2012 Risk & Capital Report

Incorporating the requirements of APS330
as at 30 September 2012

National Australia Bank

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1. Introduction

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

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

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

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

Capital Ratio Summary

The Group's Tier 1 capital ratio of 10.27% at 30 September 2012 is consistent with the Group's objective of maintaining a strong capital position.

	As at	
	30 Sep 12	**31 Mar 12**
Capital ratios	**%**	**%**
Level 2 Tier 1 capital ratio	10.27	10.17
Level 2 total capital ratio	11.67	11.52

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

1.1 The Group's Basel II Methodologies

National Australia Bank Limited and its controlled entities (the National Australia Bank Group) operate in Australia, Asia, New Zealand, the United Kingdom and North America. The following table sets out the approach to Basel II which is applied across the Group as at 30 September 2012.

The Group's Basel II Methodologies

Basel II Approach	Credit Risk	Operational Risk	Non-Traded Market Risk	Traded Market Risk
National Australia Bank Limited	Advanced IRB	AMA	IRRBB	Standardised and IMA
Bank of New Zealand	Advanced IRB	AMA	IRRBB	Standardised and IMA
Clydesdale Bank PLC	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Standardised	Standardised	IRRBB	n/a

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

Bank of New Zealand (BNZ) is regulated by the Reserve Bank of New Zealand (RBNZ). Credit risk exposures consolidated in the Group position are calculated under RBNZ requirements.

Clydesdale Bank PLC, the Company's subsidiary in the United Kingdom, is regulated by the Financial Services Authority (FSA). Clydesdale Bank PLC has been accredited to apply the standardised approach to operational and credit risk management in accordance with the regulatory requirements. Credit risk exposures consolidated in this report are calculated under APRA requirements.

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

GWB Credit Risk and Operational Risk Risk-Weighted Assets (RWA) are subject to APRA Basel II standardised methodology.

1.2 APS 330 Disclosure Governance

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

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

1.3 Regulatory Reform

Basel Regulatory Reforms

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

In September 2012, APRA released its final capital standards relating to its implementation of Basel III that will take effect from 1 January 2013. At September 2012, the reforms are estimated to have a net unfavourable impact on the Group's Core Tier 1 position of approximately 38 basis points. Other areas of its capital reform package are yet to be finalised.

APRA released its draft liquidity standard and discussion paper on the implementation of the Basel III liquidity reforms in Australia in November 2011. Consultation between APRA, industry and market participants continues.

The Group continues its transition towards compliance with the Liquidity Coverage Ratio (LCR) by January 2015 and the Net Stable Funding Ratio (NSFR) by January 2018. The Group's Basel III transition strategy is focused on the quality of liquid assets and the stability of the funding that underpins these measures.

Since the release of the draft liquidity standard, APRA has provided more detail regarding the use of the Committed Liquidity Facility (CLF), which is designed to address the shortfall of Level 1 liquid assets in Australia. Some of the practical implications of the CLF remain unclear and are subject to further discussions with APRA.

Other Reform Proposals

In addition to the Basel Committee reforms, the Group remains focused on other areas of regulatory change. Key reform proposals that may affect its capital and funding include:

- APRA's Level 3 Conglomerate Supervision proposals, on which draft Prudential Standards are expected in the first half of 2013, with an implementation date in 2014
- the US Dodd-Frank Act, with prudential requirements impacting NAB expected to be released in the December 2012 quarter
- the UK Government White Paper on Banking Reform, which continues to be developed and may affect the structure of banks and the amount of capital held in the UK business.

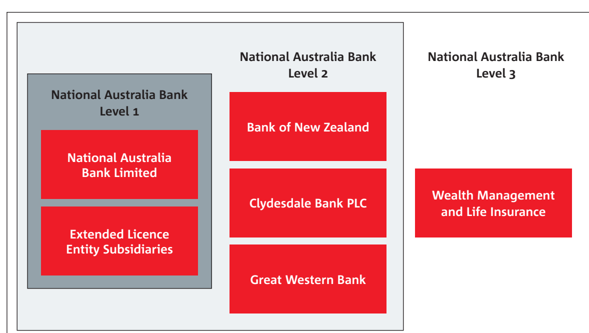
2. Scope of Application

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

- Level 1: comprises National Australia Bank Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity (ELE)
- Level 2: comprises National Australia Bank Limited and the entities it controls, subject to certain exceptions set out below
- 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 Bank of New Zealand, Clydesdale Bank PLC, Great Western Bank and other financial entities (e.g. finance companies and leasing companies).

Wealth management and life insurance activities are excluded from the calculation of Basel II RWA and the related controlled entities are deconsolidated from the National Australia Bank Group for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities.

In addition, certain securitisation special purpose vehicles (SPVs) to which assets have been transferred in accordance with APRA's requirements as set out in *Prudential Standard APS 120: Securitisation (APS 120)* have been deconsolidated from the National Australia Bank Group for the purposes of this disclosure. For regulatory purposes, credit risk is removed from the sold assets and there is no requirement to hold capital against them.

Differences in Consolidation Arising Between the Regulatory and Accounting Approaches

For financial reporting, the National Australia Bank Group applies the International Financial Reporting Standards (IFRS) and consolidates all entities in which it has the power to govern the financial and operating policies so as to obtain benefit from their activities. This includes life insurance, funds management and securitisation SPVs used to house securitised assets. As noted above, these entities receive a different treatment for Level 2 regulatory consolidation purposes. A list of material controlled entities included in the consolidated National Australia Bank Group for financial reporting purposes can be found in the Company's 30 September 2012 Annual Financial Report.

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

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

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

Disclosure 2A: Scope of Application

There were no capital deficiencies in non-consolidated subsidiaries of the Group as at 30 September 2012 or 31 March 2012.

Clydesdale Bank PLC

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

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

Great Western Bank

GWB Credit Risk and Operational Risk RWA are subject to APRA Basel II standardised methodology. IRRBB for GWB is calculated using the IRRBB internal model.

3. Risk Governance and Management

The National Australia Bank Group's corporate governance framework plays a key role in supporting the operations of the business and provides clear guidance on how authority is exercised within the National Australia Bank Group.

Corporate governance is a fundamental part of our culture and business practices – providing a framework for effective decision making in all areas of the National Australia Bank Group through the following practices:

- strategic and operational planning
- risk management and compliance
- financial management and external reporting
- succession planning and culture.

The corporate governance framework is represented diagrammatically below.

Board Governance

The Board of Directors of the Company (the Board) represents the Company's shareholders, and is responsible for directing the National Australia Bank Group's affairs by creating and delivering value through effective governance of the business, while meeting the interests of its shareholders and other stakeholders through transparent reporting and active engagement.

The Board is assisted in discharging its duties through its committees. The Board, along with the Audit, Risk, Remuneration and Nomination committees, determines the most appropriate corporate governance practices for the National Australia Bank Group.

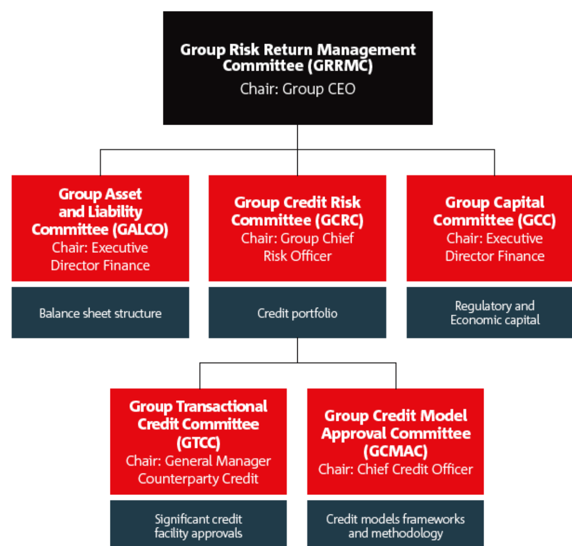
The Principal Risk Committee (PBRC) supports the framework for risk management across the National Australia Bank Group through:

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

Executive Governance

Outside the authorities and powers reserved by the Board, the National Australia Bank Group CEO is responsible for the management and operations of the business. Key management decisions below the board level are made by the National Australia Bank Group CEO with support from management committees and individual members of management who have been delegated authority.

