jurisdictions. The subsidiary boards should consider any conflicting regulatory/legal requirements when reviewing and adopting Group strategies, policies and frameworks.

The Principal Board delegates the day-to-day management of the business (including oversight and control of risk) to the Group CEO who, in turn, delegates certain authorities and powers to individuals and management committees.

Executive Management

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 three subcommittees each overseeing a specific risk area: the Group Credit Risk Committee ("GCRC" - previously known as the Group Credit Concentrations Limits Committee), the Group Asset and Liability Committee ("GALCO"), and the Group Capital Committee ("GCC"). The Transactional Credit Committee ("TCC") and the Group Credit Models Approval Committee ("GCMAC") support the GCRC. The major 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.

Periodically, the Group CEO, Group Chief Risk Officer ("Group CRO") and Executive Director Finance provide the Principal Board with various attestations relating to the financial, risk and capital management of the Group. Attestations are also provided to APRA to assist the regulator in fulfilling its prudential oversight role.

Risk Management

The 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. Implementation of risk management is carried out as follows:

- Businesses are accountable for identifying and managing the risks associated with their activities, within the approved risk appetite. This includes ensuring an appropriate return for risk generated, implementing and monitoring the effectiveness of controls, adherence to policies, limits and escalation requirements, and evaluation of the level and trends of material risks.
- Central functions, such as Group Strategy and Finance (including Financial Governance), Treasury, Group Assurance, Group Governance and the Group risk areas of Credit, Market, Non-Traded Market, Regulatory Affairs, Operational Risk and Compliance, are accountable for the independent design of group-wide policies and for the frameworks, monitoring, reporting, oversight and objective assurance for risk management.
- Internal Audit is an independent function reporting directly to the Chairman of the Principal Board Audit Committee ("PBAC") and the Executive Director Finance. It provides independent audit, validation and oversight of business unit compliance with risk policies and procedures. Internal Audit performs independent testing of key controls undertaken throughout the year across the Group's business units and risk management functions. It also considers the results of various external reviews and incidents.

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 ensure its overarching capital management objectives are met:

- 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. The Group maintains an inventory of its material risks, which includes consistent definitions, roles and responsibilities for managing the risks, 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.

The Group uses regulatory capital models to ensure that the Group meets its regulatory capital requirements for credit risk, traded market risk, operational risk and interest rate risk in the banking book. Regulatory requirements are driven largely by RWA which are allocated to, and managed by, the Group's businesses.

Economic capital models are used to assess the Group's internal view of capital adequacy. They represent management's view of the capital required to be held to support the specific risk characteristics of the business and its portfolio. An economic capital requirement is calculated for all the abovementioned risks, plus for 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. The Risk Appetite Statement informs the Group's risk, capital and business management limits and policies, and is an important component of the strategic and operational planning process.

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 Principal 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 prescribed on a bilateral basis, and is not publicly disclosed. Under APRA's prudential standards, the minimum PCR for Australian Banks is 8%, of which a minimum of 4% must be held as Tier 1 capital. APRA may specify a higher PCR, proportional to the overall risk profile of an ADI.

Embedding Capital 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

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 Principal Board.

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

The Group's Internal Capital Adequacy Assessment Process

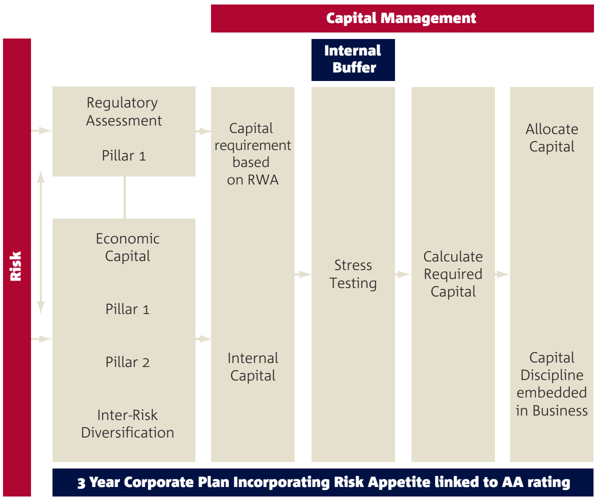


Table 4.1A: RWAs

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

	As at	
	30 Sep 10	31 Mar 10
	RWA	RWA
	$m	$m
Credit risk [(1)]		
IRB approach		
Corporate (including SME) [(2)]	116,128	124,314
Sovereign [(3)(4)]	1,044	957
Bank [(4) (5)]	5,842	5,560
Residential mortgage [(5)]	48,909	45,932
Qualifying revolving retail [(5)]	3,991	4,110
Retail SME	9,174	7,973
Other retail	3,749	3,879
Total IRB approach	**188,837**	**192,725**
Specialised lending (SL) [(2)]	**40,606**	**30,038**
Standardised approach		
Australian and foreign governments [(3) (4)]	41	41
Bank [(4)]	270	312
Residential mortgage	22,944	22,910
Corporate	29,333	28,491
Other [(6)]	11,036	7,926
Total standardised approach	**63,624**	**59,680**
Other		
Securitisation	11,103	12,048
Equity	1,342	1,261
Other [(7)]	6,833	5,721
Total other	**19,278**	**19,030**
Total credit risk	**312,345**	**301,473**
Market risk	3,079	3,305
Operational risk	22,234	22,402
Interest rate risk in the banking book	7,000	5,653
Total risk-weighted assets	**344,658**	**332,833**

(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) *Further changes to the classification of the commercial property portfolio meeting the slotting criteria were made in the June 2010 quarter. This resulted in a reclassification of some Corporate exposures to Specialised Lending (Income Producing Real Estate), resulting in a net increase to RWA of approximately $2 billion. Specialised Lending exposures are subject to slotting criteria*

(3) *'Sovereign' includes government guaranteed exposures.*

(4) *As at 30 September 2010, the Group held $5.1 billion (March 2010: $5.6 billion) of government guaranteed Financial Institution Debt. This resulted in the application of lower risk weights on these holdings with a reduction in RWA of $1.2 billion (March 2010: $1.4 billion) and an effective increase in Tier 1 capital ratio of 0.03% (March 2010: 0.04%) and Total capital ratio of 0.04% (March 2010: 0.05%). This debt is assessed in accordance with normal credit approval processes. While the Australian Government guarantee shall remain for existing Financial Institution Debt guaranteed under the scheme, the Australian Federal Government revoked this arrangement for new issuance from 31 March 2010.*

(5) *For IRB approach: 'Bank' includes ADIs, overseas banks and non-commercial public sector entities. 'Residential mortgages' includes exposures that are partly or fully secured by residential properties. 'Qualifying revolving retail' exposures are revolving, unsecured and unconditionally cancellable (both contractually and in practice), for individuals and not explicitly for business purposes.*

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

(7) *'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 18 to 46 of this report*

Table 4.1B: Capital Ratios

The table below provides the key capital ratios defined in APS 330. 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.

	As at	
	30 Sep 10	**31 Mar 10**
Capital ratios (1)	**%**	**%**
Level 2 Tier 1 capital ratio	8.91%	9.09%
Level 2 total capital ratio	11.36%	12.07%
Level 1 National Australia Bank Tier 1 capital ratio	10.75%	10.71%
Level 1 National Australia Bank total capital ratio	13.11%	13.58%
Significant subsidiaries		
Clydesdale Bank PLC Tier 1 capital ratio	9.00%	8.82%
Clydesdale Bank PLC total capital ratio	14.10%	13.96%
Bank of New Zealand Tier 1 capital ratio	8.85%	9.03%
Bank of New Zealand total capital ratio	11.81%	12.03%
Great Western Bank Tier 1 capital ratio	11.41%	10.58%
Great Western Bank total capital ratio	12.61%	11.56%

(1) *Level 1 group represents the extended license 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.*

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 4.2 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 and 111.*

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 NAB'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 by the issuer 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 subject to a 'make-whole' adjustment. In a winding-up of NAB, 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 NAB, 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 NAB'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 non-cumulative distribution, payable quarterly in arrears, equal to 1.5375% over three month 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 subject to a 'make-whole' adjustment. In a winding-up of NAB, the Trust Preferred Securities In a winding-up of NAB, 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 NAB, 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 NAB, the Australian NCIs and (if issued) the Australian NCI preference shares 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 NAB, 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 notes are unsecured and all or some of them may be redeemed at the option of the Company with the prior consent of APRA.

Convertible Notes

On 24 September 2008, the Group issued $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 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 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 3 months thereafter or earlier in certain circumstances.

Capital Notes

On 24 September 2009, the Group issued USD$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 7 year US Treasury benchmark rate of 3.06% (the base rate) plus an initial margin of 4.94%. 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 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, NAB 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 NAB through its New York branch, and one unpaid preference share issued by NAB ("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, NAB 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 ASX and on a winding-up of NAB, holders will rank for a return of capital behind all deposit liabilities and creditors of NAB, but ahead of ordinary shareholders.

Stapled Securities

On 24 September 2008, the Group issued $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 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 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 $500 million Stapled Securities (2009 Stapled Securities). The Group extended the terms of the 2009 Stapled Securities on 4 March 2010. 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 securities are redeemable at the Group's option on or about 30 March 2011 or every monthly distribution payment date thereafter or earlier in certain circumstances. In the event that the 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 March 2011.

Upper Tier 2

Perpetual Floating Rate Notes

On 9 October 1986, the Group issued USD$250 million undated subordinated 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 notes are unsecured and have no final maturity. All or some of the notes may be redeemed at the option of the Company with the prior consent of APRA. In July 2009, the Group repurchased USD$82.5 million undated subordinated 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 with an original maturity of at least five years constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

Subordinated notes have been issued under the Euro medium-term note program, US medium-term note program, Domestic debt issuance program and the Global medium-term note program of the Group:

- Under the Euro medium-term note program of the Company, $1,054 million (2009: $2,193 million) fixed rate notes maturing between 2015 and 2016 with fixed rates between 4.50% - 5.38% (2009: 3.88% - 5.38%) are outstanding;
- Under the previously registered US medium-term note program of the Company, nil fixed rate notes maturing between 0 to 5 years (2009: $1,023 million with a fixed rate of 8.60%) are outstanding;
- Under the Domestic debt issuance program of the Company, $317 million (2009: $300 million) fixed rate notes maturing 2017 with fixed rate of 7.25% (2009: 7.25%) and $1,200 million (2009: $1,200 million) floating rate notes maturing between 2017 and 2018 are outstanding;
- Under the Global medium-term note program, $4,175 million (2009: $2,826 million) fixed rate notes maturing between 2016 and 2023 with fixed rates between 4.55% - 7.13% (2009: 4.55% - 7.13%) and $2,151 million (2009: $2,238 million) floating rate notes maturing between 2016 and 2017 are outstanding.
- The Group has conducted a number of stand-alone subordinated medium-term note issues: $56 million (2009: $57 million) fixed rate notes maturing between 0 to 5 years with a fixed rate of 5.47% (2009: 5.47%), $40 million (2009: $40 million) fixed rate notes maturing greater than 5 years with a fixed rate of 7.50% (2009: 7.50%), $52 million (2009: $60 million) floating rate notes maturing between 0 to 5 years, and NZ$350 million (2009: NZ$350 million) with a fixed yield of 8.42% maturing 15 June 2017 but can be called by the bank on 15 June 2012.

Table 4.2A: Capital Structure [(1)]

	As at 30 Sep 10 $m	31 Mar 10 $m
Tier 1 capital		
Paid-up ordinary share capital	19,924	19,657
Reserves	(1,478)	(1,748)
Retained earnings including current year earnings	14,414	14,210
Minority interests	14	22
Innovative Tier 1 capital	4,502	4,506
Non-innovative Tier 1 capital	2,742	2,740
Gross Tier 1 capital	**40,118**	**39,387**
Deductions from Tier 1 capital		
Banking goodwill	1,747	1,680
Wealth management goodwill and other intangibles	4,248	4,307
Deferred tax assets	916	1,008
Other deductions from Tier 1 capital only	1,285	1,008
50/50 deductions from Tier 1 capital		
Investment in non-consolidated controlled entities	791	891
Expected loss in excess of eligible provisions	312	96
Deductions relating to securitisation	126	145
Total Tier 1 capital deductions	**9,425**	**9,135**
Net Tier 1 capital	**30,693**	**30,252**
Tier 2 capital		
Upper Tier 2 capital	957	965
Lower Tier 2 capital	8,824	10,176
Gross Tier 2 capital	**9,781**	**11,141**
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	791	891
Expected loss in excess of eligible provisions	312	96
Deductions relating to securitisation	126	145
Total Tier 2 capital deductions	**1,304**	**1,207**
Net Tier 2 capital	**8,477**	**9,934**
Total capital	**39,170**	**40,186**

(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 AIFRS.*

5. Credit Risk

5.1 General Disclosure

Credit is any actual or potential obligation for a counterparty to pay the Group.

Credit risk is the potential that a counterparty will fail to meet its obligations to the Group in accordance with agreed terms.

Bank lending activities account for most of the Group's credit risk. However, other sources of credit risk exist throughout the activities of the Group. These include the banking book, trading book, and other financial instruments and loans (including acceptances, inter-bank transactions, trade financing and foreign exchange transactions, swaps, bonds and options); as well as in the extension of commitments and guarantees and the settlement of transactions.

Credit risk is an inherent part of the Group's business. The Group recognises that a credit risk focus needs to be embedded in every aspect of our day-to-day business, and that it must play a role in informing our future direction. When considered and managed appropriately, risk is an important part of our broader commercial strategy.

The Group seeks to achieve effective credit risk management by maintaining credit risk exposure within acceptable parameters while maximising the Group's risk-adjusted rate of return.

The Group's approach to credit risk management is designed to support the organisation's strategic priorities, meet regulator expectations, ensure a robust, responsible and sustainable business model, and ensure ownership and accountability across the Group.

Structure and Organisation

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

The TCC is the decision making body for credit facilities that are greater than a business unit's DCA. In addition, the TCC makes recommendations, and takes action, to control or manage high-risk situations and escalates credit risk issues to the GRMC and Credit Risk teams.

The GRMC oversees the processes, systems, methodologies and models for the management of credit risk across the Group. It is supported by the GCRC, who considers credit risk matters that relate to risk culture, integrated risk governance processes, risk strategy and performance. During 2010, a sub committee of the GCRC, the Group Credit Models Approval Committee ("GCMAC") was formed specifically to oversee the performance of all credit risk models and approve changes to those models in alignment with the authority delegated to the GCMAC by the GCRC and GRMC.

Business unit risk management committees are responsible for overseeing the credit risk processes, systems, methodologies and performance at the business unit level.

The Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty or group of counterparties, and to geographic and industry segments. These limits are set by PBRC consistent with the Group's risk appetite. Such risks are monitored on a regular basis and are subject to annual or more frequent reviews. Large exposures approved by the TCC in excess of an agreed limit are advised to the PBRC Chairman for noting.

The Group's Credit Policy applies globally. It provides the principles of the Group's credit risk appetite and the framework for credit underwriting that is used to assess counterparty risk. The Group Credit Policy currently includes:

- Statements of professional conduct, business ethics and compliance standards;
- Aggregation policy that determines the circumstances in which related counterparties need to be grouped for credit risk assessment;
- Large exposure policies limiting exposure to an individual or counterparty;
- Country and industry limits to avoid concentration of credit risk to any individual country or industry;
- Credit evaluation standards that govern loan origination and ongoing administration;
- Specific areas for caution, providing bankers with guidance on business activities that are not to be actively pursued or require specialist input; and
- Standards for management of impaired loans and provisioning policies for the calculation and approval of impairment allowances.

The Group Credit Policy conforms to various regulatory standards and is reviewed at least annually to ensure continued compliance. Amendments to the Group Credit Policy require approval by the GCRC or as delegated under limited authority. Each business unit is responsible for operating procedures that comply with Group Credit Policy, approved in accordance with business unit governance frameworks.

Exemptions approved by officers based on delegated authority are recorded in the Group Credit Policy Exceptions Database.

Management

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. More specifically, senior and line management are required to:

- Ensure that credit approvals are made within delegated authorities or escalated to the appropriate approval authority;
- Operate within given portfolio and concentration limits as part of their ongoing monitoring of credit approvals;
- Report on exposures that qualify for inclusion in relevant regulatory returns, such as *APS 221: Large Exposures* and *APS 222: Associations with Related Entities;* and
- Undertake a review of most facilities at least annually.

A comprehensive checklist is in place to guide the assessment of exposures for potential escalation to specialist credit areas.

The Credit Management functions at the Group and business unit levels are charged with implementing sound management principles and practices to maintain appropriate asset quality across the Group. Group Credit Management plays a key role in managing risk appetite, portfolio measurement, assisting businesses with portfolio management, and measuring compliance to strategic targets and limits. The Group Credit Management function:

- Owns and is accountable for the credit risk policies and systems, concentration limits, large counterparty credit approvals and the management of large under-performing loans;
- Ensures that such policies and systems comply with the various regulatory and prudential requirements;
- Is responsible for the credit risk management architecture and for the administration of certain critical credit risk assessment processes and controls, such as credit risk identification, assessment, monitoring and reporting, and the delegation framework;
- Owns and monitors the performance of Group-wide models and methodology; and
- Overviews that the business units manage their risks as required.

A key assurance area across non-retail banking activities is the Risk Asset Review ("RAR") team. This team 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. RAR 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. The main areas of focus for the RAR team are asset quality and the effectiveness of the lending process.

Retail lending teams undertake an independent review and report these results to senior management. The retail lending teams report the results of these reviews to 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 Credit Risk function relies on the output from, among others, the credit risk rating, monitoring and limit reporting systems for details of exposures and risk parameters, and for the assessment of credit risk.

The Group and business unit Chief Risk Officers ("CROs") receive regular reports covering credit risk, credit quality, 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. These reports are provided to the Principal Board 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. Reports are provided to APRA regularly.

Definitions of Default and Impairment

The application of a consistent definition of default and impairment throughout the Group is central to the Group's measurement of credit risk.

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, realisation costs etc) is compromised, and the bank's security is insufficient to cover these amounts, leading to a loss occurring.

Impaired assets 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);
- 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 and the General Reserve for Credit Losses

The Group assesses and measures credit risk losses to fulfil a number of objectives. One of these objectives is to determine the provisions for doubtful debts in accordance with Australian Accounting Standards.

The statutory financial accounting requirements relating to losses due to credit risk are detailed in *AASB 139 Financial Instruments: Recognition and Measurement*. To establish provisions for accounting purposes, the methodologies described in this report to assess and measure losses due to credit risk are adjusted to reflect the requirements of the accounting standard.

A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events, and it is considered that the loss event has an impact on the estimated future cash flows of the financial asset or the portfolio.

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. CAAA holders comprise officers within the Group and business unit Strategic Business Services or Retail Collections, and senior risk executives of the Group, where appropriate.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

In a group of financial assets that are collectively evaluated for impairment, future cash flows are estimated based on the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment 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 reliability as all assessments are conducted within the requirements of AIFRS, which requires objective evidence.

The general reserve for credit losses covers losses identified as being incurred and incurred-but-not-yet reported, as well as credit losses estimated but not certain to arise in the future extending over the life of all facilities. It is calculated as a collective provision for doubtful debts, excluding securitisation and provisions on default-no-loss assets, net of tax. An additional top up is 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. Default-no-loss assets are defaulted or otherwise non-performing assets regardless of expected loss, such as those for 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. The Group's collective provision is as disclosed in the Group's 2010 Annual Financial Report.

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 10					6 months ended 30 Sep 10
	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)	168,186	116,128	3,001	2,487	702	439
Sovereign [4]	25,287	1,044	2	-	-	-
Bank	65,009	5,842	84	37	37	5
Residential mortgage	226,507	48,909	741	599	132	64
Qualifying revolving retail	10,277	3,991	218	-	-	103
Retail SME	20,181	9,174	323	165	89	54
Other retail	4,629	3,749	156	10	5	54
Total IRB approach	**520,076**	**188,837**	**4,525**	**3,298**	**965**	**719**
Specialised lending (SL)	**47,433**	**40,606**	**1,636**	**1,334**	**367**	**193**
Standardised approach						
Australian and foreign governments [4]	3,864	41	-	-	-	-
Bank	7,613	270	-	-	-	-
Residential Mortgage	40,155	22,944	-	76	13	2
Corporate	29,800	29,333	-	1,240	154	269
Other [5]	11,778	11,036	-	71	21	39
Total standardised approach	**93,210**	**63,624**	**-**	**1,387**	**188**	**310**
Total	**660,719**	**293,067**	**6,161**	**6,019**	**1,520**	**1,222**
Additional regulatory specific provisions [3]					471	
General reserve for credit losses [6]					2,826	

(1) Total credit risk exposure is EaD estimates of potential exposure, according to product type, for a period of 1 year. (Note: It is not possible to compare credit exposure to banks and sovereigns in the table above to holdings in the liquidity portfolio that are separately disclosed as part of the National Australia Bank Limited's 2010 Full Year Results and Investor Presentation. Major differences include the treatment of repo transactions, trading securities and derivative exposures.)

(2) Impaired facilities includes $239 million of restructured loans (March 2010: $465 million). These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty (September 2010: Nil, March 2010: $281 million).

Impaired facilities includes $284 million of gross impaired fair value assets (March 2010: $344 million).

In the United States there is US$133 million (March 2010: US$9 million) of "Other Real Estate Owned" assets where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$111 million (March 2010: US$ nil) 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 AIFRS excluding securitisation. All collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures, have been reported as additional regulatory specific provisions and shown in this report as a separate item.

Specific provisions includes $115 million (March 2010: $111 million) of specific provisions on gross impaired fair value assets.

(4) 'Sovereign' includes government guaranteed exposures.

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

(6) The General Reserve for Credit Losses ("GRCL") at 30 September 2010 is calculated as follows:

	$m
Collective provision for doubtful debts	*3,570*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(170)*
Less collective provisions reported as additional regulatory specific provisions	*(471)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,929*
Less tax effect	*(801)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,128*
Plus reserve created through a deduction from retained earnings	*698*
General reserve for credit losses (after-tax basis)	*2,826*

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 10					6 months ended 31 Mar 10
IRB approach						
Corporate (including SME)	179,582	124,314	2,934	2,719	908	450
Sovereign	22,193	957	2	-	-	-
Bank	68,969	5,560	83	39	39	29
Residential mortgage	213,635	45,932	740	692	144	48
Qualifying revolving retail	10,120	4,110	234	-	-	101
Retail SME	16,949	7,973	312	170	95	38
Other retail	4,756	3,879	186	11	7	57
Total IRB approach	**516,204**	**192,725**	**4,491**	**3,631**	**1,193**	**723**
Specialised lending (SL)	**35,485**	**30,038**	**1,032**	**908**	**205**	**-**
Standardised approach						
Australian and foreign governments	2,765	41	-	-	-	-
Bank	11,199	312	-	-	-	-
Residential Mortgage	38,850	22,910	-	54	11	6
Corporate	30,194	28,491	-	1,128	156	186
Other	7,915	7,926	-	80	16	105
Total standardised approach	**90,923**	**59,680**	**-**	**1,262**	**183**	**297**
Total	**642,612**	**282,443**	**5,523**	**5,801**	**1,581**	**1,020**

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

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

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

Credit Exposures by Measurement Approach

Table 5.1B: Total Credit Risk Exposures

This table provides the amount of credit risk exposures subject to the Standardised and Advanced IRB approaches. The Group has no credit risk exposures subject to the Foundation IRB approach. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 10			
Exposure type	**On-balance sheet exposure $m**	**Non-market related off-balance sheet $m**	**Market related off-balance sheet $m**	**Total exposure $m**
IRB approach				
Corporate (including SME)	110,822	41,698	15,666	168,186
Sovereign	14,900	733	9,654	25,287
Bank	20,815	1,210	42,984	65,009
Residential mortgage	193,780	32,727	-	226,507
Qualifying revolving retail	5,125	5,152	-	10,277
Retail SME	16,267	3,914	-	20,181
Other retail	3,422	1,207	-	4,629
Total IRB approach	**365,131**	**86,641**	**68,304**	**520,076**
Specialised lending (SL)	**40,361**	**6,027**	**1,045**	**47,433**
Standardised approach				
Australian and foreign governments	3,684	180	-	3,864
Bank	6,030	3	1,580	7,613
Residential mortgage	37,769	2,386	-	40,155
Corporate	23,950	4,806	1,044	29,800
Other	10,608	1,170	-	11,778
Total standardised approach	**82,041**	**8,545**	**2,624**	**93,210**
Total exposure (EaD)	**487,533**	**101,213**	**71,973**	**660,719**

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

Table 5.1C: Average Credit Risk Exposures

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.

	6 months ended 30 Sep 10			
Exposure type	On-balance sheet exposure $m	Non-market related off-balance sheet $m	Market related off-balance sheet $m	Average total exposure $m
IRB approach				
Corporate (including SME)	117,576	41,554	14,754	**173,884**
Sovereign	13,934	732	9,074	**23,740**
Bank	20,823	1,384	44,782	**66,989**
Residential mortgage	187,826	32,245	-	**220,071**
Qualifying revolving retail	5,141	5,057	-	**10,198**
Retail SME	15,021	3,544	-	**18,565**
Other retail	3,458	1,235	-	**4,693**
Total IRB approach	**363,779**	**85,751**	**68,610**	**518,140**
Specialised lending (SL)	**35,386**	**5,205**	**868**	**41,459**
Standardised approach				
Australian and foreign governments	3,136	179	-	**3,315**
Bank	5,967	168	3,271	**9,406**
Residential mortgage	37,173	2,329	-	**39,502**
Corporate	24,659	4,472	866	**29,997**
Other	9,101	746	-	**9,847**
Total standardised approach	**80,036**	**7,894**	**4,137**	**92,067**
Total exposure (EaD)	**479,201**	**98,850**	**73,615**	**651,666**

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

Table 5.1D: Exposures by Geography

This table provides the total on- and off-balance sheet gross credit risk exposures, excluding non-lending assets, equities and securitisation exposures for the Standardised and Advanced IRB portfolios, by major geographical areas, derived from the booking office where the exposure was transacted.

	As at 30 Sep 10				
	Australia	Europe	New Zealand	Other [1]	Total exposure
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	126,156	13,361	23,942	4,727	**168,186**
Sovereign	20,067	740	1,918	2,562	**25,287**
Bank	44,581	12,719	1,968	5,741	**65,009**
Residential mortgage	204,559	-	21,948	-	**226,507**
Qualifying revolving retail	10,277	-	-	-	**10,277**
Retail SME	18,589	-	1,592	-	**20,181**
Other retail	2,633	-	1,996	-	**4,629**
Total IRB approach	**426,862**	**26,820**	**53,364**	**13,030**	**520,076**
Specialised lending (SL)	**43,367**	**1,403**	**1,537**	**1,126**	**47,433**
Standardised approach					
Australian and foreign governments	-	3,864	-	-	**3,864**
Bank	-	7,613	-	-	**7,613**
Residential mortgage	8,141	30,896	4	1,114	**40,155**
Corporate	4,357	25,364	20	59	**29,800**
Other	2,081	3,241	-	6,456	**11,778**
Total standardised approach	**14,579**	**70,978**	**24**	**7,629**	**93,210**
Total exposure (EaD)	**484,808**	**99,201**	**54,925**	**21,785**	**660,719**

[1] *'Other' comprises the United States of America and Asia.*

	As at 31 Mar 10				
	Australia	Europe	New Zealand	Other	Total exposure
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	135,054	14,926	24,994	4,608	**179,582**
Sovereign	16,190	582	2,720	2,701	**22,193**
Bank	40,739	20,347	3,181	4,702	**68,969**
Residential mortgage	191,605	-	22,030	-	**213,635**
Qualifying revolving retail	10,120	-	-	-	**10,120**
Retail SME	15,349	-	1,600	-	**16,949**
Other retail	2,729	-	2,027	-	**4,756**
Total IRB approach	**411,786**	**35,855**	**56,552**	**12,011**	**516,204**
Specialised lending (SL)	**31,706**	**1,140**	**850**	**1,789**	**35,485**
Standardised approach					
Australian and foreign governments	-	2,765	-	-	**2,765**
Bank	-	11,199	-	-	**11,199**
Residential mortgage	6,911	30,887	5	1,047	**38,850**
Corporate	6,393	23,729	21	51	**30,194**
Other	151	3,387	-	4,377	**7,915**
Total standardised approach	**13,455**	**71,967**	**26**	**5,475**	**90,923**
Total exposure (EaD)	**456,947**	**108,962**	**57,428**	**19,275**	**642,612**

Table 5.1E: 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.