At an executive level, risk is overseen by the Group CEO through the Group Risk Return Management Committee (GRRMC), and its supporting sub-committees as follows:



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

Risk Management

Risk exists in all aspects of our business, and the environment in which we operate. The National Australia Bank Group's collective risk management capability and competency supports successful implementation of our strategic priorities. It also enables the development of a sustainable and resilient business that is appropriately responsive to its ever-changing environment.

Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to our businesses qualitatively (through our risk postures, policies, standards and operating procedures) and quantitatively (through our risk limits, settings and decisioning authorities). Compliance with our Risk Management Framework is non-negotiable and when we make mistakes, we reflect on our experience, share our learnings and hold ourselves accountable through the application of balanced performance scorecards and a risk adjusted performance and rewards framework.

Every employee of the National Australia Bank Group is responsible for managing risk as part of their performance scorecard driven by an operating model which differentiates accountabilities using a 'three lines of defence' approach as follows:

- first line: Management (who own the risks)
- second line: Risk (who provide insight, oversight and appetite)
- third line: Internal audit (who provide independent assurance).

Further details of risk accountabilities across our Three Lines of Defence are disclosed in the Corporate Governance section of the National Australia Bank Group's website at www.nab.com.au.

4. Capital

4.1 Capital Adequacy

Capital Objectives

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

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

Risk Identification and Measurement

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

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

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

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

Capital Planning

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

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

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

The Board sets capital targets above the internal risk-based assessment of capital. Target ranges are set by reference to factors such as the Group's Risk Appetite Statement, and market, regulatory and rating agencies expectations. The Group's current Basel II Tier 1 target is above 8%. From 1 January 2013, the Group will move to the Basel III Common Equity Tier 1 (CET1) ratio target of above 7.5% and will look to operate at an appropriate buffer to this target. These targets reflect 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 advises the Group of its Prudential Capital Ratio (PCR) which represents the minimum ratio of regulatory capital to total RWA. The PCR is not publicly disclosed.

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

Embedding Capital Requirements in Business Decisions

Capital requirements are taken into consideration in:

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

Governance, Reporting and Oversight

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

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

- strategic and operational planning process
- capital adequacy assessment and risk appetite
- stress testing and scenarios
- 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 Group Capital Committee (GCC) and the GRRMC, and are ultimately approved by the Board.

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

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

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

The Group's Internal Capital Adequacy Assessment Process

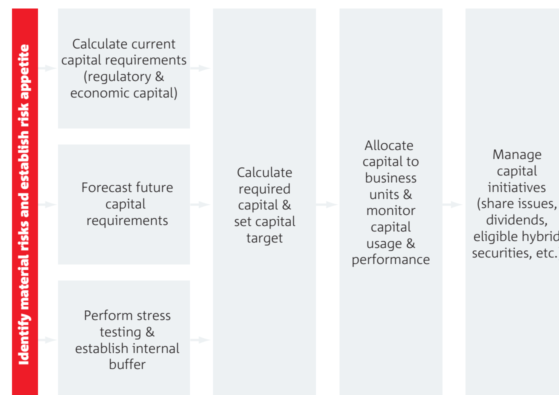


Table 4.1A: Risk-Weighted Assets

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

	As at	
	30 Sep 12 RWA $m	31 Mar 12 RWA $m
Credit risk [(1)]		
IRB approach		
Corporate (including SME)	105,672	109,312
Sovereign	1,122	1,290
Bank	7,852	8,179
Residential mortgage	56,403	56,351
Qualifying revolving retail	4,036	4,055
Retail SME [(2)]	7,240	7,318
Other retail	3,447	3,652
Total IRB approach	**185,772**	**190,157**
Specialised lending (SL) [(3)]	**50,227**	**45,439**
Standardised approach		
Australian and foreign governments	65	81
Bank	129	205
Residential mortgage	19,155	18,823
Corporate	29,011	29,979
Other	3,052	3,165
Total standardised approach	**51,412**	**52,253**
Other		
Securitisation	4,189	4,314
Equity	1,818	2,006
Other [(4)]	6,453	6,016
Total other	**12,460**	**12,336**
Total credit risk	**299,871**	**300,185**
Market risk	4,436	5,277
Operational risk [(5)]	23,008	23,810
Interest rate risk in the banking book	4,021	6,281
Total risk-weighted assets	**331,336**	**335,553**

(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) *Since 30 June 2012, all Retail SME assets collateralised by Residential Mortgage, were applied the Residential Mortgage risk-weight function. The net impact of this change was an increase in RWA of $1,426 million.*

(3) *Further changes to the classification of the commercial property portfolio meeting the slotting criteria were made in the half year to September 2012. This resulted in a reclassification of additional Corporate & Retail SME assets to Specialised Lending (Income Producing Real Estate). The net impact of this reclassification was an increase in RWA of $1,876 million.*

(4) *'Other' includes non-lending asset exposures that are not covered in the above categories. Non-lending assets are specifically excluded from credit risk exposures shown on pages 16 to 46 of this report.*

(5) *The Group's capital position is expected to be affected by higher Operational Risk RWAs in the December 2012 quarter due to increased regulatory requirements. As at 30 September 2012, the estimated impact of this is 22 basis points of Core Tier 1 capital.*

Table 4.1B: Capital Ratios

The table below provides the key capital ratios for each significant Authorised Deposit-taking Institution (ADI) or overseas bank subsidiary.

	As at	
	30 Sep 12	31 Mar 12
Capital ratios [(1)]	%	%
Level 2 Tier 1 capital ratio	10.27 %	10.17 %
Level 2 total capital ratio	11.67 %	11.52 %
Level 1 National Australia Bank Tier 1 capital ratio	11.94 %	11.70 %
Level 1 National Australia Bank total capital ratio	13.30 %	12.93 %
Significant subsidiaries		
Clydesdale Bank PLC Tier 1 capital ratio	9.59 %	10.26 %
Clydesdale Bank PLC total capital ratio	14.92 %	15.07 %
Bank of New Zealand Tier 1 capital ratio	11.26 %	9.59 %
Bank of New Zealand total capital ratio	13.29 %	12.39 %
Great Western Bank Tier 1 capital ratio	12.45 %	13.71 %
Great Western Bank total capital ratio	13.69 %	14.96 %

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

4.2 Capital Structure

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

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

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

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

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

Innovative Tier 1 Capital

BNZ Income Securities

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

With the prior written 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 and are quoted on the NZX Debt Market (NZDX).

BNZ Income Securities 2

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, currently at a rate of 9.10% per annum. The dividend rate is reset five yearly.

With the prior written 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 and are quoted on the NZDX.

Trust Preferred Securities

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

With the prior written consent of APRA, the Trust Preferred Securities may be redeemed on 17 December 2018 and on every subsequent fifth anniversary, in which case the redemption price is GBP1,000 per Trust Preferred Security plus the unpaid distributions for the last six month distribution period, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

Trust Preferred Securities 2

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

With the prior written 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, or redeemed earlier in certain circumstances, in some cases subject to a make-whole adjustment for costs of reinvestment as a result of the early redemption of the Trust Preferred Security.

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 written consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016, or earlier in certain circumstances.

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

Convertible Notes

On 24 September 2008, the Group issued A$300 million Convertible Notes (Convertible Notes) paying a non-cumulative distribution at a rate of 2.00% over the 30-Day Bank Bill Swap Rate (BBSW). The Convertible Notes were converted on 12 September 2012 into 11,999,472 National Australia Bank Limited (NAB) ordinary shares with an issue price of A$25.0011.

Capital Notes

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

Non-Innovative Tier 1 Capital

National Income Securities

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

With the prior written consent of APRA, the Company may redeem each note for $100 (plus any accrued distributions) and buy back or cancel the NIS preference share stapled to the note for no consideration. NIS have no maturity date and are quoted on the Australian Securities Exchange (ASX).

Stapled Securities

On 24 September 2008, the Group issued A$300 million Stapled Securities (2008 Stapled Securities) paying a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. The 2008 Stapled Securities were converted on 12 September 2012 into 11,999,472 NAB ordinary shares with an issue price of A$25.0011.

On 30 September 2009, the Group issued A$500 million Stapled Securities (2009 Stapled Securities). The Group extended the terms of the 2009 Stapled Securities on 4 March 2010 and again on 8 March 2011. Each 2009 Stapled Security pays a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. The Group has announced that the 2009 Stapled Securities will convert into a variable number of NAB ordinary shares on 30 November 2012, based on the average of the daily volume weighted sale price of NAB ordinary shares on the ASX during the 14 trading days prior to conversion, less a discount of up to 1%.

Upper Tier 2

Perpetual Floating Rate Notes

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

Lower Tier 2

Subordinated Medium-term Notes

Certain notes are subordinated in right of payment to the claims of depositors and all other creditors of the Company. Subordinated notes with an original maturity of at least five years may constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

Subordinated notes have been issued under the following programs of the Group (note: subordinated note maturity is reflected on either the call or maturity date, whichever is earlier):

- under the domestic debt issuance program of the Company, $301 million (2011: $300 million) fixed rate notes maturing in 2017 with a fixed rate of 7.25% (2011: 7.25%) and $1,200 million (2011: $1,200 million) floating rate notes maturing in 2017 and 2018 are outstanding
- under the global medium-term note program, $2,855 million (2011: $2,963 million) fixed rate notes maturing greater than five years with fixed rates between 4.63% - 7.13% (2011: 4.63% - 7.13%) and $nil (2011: $852 million) floating rate notes are outstanding

- the Group has conducted a number of stand-alone subordinated medium-term note issues: $48 million (2011: $51 million) fixed rate notes maturing up to five years with a fixed rate of 5.47% (2011: 5.47%), $56 million (2011: $40 million) fixed rate notes maturing greater than five years with a fixed rate of 7.50% (2011: 7.50%)
- on 18 June 2012 the Group issued $1,173 million of NAB Subordinated Notes with a 10 year maturity and a non-call period of 5 years. Interest on the NAB Subordinated Notes is payable quarterly in arrears. The interest rate is equal to the sum of the 90 day bank bill rate plus a fixed margin of 2.75% per annum
- $48 million floating rate notes maturing up to five years (2011: $51 million)
- Nil (2011: NZ$350 million) with a fixed yield of 8.42% payable semi-annually in arrears based on the fixed coupon rate, maturing 15 June 2017 but called by BNZ on 15 June 2012.

Table 4.2A: Capital Structure [1]

	As at	
	30 Sep 12	**31 Mar 12**
	$m	**$m**
Tier 1 capital		
Paid-up ordinary share capital	23,732	22,361
Reserves	(3,063)	(2,310)
Retained earnings including current year earnings	16,571	16,282
Minority interests	47	38
Innovative Tier 1 capital	4,096	4,411
Non-innovative Tier 1 capital	2,441	2,742
Gross Tier 1 capital	**43,824**	**43,524**
Deductions from Tier 1 capital		
Banking goodwill	1,306	1,321
Wealth management goodwill and other intangibles	4,209	4,230
Deferred tax assets	984	794
Other deductions from Tier 1 capital only	2,111	1,815
50/50 deductions from Tier 1 capital		
Investment in non-consolidated controlled entities	830	827
Expected loss in excess of eligible provisions	216	282
Other	148	142
Total Tier 1 capital deductions	**9,804**	**9,411**
Net Tier 1 capital	**34,020**	**34,113**
Tier 2 capital		
Upper Tier 2 capital	697	710
Lower Tier 2 capital	5,208	5,173
Gross Tier 2 capital	**5,905**	**5,883**
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	830	827
Expected loss in excess of eligible provisions	216	282
Other	148	142
Total Tier 2 capital deductions	**1,269**	**1,326**
Net Tier 2 capital	**4,636**	**4,557**
Total capital	**38,656**	**38,670**

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

5. Credit Risk

5.1 General Disclosure

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

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

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

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

Structure and Organisation

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

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

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

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

Management

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

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

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

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

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

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

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

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

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

Measurement

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

Monitoring and Reporting

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

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

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

Definitions of Default and Impairment

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

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

Impaired facilities consist of:

- retail loans (excluding unsecured portfolio-managed facilities) which are contractually 90 days or more past due with security insufficient to cover principal and arrears of interest revenue
- unsecured portfolio-managed facilities which are 180 days past due (if not written off)
- non-retail loans that are contractually 90 days or more past due and/or sufficient doubt exists about the ultimate ability to collect principal and interest
- impaired off-balance sheet credit exposures, where current circumstances indicate that losses may be incurred.

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

Specific provisions

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

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

Collective provisions

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

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

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

The Group's collective provision is disclosed in the National Australia Bank Limited 30 September 2012 Annual Financial Report.

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

General reserve for credit losses

APRA Prudential Standard APS 220 "Credit Quality" requires a reserve to be held to cover credit losses estimated but not certain to arise in the future over the full life of all individual facilities. The general reserve for credit losses (GRCL) represents an appropriation of retained profits to non-distributable reserves.

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

Write-offs

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

Table 5.1A: Credit Risk Exposures Summary

This table provides the amount of gross credit risk exposure subject to the Standardised and Advanced IRB approaches. The Group has no credit risk exposures subject to the Foundation IRB approach. Gross credit risk exposure refers to the potential exposure as a result of a counterparty default before 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 before the application of on-balance sheet netting and credit risk mitigation. For the Standardised approach, EaD is reported net of any specific provision and before the application of on-balance sheet netting and credit risk mitigation. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 12					6 months ended 30 Sep 12
	Total exposure (EaD) [1]	Risk-weighted Assets	Regulatory expected loss	Impaired facilities [2]	Specific provisions [3]	Net write-offs
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach						
Corporate (including SME)	189,318	105,672	3,469	2,082	707	352
Sovereign	39,037	1,122	2	-	-	-
Bank	59,184	7,852	63	-	-	13
Residential mortgage	279,330	56,403	977	723	167	83
Qualifying revolving retail	11,148	4,036	206	-	-	101
Retail SME	17,367	7,240	308	177	89	52
Other retail	4,490	3,447	126	10	4	52
Total IRB approach	**599,874**	**185,772**	**5,151**	**2,992**	**967**	**653**
Specialised lending (SL)	**60,391**	**50,227**	**1,986**	**1,398**	**273**	**185**
Standardised approach						
Australian and foreign governments	3,835	65	-	24	-	-
Bank	11,129	129	-	-	-	-
Residential mortgage	36,159	19,155	-	119	24	8
Corporate	29,397	29,011	-	1,995	710	222
Other	3,521	3,052	-	14	7	30
Total standardised approach	**84,041**	**51,412**	**-**	**2,152**	**741**	**260**
Total	**744,306**	**287,411**	**7,137**	**6,542**	**1,981**	**1,098**
Additional regulatory specific provisions [3]					493	
General reserve for credit losses [4]					2,687	

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

[2] *Impaired facilities includes $214 million of restructured loans (March 2012: $235 million) which includes $1 million of restructured fair value assets (March 2012: $nil million).*

Impaired facilities includes $256 million of gross impaired loans at fair value (March 2012: $174 million).

Australian and foreign governments impaired facilities refer to the portion of loans covered by the loss share agreement with the FDIC.