	As at 30 Sep 10												
	Accommodation cafes, pubs and restaurants	Agriculture, forestry, fishing and mining	Business services and property services	Commercial property	Construction	Finance and insurance [1]	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)	6,863	29,171	10,614	19,055	6,485	27,923	18,370	492	-	20,365	8,653	20,195	**168,186**
Sovereign	-	-	-	-	-	10,903	-	-	-	-	-	14,384	**25,287**
Bank	-	-	-	-	-	64,242	-	-	-	-	-	767	**65,009**
Residential mortgage	-	-	-	-	-	-	-	-	226,507	-	-	-	**226,507**
Qualifying revolving retail	-	-	-	-	-	-	-	10,277	-	-	-	-	**10,277**
Retail SME	1,117	3,890	2,221	2,872	2,013	679	1,161	105	-	3,494	947	1,682	**20,181**
Other retail	-	-	-	-	-	-	-	4,629	-	-	-	-	**4,629**
Total IRB approach	**7,980**	**33,061**	**12,835**	**21,927**	**8,498**	**103,747**	**19,531**	**15,503**	**226,507**	**23,859**	**9,600**	**37,028**	**520,076**
Specialised lending (SL)	**3**	**196**	**227**	**41,269**	**354**	**337**	**223**	**-**	**-**	**-**	**1,071**	**3,753**	**47,433**
Standardised approach													
Australian and foreign governments	-	-	-	-	-	-	-	-	-	-	-	3,864	**3,864**
Bank	-	-	-	-	-	7,613	-	-	-	-	-	-	**7,613**
Residential mortgage	-	-	-	-	-	-	-	-	40,155	-	-	-	**40,155**
Corporate	1,858	2,952	3,694	6,658	1,058	836	2,709	82	-	3,020	1,041	5,892	**29,800**
Other	5	7	55	7	13	2	7	5,198	-	18	3	6,463	**11,778**
Total standardised approach	**1,863**	**2,959**	**3,749**	**6,665**	**1,071**	**8,451**	**2,716**	**5,280**	**40,155**	**3,038**	**1,044**	**16,219**	**93,210**
Total exposure (EaD)	**9,846**	**36,216**	**16,811**	**69,861**	**9,923**	**112,535**	**22,470**	**20,783**	**266,662**	**26,897**	**11,715**	**57,000**	**660,719**

(1) *In order to provide for a meaningful differentiation and quantitative estimates of risk that are consistent, verifiable, relevant and soundly based, 'Finance and Insurance' exposures are disclosed based on the counterparty to which the Group is exposed to for credit risk.*

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

Exposure type	Accommodation cafes, pubs and restaurants $m	Agriculture, forestry, fishing and mining $m	Business services and property services $m	Commercial property $m	Construction $m	Finance and insurance $m	Manufacturing $m	Personal $m	Residential mortgages $m	Retail and wholesale trade $m	Transport and storage $m	Other $m	Total $m
	As at 31 Mar 10												
IRB approach													
Corporate (including SME)	6,502	31,792	10,281	31,124	6,315	27,626	18,665	516	-	19,259	8,193	19,309	**179,582**
Sovereign	-	-	-	-	-	10,787	-	-	-	-	-	11,406	**22,193**
Bank	-	-	-	-	-	67,944	-	-	-	-	-	1,025	**68,969**
Residential mortgage	-	-	-	-	-	-	-	-	213,635	-	-	-	**213,635**
Qualifying revolving retail	-	-	-	-	-	-	-	10,120	-	-	-	-	**10,120**
Retail SME	1,165	264	2,249	3,008	2,059	650	1,190	101	-	3,582	974	1,707	**16,949**
Other retail	-	-	-	-	-	-	-	4,756	-	-	-	-	**4,756**
Total IRB approach	**7,667**	**32,056**	**12,530**	**34,132**	**8,374**	**107,007**	**19,855**	**15,493**	**213,635**	**22,841**	**9,167**	**33,447**	**516,204**
Specialised lending (SL)	**-**	**128**	**239**	**29,375**	**220**	**506**	**237**	**-**	**-**	**-**	**944**	**3,836**	**35,485**
Standardised approach													
Australian and foreign governments	-	-	-	-	-	-	-	-	-	-	-	2,765	**2,765**
Bank	-	-	-	-	-	11,199	-	-	-	-	-	-	**11,199**
Residential mortgage	-	-	-	-	-	-	-	-	38,850	-	-	-	**38,850**
Corporate	1,817	2,732	2,925	6,859	1,113	1,342	2,248	1,946	-	2,661	1,006	5,545	**30,194**
Other	5	7	118	7	14	2	8	3,345	-	19	4	4,386	**7,915**
Total standardised approach	**1,822**	**2,739**	**3,043**	**6,866**	**1,127**	**12,543**	**2,256**	**5,291**	**38,850**	**2,680**	**1,010**	**12,696**	**90,923**
Total exposure (EaD)	**9,489**	**34,923**	**15,812**	**70,373**	**9,721**	**120,056**	**22,348**	**20,784**	**252,485**	**25,521**	**11,121**	**49,979**	**642,612**

Table 5.1F: Exposures by Maturity

This table sets out the residual contractual maturity breakdown of gross credit risk exposures by Basel II asset class, 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 10			
	<12 months	1 – 5 years	>5 years	No specified maturity [1]
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	66,708	75,922	20,693	4,863
Sovereign	15,938	4,931	4,282	136
Bank	52,295	5,009	7,533	172
Residential mortgage	48,057	7,819	170,194	437
Qualifying revolving retail	1	-	-	10,276
Retail SME	7,107	8,106	4,384	584
Other retail	208	916	1,381	2,124
Total IRB approach	**190,314**	**102,703**	**208,467**	**18,592**
Specialised lending (SL)	**17,109**	**25,087**	**4,485**	**752**
Standardised approach				
Australian and foreign governments	628	1,746	1,490	-
Bank	4,184	1,853	353	1,223
Residential mortgage	3,508	4,241	31,864	542
Corporate	13,090	9,294	6,263	1,153
Other	1,351	2,650	6,684	1,093
Total standardised approach	**22,761**	**19,784**	**46,654**	**4,011**
Total exposure (EaD)	**230,184**	**147,574**	**259,606**	**23,355**

[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 10			
	<12 months	1 – 5 years	>5 years	No specified maturity
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	70,072	81,984	22,695	4,831
Sovereign	13,858	5,615	2,564	156
Bank	56,344	5,845	6,658	122
Residential mortgage	46,727	8,084	158,366	458
Qualifying revolving retail	1	-	-	10,119
Retail SME	5,660	6,608	4,101	580
Other retail	221	897	1,460	2,178
Total IRB approach	**192,883**	**109,033**	**195,844**	**18,444**
Specialised lending (SL)	**11,598**	**19,944**	**3,594**	**349**
Standardised approach				
Australian and foreign governments	452	2,143	20	150
Bank	8,545	1,102	381	1,171
Residential mortgage	3,611	4,138	30,406	695
Corporate	11,616	9,776	6,430	2,372
Other	442	1,759	4,636	1,078
Total standardised approach	**24,666**	**18,918**	**41,873**	**5,466**
Total exposure (EaD)	**229,147**	**147,895**	**241,311**	**24,259**

Credit Provisions and Losses

Table 5.1G: 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 APRA Prudential Standard APS 220: Credit Quality and related guidance notes. The determination of specific provisions is in accordance with APRA Guidance Note AGN 220.2: Impairment, Provisioning and the General Reserve for Credit Losses. Impaired facilities are disclosed in accordance with APRA's definition of impaired facilities under Guidance Note AGN 220.1: Impaired Asset Definitions paragraph 7.

	As at 30 Sep 10			6 months ended 30 Sep 10	
	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)	2,487	299	702	336	439
Sovereign	-	-	-	-	-
Bank	37	-	37	-	5
Residential mortgage	599	988	132	56	64
Qualifying revolving retail	-	60	-	94	103
Retail SME	165	132	89	43	54
Other retail	10	39	5	58	54
Total IRB approach	**3,298**	**1,518**	**965**	**587**	**719**
Specialised lending (SL)	**1,334**	**150**	**367**	**262**	**193**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	76	191	13	6	2
Corporate	1,240	227	154	250	269
Other (3)	71	280	21	52	39
Total standardised approach	**1,387**	**698**	**188**	**308**	**310**
Total	**6,019**	**2,366**	**1,520**	**1,157**	**1,222**
Additional regulatory specific provisions (2)			471		
General reserve for credit losses (4)			2,826		

(1) *Impaired facilities includes $239 million of restructured loans (March 2010: $465 million). These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty (September 2010: Nil, March 2010: $281m).*

Impaired facilities includes $284 million of gross impaired fair value assets (March 2010: $344 million).

In the United States there is US$133 million (March 2010: US$9 million) of "Other Real Estate Owned" assets where the Group assumed ownership or foreclosed in the settlement of debt. Of this amount, US$111 million (March 2010: US$ nil) 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 AIFRS excluding securitisation. All collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures, have been reported as additional regulatory specific provisions and shown in this report as a separate item.*

Specific provisions includes $115 million (March 2010: $111 million) of gross impaired fair value assets.

(3) *Great Western Bank, as a result of the acquisition of certain assets of TierOne Bank in June 2010, had past due facilities > 90 days of $228 million as at September 2010. There is an agreement with the FDIC where the FDIC absorbs 80% of credit losses arising on the loan portfolio and related assets acquired from TierOne Bank. This agreement excludes approximately US$127 million in agricultural loans and US$44 million in consumer loans, as at June 2010, from the total lending portfolio.*

(4) *The General Reserve for Credit Losses ("GRCL") at 30 September 2010 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,570*
Less collective provisions for securitisation and management overlay for conduit assets and derivatives	*(170)*
Less collective provisions reported as additional regulatory specific provisions	*(471)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,929*
Less tax effect	*(801)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,128*
Plus reserve created through a deduction from retained earnings	*698*
General reserve for credit losses (after-tax basis)	*2,826*

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

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

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

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

Factors Impacting Loss Experience in the Preceding Period

Non-Impaired facilities 90+ Days Past Due

90+ days past due facilities increased moderately during the September 2010 half year.

The reduction in Corporate (including SME) 90+ days past due facilities from March 2010 was partly due to changes to the classification of the commercial property portfolio meeting the slotting criteria. This resulted in a reclassification of some Corporate exposures to Specialised Lending (Income Producing Real Estate).

In addition, there was a decline in the 90+ days past due facilities for Corporate (within both IRB and Standardised) due to a general reduction in lending defaults across various industries.

The reduction in 90+ days past due facilities was also evident within Residential Mortgages (IRB), further demonstrating the resilience of the retail lending portfolio.

In June 2010, Great Western Bank acquired certain assets of TierOne Bank that had $228 million of 90+ days past due facilities as at September 2010. The Federal Deposit and Insurance Corporation ("FDIC") absorbs 80% of the credit losses arising on the loan portfolio[1] and related assets through this acquisition.

Impaired facilities

Impaired facilities (inclusive of gross impaired fair value assets) have increased modestly during the September 2010 half year, with the majority of the increase concentrated in business lending facilities within Australia and the UK.

The largest increase was experienced in the Specialised Lending portfolio predominately due to the reclassification of some Corporate exposures (as outlined above) and a further increase in commercial property impairments. This has been partially offset by an improvement in residential mortgage (IRB) facility impairments. This improvement was driven mainly by the Australian mortgages portfolio.

Also, during the September 2010 half year, impaired facilities measured under the standardised approach have increased, reflecting the challenging economic conditions in the UK.

Charges for specific provisions

In the September 2010 half year, the total charge for specific provisions increased when compared to the March 2010 half year. This was primarily due to higher charges for IPRE supervisory slotting and higher specific provision charges for Corporate facilities in the UK, offset partly by a reduction in other standardised approach charges.

Net Write-Offs

Net write-offs increased modestly from $1,020 million for the March 2010 half year to $1,222 million during the September 2010 half year, however are well down from the September 2009 half year. As the global economy improves, the Group continues to manage bad debt write-offs. The gross 12 months rolling write-off rate for the Group's total retail portfolio has remained steady from March 2010 and residential mortgage write-offs remain low.

(1) There is an agreement with the FDIC where the FDIC absorbs 80% of credit losses arising on the loan portfolio and related assets acquired from TierOne Bank, excluding approximately US$127 million in agricultural loans and US$44 million in consumer loans, as at June 2010.

Table 5.1H: Loss Experience

This table represents the regulatory expected loss (which are forward-looking loss estimates based on the quality of the current portfolio) compared to the actual losses over the last 12 months. 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 best estimates of loss which represent the assessed provisions.*

	12 months ended 30 Sep 10	As at 30 Sep 09
	Actual loss (net write-offs)	Regulatory expected loss
	$m	$m
IRB approach		
Corporate	889	2,950
Sovereign	-	3
Bank	34	83
Residential mortgage	112	734
Qualifying revolving retail	204	221
Retail SME	92	252
Other retail	111	182
Total IRB approach	**1,442**	**4,425**

	12 months ended 30 Sep 09	As at 30 Sep 08
	Actual loss (net write-offs)	Regulatory expected loss
	$m	$m
IRB approach		
Corporate	836	2,057
Sovereign	-	-
Bank	-	18
Residential mortgage	144	655
Qualifying revolving retail	152	226
Retail SME [(1)]	23	-
Other retail	122	149
Total IRB approach	**1,277**	**3,105**

[(1)] *Effective 30 September 2009 the Group segmented the Retail SME portfolio classification (which was previously included in the Group's corporate portfolio) excluding BNZ which was approved to segment post 30 September 2009 by RBNZ. Hence there was no Retail SME regulatory expected loss as at 30 September 2008.*

Table 5.1I: Provisions by Industry

This table shows provisioning information by industry. Industry classifications follow ANZSIC Level 1 classifications. The calculation of these balances is consistent with the corresponding disclosure requirements in Table 5.1G Provisions by Asset Class. Totals do not include amounts relating to non-lending assets, equities or securitisation.