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

Specific provisions includes $108 million (March 2012: $82 million) of specific provisions on gross impaired loans at fair value.

[4] *The General Reserve for Credit Losses (GRCL) at 30 September 2012 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,142*
Less collective provisions reported as additional regulatory specific provisions	*(493)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,649*
Less tax effect	*(554)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,095*
Plus reserve created through a deduction from retained earnings	*592*
General reserve for credit losses (after-tax basis)	*2,687*

	As at 31 Mar 12					6 months ended 31 Mar 12
	Total exposure (EaD)	**Risk-weighted Assets**	**Regulatory expected loss**	**Impaired facilities**	**Specific provisions**	**Net write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach						
Corporate (including SME)	193,723	109,312	3,437	2,163	667	490
Sovereign	43,882	1,290	2	-	-	-
Bank	78,607	8,179	87	35	34	-
Residential mortgage	270,525	56,351	997	669	161	53
Qualifying revolving retail	11,100	4,055	231	-	-	96
Retail SME	19,212	7,318	340	179	92	35
Other retail	4,591	3,652	137	12	3	47
Total IRB approach	**621,640**	**190,157**	**5,231**	**3,058**	**957**	**721**
Specialised lending (SL)	**54,330**	**45,439**	**1,802**	**1,352**	**249**	**133**
Standardised approach						
Australian and foreign governments	4,248	81	-	-	-	-
Bank	9,661	205	-	-	-	-
Residential mortgage	34,963	18,823	-	100	22	14
Corporate	30,424	29,979	-	1,565	398	240
Other	3,648	3,165	-	9	4	47
Total standardised approach	**82,944**	**52,253**	**-**	**1,674**	**424**	**301**
Total	**758,914**	**287,849**	**7,033**	**6,084**	**1,630**	**1,155**
Additional regulatory specific provisions					513	
General reserve for credit losses [(1)]					2,694	

[(1)] *The General Reserve for Credit Losses (GRCL) at 31 March 2012 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,058*
Less collective provisions reported as additional regulatory specific provisions	*(513)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,545*
Less tax effect	*(561)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*1,984*
Plus reserve created through a deduction from retained earnings	*710*
General reserve for credit losses (after-tax basis)	*2,694*

Credit Exposures by Measurement Approach

Table 5.1B: Total and Average Credit Risk Exposures

This table provides the amount of credit risk exposures subject to the Standardised and Advanced IRB approaches. Exposures exclude non-lending assets, equities and securitisation. The average credit risk exposure is the sum of the gross credit risk exposure at the beginning of the reporting period plus the gross credit risk exposure at the end of the reporting period divided by two.

	As at 30 Sep 12				6 months ended 30 Sep 12
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	116,138	46,753	26,427	**189,318**	**191,521**
Sovereign	28,112	530	10,395	**39,037**	**41,459**
Bank	23,809	841	34,534	**59,184**	**68,896**
Residential mortgage	241,538	37,792	-	**279,330**	**274,927**
Qualifying revolving retail	5,571	5,577	-	**11,148**	**11,124**
Retail SME	13,690	3,677	-	**17,367**	**18,290**
Other retail	3,277	1,213	-	**4,490**	**4,540**
Total IRB approach	**432,135**	**96,383**	**71,356**	**599,874**	**610,757**
Specialised lending (SL)	**50,792**	**7,473**	**2,126**	**60,391**	**57,361**
Standardised approach					
Australian and foreign governments	3,667	168	-	**3,835**	**4,041**
Bank	11,077	40	12	**11,129**	**10,395**
Residential mortgage	34,038	2,121	-	**36,159**	**35,561**
Corporate	25,687	3,252	458	**29,397**	**29,910**
Other	3,360	161	-	**3,521**	**3,585**
Total standardised approach	**77,829**	**5,742**	**470**	**84,041**	**83,492**
Total	**560,756**	**109,598**	**73,952**	**744,306**	**751,610**

	As at 31 Mar 12				6 months ended 31 Mar 12
	On-balance sheet exposure	Non-market related off-balance sheet	Market related off-balance sheet	Total exposure	Average total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	117,718	45,742	30,263	**193,723**	**191,803**
Sovereign	28,033	693	15,156	**43,882**	**39,881**
Bank	31,549	935	46,123	**78,607**	**75,023**
Residential mortgage	233,896	36,629	-	**270,525**	**260,742**
Qualifying revolving retail	5,682	5,418	-	**11,100**	**11,039**
Retail SME	15,267	3,945	-	**19,212**	**19,434**
Other retail	3,376	1,215	-	**4,591**	**4,591**
Total IRB approach	**435,521**	**94,577**	**91,542**	**621,640**	**602,513**
Specialised lending (SL)	**45,865**	**6,959**	**1,506**	**54,330**	**51,868**
Standardised approach					
Australian and foreign governments	4,077	171	-	**4,248**	**4,330**
Bank	9,160	26	475	**9,661**	**10,084**
Residential mortgage	32,648	2,315	-	**34,963**	**40,248**
Corporate	26,269	3,732	423	**30,424**	**31,813**
Other	3,479	169	-	**3,648**	**3,872**
Total standardised approach	**75,633**	**6,413**	**898**	**82,944**	**90,347**
Total	**557,019**	**107,949**	**93,946**	**758,914**	**744,728**

Table 5.1C: Exposures by Geography

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

	As at 30 Sep 12				
	Australia	United Kingdom	New Zealand	Other [1]	Total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	142,943	14,588	23,597	8,190	189,318
Sovereign	29,507	1,485	3,916	4,129	39,037
Bank	32,847	13,741	2,919	9,677	59,184
Residential mortgage	254,585	-	24,745	-	279,330
Qualifying revolving retail	11,148	-	-	-	11,148
Retail SME	15,667	-	1,700	-	17,367
Other retail	2,430	-	2,060	-	4,490
Total IRB approach	**489,127**	**29,814**	**58,937**	**21,996**	**599,874**
Specialised lending (SL)	**52,245**	**1,698**	**5,058**	**1,390**	**60,391**
Standardised approach					
Australian and foreign governments	-	1,779	-	2,056	3,835
Bank	-	10,958	-	171	11,129
Residential mortgage	1,111	32,766	5	2,277	36,159
Corporate	3,887	20,555	15	4,940	29,397
Other	1,055	2,247	-	219	3,521
Total standardised approach	**6,053**	**68,305**	**20**	**9,663**	**84,041**
Total exposure (EaD)	**547,425**	**99,817**	**64,015**	**33,049**	**744,306**

[1] *'Other' comprises North America and Asia.*

	As at 31 Mar 12				
	Australia	United Kingdom	New Zealand	Other	Total exposure
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	143,925	19,630	23,427	6,741	**193,723**
Sovereign	27,179	2,742	3,910	10,051	**43,882**
Bank	47,491	18,171	2,817	10,128	**78,607**
Residential mortgage	246,385	-	24,140	-	**270,525**
Qualifying revolving retail	11,100	-	-	-	**11,100**
Retail SME	17,444	-	1,768	-	**19,212**
Other retail	2,514	-	2,077	-	**4,591**
Total IRB approach	**496,038**	**40,543**	**58,139**	**26,920**	**621,640**
Specialised lending (SL)	**47,141**	**1,455**	**4,364**	**1,370**	**54,330**
Standardised approach					
Australian and foreign governments	-	1,774	-	2,474	**4,248**
Bank	-	9,405	-	256	**9,661**
Residential mortgage	1,158	31,798	5	2,002	**34,963**
Corporate	3,985	22,079	21	4,339	**30,424**
Other	1,131	2,337	-	180	**3,648**
Total standardised approach	**6,274**	**67,393**	**26**	**9,251**	**82,944**
Total exposure (EaD)	**549,453**	**109,391**	**62,529**	**37,541**	**758,914**

Table 5.1D: Exposures by Industry

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

	As at 30 Sep 12												
	Accommodation cafes, pubs and restaurants	**Agriculture, forestry, fishing and mining**	**Business services and property services**	**Commercial property**	**Construction**	**Finance and insurance**	**Manufacturing**	**Personal**	**Residential mortgages**	**Retail and wholesale trade**	**Transport and storage**	**Other [(2)]**	**Total**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach													
Corporate (including SME)	8,085	35,401	11,425	10,276	7,310	37,791	19,141	352	-	23,861	11,766	23,910	189,318
Sovereign	-	-	-	-	-	12,422	-	-	-	-	-	26,615	39,037
Bank	-	-	-	-	-	58,063	-	-	-	-	-	1,121	59,184
Residential mortgage	-	-	-	-	-	-	-	-	279,330	-	-	-	279,330
Qualifying revolving retail	-	-	-	-	-	-	-	11,148	-	-	-	-	11,148
Retail SME	1,011	3,995	2,170	565	1,933	742	1,115	106	-	3,209	842	1,679	17,367
Other retail	-	-	-	-	-	-	-	4,490	-	-	-	-	4,490
Total IRB approach	**9,096**	**39,396**	**13,595**	**10,841**	**9,243**	**109,018**	**20,256**	**16,096**	**279,330**	**27,070**	**12,608**	**53,325**	**599,874**
Specialised lending (SL)	**-**	**230**	**144**	**52,441**	**587**	**408**	**166**	**-**	**-**	**2**	**1,807**	**4,606**	**60,391**
Standardised approach													
Australian and foreign governments	-	-	-	19	-	1,503	-	-	-	-	-	2,313	3,835
Bank	-	-	-	-	-	11,129	-	-	-	-	-	-	11,129
Residential mortgage	-	-	-	-	-	-	-	-	36,159	-	-	-	36,159
Corporate	1,945	4,159	2,703	5,482	821	920	2,767	34	-	3,220	1,004	6,342	29,397
Other	3	5	17	3	8	1	5	3,420	-	12	2	45	3,521
Total standardised approach	**1,948**	**4,164**	**2,720**	**5,504**	**829**	**13,553**	**2,772**	**3,454**	**36,159**	**3,232**	**1,006**	**8,700**	**84,041**
Total exposure (EaD)	**11,044**	**43,790**	**16,459**	**68,786**	**10,659**	**122,979**	**23,194**	**19,550**	**315,489**	**30,304**	**15,421**	**66,631**	**744,306**

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

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

	As at 31 Mar 12												
	Accommodation cafes, pubs and restaurants	**Agriculture, forestry, fishing and mining**	**Business services and property services**	**Commercial property**	**Construction**	**Finance and insurance**	**Manufacturing**	**Personal**	**Residential mortgages**	**Retail and wholesale trade**	**Transport and storage**	**Other**	**Total**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach													
Corporate (including SME)	7,811	33,468	11,230	13,335	7,097	42,983	19,098	388	-	23,371	11,170	23,772	**193,723**
Sovereign	-	-	-	-	-	25,798	-	-	-	-	-	18,084	**43,882**
Bank	-	-	-	-	-	77,703	-	-	-	-	-	904	**78,607**
Residential mortgage	-	-	-	-	-	-	-	-	270,525	-	-	-	**270,525**
Qualifying revolving retail	-	-	-	-	-	-	-	11,100	-	-	-	-	**11,100**
Retail SME	1,058	3,975	2,163	2,261	1,950	757	1,118	106	-	3,286	858	1,680	**19,212**
Other retail	-	-	-	-	-	-	-	4,591	-	-	-	-	**4,591**
Total IRB approach	**8,869**	**37,443**	**13,393**	**15,596**	**9,047**	**147,241**	**20,216**	**16,185**	**270,525**	**26,657**	**12,028**	**44,440**	**621,640**
Specialised lending (SL)	**-**	**423**	**132**	**47,162**	**503**	**125**	**167**	**-**	**-**	**-**	**1,560**	**4,258**	**54,330**
Standardised approach													
Australian and foreign governments	-	-	-	19	-	1,768	-	-	-	-	-	2,461	**4,248**
Bank	-	-	-	-	-	9,661	-	-	-	-	-	-	**9,661**
Residential mortgage	-	-	-	-	-	-	-	-	34,963	-	-	-	**34,963**
Corporate	2,095	3,938	3,104	5,904	834	971	2,919	44	-	3,324	1,201	6,090	**30,424**
Other	3	5	18	3	9	1	6	3,536	-	13	2	52	**3,648**
Total standardised approach	**2,098**	**3,943**	**3,122**	**5,926**	**843**	**12,401**	**2,925**	**3,580**	**34,963**	**3,337**	**1,203**	**8,603**	**82,944**
Total exposure (EaD)	**10,967**	**41,809**	**16,647**	**68,684**	**10,393**	**159,767**	**23,308**	**19,765**	**305,488**	**29,994**	**14,791**	**57,301**	**758,914**

Table 5.1E: Exposures by Maturity

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

	As at 30 Sep 12			
	<12 months	**1 – 5 years**	**>5 years**	**No specified maturity [1]**
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	70,914	90,657	21,924	5,823
Sovereign	17,510	6,644	14,796	87
Bank	43,087	8,532	7,422	143
Residential mortgage	48,286	7,524	223,042	478
Qualifying revolving retail	1	-	-	11,147
Retail SME	5,946	7,028	3,782	611
Other retail	203	1,117	998	2,172
Total IRB approach	**185,947**	**121,502**	**271,964**	**20,461**
Specialised lending (SL)	**22,587**	**30,461**	**5,588**	**1,755**
Standardised approach				
Australian and foreign governments	375	181	3,238	41
Bank	9,454	260	89	1,326
Residential mortgage	3,641	4,622	27,437	459
Corporate	12,752	9,941	6,102	602
Other	1,083	1,361	209	868
Total standardised approach	**27,305**	**16,365**	**37,075**	**3,296**
Total exposure (EaD)	**235,839**	**168,328**	**314,627**	**25,512**

[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 12			
	<12 months	**1 – 5 years**	**>5 years**	**No specified maturity**
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	78,373	88,050	21,807	5,493
Sovereign	29,204	6,077	8,520	81
Bank	60,167	10,314	7,694	432
Residential mortgage	48,770	7,858	213,418	479
Qualifying revolving retail	1	-	-	11,099
Retail SME	6,664	7,692	4,239	617
Other retail	206	1,059	1,129	2,197
Total IRB approach	**223,385**	**121,050**	**256,807**	**20,398**
Specialised lending (SL)	**21,543**	**26,647**	**4,554**	**1,586**
Standardised approach				
Australian and foreign governments	492	268	3,488	-
Bank	8,149	246	108	1,158
Residential mortgage	3,896	4,660	26,019	388
Corporate	13,137	10,302	6,350	635
Other	1,285	1,273	208	882
Total standardised approach	**26,959**	**16,749**	**36,173**	**3,063**
Total exposure (EaD)	**271,887**	**164,446**	**297,534**	**25,047**

Credit Provisions and Losses

Table 5.1F: Provisions by Asset Class

The following tables set out information on credit risk provision by Basel II asset class, excluding non-lending assets, equities and securitisation exposures. Definitions of impairment and past due facilities are based on APS 220 Credit Quality and related guidance notes or return instructions. The determination of specific provisions is in accordance with APRA Guidance Note AGN 220.2 Impairment, Provisioning and the General Reserve for Credit Losses.