	As at 30 Sep 10			6 months ended 30 Sep 10	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions	Net write-offs
	$m	$m	$m	$m	$m
Industry sector					
Accommodation, cafes, pubs and restaurants	393	40	97	79	124
Agriculture, forestry, fishing and mining	867	47	220	84	83
Business services and property services	180	62	92	70	47
Commercial property	2,340	410	421	351	273
Construction	258	42	45	60	15
Finance and insurance	475	12	166	43	57
Manufacturing	233	39	56	28	92
Personal	23	156	11	161	230
Residential mortgages	675	1,179	145	62	66
Retail and wholesale trade	273	89	131	89	48
Transport and storage	60	18	21	56	56
Other	242	272	115	74	131
Total	**6,019**	**2,366**	**1,520**	**1,157**	**1,222**
Additional regulatory specific provision			471		

	As at 31 Mar 10			6 months ended 31 Mar 10	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions	Net write-offs
	$m	$m	$m	$m	$m
Industry sector					
Accommodation, cafes, pubs and restaurants	318	50	145	125	22
Agriculture, forestry, fishing and mining	692	65	199	76	62
Business services and property services	170	58	70	36	30
Commercial property	2,032	437	332	244	130
Construction	163	50	46	13	9
Finance and insurance	494	25	189	-	99
Manufacturing	272	45	117	54	105
Personal	26	174	16	235	265
Residential mortgages	746	1,188	155	51	54
Retail and wholesale trade	305	88	147	111	186
Transport and storage	45	14	25	11	15
Other	538	52	140	122	43
Total	**5,801**	**2,246**	**1,581**	**1,078**	**1,020**
Additional regulatory specific provisions			572		

Table 5.1J: Provisions by Geography

	As at 30 Sep 10			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
	$m	$m	$m	$m
Geographic region				
Australia [(1)]	3,539	1,556	1,012	2,161
Europe	1,813	434	300	955
New Zealand	591	148	184	215
Other [(2)]	76	228	24	69
Total [(3)]	**6,019**	**2,366**	**1,520**	**3,400**
Regulatory specific provisions			471	(471)
Less tax effect				(801)
Plus reserve created through retained earnings				698
General reserve for credit losses				**2,826**

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

(2) *'Other' comprises United States of America and Asia.*

(3) *The GRCL balance allocated across geographic regions of $3,400 million includes $2,855 million of provisions on loans at amortised cost and $545 million of provisions held on assets at fair value.*

	As at 31 Mar 10			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
		$m	$m	$m
Geographic region				
Australia	3,445	1,544	1,051	2,173
Europe	1,709	481	318	952
New Zealand	570	221	193	208
Other	77	-	19	87
Total	**5,801**	**2,246**	**1,581**	**3,420**
Regulatory specific provisions			572	(572)
Less tax effect				(766)
Plus reserve created through retained earnings				738
General reserve for credit losses [(1)]				**2,820**

(1) *The GRCL balance allocated across geographic regions of $3,420 million includes $2,982 million of provisions on loans at amortised cost and $438 million of provisions held on assets at fair value*

Table 5.1K: Movement in Provisions

This table discloses the reconciliation of changes in provisions. It shows 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 10	6 months ended 31 Mar 10
	$m	**$m**
General reserve for credit losses		
Collective provision balance at start of period	2,982	2,918
Total charge to income statement for impairment loss	1,043	1,213
Net transfer to specific provision	(1,157)	(1,078)
Recoveries	-	-
Balances written off	-	-
Acquisition of controlled entities	-	9
Foreign currency translation and other adjustments	(13)	(80)
Collective provision on loans at amortised cost	2,855	2,982
Plus provisions held on assets at fair value (1)	545	438
Less additional regulatory specific provisions	(471)	(572)
Less tax effect	(801)	(766)
Plus reserve created through retained earnings	698	738
General reserve for credit losses	**2,826**	**2,820**
Specific provisions		
Balance at start of period	1,470	1,444
Net transfer from general reserve for credit losses	1,157	1,078
Bad debts recovered	103	74
Bad debts written off	(1,325)	(1,094)
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	-	(32)
Specific provisions excluding provisions for assets at fair value	1,405	1,470
Specific provisions held on assets at fair value	115	111
Additional regulatory specific provisions	471	572
Total regulatory specific provisions	**1,991**	**2,153**
Total provisions	**4,817**	**4,973**

(1) *Provisions held on assets at fair value are presented gross of $9 million regulatory specific provisions for assets held at fair value (March 2010: $11 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 risk capital for Clydesdale Bank PLC, 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 UK FSA, Clydesdale Bank PLC uses the standardised methodology in the Basel II Framework, as interpreted by the UK FSA. Clydesdale Bank, 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.

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. For the purposes of this disclosure, an ADI's outstandings represent its exposure (drawn balances plus EaD on undrawn) after risk mitigation.

	As at 30 Sep 10		As at 31 Mar 10	
	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%	8,918	8,915	7,720	7,717
20%	3,373	2,935	6,572	2,916
35%	20,621	20,593	18,867	18,838
50%	6,061	6,058	6,102	5,768
75%	4,257	4,255	4,317	4,316
100%	48,376	47,215	45,752	43,999
150%	1,604	1,596	1,593	1,589
Total standardised approach (EaD) (1)	**93,210**	**91,567**	**90,923**	**85,143**

(1) *The Group recognises the mitigation of credit risk as a result of eligible financial collateral and mitigation providers. Eligible financial collateral, under the Standardised approach, when used to reduce levels of exposure refers to cash and cash equivalents as defined in APRA Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk ("APS 112").*

Table 5.2B: Standardised Exposures by Risk Grade

Asset class by rating grade	As at 30 Sep 10 Credit exposure before risk mitigation $m	As at 30 Sep 10 Credit exposure after risk mitigation $m	As at 31 Mar 10 Credit exposure before risk mitigation $m	As at 31 Mar 10 Credit exposure after risk mitigation $m
Australian and foreign governments				
Credit rating grade 1	3,659	3,637	2,559	2,609
Credit rating grade 2	205	-	206	-
Credit rating grade 3	-	-	-	-
Unrated	-	-	-	-
Sub-total	3,864	3,637	2,765	2,609
Bank				
Credit rating grade 1	6,180	6,600	10,295	6,628
Credit rating grade 2	31	31	128	128
Unrated	1,402	163	776	25
Sub-total	7,613	6,794	11,199	6,781
Residential mortgage				
Unrated	40,155	40,072	38,850	38,770
Sub-total	40,155	40,072	38,850	38,770
Corporate				
Credit rating grade 4	20	20	-	-
Unrated	29,780	29,340	30,194	29,101
Sub-total	29,800	29,360	30,194	29,101
Other				
Unrated	11,778	11,704	7,915	7,882
Sub-total	11,778	11,704	7,915	7,882
Total standardised approach (EaD)	**93,210**	**91,567**	**90,923**	**85,143**

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 APS 113 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 after risk mitigation amount in each risk bucket, subject to the supervisory risk weights in IRB (any Specialised Lending products subject to supervisory slotting), where the aggregate exposure in each risk bucket is disclosed. For the purposes of this disclosure, an ADI's outstandings represent its exposure (drawn balances plus a credit conversion factor on undrawn balances) after risk mitigation.

	As at 30 Sep 10 Exposure after risk mitigation $m	As at 31 Mar 10 Exposure after risk mitigation $m
IRB supervisory slotting – unexpected loss risk weights		
0%	2,247	1,304
70%	19,593	15,047
90%	17,893	12,800
115%	6,078	4,354
250%	1,519	1,191
Total IRB supervisory slotting (EaD) (1)	**47,330**	**34,696**
IRB equity exposure – risk weights		
300%	106	63
400%	256	268
Total IRB equity exposure (EaD)	**362**	**331**

(1) *Exposures are reported after credit risk mitigation and net of any specific provisions.*

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 regulatory capital for its retail and non-retail credit portfolios for its Australian, New Zealand[1] and Wholesale Banking operations.

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

The Group uses a defined internal credit risk rating system, to assess credit risk. This is reviewed annually. Non-retail customers are assessed individually using a combination of expert judgement and statistical risk rating tools. For retail customers, scorecards are the primary method of risk rating.

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

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 economic cycle. TTC PDs are used for regulatory capital calculation.

The Group has a common masterscale across all counterparties (non-retail and retail) for PD. This PD masterscale can be broadly mapped to External Rating Agency scales. The PD masterscale has both performing (pre-default) and non-performing (post default) grades.

The Group's PD models include both financial and non-financial data. Factors for non-retail models typically include financial ratios, industry factors, relevant external data and behavioural and qualitative components such as management ability, industry outlook, years of experience and track record. Retail models use factors such as application scores, behavioural scores, delinquency and limit utilisation. Factors are regression-tested on empirical data using standard industry techniques, such as logistic regression, to determine the optimal factor weightings, and to construct a robust and predictive model. Expert judgement is also applied to ensure that the model outcomes align to known business practices and experience.

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 amount of recoveries achieved following default.

The Group uses defined factors for all of its LGD models. These include standard data such as recoveries, write-offs, time value of money and post-default management costs. 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. The Group's LGD models have been updated to reflect more recent loss experience.

For loans secured by residential property, APRA has mandated the use of a supervisory floor for LGD of 20%.

Exposure at Default ("EaD")

EaD is calculated according to the facility type. The Group's EaD models predict the exposure that a customer is likely to have outstanding if they were to default in the next 12 months. This exposure includes principal, fees and interest owed at the time of default and is based on the Group's internal data.

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

Use of PD, LGD and EaD

Through the cycle, PD, LGD and EaD estimates are used for various regulatory and internal Credit Risk calculations, such as Regulatory Expected Loss, RWA, AIFRS provisioning and economic capital. The linkage between the model's inputs and the varying Credit Risk calculations are shown below.

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 annual review involves a detailed analysis of model performance against established benchmarks. The review assesses business processes to ensure the models' assumptions remain valid and revisits the risk drivers used in the model. It includes assessment of external data where available, as well as technological advancements. Any new risk drivers are measured against existing drivers, and if stronger predictors are found, these are incorporated into future enhancements of the model.

The Group's model validation methodology involves the selection of a set of customers with similar characteristics over a 12 month period. The validation process captures all pre-default and post-default events for these customers and assesses the outcomes in line with model prediction. This methodology is applied to the validation of all credit models

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

The Group defines four broad asset classes within the non-retail credit portfolios:

- Bank;
- Corporate, including Small and Medium Enterprises ("SMEs");
- Sovereigns; and
- Specialised Lending.

The Group measures credit risk on a more granular basis along the following non-retail customer segments:

- Agriculture;
- Bank;
- Commercial Real Estate;
- Large Corporate;
- Middle Market;
- Non-Bank Financial Institutions ("NBFI");
- SME; and
- Sovereigns.

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 code;
- Financial information available; and
- Net sales/total assets and exposure.

Specific PD models are used to assess risk for all non-retail customer segments. The Australian and New Zealand business units utilise either global models or models specific to each geography, while Wholesale Banking utilises models based on the counterparty's risk location.

PD models use both financial and non-financial data expressed as factors, with assigned weights derived using statistical analysis. These weights measure the relationship between the value of the factor and the historically observed PD for that segment.

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

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

While factors predictive of default have broad similarities across segments (e.g., debt service capability, management quality), the modelling process, based on internal empirical data, 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.

Non-Retail – Exposure at Default Models

Exposure at Default ("EaD") is calculated according to the facility type. EaD consists of the principal, fees and interest owed at the time of default. The EaD models predict the exposure that a facility will have outstanding if the customer was to default in the next 12 months.

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 empirical data.

Specific models are used to assess the EaD based on the following product groups:

- Accommodation limits;
- Bills and acceptances;
- Business credit cards;
- Current accounts (overdraft and transaction accounts);
- Current accounts (debtor finance);
- Guarantees;
- International products;
- Leasing; and
- Term lending.

Non-Retail – Loss Given Default Models

LGD for the non-retail portfolio is calculated by using a set of estimated parameters including loss given realisation ("LGR") and the probability of realisation occurring subsequent to default. LGD is calculated by business segment, as the quantity of data to support modelling as well as business practices and unsecured recovery experience differ by segment.

LGR is a major component of LGD. LGR is the rate of loss sustained 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 into bank value calculations through an adjustment to the market value of the asset.

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

- Relevant external benchmarks;
- Recovery rates;
- Time value of money; and
- Write-offs.

Where limited internal default data exists, data is supplemented by international benchmarks, market data and expert judgement. The economic downturn estimates are based on a combination of external estimates, external data and expert judgement.

While the non-retail LGD models a point estimate for the calculation of regulatory capital, in practice, exposures are categorised into ten segments. Segments start from "A" representing a well-secured loan through to "J" for an unsecured loan.

Retail Credit - Internal Ratings Process

There are four asset classes for retail credit:

(i) Residential mortgages, including lending to owner occupiers and residential property investors, consisting of:
  - Term home loan products (including interest only loans); and
  - Revolving home loan products.

(ii) Qualifying revolving retail exposures consisting of retail credit card exposures (except for BNZ where RBNZ rules classify these exposures as Other Retail).

(iii) Other retail exposures, consisting of:
  - Personal loan products (including any secured personal loans products);
  - Overdraft products;
  - Transaction account exposures, which capture all retail operational accounts that have created an overdrawn position without the formal approval of the Group; and
  - BNZ Credit Cards (which are classified as Other Retail under RBNZ rules).

(iv) Retail SME[1], consisting of small business lending and Australian agriculture where the total aggregated business related exposures of the obligor and its related entities are less than $1 million.

Risk models for PD, LGD and EaD have been developed for these key portfolios using internal data.

Retail Credit – Probability of Default Models

Retail PD models include the results of operational scorecards (application and behaviour scores) and transactional characteristics, such as limit utilisation and delinquency, that are relevant to each of the products. External information, in the form of credit bureau data, is used in the application scorecards which are a key component of the PD models. Monthly updates of behaviour scores and the relevant account transactional characteristics (limit utilisation) are assessed and each account is "scored" to assign a PD. This "scoring" process allows groups of accounts with similar scores to be pooled together and mapped to the PD masterscale, to apply a PD rating to that group of accounts.

Appropriate long run adjustments have been made to the models to account for performance over an economic cycle. The average default performance over a full economic cycle is assessed using historical actual default data for each portfolio along with relevant external data and expert judgement. Based on the internal assessment of where we are in the economic cycle, adjustments are made to the assigned PD rate. This internal assessment is based on expert judgement and represents a key assumption within the models.

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. Appropriate characteristics, such as delinquency and current limit utilisation are used for CCF models to 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. The historical performance of defaulted loans between point of observation and point of default is used to derive the appropriate scaling factors.

In the CCF models, specific characteristics are used to derive groups of accounts with similar profiles. These groups are used to apply an assigned CCF value to accounts to allow calculation of the EaD estimate.

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 (initial loss less recoveries achieved) incurred by the Group on these accounts. Internal data is also used to estimate all costs incurred by the Group for both cured and written-off loans to ensure that estimates of LGD are based on an assessment of economic loss.

Adjustments based on external data and expert judgement are made to account for a downturn in the economic cycle, and applied by varying the cure and recovery rates used to determine the final downturn LGD estimates. Assessments based on expert judgement represent a key assumption within the models.

The characteristics used in the LGD models are used to derive groups of accounts with similar profiles and these groups are used to apply an assigned LGD to accounts.

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%.

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

(1) Retail SME exposures are subject to Non-Retail IRB models.

Portfolios Subject to IRB Approach

Table 5.3A: Non-Retail Exposure by Risk Grade

This table provides a break down of gross non-retail credit exposures by PD risk grade for on- and off-balance sheet combined, 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 10						
	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 [(1)]							
Corporate	1,549	27,485	41,216	66,120	24,694	2,085	5,037
Sovereign	22,268	2,947	32	27	12	-	1
Bank	34,205	27,226	3,000	484	23	-	71
Total exposure (EaD)	**58,022**	**57,658**	**44,248**	**66,631**	**24,729**	**2,085**	**5,109**
Undrawn commitments							
Corporate	408	10,222	12,067	9,633	3,094	106	329
Sovereign	524	181	9	9	3	-	-
Bank	277	689	24	15	-	-	2
Total undrawn commitments [(2)]	**1,209**	**11,092**	**12,100**	**9,657**	**3,097**	**106**	**331**

IRB approach							
Exposure weighted average EaD ($m) [(3)]							
Corporate	0.64	0.89	0.49	0.28	0.23	0.37	0.60
Sovereign	12.12	1.20	0.14	0.03	0.20	-	0.04
Bank	3.09	1.53	1.09	0.98	0.45	-	8.92
Exposure weighted average LGD (%)							
Corporate	45.5%	45.6%	41.9%	34.3%	36.4%	44.5%	48.1%
Sovereign	5.9%	29.8%	44.1%	44.1%	44.6%	-	39.0%
Bank	27.0 %	30.0 %	29.3%	35.1%	59.6%	-	59.6%
Exposure weighted average risk weight (%)							
Corporate	14.1%	26.8%	47.0%	69.5%	105.5%	229.1%	245.3%
Sovereign	1.0%	25.9%	49.6%	96.1%	158.0%	-	225.1%
Bank	5.8%	9.2%	32.0%	70.6%	218.9%	-	3.5%

(1) *Gross credit exposures are defined in Table 5.1A, 'Credit Risk Exposures Summary', on page 18 of this report.*

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

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

External credit rating equivalent	Aa3 and above	A1, A2, A3	Baa1, Baa2, Baa3	Ba1, Ba2, Ba3	B1, B2	B2 and below	Default
	As at 31 Mar 10						
	PD risk grade mapping						
	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	2,444	26,300	41,464	75,132	26,545	1,979	5,718
Sovereign	19,084	2,929	138	27	13	-	2
Bank	27,747	36,934	3,967	240	10	-	71
Total exposure (EaD)	**49,275**	**66,163**	**45,569**	**75,399**	**26,568**	**1,979**	**5,791**
Undrawn commitments							
Corporate	278	9,266	11,795	10,773	3,102	122	493
Sovereign	452	147	114	7	5	-	-
Bank	223	940	44	9	-	-	2
Total undrawn commitments	**953**	**10,353**	**11,953**	**10,789**	**3,107**	**122**	**495**

IRB approach							
Exposure weighted average EaD ($m)							
Corporate	0.81	0.80	0.43	0.27	0.23	0.32	0.57
Sovereign	10.24	1.50	0.67	0.03	0.21	-	0.03
Bank	2.34	1.99	1.81	0.45	0.33	-	11.86
Exposure weighted average LGD (%)							
Corporate	32.1%	46.4%	41.9%	32.8%	35.6%	38.7%	47.0%
Sovereign	5.8%	32.0%	44.9%	44.0%	44.6%	-	39.0%
Bank	30.8%	23.5%	20.2%	52.9%	59.6%	-	59.6%
Exposure weighted average risk weight (%)							
Corporate	12.6%	27.7%	47.1%	66.3%	103.3%	195.4%	281.3%
Sovereign	0.5%	23.9%	76.2%	96.5%	156.1%	-	204.9%
Bank	6.5%	6.9%	23.0%	117.4%	198.2%	-	1.1%

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 10						
	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 (1)							
Residential mortgage	32,452	68,337	36,150	72,325	12,816	2,597	1,830
Qualifying revolving retail	3,100	2,196	1,001	2,175	1,328	416	61
Retail SME	143	3,016	611	10,829	4,742	258	582
Other retail	737	803	263	1,360	1,106	292	68
Total exposure (EaD)	**36,432**	**74,352**	**38,025**	**86,689**	**19,992**	**3,563**	**2,541**
Undrawn commitments							
Residential mortgage	11,121	12,387	4,303	4,722	169	16	9
Qualifying revolving retail	2,437	1,340	620	565	162	27	1
Retail SME	35	845	187	1,809	534	13	70
Other retail	529	272	70	220	84	30	2
Total undrawn commitments (2)	**14,122**	**14,844**	**5,180**	**7,316**	**949**	**86**	**82**

IRB approach							
Exposure weighted average EaD ($m)							
Residential mortgage	0.04	0.21	0.20	0.30	0.32	0.26	0.18
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.06	0.03	0.04	0.04	0.04	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%	20.1%	20.3%	20.2%	20.2%	20.7%	21.4%
Qualifying revolving retail	83.4%	84.1%	84.4%	86.1%	86.9%	87.3%	89.0%
Retail SME	24.3%	31.2%	26.4%	33.1%	34.8%	36.1%	44.4%
Other retail	80.8%	79.0%	79.9%	77.9%	77.3%	72.5%	65.2%
Exposure weighted average risk weight (%)							
Residential mortgage	3.5%	8.1%	15.6%	29.9%	66.7%	110.1%	192.0%
Qualifying revolving retail	3.9%	8.5%	17.1%	41.4%	112.4%	223.7%	308.3%
Retail SME	5.5%	15.7%	18.7%	38.1%	53.5%	82.0%	293.3%
Other retail	12.7%	29.9%	55.8%	92.2%	121.3%	163.3%	290.6%

(1) *Gross credit exposures are defined in Table 5.1A, 'Credit Risk Exposures Summary', on page 18 of this report.*

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

	As at 31 Mar 10						
	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	31,234	64,712	33,688	66,325	12,919	2,858	1,899
Qualifying revolving retail	3,004	2,109	1,039	2,161	1,252	494	61
Retail SME	104	2,829	232	8,801	4,135	270	578
Other retail	747	814	274	1,342	1,152	343	84
Total exposure (EaD)	**35,089**	**70,464**	**35,233**	**78,629**	**19,458**	**3,965**	**2,622**
Undrawn commitments							
Residential mortgage	10,694	12,249	4,035	4,584	172	25	4
Qualifying revolving retail	2,326	1,282	641	534	147	31	1
Retail SME	12	729	40	1,422	466	16	68
Other retail	532	288	79	228	94	40	1
Total undrawn commitments	**13,564**	**14,548**	**4,795**	**6,768**	**879**	**112**	**74**

IRB approach							
Exposure weighted average EaD ($m)							
Residential mortgage	0.04	0.20	0.20	0.29	0.31	0.25	0.18
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.06	0.03	0.05	0.03	0.04	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%	20.1%	20.3%	20.2%	20.2%	20.8%	21.2%
Qualifying revolving retail	83.4%	84.0%	84.3%	86.1%	87.0%	87.3%	88.9%
Retail SME	23.8%	30.9%	28.5%	33.7%	34.1%	36.5%	44.4%
Other retail	80.9%	79.1%	79.8%	78.5%	77.1%	70.9%	69.9%
Exposure weighted average risk weight (%)							
Residential mortgage	3.5%	8.1%	15.6%	28.5%	66.6%	109.2%	194.6%
Qualifying revolving retail	4.0%	8.4%	17.4%	41.9%	114.6%	225.9%	294.4%
Retail SME	5.1%	15.6%	20.6%	38.7%	52.5%	83.4%	290.4%
Other retail	12.9%	29.7%	55.6%	92.1%	121.0%	161.8%	243.2%

5.4 Credit Risk Mitigation

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

Credit Risk Mitigation commences with an objective credit evaluation to assess the integrity of the counterparty, and the willingness and ability of the counterparty to service and repay the facility without duress. Wherever possible, the Group obtains security for the funds being advanced ensuring that the collateral held is sufficiently liquid, legally valid, enforceable and regularly valued.

The Group holds various forms of collateral. These commonly include residential and commercial property, cash, fixed income products including government bonds and letters of credit as well as other fixed assets. Non-cash collateral is assessed and recorded at both market value and 'bank value', a more conservative assessment of the collateral's value in the event that the security is realised.

The Group embeds the rules for establishing the amount and quality of collateral in credit risk policy. Independent credit officers, as part of the credit risk management infrastructure of the Group, provide oversight and approval to the establishment, change or withdrawal of collateral and other security arrangements.

The Group's portfolio management area is responsible for managing the overall risk of the corporate, sovereign and bank credit portfolios. If weaknesses are detected, the area uses a variety of techniques to mitigate the risk. These techniques (in consultation with the customer, client or counterparties where appropriate) include the use of credit derivatives and, sometimes, the sale of the loan assets.

The Group uses internal reporting systems to record, monitor and report credit exposure arising from derivative transactions, securities sales and purchases, money market lines, commodities, trade and foreign exchange transactions. These reporting systems are also used to capture country risk exposures for country economic capital limit purposes.

All customers with approved derivative, money market, credit line and/or credit trading facility limits must have all limits recorded in the Group's internal reporting systems.

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 records and maintain limits, operating independently from relationship managers, dealers and credit approvers. Records must accurately reflect the written approval of the credit authority holder.

Relationship managers are ultimately accountable for what is recorded in Group systems and have the responsibility for advising the administration unit of limit requirements and for verifying limits following any review/amendment.

The Group uses Credit Exposure Netting to reduce the level of recognised exposure to counterparty risk. Credit Exposure Netting is subject to legal documentation being in place. The Group's credit exposure measurement and reporting system manages netting pools in accordance with that documentation.

Credit Exposure Netting agreements in approved jurisdictions may take the form of International Swaps & Derivatives Association ("ISDA") agreements or other netting agreements as approved by the Group.

The approved jurisdictions for Credit Exposure Netting agreements used by the Group are Australia, Austria, Belgium, Bermuda, British Virgin Islands, Canada, Cayman Islands, Denmark, England/Wales, Finland, France, Germany, Guernsey, Hong Kong SAR, Iceland, Italy, Japan, Jersey, Luxembourg, New Zealand, Northern Ireland, Norway, Portugal, Republic of Ireland, Scotland, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, The Bahamas, The Netherlands and The United States of America.

Credit hedging in the banking book is managed to avoid counterparty concentrations against protection sellers and achieve portfolio diversification. In addition, credit risk to individual hedge counterparties is managed through careful selection of investment grade equivalent counterparties and using collateral agreements to manage net exposures.

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 10	
	Total exposure	of which is covered by eligible financial collateral [1]
	$m	$m
Specialised lending (SL)	**47,433**	**103**
Standardised approach		
Australian and foreign governments	3,864	227
Bank	7,613	819
Residential mortgage	40,155	83
Corporate	29,800	440
Other	11,778	74
Total standardised approach	**93,210**	**1,643**

(1) *Eligible financial collateral, when used to reduced 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 10	
	Total exposure	of which is covered by eligible financial collateral
	$m	$m
Specialised lending (SL)	**35,485**	**789**
Standardised approach		
Australian and foreign governments	2,765	156
Bank	11,199	4,418
Residential mortgage	38,850	80
Corporate	30,194	1,093
Other	7,915	33
Total standardised approach	**90,923**	**5,780**

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 10		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	168,186	16,457	271
Sovereign	25,287	2	-
Bank	65,009	417	1,230
Residential mortgage	226,507	-	-
Qualifying revolving retail	10,277	-	-
Retail SME	20,181	-	-
Other retail	4,629	-	-
Total IRB approach	**520,076**	**16,876**	**1,501**
Specialised lending (SL)	**47,433**	**-**	**-**
Standardised approach			
Australian and foreign governments	3,864	-	-
Bank	7,613	419	-
Residential mortgage	40,155	-	-
Corporate	29,800	1	-
Other	11,778	-	-
Total standardised approach	**93,210**	**420**	**-**

	As at 31 Mar 10		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	179,582	17,028	-
Sovereign	22,193	2	-
Bank	68,969	599	1,766
Residential mortgage	213,635	-	-
Qualifying revolving retail	10,120	-	-
Retail SME	16,949	-	-
Other retail	4,756	-	-
Total IRB approach	**516,204**	**17,629**	**1,766**
Specialised lending (SL)	**35,485**	**-**	**-**
Standardised approach			
Australian and foreign governments	2,765	-	-
Bank	11,199	421	-
Residential mortgage	38,850	-	-
Corporate	30,194	1	-
Other	7,915	-	-
Total standardised approach	**90,923**	**422**	**-**

5.5 Counterparty Credit Risk

The Group uses an internal monitoring and control system to record, monitor and report credit exposure arising from derivative transactions, securities sales and purchases, money market lines, commodities, trade and foreign exchange transactions.

All customers with approved derivative, money market, credit line and/or credit trading facility limits must have all limits recorded in the Group's internal monitoring and control system. The limits will vary depending on the counterparty's level of expertise in financial markets risk management techniques.

Credit exposure is measured using an approach where the current mark-to-market value of each transaction is added to the notional principal multiplied by the Potential Credit Exposure ("PCE"). The PCE factors used are intended to reflect the potential movement in the mark-to-market value over the remaining term to maturity.

Limit excesses, whether they are active or passive, are subject to formal approval based on delegated authority within the internal monitoring and control system.

Limit Setting

Credit risk concentration limits, expressed in economic capital terms, are set for industry segments (including commercial real estate), country and single-large exposures. Economic Capital Limits are approved annually (and renewed tri-annually) by the Principal Board as part of the Group's Risk Appetite Statement and Corporate planning process. Credit limits are approved and assigned based on transaction complexity and counterparty credit ratings.

Monitoring of compliance with credit risk limits for industry and country exposures is based on the total Group Risk Appetite Statement economic capital position, determined at the beginning of the plan year and apportioned to individual countries and industries.

The Group's framework for credit risk economic measurement and allocation models credit risk on a portfolio-wide basis. The model employs Monte Carlo simulation techniques and methodologies to generate many possible future realisations of the credit portfolio. By doing this, a representation of the portfolio's expected loss distribution based on estimates of counterparty unexpected loss ("UL") and pair-wise default correlation is constructed.

Credit risk economic capital is calculated at the 99.97% percentile cut-off of the loss distribution, in line with the Group's target level of solvency, measured over a one-year horizon. Credit risk economic capital is then allocated to individual counterparty exposures based on their relative risk contribution to UL.

Credit limits are approved and assigned based on transaction complexity and counterparty credit ratings.

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.

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.

An initial margin is lodged as security once the counterparty's net position is out-of-the-money and is retained for the life of the transaction. The Group seeks all counterparties rated BB+/Ba1 or below to lodge an initial margin of US$5 million.

A credit downgrade may be an additional termination event in an ISDA agreement. In such a case, the counterparty can, at its option, terminate the ISDA on occurrence of the event.

In the event of a multiple rating downgrade, the Group would have limited requirements to post collateral across unutilised stand-by liquidity facilities provided to conduits. However, the Bank has restructured funding to conduits where the majority is now warehouse funded and would not be subject to downgrade requirements.

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. Hence, credit exposures and potential losses may increase under these circumstances as a result of market conditions. The Group addresses wrong way risk through application of its credit policies and procedures, and through the transaction credit decisions made by its credit officers.

6. Securitisation

Introduction

This section provides information about the Group's securitisation activities and approach to ensuring a robust and effective risk management framework.

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 overall market risk process.

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 wound down by the Group as part of the Specialised Group Assets portfolio; and
- Securitisation of its own assets for funding, liquidity (including contingent liquidity), risk and capital management purposes.

Securitisation exposures are on- and off-balance sheet risk positions held by the Group arising from a securitisation including, but not limited to:

- Investments by the Group in securities issued by a securitisation SPV, including retention of a subordinated tranche of securities issued by an SPV;
- Other credit enhancements, such as guarantees and letters of credit provided by the Group;
- Drawn and undrawn warehouse, liquidity and other facilities provided by the Group to a securitisation SPV; and
- Exposures arising from swaps and other derivative transactions with a SPV.

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 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 a SPV through a derivative, usually a credit default swap.