	As at 30 Sep 12			6 months ended 30 Sep 12	
	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)	2,082	335	707	413	352
Sovereign	-	-	-	-	-
Bank	-	-	-	(22)	13
Residential mortgage	723	1,155	167	93	83
Qualifying revolving retail	-	58	-	100	101
Retail SME	177	111	89	47	52
Other retail	10	42	4	49	52
Total IRB approach	**2,992**	**1,701**	**967**	**680**	**653**
Specialised lending (SL)	**1,398**	**121**	**273**	**209**	**185**
Standardised approach					
Australian and foreign governments	24	18	-	-	-
Bank	-	-	-	-	-
Residential mortgage	119	124	24	11	8
Corporate	1,995	362	710	547	222
Other	14	31	7	37	30
Total standardised approach	**2,152**	**535**	**741**	**595**	**260**
Total	**6,542**	**2,357**	**1,981**	**1,484**	**1,098**
Additional regulatory specific provisions [2]			493		
General reserve for credit losses [3]			2,687		

[1] *Impaired facilities includes $214 million of restructured loans (March 2012: $235 million) which includes $1 million of restructured fair value assets (March 2012: $nil million).*

Impaired facilities includes $256 million of gross impaired fair value assets (March 2012: $174 million).

Australian and foreign governments impaired facilities refer to the portion of loans covered by the loss share agreement with the FDIC.

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

Specific provisions includes $108 million (March 2012: $82 million) of specific provisions on gross impaired loans at fair value.

[3] *The General Reserve for Credit Losses (GRCL) at 30 September 2012 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,142*
Less collective provisions reported as additional regulatory specific provisions	*(493)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,649*
Less tax effect	*(554)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*2,095*
Plus reserve created through a deduction from retained earnings	*592*
General reserve for credit losses (after-tax basis)	*2,687*

Exposure type	As at 31 Mar 12			6 months ended 31 Mar 12	
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	Charges for specific provisions	Net write-offs
	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	2,163	332	667	484	490
Sovereign	-	-	-	-	-
Bank	35	-	34	-	-
Residential mortgage	669	1,226	161	60	53
Qualifying revolving retail	-	68	-	93	96
Retail SME	179	129	92	37	35
Other retail	12	47	3	45	47
Total IRB approach	**3,058**	**1,802**	**957**	**719**	**721**
Specialised lending (SL)	**1,352**	**118**	**249**	**95**	**133**
Standardised approach					
Australian and foreign governments	-	23	-	-	-
Bank	-	-	-	-	-
Residential mortgage	100	134	22	7	14
Corporate	1,565	269	398	381	240
Other	9	27	4	47	47
Total standardised approach	**1,674**	**453**	**424**	**435**	**301**
Total	**6,084**	**2,373**	**1,630**	**1,249**	**1,155**

Additional regulatory specific provisions	513
General reserve for credit losses [1]	2,694

[1] *The General Reserve for Credit Losses (GRCL) at 31 March 2012 is calculated as follows:*

	$m
Collective provision for doubtful debts	*3,058*
Less collective provisions reported as additional regulatory specific provisions	*(513)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (pre-tax basis)	*2,545*
Less tax effect	*(561)*
Collective provision for doubtful debts eligible for inclusion in a general reserve for credit losses (after-tax basis)	*1,984*
Plus reserve created through a deduction from retained earnings	*710*
General reserve for credit losses (after-tax basis)	*2,694*

Factors Impacting Loss Experience in the Preceding Period

Non-Impaired facilities 90+ Days Past Due

90+ days past due (90+ DPD) facilities decreased marginally during the September 2012 half year. The decrease was largely driven by the decrease within Personal Banking Residential Mortgage and Business Banking SME portfolios. This was partially offset by the deterioration in the UK Commercial Property sector, resulting in higher 90+ DPD facilities for UK Banking.

The decrease in 90+ DPD facilities was evident within the IRB Residential Mortgage portfolio, mainly due to improved loan origination quality within Personal Banking, combined with seasonality.

To a lesser extent, a decrease in 90+ DPD facilities was observed in the IRB Retail SME and Qualifying Revolving Retail portfolios during the September 2012 half year.

Partially offsetting this was an increase in 90+ DPD facilities for the standardised Corporate portfolio, as a result of the prolonged weakness in the UK economy, which has impacted the UK Banking Commercial Property portfolio.

Impaired facilities

Impaired facilities increased during the September 2012 half year. The increase was mainly due to deterioration in the UK Banking Commercial Property portfolio.

The largest increase was observed in the standardised Corporate portfolio due to the continued flow of UK Banking Commercial Property exposures to impaired status, and reflecting the continued weak market conditions in this sector.

Impaired facilities for the IRB Residential Mortgage portfolio increased primarily across the Australian geography, and partly offset by lower impaired facilities for NZ Banking.

Partially offsetting this was a decrease in the IRB Corporate (including SME) portfolio across NZ Banking, Wholesale Banking and SGA.

Impaired facilities within the IRB Bank portfolio reduced to zero as result of the partial paydown and write-off to a single name exposure.

Charges for specific provisions

During the September 2012 half year, the total charge for specific provisions was higher when compared to the March 2012 half year. The increase was largely due to:

- the challenging operating conditions in the UK economy, particularly in the Commercial Property sector, reflected in higher standardised Corporate specific provision charges
- increased provisions in Business Banking reflecting both increases and new impairments for the IRB Specialised Lending portfolio.

The increase was partially offset by lower specific provision charges for the Wholesale Banking and SGA IRB Corporate (Including SME) portfolio, reflected in lower new impairments during the September 2012 half year when compared to the March 2012 half year.

Net Write-Offs

Net write-offs decreased from $1,155 million for the March 2012 half year to $1,098 million for the September 2012 half year. The decrease was largely due to lower write-offs for the SGA and Wholesale Banking IRB Corporate (including SME) portfolios, partially offset by higher write-offs for Business Banking IRB Specialised Lending portfolio.

Table 5.1G (i): Loss Experience

Table 5.1G (i) provides the regulatory expected loss (which are forward-looking loss estimates) compared to the realised actual losses calculated as an exposure weighted average since Basel II accreditation at 30 September 2008.

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

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

	30 Sep 12	
	Exposure weighted average actual loss (net write-offs) [1]	Exposure weighted average regulatory expected loss [2]
	$m	$m
IRB approach		
Corporate (including SME)	795	2,796
Sovereign	-	21
Bank	10	63
Residential mortgage	127	745
Qualifying revolving retail	184	227
Retail SME	86	314
Other retail	103	159
Total IRB approach	**1,305**	**4,325**

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

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

Accuracy of Risk Estimates

The following tables have been provided to summarise and compare across asset classes, the estimates of credit risk factors used within the calculation of regulatory capital with actual outcomes.

Estimates for Specialised Lending have not been included as these exposures are subject to the Supervisory Slotting Criteria approach, which relies upon the application of supervisory risk weights when calculating regulatory Expected Loss (EL).

A full explanation of the Internal Ratings Process and the application of credit risk models to calculate Probability of Default (PD), Exposure at Default (EaD) and Loss Given Default (LGD) is provided within Section 5.3 of this report.

Probability of Default and Exposure at Default

Table 5.1G (ii) provides a comparison of internal estimates of long-run PD with actual default rates averaged over a period of three financial years to 30 September 2012.

Averages of actual and estimated PD are calculated from customers not in default at the beginning of the financial year and averaged out over the three-year observation period.

The EaD ratio compares the estimated downturn EaD at the beginning of the financial year against the actual default amount.

Table 5.1G (ii): Accuracy of Risk Estimates – PD and EaD

	As at 30 Sep 12		
	Average Estimated PD %	Average Actual PD %	Ratio of estimated to actual EAD
IRB approach			
Corporate (including SME)	1.87	1.84	1.1
Sovereign [(1)]	0.38	0.17	1.2
Bank [(1)]	0.25	0.17	1.0
Residential mortgage [(2)]	0.95	0.88	1.0
Qualifying revolving retail	1.66	1.50	1.1
Retail SME	1.97	2.31	1.1
Other retail	2.40	2.89	1.0

(1) *Average actual PDs for Sovereign and Bank exposures are based on a low number of observed defaults.*

(2) *Estimated PDs includes BNZ assets subject to RBNZ calibration overlay.*

Loss Given Default

Table 5.1G (iii) provides comparison of internal estimates of downturn LGD with actual losses which were evidenced during the three years to September 2012.