The Group's assessment and management of securitisation risk is governed by *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 a 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. Credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the Group, usually using credit default swaps.
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. 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.
Manager	Operator of securitisation SPVs, including managing assets and liabilities and providing accounting and administrative services.
Redraw provider	Provider of liquidity to cover redraws for residential mortgage-backed bonds.
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 provider	Purchaser of securitisation debt securities for either trading or banking book purposes.
Sponsor	The entity that establishes the securitisation SPVs including Asset-Backed Commercial Paper ("ABCP") conduits and often provides other services. Group-sponsored ABCP conduits are Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation.
Standby liquidity provider	Provider of liquidity facilities to a SPV to cover the inability of the SPV to roll over ABCP.
Warehouse facility provider	Provider of lending (warehouse) facilities to a SPV for the financing of exposures in a pool. This may be on a temporary basis pending the issue of securities or on an ongoing basis.

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 Wholesale Banking RMC endorses, and the PBRC approves, the Third Party Asset Securitisation Policy, which sets out how securitisation activity is governed and managed within the Group.

The Group's frameworks for third party securitisation define the measurement of RWAs, including the use of the internal assessment approach, the risk appetite requirements as approved by the Principal Board, and satisfy regulatory and legal requirements, both at Group and business unit level.

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 Specialised Group Assets ("SGA") portfolio. SGA exposures comprise "non-franchise" activities (largely Northern Hemisphere originated exposures) and are set for an orderly run-off by the Group.

In addition to regular reporting on securitisation activities, PBRC, on behalf of the Principal Board, receives regular reporting on the governance and oversight of the SGA portfolio.

Third party securitisation activities follow the Group's credit decision making and oversight process. 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.

The Wholesale Banking Credit Risk function is responsible for independent credit decisions for securitisation transactions. It also monitors ongoing developments in securitisation markets and manages non-recurring business demands, limit breaches and escalation.

Management of operational risk associated with the Group's securitisation activities follows the Group's operational risk framework, which is outlined in *Section 8 Operational Risk*.

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. The main risk mitigants lie in the initial structuring and assessment of the transactions.

This is supported by the regime of reviews and reporting outlined below in the section on Monitoring and Reporting.

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 assets and the quality of the servicer of the assets, and specific structural enhancements such as trigger events. The Group also has securitisation exposures via the purchase of asset-backed securities for trading, investment portfolio or liquidity activities and the provision of derivatives through the trading book to securitisation SPVs.

Depending on the asset class, the Group uses either the ratings-based approach ("RBA"), 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; and
- 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 our 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

Measurement and reporting of securitisation profit and loss, and securitisation impact on capital and provisioning, are undertaken in accordance with requirements set by business unit finance functions.

Management risk reporting consists of a comprehensive system of regular reports and reviews, including:

- Regular securitisation management reporting, which reviews the underlying asset data;
- Monthly, quarterly and annual finance and management reports in relation to accounting; regulatory capital, security issuance and asset quality;
- Regular reporting to investors in the securitisation transactions;
- Regular reporting to rating agencies, APRA and the Australian Bureau of Statistics; and
- Exception reporting, where credit or other limits are exceeded.

More detailed reviews and continuous management are carried out for lower quality exposures where required.

Funding reports containing the global amount of ABCP and the funding of standby liquidity facilities are provided monthly, along with reports on the securitisation portfolio, the securitisation limit and the internal or external credit rating of the exposure to the Wholesale Banking Chief Risk Officer. Key elements of these reports are provided to the Wholesale Banking Credit Risk Committee, the GCRC and the GRMC.

Monthly reports on SGA transactions include market value, mark-to-model, internal and external ratings, comments on credit issues and detailed modelling and stress test results.

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 investments held to maturity in the SPVs, are brought onto the Group's balance sheet. Investments held to maturity 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 10				
	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	4,932	59	-	900	3,049
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	270	-	-	150	8
CDOs/CLOs	1,503	424	-	-	1,556
Commercial loans	-	65	-	-	-
Commercial mortgages	110	-	-	-	647
Corporate bonds	-	-	-	-	1,018
Other	500	-	-	-	1,468
Total underlying asset	**7,315**	**548**	**-**	**1,050**	**7,746**

	As at 31 Mar 10				
	Total outstanding exposures [(1)]				
	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	3,123	59	-	900	3,275
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	210	-	-	332	238
CDOs/CLOs	1,550	447	-	-	1,640
Commercial loans	-	70	-	-	-
Commercial mortgages	122	-	-	-	654
Corporate bonds	-	-	-	-	1,139
Other	335	-	-	-	1,637
Total underlying asset	**5,340**	**576**	**-**	**1,232**	**8,583**

(1) Prior to 2010 the aggregate 'Originating ADI' classification included securitisation exposures that previously involved ABCP funding. With the continued closure of ABCP markets NAB has re-classified these securitisation exposures across all the available classifications above. The 'ABCP facilities provided' classification now only includes securitisation exposures that currently support active ABCP issuance. March numbers have been restated on this basis.

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 10				
	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	4,932	59	-	900	3,049
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	270	-	-	150	8
CDOs/CLOs	2	-	-	-	1,556
Commercial loans	-	65	-	-	-
Commercial mortgages	110	-	-	-	647
Corporate bonds	-	-	-	-	1,018
Other	500	-	-	-	1,468
Total underlying asset	**5,814**	**124**	**-**	**1,050**	**7,746**

	As at 31 Mar 10				
	Total outstanding exposures [(1)]				
	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	3.123	59	-	900	3,275
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	210	-	-	332	238
CDOs/CLOs	8	-	-	-	1,640
Commercial loans	-	70	-	-	-
Commercial mortgages	122	-	-	-	654
Corporate bonds	-	-	-	-	1,139
Other	335	-	-	-	1,637
Total underlying asset	**3,798**	**129**	**-**	**1,232**	**8,583**

(1) *Prior to 2010 the aggregate 'Originating ADI' classification included securitisation exposures that previously involved ABCP funding. With the continued closure of ABCP markets NAB has re-classified these securitisation exposures across all the available classifications above. The 'ABCP facilities provided' classification now only includes securitisation exposures that currently support active ABCP issuance. March numbers have been restated on this basis.*

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 10				
	Total outstanding exposures				
	Non-originating ADI exposures	Originating ADI: Directly originated assets	Originating ADI: Indirectly originated assets	Originating ADI: ABCP facilities provided	Originating ADI: Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
CDOs/CLOs	1,501	424	-	-	-
Commercial loans	-	-	-	-	-
Commercial mortgages	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**1,501**	**424**	**-**	**-**	**-**

	As at 31 Mar 10				
	Total outstanding exposures [1]				
	Non-originating ADI exposures	Originating ADI: Directly originated assets	Originating ADI: Indirectly originated assets	Originating ADI: ABCP facilities provided	Originating ADI: Other (manager services)
	$m	$m	$m	$m	$m
Underlying asset					
Residential mortgage	-	-	-	-	-
Credit cards and other personal loans	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
CDOs/CLOs	1,542	447	-	-	-
Commercial loans	-	-	-	-	-
Commercial mortgages	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Other [1]	-	-	-	-	-
Total underlying asset	**1,542**	**447**	**-**	**-**	**-**

(1) *Prior to 2010 the aggregate 'Originating ADI' classification included securitisation exposures that previously involved ABCP funding. With the continued closure of ABCP markets NAB has re-classified these securitisation exposures across all the available classifications above. The 'ABCP facilities provided' classification now only includes securitisation exposures that currently support active ABCP issuance. March numbers have been restated on this basis.*

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 10	As at 31 Mar 10
	$m	$m
Securitisation exposure type		
Liquidity facilities	2,060	2,651
Warehouse facilities	10,922	11,406
Credit enhancements	66	123
Derivative transactions	150	167
Securities	98	31
Credit derivatives transactions	1,501	1,542
Other	2,110	9
Total securitisation exposures	**16,907**	**15,929**

Table 6.1E: New Facilities Provided

The table below shows new securitisation facilities provided in the six months to 30 September 2010.

	6 months ended 30 Sep 10	6 months ended 31 Mar 10
	Notional amount of facilities provided	
	$m	$m
Securitisation exposure type		
Liquidity facilities	123	13
Warehouse facilities	617	541
Credit enhancements	-	-
Derivative transactions	-	-
Securities	-	-
Credit derivatives transactions	-	-
Other	1,874	-
Total new facilities provided	**2,614**	**554**

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 10		As at 31 Mar 10	
	Exposure	RWA	Exposure	RWA
	$m	$m	$m	$m
Risk weight bands				
≤10%	6,143	444	3,938	280
> 10% ≤ 25%	4,266	666	4,923	814
> 25% ≤ 35%	253	87	209	72
> 35% ≤ 50%	991	495	989	494
> 50% ≤ 75%	378	270	319	229
> 75% ≤ 100%	2,226	2,226	2,804	2,804
> 100% ≤ 650%	2,150	6,915	2,259	7,355
Deductions	252	-	290	-
Total securitisation exposures	**16,659**	**11,103**	**15,731**	**12,048**

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 10						
	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	-	-	-	33	-	93	126
Deductions from Tier 2 capital	-	-	-	33	-	93	126
Total securitisation exposures deducted from capital	**-**	**-**	**-**	**66**	**-**	**186**	**252**

(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 10						
	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	1	-	-	34	-	110	145
Deductions from Tier 2 capital	1	-	-	34	-	110	145
Total securitisation exposures deducted from capital	**2**	**-**	**-**	**68**	**-**	**220**	**290**

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 also undertake the role of managing the securitisation, or of providing facilities for the securitisation (including credit enhancements, liquidity and funding facilities). These roles are consistent with those outlined in *Section 6.1 Third Party Securitisation*.

The Group may or may not retain an exposure to securitisation SPVs to which the Group has sold assets. As such the information in this section is not related to the information in *Section 6.1 Third Party Securitisation*.

Additionally, 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.

Structure and Organisation

The Principal Board, under the guidance of the PBRC, monitors and reviews the adequacy of the Group's securitisation framework as developed by management.

The Group Owned Asset Securitisation Policy, approved by the PBRC, sets out the principles and control framework for owned asset securitisation. Owned asset securitisation is a balance sheet management strategy that may be used to reduce funding risk. The policy specifies the risk appetite, delegated authorities and mandates, risk measurement, reporting and control standards. The policy applies to traditional securitisation, synthetic securitisation, and combinations of the two.

The Group Asset and Liability Committee ("GALCO") and regional Asset and Liability Committees ("regional 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.

GALCO and regional ALCOs are also responsible for the establishment of an annual Balance Sheet Risk Appetite Plan for Balance Sheet Risks, within the parameters set out in the Principal Board approved Risk Appetite Statement.

Risk appetite parameters are reviewed annually and are set out in the Group Annual Funding Plan, which includes the Securitisation Plan and the Wholesale Funding Plan, and the Group Capital Management Plan.

Management

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

- Securitisation strategy and plan development, ensuring alignment to the Group Strategic Plan. This incorporates the setting of funding indices and securitisation targets (forming part of the Annual Funding Plan). Setting of the Annual Funding Plan is covered in *Section 9.2 Funding & Liquidity Risk*;
- Execution of securitisation transactions. This includes pool building, due diligence, seeking internal and any regulatory approval, legal documentation, transaction execution and other compliance obligations; 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 Regional Treasuries. It has responsibility for policy development and maintenance, for monitoring securitisation activity to ensure it is conducted within the requirements of the Group's securitisation framework, and for maintaining a robust reporting and compliance framework.

Measurement

Securitisation exposures, risks and capital are governed by the requirements outlined in *APS 120*. The Group's framework for own asset securitisation is consistent with the framework outlined in *Section 6.1 Third Party Securitisation*. Clydesdale Bank PLC is also governed and reports own asset securitisation to the FSA using local regulatory methodology.

Monitoring and Reporting

Measurement and reporting on the impact to capital and provisioning are undertaken in accordance with requirements set by business unit finance functions. This encompasses:

- Total outstanding issuance and expected run-off of outstandings;
- Aggregate amount of securitisation exposures by exposure type;
- Amount of impaired/past due assets securitised; and
- Losses recognised during the current period broken down by exposure type.

Management risk reporting consists of regular reports and reviews, including:

- Regular securitisation management reporting which reviews the underlying asset data;
- Regular reporting to investors in the securitisation transactions; and
- Regular reporting to rating agencies.

Group Treasury, with oversight by Group Non-Traded Market Risk ("GNTMR"), is responsible for meeting all reporting requirements to GALCO, while regional Treasuries are responsible for meeting all reporting requirements to their respective regional ALCO and subsidiary Board.

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 10				
	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	4,780	-	19	46	-
Credit cards	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	1,666	-	-	-
Other	-	-	-	-	-
Total underlying asset	**4,780**	**1,666**	**19**	**46**	**-**

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

	As at 31 Mar 10				
	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	5,314	-	22	58	-
Credit cards	-	-	-	-	-
Auto and equipment finance	4	-	-	-	-
Commercial loans	-	1,758	-	-	-
Other	-	-	-	-	-
Total underlying asset	**5,318**	**1,758**	**22**	**58**	**-**

Table 6.2B: Recent Securitisation Activity

This table shows the amount of assets sold by the Group to securitisation SPVs in the six months to 30 September 2010 and any gain or loss on sale.

	6 months ended 30 Sep 10			6 months ended 31 Mar 10		
	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	-	-	-	-	-	-

Table 6.2C: Securitisation Subject to Early Amortisation

Attachment G of APS 120 provides for specific regulatory treatment for securitisations of certain types of assets. None of these securitisations have been undertaken by the Group.

	As at 30 Sep 10					
	Aggregate drawn exposure attributed to:		Aggregate IRB capital charge against ADI's retained shares from:		Aggregate IRB capital charge against the ADI from investors' shares of:	
	Seller interest	Investor interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
	$m	$m	$m	$m	$m	$m
Recent securitisation activity						
Residential mortgage	-	-	-	-	-	-
Commercial mortgage	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
CDOs	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total recent securitisation activity	-	-	-	-	-	-

	As at 31 Mar 10					
	Aggregate drawn exposure attributed to:		Aggregate IRB capital charge against ADI's retained shares from:		Aggregate IRB capital charge against the ADI from investors' shares of:	
	Seller interest	Investor interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
	$m	$m	$m	$m	$m	$m
Recent securitisation activity						
Residential mortgage	-	-	-	-	-	-
Commercial mortgage	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
CDOs	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total recent securitisation activity	-	-	-	-	-	-

7. Market Risk

Introduction

The Group makes a distinction between traded and non-traded market risks for the purpose of managing market risk. Traded market risk principally arises from the Group's trading book activities within the Wholesale Banking Global Markets and BNZ businesses. Non-traded market risk arises from the Group's banking book related activity. 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. Trading activities are carried out by specialist areas within the Group and generate revenue through active management of market risk in the Group's dealing rooms in various locations.

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 manages its trading book through NAB for all subsidiaries except the BNZ, whose trading book is managed by the BNZ. The Group manages these positions as part of its overall management of its market risk profile as disclosed in its external reports.

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.

Any credit risk emanating from treasury risk management products offered by a subsidiary is maintained on the books of that subsidiary, with governance and monitoring of this risk undertaken locally under designated authorities from Group and in line with Credit Risk policy.

Structure and Organisation

The Group's risk appetite in relation to market risk is reflected in the overall Value at Risk ("VaR") and stress test limits, which are approved by the Principal Board. Under the guidance of the PBRC, the Principal Board monitors and reviews the adequacy of the Traded Market Risk Framework, and endorses the Management and Reporting Framework for Market Risk.

Market risk policies are applied globally and are subject to an annual review process. Key policies include:

- The Wholesale Banking Traded Market Risk Policy articulates responsibilities and authorities for measuring, monitoring and reporting market risk. The policy also requires independent overview of limit compliance and escalation of breaches.
- The Rates and Revaluation Policy outlines how end-of-day revaluation rates are sourced, validated, reviewed and reported. This ensures that rates are sourced appropriately and validated before they are employed for valuation and risk measurement.

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

The Wholesale Banking Market Risk Subcommittee monitors the Group-wide market risk profile and exposures, and provides direction and support to the Wholesale Banking Traded Market Risk team. It also provides the Wholesale Banking RMC and the GRMC, as appropriate, with recommendations on policies, models and risk appetite, in relation to market risk. It also escalates market risk issues to these committees as necessary.

Management

Wholesale Banking Global Markets is accountable for traded market risk. They ensure that the trading desks monitor limit utilisation in accordance with relevant policies at all times.

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

The Wholesale Banking Market Risk team is an independent specialist global function responsible for:

- The quantification of market risk for the trading book at the desk, regional and global portfolio levels;
- The daily oversight and analysis of risk, including limit monitoring and limit breach management and escalation; and
- Policy formulation, limit approval as per delegated authority, limit breach analysis reporting and model validation.

Each day, Wholesale Banking Market Risk monitors desk and regional positions against the relevant limits. Any breaches are escalated in accordance with policy and procedures.

The team also performs extensive portfolio analyses 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 Wholesale Banking Global Markets and the Wholesale Banking Market Risk teams.

Measurement

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. As required by Group policy, all models employed for valuation or for risk measurement in the trading book are independently validated before they are implemented in production, and are also subject to ongoing periodic review.

Extreme events risk is measured and monitored through stress testing. The Wholesale Banking Market risk team uses stress tests to identify possible material events or changes in market conditions that could adversely impact the Group. The analysis of results is used to assess the provision of capital adequacy, verify the competence of established limits and define appropriate mitigating actions. Limits are set at various levels (global, regional and desk) and are checked daily against the results of stress tests.

The Wholesale Banking Market Risk team also runs stress scenarios based on historical events and subjective estimates as part of the stress testing program. These results are used for analysis and identifying portfolio sensitivities that are not otherwise evident. In addition, regulators provide stress scenarios, which are run against the trading portfolio with results provided back to them.

Portfolios Subject to the Standard Method

The Standard Method, detailed in *APS 116 Attachment B*, is used for calculating general market risk for transactions in equities, carbon trading, Commodity Inventory Finance and some CPI-linked instruments. In addition, specific market risk is measured for all applicable products using the Standard Method, including those transactions where general market risk is covered by IMA.

Table 7.1A: Standard Method Risk-Weighted Assets

	As at	
	30 Sep 10	31 Mar 10
	$m	$m
Risk-Weighted Assets		
Interest rate risk	1,238	1,494
Equity position risk	309	3
Foreign exchange risk	159	205
Commodity risk	-	4
Total risk-weighted assets - standard method [(1)]	**1,706**	**1,706**

[(1)] *The following products are currently covered by the standard method: equities, CPI products, carbon trading, and specific market risk capital for all applicable products.*

Portfolios Subject to the Internal Model Approach

Under approval from APRA, the Group uses IMA to calculate general market risk for all transactions in the trading book other than those covered by the Standard Method detailed above. Products subject to IMA include Foreign Exchange, Commodities, Credit, Interest Rate and Retail Price Index Swaps.

Within the trading portfolio, all instruments are treated in a consistent fashion, whether they are physical instruments (e.g., bonds and money market instruments), derivatives (e.g., options and futures) or hedging transactions.

The Group is working towards progressively bringing the products currently subject to the Standard Method under the IMA.

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

Table 7.1B: Total Risk-Weighted Assets

	As at	
	30 Sep 10	31 Mar 10
	$m	$m
Market risk		
Standard method	1,706	1,706
Internal model approach	1,373	1,599
Total market risk RWA	**3,079**	**3,305**
% of total Group (level 2) RWA	0.9%	1.0%

Table 7.1C: Internal Model Approach Value at Risk

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

	6 months ended 30 Sep 10			As at 30 Sep 10
	Mean value $m	Minimum value $m	Maximum value $m	$m
Value at risk at a 99% confidence level [(1)]				
Foreign exchange risk	4	1	9	3
Interest rate risk	9	5	14	7
Volatility risk	1	1	1	1
Commodities risk	1	-	2	-
Credit risk	7	5	10	5
Inflation risk	-	-	1	1
Diversification benefit	(9)	n/a	n/a	(6)
Total value at risk for physical and derivative positions	**13**	**8**	**18**	**11**

(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 10			As at 31 Mar 10
	Mean value $m	Minimum value $m	Maximum value $m	$m
Value at risk at a 99% confidence level				
Foreign exchange risk	4	1	10	6
Interest rate risk	8	6	12	7
Volatility risk	1	1	2	1
Commodities risk	-	-	1	-
Credit risk	8	7	9	7
Inflation risk	-	-	-	-
Diversification benefit	(8)	n/a	n/a	(6)
Total value at risk for physical and derivative positions	**13**	**8**	**17**	**15**

Value at Risk Estimation

The Group uses VaR estimates for both regulatory capital calculation and for internal risk control purposes. Trading book VaR is calculated using historical simulation methodology employing the following parameters:

- 99th percentile outcomes;
- Two years of daily history of prices;
- Pricing data rolled monthly; and
- One-day holding period.

For calculation of regulatory capital, VaR is measured using a ten-day holding period. This measure is calculated by scaling up the one-day VaR by the square root of ten, being the holding period.

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.

For theoretical (or hypothetical) back-testing, 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. Results of this test are stored for observation over an extended period of time. Additionally, VaR is compared with the actual daily traded profit and loss as a cross-check of the reasonableness of the theoretical portfolio movement.

All back-testing exceptions are investigated to determine whether the cause is related to model, rate, or currency moves outside the 99% confidence interval.

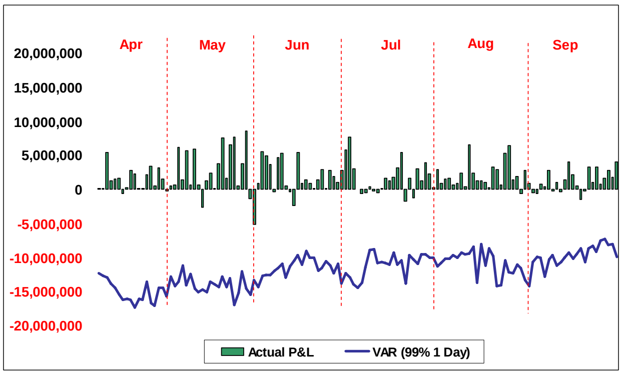
The results of back-testing are reported to senior management, the PBRC and the regulators. In addition to back-testing, the risk measurement model and all pricing models are subject to annual assessment, periodical reviews and independent validation at frequencies specified by the Group Model Risk Policy.

Table 7.1D: Back-testing Results

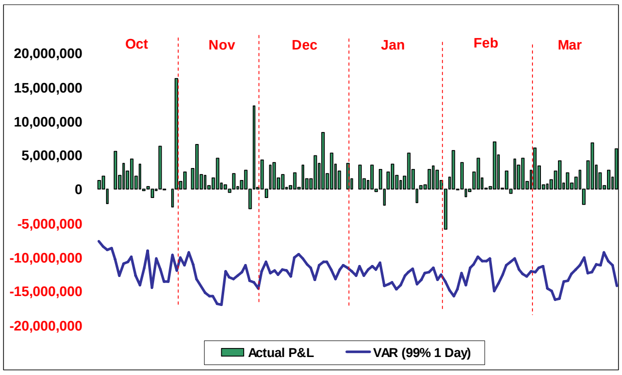
Comparison of value at risk estimates to actual gains/losses	6 months ended 30 Sep 10	6 months ended 31 Mar 10
Number of "outliers" incurred for the trading portfolio	-	-

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

6 months ended 30 Sep 10



6 months ended 31 Mar 10



Back-testing Outliers

There were no back-testing exceptions against actual P&L incurred during the six-month period to 30 September 2010, or during the previous six-month period to 31 March 2010.

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 and compliance risk, but excludes strategic risk and reputational risk.

Operational risk is inherent in the Group's activities. The primary objective for the management of operational is to ensure that where the potential for operational risk exists, it is identified, assessed and mitigated to acceptable levels, while at the same time allowing for the achievement of business objectives.

Structure and Organisation

The Principal Board, upon the recommendation of the PBRC, is responsible for approving and endorsing the Operational Risk Framework ("ORF"), Risk Profile, Risk Appetite, and outputs of the Risk Measurement Model (capital allocations). Operational Risk & Security ("ORS") provides the Principal Board, PBRC, GRMC and Risk Leadership Team ("RLT") with the information required to manage these responsibilities.

The Group's Risk Governance structure provides the Principal Board and PBRC with the assurance in the performance of the overall risk management framework. This is primarily achieved through reporting to GRMC, which takes its delegated authority from the Group CEO. This ultimately allows the Principal Board to discharge its responsibilities for managing the Group's Operational Risk exposures.

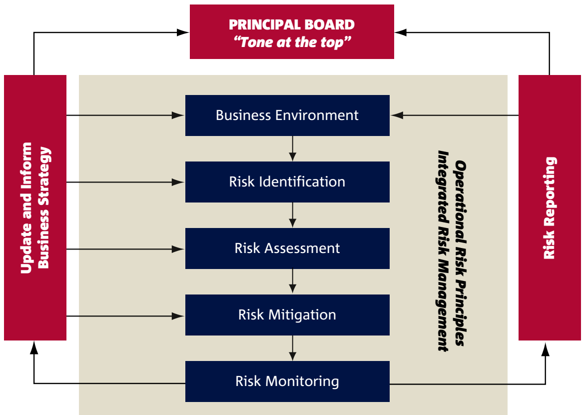
ORS, as part of its oversight activities, provides assurance to Group Executive Management that operational risk is being managed effectively throughout the Group. This is achieved through regular reviews, including Use and Quality reviews on the application of the ORF in each Business Line.

ORS provide the framework, policies, process and tools for the business to use in the identification, assessment, mitigation, monitoring and reporting of operational risks. Operational risk policies are approved by the PBRC, GRMC or RLT and include:

- Group Model Risk Policy;
- Group Anti Fraud and Corruption Policy;
- Group Executive Protection Policy;
- Group Travel Security Policy;
- Group Protective (Physical) Security Policy;
- Group Procurement & Outsourcing Policy;
- Group Information Security Policy;
- Group APRA Prudential Reporting Policy; and
- Group Whistleblower Policy (incorporating Confidential Alert Line). This policy is owned by Internal Audit but managed and maintained by ORS.

The ORF is illustrated in the following diagram.

The Group's Operational Risk Management Framework



Management

The Group's Operational Risk function is responsible for designing, maintaining and overseeing implementation of processes that enhance policy, or that have been created to support the ORF such as:

- Group Event Management Process;
- Group Risk Profiling Process;
- Group Business Continuity Management Process; and
- Operational Risk Capital Calculation Reference Manual.

Operational risk systems support operational risk information capture, management and measurement. These include:

- The Risk Portal provides a record for the capture of operational risk information across the Group, and thus supports the implementation of the ORF;
- Operational Risk Event Capture System ("ORECS") captures operational risk events;
- Business Continuity Management ("BCM") Database captures critical business processes and then assesses the impact of plausible risk disruptions against these; and
- Operational Risk Capital Calculation Model ("ORCC") is used to calculate the regulatory capital requirements for the Group commensurate with the exposure to operational risk.

In conjunction with Group Regulatory Affairs and Compliance, ORS acts as the independent risk function across the Group.

Operational Risk maintains appropriate quality assurance processes based on a combination of monitoring and oversight, to ensure business units manage their operational risks as the framework, policies, processes and tools require. The outcomes of these reviews, along with proposed recommendations, are presented to the business unit management committees for consideration and implementation, and are also presented for noting or action at the appropriate Risk Governance committees.

Business units manage all risks and events in terms of risk acceptance, avoidance, transfer or mitigation. They then undertake the appropriate risk management actions for the transfer of risks (i.e. through insurance vehicles), risk avoidance (i.e. through strategic decisions), or mitigation (i.e. through control enhancements).

Through implementation of the ORF and related policies and processes, business management is able to identify, assess and monitor operational risk exposures, implement appropriate mitigation strategies, and provide effective reporting to business and Group Risk Governance committees and, ultimately, to the Principal Board.

To achieve this, business areas continuously update their Operational Risk Profiles in line with changes in the business or its environment. They also conduct an annual scenario analysis to identify and assess their exposure to potential extreme events, and monitor, record and act upon actual losses or "near misses" they have suffered.

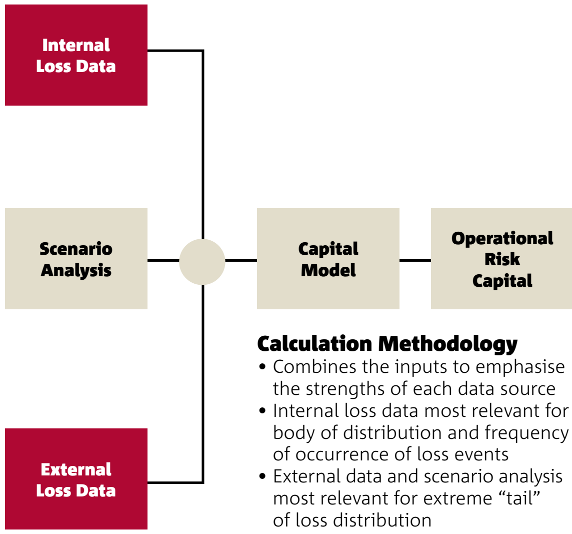
Framework in Operation

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. Great Western Bank is subject to the Basel I framework and an integration program is in progress to align its operational risk frameworks to those of the Group. 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 the operational losses that have occurred within the Group, relevant data from losses incurred by other financial institutions, the output of a scenario process that analyses potential extreme losses faced by the Group, and factors reflecting the business environment and internal control systems. AMA capital is determined separately for the AMA jurisdictions and summed to arrive at the AMA figure for the Group. This figure is then allocated to major business lines.

Calculation of Operational Risk Capital



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.

The ORF ensures that appropriate risk governance is consistently applied to business change initiatives and that high-risk initiatives are appropriately escalated. This process generates visibility and understanding of the Group's overall operational risk profile.