Actual LGD was calculated using net write-offs from defaults during the three-year observation period. Estimates are calculated using the downturn LGD at the beginning of the financial year.

Table 5.1G (iii): Accuracy of Risk Estimates – LGD

	As at 30 Sep 12	
	Average estimated downturn LGD %	Average actual LGD %
IRB approach		
Corporate (including SME) [(1)]	39.14	24.93
Sovereign [(2)]	45.00	-
Bank [(2)]	59.60	29.48
Residential mortgage [(3)]	20.90	5.48
Qualifying revolving retail	87.09	97.30
Retail SME	37.40	23.98
Other retail	73.54	81.23

(1) *Estimated downturn LGD includes BNZ assets subject to RBNZ regulatory floors.*

(2) *Average actual LGDs for Sovereign and Bank exposures are based on a low number of observed defaults.*

(3) *Estimated downturn LGD subject to APRA and RBNZ imposed regulatory floors.*

Table 5.1H: Provisions by Industry

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

	As at 30 Sep 12			6 months ended 30 Sep 12	
	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	335	39	140	141	73
Agriculture, forestry, fishing and mining	616	136	111	47	72
Business services and property services	218	70	100	64	46
Commercial property	2,914	419	729	565	359
Construction	183	38	65	19	11
Finance and insurance	109	12	61	(13)	29
Manufacturing	343	52	169	144	59
Personal	16	130	12	166	193
Residential mortgages	842	1,279	191	104	91
Retail and wholesale trade	395	74	185	96	106
Transport and storage	167	35	79	46	28
Other	404	73	139	105	31
Total	**6,542**	**2,357**	**1,981**	**1,484**	**1,098**
Additional regulatory specific provision			493		

	As at 31 Mar 12			6 months ended 31 Mar 12	
	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	305	63	78	65	63
Agriculture, forestry, fishing and mining	727	84	148	42	33
Business services and property services	234	67	102	39	51
Commercial property	2,564	380	552	410	277
Construction	171	38	58	36	67
Finance and insurance	192	21	101	31	18
Manufacturing	220	43	60	101	107
Personal	20	145	9	172	191
Residential mortgages	769	1,360	183	67	67
Retail and wholesale trade	428	75	187	133	140
Transport and storage	141	38	51	44	37
Other	313	59	101	109	104
Total	**6,084**	**2,373**	**1,630**	**1,249**	**1,155**
Additional regulatory specific provision			513		

Table 5.1I: Provisions by Geography

	As at 30 Sep 12			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
	$m	$m	$m	$m
Geographic region				
Australia [1]	3,738	1,626	1,022	1,868
United Kingdom	2,300	501	791	976
New Zealand	368	199	147	235
Other [2]	136	31	21	63
Total	**6,542**	**2,357**	**1,981**	**3,142**
Regulatory specific provisions			493	(493)
Less tax effect				(554)
Plus reserve created through retained earnings				592
General reserve for credit losses [3]				**2,687**

(1) *The Australian geography contains an economic cycle adjustment.*

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

(3) *The GRCL balance allocated across geographic regions of $3,142 million includes $2,346 million of provisions on loans at amortised cost and $796 million of provisions held on assets at fair value.*

	As at 31 Mar 12			
	Impaired facilities	Past due facilities ≥90 days	Specific provisions	General reserve for credit losses
	$m	$m	$m	$m
Geographic region				
Australia	3,687	1,751	991	1,723
United Kingdom	1,827	408	463	1,033
New Zealand	417	169	152	239
Other	153	45	24	63
Total	**6,084**	**2,373**	**1,630**	**3,058**
Regulatory specific provisions			513	(513)
Less tax effect				(561)
Plus reserve created through retained earnings				710
General reserve for credit losses [1]				**2,694**

(1) *The GRCL balance allocated across geographic regions of $3,058 million includes $2,333 million of provisions on loans at amortised cost and $725 million of provisions held on assets at fair value.*

Table 5.1J: Movement in Provisions

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

	6 months ended 30 Sep 12	6 months ended 31 Mar 12
	$m	$m
General reserve for credit losses		
Collective provision balance at start of period	2,333	2,505
Total charge to income statement for impairment loss	1,414	1,107
Net transfer to specific provision	(1,411)	(1,249)
Recoveries	-	-
Balances written off	-	-
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	10	(30)
Collective provision on loans at amortised cost	2,346	2,333
Plus provisions held on assets at fair value [(1)]	796	725
Less additional regulatory specific provisions	(493)	(513)
Less tax effect	(554)	(561)
Plus reserve created through retained earnings	592	710
General reserve for credit losses	**2,687**	**2,694**
Specific provisions		
Balance at start of period	1,548	1,471
Net transfer from general reserve for credit losses	1,411	1,249
Bad debts recovered	81	79
Bad debts written off	(1,179)	(1,234)
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	12	(17)
Specific provisions excluding provisions for assets at fair value	1,873	1,548
Specific provisions held on assets at fair value	108	82
Additional regulatory specific provisions	493	513
Total regulatory specific provisions	**2,474**	**2,143**
Total provisions	**5,161**	**4,837**

(1) *Provisions held on assets at fair value are presented gross of $13 million regulatory specific provisions for assets held at fair value (March 2012: $10 million).*

5.2 Standardised and Supervisory Slotting Portfolios

Standardised Credit Risk Portfolios

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

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

External Rating Grade Classification

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

Table 5.2A: Standardised Exposures by Risk Weight

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

	As at 30 Sep 12		As at 31 Mar 12	
	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%	13,856	14,272	12,132	12,668
20%	1,176	1,164	1,394	1,370
35%	22,549	22,329	21,363	21,077
50%	4,374	4,519	4,389	4,277
75%	2,755	2,753	2,770	2,762
100%	37,608	36,480	39,440	38,228
150%	1,723	1,706	1,456	1,442
Total standardised approach (EaD)	**84,041**	**83,223**	**82,944**	**81,824**

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

Table 5.2B: Standardised Exposures by Risk Grade

	As at 30 Sep 12		As at 31 Mar 12	
Asset class by rating grade	**Credit exposure before risk mitigation $m**	**Credit exposure after risk mitigation $m**	**Credit exposure before risk mitigation $m**	**Credit exposure after risk mitigation $m**
Australian and foreign governments				
Credit rating grade 1	3,372	3,661	3,652	4,020
Credit rating grade 2	33	33	47	47
Unrated	430	9	549	8
Sub-total	3,835	3,703	4,248	4,075
Bank				
Credit rating grade 1	10,857	10,863	9,018	9,025
Credit rating grade 2	12	179	386	315
Credit rating grade 3	52	66	39	39
Unrated	208	21	218	24
Sub-total	11,129	11,129	9,661	9,403
Residential mortgage				
Unrated	36,159	36,091	34,963	34,893
Sub-total	36,159	36,091	34,963	34,893
Corporate				
Credit rating grade 2	56	56	48	48
Credit rating grade 3	41	41	-	-
Unrated	29,300	28,749	30,376	29,824
Sub-total	29,397	28,846	30,424	29,872
Other				
Unrated	3,521	3,454	3,648	3,581
Sub-total	3,521	3,454	3,648	3,581
Total standardised approach (EaD)	**84,041**	**83,223**	**82,944**	**81,824**

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
- 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 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (Attachment F*).