Operational risk reports are produced at management, committee and Board level to assist with oversight and monitoring. They reflect both current and forward-looking views of the operational risks, issues and events facing the Group. The reports also incorporate business unit and Group reporting of risk profiles, key operational risk events, as well as consideration of external events and their relevance to the Group.

The GRMC may request reporting on topics of interest (themed reviews) including an emerging issue or environmental theme. The findings from such reviews are reported and escalated through the risk committee structure based on an assessment of materiality.

Risk Mitigation through Insurance

A key strategy to mitigate operational risk exposure at a consolidated Group level is the Group's insurance program. The central Operational Risk 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.

Table 8A: Total Risk-Weighted Assets

	As at	
	30 Sep 10	**31 Mar 10**
	$m	**$m**
Operational risk		
Standardised approach	4,302	4,452
Advanced measurement approach	17,932	17,950
Total operational risk RWA	**22,234**	**22,402**
% of total Group (level 2) RWA	6.5%	6.7%

9. Non-Traded Market Risk

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

Under guidance from the PBRC, the Principal Board, monitors and reviews the adequacy of the Group's Non-Traded Market Risk Management and Compliance Framework developed by management. The Principal Board approves risk appetite limits, which in turn are reflected in policies that provide direction for the management, measurement, monitoring and reporting of non-traded market risks.

Non-Traded Market Risk policies apply at a Group and Regional level and comprise:

- Group Capital Policy;
- Group Funding Policy;
- Group Liquidity Policy;
- Group Owned Asset Securitisation Policy;
- Group Pension Risk Policy;
- Group Interest Rate Risk in the Banking Book (IRRBB) Policy;
- Group Foreign Exchange ("FX") Risk in the Banking Book Policy;
- Group Non-Traded Equity Risk Policy; and
- Group Funds Transfer Pricing ("FTP") Policy.

The PBRC is responsible for the oversight of the implementation and review of risk management, and the internal compliance and control systems throughout the Group. It receives regular reporting on balance sheet management activities, and monthly of non-traded market risk limits compliance across risk areas, limit breaches, significant activity, and other risk profile reporting. The monthly reporting is through the Group Chief Risk Officer report ("GCRO report").

The GALCO and regional ALCOs are responsible for oversight of management's performance, and oversight of the compliance and governance frameworks around balance sheets risks. The Committees review compliance with risk limits and controls, remedial action undertaken for limit breaches, and approve policies and models relating to balance sheet and non-traded market risks. Monthly reporting is provided to GALCO and the regional ALCOs by Treasury and Group Non-Traded Market Risk.

With the exception of non-traded equity risk, Group and Regional 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.

Group Non-Traded Market Risk ("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 each policy and the APRA-approved models used to meet regulatory requirements.

Further information relating to 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 Capital Risk*, *Section 9.2 Funding and Liquidity Risk*, *Section 9.3 Interest Rate Risk in the Banking Book*, *Section 9.4 Equities Banking Book Position* and *Section 9.5 Foreign Exchange Risk*.

9.1 Capital Risk

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 Principal Board, with the guidance of PBRC monitors and reviews the adequacy of the Group's capital framework. The PBRC has been delegated authorities from the Board. The Principal Board approves the Group's Risk Appetite Statement, Group Capital Management Plan and the ICAAP, endorses the risk compliance management framework, and retains authority concerning the ordinary shares in the Company. Other authorities and powers relating to the management of Capital risk are delegated to PBRC.

The Group Capital Policy defines the framework for the management, monitoring and governance of the Group's capital position. It includes the approved risk appetite (Board approved capital ranges), delegated authorities and mandates, risk measurement, reporting and control standards. The policy 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 regional treasuries prepare the Capital Management Plan (incorporating capital targets) for GALCO endorsement and Principal Board approval. They execute the Board-approved strategies outlined in the Capital Management Plan, and are responsible for maintaining the Group's capital ratio to satisfy regulatory and rating agency requirements, in line with the Group's target rating of AA. The Group's capital position is monitored on a monthly basis, with capital reported to key management and Board committees.

GNTMR is responsible for maintaining a risk framework for effective oversight, independently supporting stress testing of the Group's capital position and forecast for management information, and overseeing actual and forecast RWA calculations.

Further information relating to the Capital Adequacy Assessment Process is included in *Section 4.1 Capital Adequacy* of this report.

9.2 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 on demand or at their contractual maturity, 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 confidence in the Group's liquidity, funding compliance and management framework among external and internal stakeholders;
- 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 3-year forward horizon;
- To maintain sufficient unused market capacity above that required to fund above-forecast asset growth and provide for acquisition funding if required; and
- 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.

Management

The Principal Board approves a Group Annual Funding Plan (including all liquidity requirements) and endorses an effective management and reporting framework. Target funding indices are set by the GALCO at both Group and subsidiary levels, and communicated to the Principal Board in the Annual Funding Plan. The Annual Funding Plan includes wholesale market capacity to cover for unplanned asset growth or deposit shortfalls.

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

Group and regional treasuries are responsible for managing funding and liquidity risk for the Group. This includes:

- The development and execution of liquidity strategies consistent with mandates and limits, approval of performance targets and pricing, maintaining and actioning the contingent funding plan, and reporting to GALCO on the progress against strategies;
- The development, execution and oversight of all funding strategies and plans that form part of the Annual Funding Plan;
- The execution of both short-term (Wholesale Treasury) and long-term wholesale funding (Group Treasury); and
- The development and execution of the securitisation strategy in support of the Annual Funding Plan.

Group and regional NTMR teams are responsible for:

- Developing and maintaining systems and models for liquidity and funding risk measurement;
- Measuring and monitoring liquidity and funding risk;
- Reporting of liquidity and funding against limits to regulators and/or governance committees (regional ALCOs and GALCO);
- Maintaining the Contingent Funding Plan (formerly the Liquidity Crisis Plan), in conjunction with Group Treasury; and
- Reviewing strategy and performance targets set by Group Treasury.

Measurement

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

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. Group Treasury monitors concentration levels of funding sources, investor base, and maturity term to avoid excessive concentration. Regional treasuries also monitor term wholesale funding positions.

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 regional ALCOs and to GRMC and PBRC via the GCRO report. The Group has clearly defined escalation procedures whereby liquidity events, both systemic and name specific, are monitored and appropriate actions outlined against triggers.

9.3 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 economic value or earnings based on the risk profile 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; and
- 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 all interest rate risk in the banking book is managed to maximise and stabilise the Group's economic value and earnings over an investment horizon. Interest rate risk is primarily managed using interest rate swaps, forward rate agreements, overnight index swaps and futures.

Management

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

The Group IRRBB 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, with an aim to manage fluctuations in the Group's economic value and earnings over an investment horizon. The Group's IRRBB Policy aligns to the requirements of *APS117*.

Group and regional treasuries are responsible for managing the interest rate risk profile on the balance sheet in line with the approved risk appetite. Regional treasuries develop and execute interest rate risk management strategies, while Group Treasury maintains oversight of this. Group Treasury also has responsibility for the operational management of the strategic interest rate risk hedging portfolio.

Group and regional NTMR teams are responsible for:

- Maintaining a risk framework for effective oversight of IRRBB;
- Developing and maintaining systems and the APRA accredited model for IRRBB measurement;
- IRRBB measurement, compliance monitoring and oversight; and
- Regulatory reporting and internal reporting of IRRBB against limits to governance committees (regional ALCOs and GALCO).

Measurement

The Group has been accredited by APRA to use its internal models for the measurement of IRRBB. Interest rate risk is measured, managed and monitored using both the valuation approach and the earnings approach, which utilises VaR, EaR, Market Value, Embedded Loss, Economic Value Sensitivity ("EVS") and Net Interest Income Sensitivity ("NIIS") risk metrics. To complement these static measures, a series of stress tests are modelled and reported to regional ALCOs and GALCO by GNTMR.

The Group incorporates behavioural modelling where contractual-based modelling is inappropriate for measuring IRRBB:

- Prepayment rates are applied on products that are observed to exhibit differences between contractual and actual customer behaviour. Rates are based on historical prepayment rates analysis in order to capture the variability of customer behaviour;
- Non-bearing interest accounts, interest-free credit cards and instruments with indeterminate maturities are modelled based on a core/non-core replicating portfolio approach;
- Rate locks are modelled as the delta-equivalent volume of linear forward start amortising swaps;
- Adjustment of product rates is modelled, both in size and timing following the change in the product's underlying rate; and
- Fundamental Tier 1 capital is modelled over a 12-month investment term using a replicating portfolio approach, as defined by the APRA earnings offset methodology.

Monitoring and Reporting

IRRBB is measured and monitored on a monthly basis as a minimum, with limit exceptions reported to the GALCO and regional ALCOs. Monthly results are submitted to regional ALCOs, GALCO, GRMC and PBRC (via the GCRO report).

Table 9.3A: Interest Rate Risk in the Banking Book

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

	As at 30 Sep 10		As at 31 Mar 10	
	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	(22)	32	(98)	111
CAD	-	-	-	-
CHF	-	-	-	-
EUR	(3)	4	(8)	8
GBP	(35)	37	(24)	25
HKD	-	-	5	(5)
JPY	(1)	1	(1)	1
NZD	59	(60)	11	(12)
SGD	-	-	-	-
USD	(12)	12	(13)	13
Other	-	-	-	-
Total change in economic value	**(14)**	**26**	**(128)**	**141**

[(1)] *The Group's ten 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 9.3B: Total Risk-Weighted Assets

	As at 30 Sep 10 $m	As at 31 Mar 10 $m
IRRBB risk-weighted assets	7,000	5,653
% of total Group (level 2) RWA	2.0%	1.7%

All 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.

9.4 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; and
- Distressed debt management (e.g., Debt for Equity swaps).

Management

The Principal Board defines the risk appetite for equity risk in the banking book. The approved risk appetite limits are reflected in the Risk Appetite Statement and the Group Non-Traded Equity Risk Policy. This Policy defines the control framework in relation to undertaking, managing and monitoring equity investments outside of the Trading Book. It outlines the approved risk appetite limits, delegated authorities, risk measurement, reporting and control standards. The policy and associated limits apply to both direct equity investments and equity underwriting activities.

Relevant business units with a non-traded equity risk limit are responsible for managing this risk in line with the requirements of the non-traded equity risk framework. Business units and embedded review committees are responsible for monitoring 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 policy and framework, including:

- Independent review of proposed equity transactions for compliance under the equity risk delegated authority;
- Oversight over periodic valuation and impairment assessments of investments via the Equity Revaluation Committee; and
- Monitoring and reporting of equity investment and equity underwriting transactions against delegated 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 executive committees as part of the GCRO report, which is tabled when the PBRC convenes. The overall monitoring and reporting framework is shown below.

Monitoring and Reporting Framework

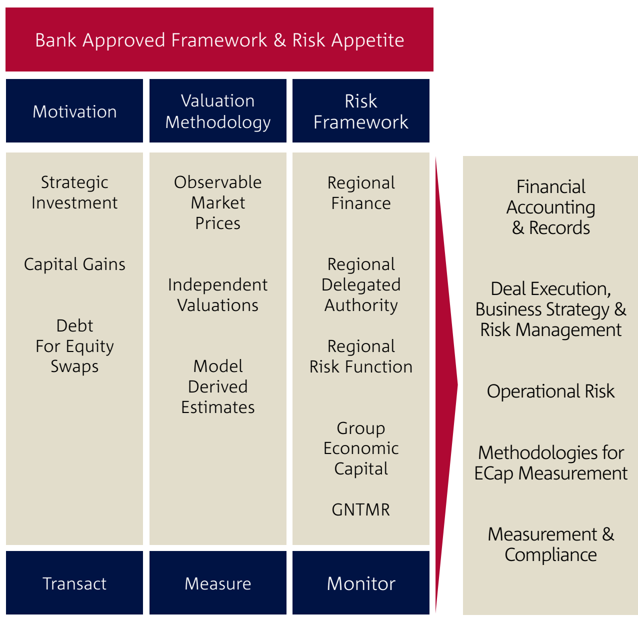


Table 9.4A: Equities Banking Book Position

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 10		As at 31 Mar 10	
	Carrying value [(1)]	Fair value [(2)]	Carrying value	Fair value
	$m	$m	$m	$m
Total listed equities (publicly traded)	106	106	63	63
Total unlisted equities	256	256	268	268

(1) *Carrying value as recorded in the Statement of Financial Position, 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 9.4B: 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 10	31 Mar 10
	$m	$m
Gains (losses) on equity investments		
Cumulative realised gains (losses) in reporting period	18	7
Total unrealised gains (losses)	10	(63)
Total unrealised gains (losses) included in Tier 1/Tier 2 capital	5	(28)

Table 9.4C: 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 10	31 Mar 10
	$m	$m
Risk-weighted Assets		
Equities subject to 300% RW	318	190
Equities subject to 400% RW	1,024	1,071
Total risk-weighted assets	1,342	1,261

Table 9.4D: Equity Investments Subject to Grandfathering Provision

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

	As at	
	30 Sep 10	31 Mar 10
	$m	$m
Total equity investments	-	-

9.5 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. Currency movements can affect profit and loss, cash flows and the balance sheet.

The Principal Board, with guidance from the PBRC, monitors and reviews the adequacy of the Group's foreign exchange risk compliance and management framework as developed by management.

The Group Foreign Exchange Risk in the Banking Book Policy defines the control framework for the management of foreign exchange risk in the banking book, including the approved risk appetite limits, delegated authorities, risk measurement, reporting and control standards. The policy covers all foreign exchange risk outside of the Trading Book, including both structural and non-structural foreign exchange risk.

Group and regional treasuries are responsible for the development and execution of foreign exchange risk management strategies, the development and maintenance of systems and processes, and internal reporting.

GNTMR and regional NTMR provide independent oversight, and are responsible for monitoring to ensure foreign exchange risk in the banking book is managed within policy requirements, maintaining an efficient reporting and compliance framework, and reviewing strategy and performance targets from a risk compliance perspective.

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 Australian 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.
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.
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 defaults and certain total rate of return swaps, cash funded credit linked notes and first and second to default credit derivative basket products. ADIs may also recognise any 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 Strategy, Credit Frameworks, Credit Metrics, Counterparty Credit and Strategic Business Services.
CSA	Credit Support Annex
Derivative transactions	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 within the next 12 months. It is used in the calculation of regulatory capital.
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") refers 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.
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.
IDSA	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); 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") quantifies the inherent risk arising from the Group's banking operations as a result of movements in interest rates. This also includes the impact of differing maturities between assets and liabilities. Quantification of the resulting risk is used in determining capital adequacy.
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 regulatory capital.
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
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 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.
Principal Board	Principal Board of Directors of the National Australia Bank Group
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 Enterprises
Specific provisions	Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with AIFRS excluding securitisation; all collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, 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 Risk-Weighted Assets.
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.
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. Using a minimum of one year's historical data, VaR calculates the potential loss in earnings from adverse market movements, over a one-day time horizon, using a 99% confidence level.
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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