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

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

Table 5.2C: Supervisory Slotting by Risk Weight

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

	As at	
	30 Sep 12	31 Mar 12
	Exposure after risk mitigation $m	Exposure after risk mitigation $m
IRB supervisory slotting – unexpected loss risk weights		
70%	27,570	23,637
90%	21,189	20,525
115%	7,225	5,656
250%	1,320	1,480
Default	2,797	2,522
Total IRB supervisory slotting (EaD)	**60,101**	**53,820**

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

5.3 Internal Ratings Based Portfolios

General Disclosure on the Internal Rating Based System (IRB)

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

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

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

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

Internal Risk Rating and External Ratings

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

Description	Internal rating	Probability of default (%)
Super senior investment grade	1, 2	0<0.03
Senior investment grade	3, 4, 5	0.03<0.11
Investment grade	6, 7, 8, 9, 10, 11	0.11<0.55
Acceptable	12, 13, 14, 15, 16, 17, 18, 19	0.55<5.01
Weak/doubtful	20, 21, 22, 23	5.01<99.99
Default	98, 99	100

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

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

Internal Ratings Process Overview

Probability of Default (PD)

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

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

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

Loss Given Default (LGD)

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

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

Exposure at Default (EaD)

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

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

Use of PD, LGD and EaD

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

Credit Rating System Control

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

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

Non-Retail Credit - Internal Ratings Process

Non-Retail – PD Models

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

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

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

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

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

Non-Retail – EaD Models

EaD is calculated according to the facility type.

EaD = Balance + Credit Conversion Factor x Undrawn Limit

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

Non-Retail – LGD Models

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

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

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

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

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

Retail Credit - Internal Ratings Process

Retail Credit – PD Models

Retail PD models include the results of:

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

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

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

Retail Credit – EaD Models

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

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

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

Retail Credit – LGD Models

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

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

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

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

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

Portfolios Subject to IRB Approach

Table 5.3A: Non-Retail Exposure by Risk Grade

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

	As at 30 Sep 12						
	PD risk grade mapping [1]						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2**	**Ba3, B1**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.1%**	**0.1<0.5%**	**0.5<2.0%**	**2.0<5.0%**	**5.0<99.9%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Corporate	-	27,113	67,890	61,390	22,850	4,998	5,077
Sovereign	33,206	5,465	311	31	24	-	-
Bank	-	55,579	2,680	790	71	16	48
Total exposure (EaD)	**33,206**	**88,157**	**70,881**	**62,211**	**22,945**	**5,014**	**5,125**
Undrawn commitments							
Corporate	-	9,244	18,434	8,978	2,946	393	263
Sovereign	245	123	145	4	6	-	-
Bank	-	616	116	12	12	-	-
Total undrawn commitments [2]	**245**	**9,983**	**18,695**	**8,994**	**2,964**	**393**	**263**

IRB approach							
Exposure weighted average EaD ($m) [3]							
Corporate	-	0.76	0.56	0.34	0.22	0.21	0.53
Sovereign	23.85	2.18	1.14	0.09	0.09	-	-
Bank	-	1.85	0.88	2.08	0.57	1.06	11.92
Exposure weighted average LGD (%)							
Corporate	-	42.7 %	38.9 %	31.0 %	33.5 %	37.9 %	43.8 %
Sovereign	4.6 %	17.6 %	46.6 %	44.2 %	44.8 %	-	-
Bank	-	33.0 %	33.3 %	16.2 %	33.6 %	2.0 %	59.6 %
Exposure weighted average risk weight (%)							
Corporate	-	23.4 %	44.2 %	60.9 %	84.3 %	145.0 %	106.2 %
Sovereign	1.2 %	8.3 %	67.8 %	86.9 %	140.0 %	-	-
Bank	-	11.9 %	36.1 %	24.7 %	116.9 %	11.1 %	-

(1) *The PD bands in the table above have been revised to more closely align with the Group's internal risk rating system and the relationship with external ratings. Comparative values at 31 March 2012 have been updated accordingly.*

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

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

	As at 31 Mar 12						
	PD risk grade mapping						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2**	**Ba3, B1**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.1%**	**0.1<0.5%**	**0.5<2.0%**	**2.0<5.0%**	**5.0<99.9%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Corporate	-	30,073	68,281	59,888	25,010	5,462	5,009
Sovereign	38,191	5,193	460	20	18	-	-
Bank	-	71,959	5,344	1,152	65	16	71
Total exposure (EaD)	**38,191**	**107,225**	**74,085**	**61,060**	**25,093**	**5,478**	**5,080**
Undrawn commitments							
Corporate	-	8,824	16,842	9,871	3,171	435	278
Sovereign	417	241	21	3	6	-	-
Bank	-	686	89	14	7	-	-
Total undrawn commitments	**417**	**9,751**	**16,952**	**9,888**	**3,184**	**435**	**278**

IRB approach							
Exposure weighted average EaD ($m)							
Corporate	-	1.29	0.62	0.29	0.24	0.22	0.58
Sovereign	24.04	2.17	2.38	0.04	0.06	-	-
Bank	-	2.33	1.95	2.14	0.64	0.51	5.88
Exposure weighted average LGD (%)							
Corporate	-	39.0 %	36.7 %	33.5 %	33.7 %	39.0 %	45.5 %
Sovereign	4.4 %	21.5 %	11.9 %	44.2 %	44.4 %	-	-
Bank	-	32.0 %	22.4 %	20.8 %	32.8 %	2.1 %	59.6 %
Exposure weighted average risk weight (%)							
Corporate	-	22.0 %	41.8 %	65.0 %	84.8 %	146.0 %	120.7 %
Sovereign	0.8 %	16.8 %	12.0 %	93.2 %	140.5 %	-	-
Bank	-	9.0 %	24.0 %	32.7 %	114.8 %	6.7 %	2.3 %

Table 5.3B: Retail Exposure by Risk Grade

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

	As at 30 Sep 12					
	PD risk grade mapping (1)					
	0<0.1%	0.1<0.5%	0.5<2.0%	2.0<5.0%	5.0<99.9%	100%
IRB approach	$m	$m	$m	$m	$m	$m
Total exposure						
Residential mortgage	76,377	95,160	79,308	16,270	9,956	2,259
Qualifying revolving retail	3,863	3,104	2,001	1,139	983	58
Retail SME	1,568	4,147	6,969	3,038	1,105	540
Other retail	1,090	842	1,189	801	507	61
Total exposure (EaD)	**82,898**	**103,253**	**89,467**	**21,248**	**12,551**	**2,918**
Undrawn commitments						
Residential mortgage	19,945	11,904	5,402	447	88	6
Qualifying revolving retail	2,982	1,858	489	159	88	1
Retail SME	887	1,114	871	279	70	59
Other retail	666	239	179	92	36	1
Total undrawn commitments (2)	**24,480**	**15,115**	**6,941**	**977**	**282**	**67**

IRB approach	0<0.1%	0.1<0.5%	0.5<2.0%	2.0<5.0%	5.0<99.9%	100%
Exposure weighted average EaD ($m) (3)						
Residential mortgage	0.07	0.27	0.24	0.28	0.37	0.18
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.03	0.03	0.04	0.03	0.03	0.03
Other retail	-	0.01	0.01	0.01	-	0.01
Exposure weighted average LGD (%)						
Residential mortgage	20.0 %	20.0 %	20.5 %	20.1 %	20.0 %	20.6 %
Qualifying revolving retail	83.4 %	84.4 %	86.4 %	87.0 %	87.2 %	89.1 %
Retail SME	26.5 %	26.7 %	30.1 %	31.4 %	34.0 %	42.2 %
Other retail	82.5 %	80.9 %	79.3 %	77.7 %	77.1 %	76.5 %
Exposure weighted average risk weight (%)						
Residential mortgage	3.3 %	10.8 %	27.0 %	56.1 %	92.7 %	169.8 %
Qualifying revolving retail	4.2 %	12.0 %	37.7 %	81.7 %	165.1 %	342.0 %
Retail SME	6.2 %	15.3 %	36.1 %	61.0 %	105.6 %	180.0 %
Other retail	14.8 %	42.8 %	89.2 %	115.1 %	143.4 %	355.8 %

(1) *The PD bands in the table above have been revised to more closely align with the Group's internal risk rating system and the relationship with external ratings. Comparative values at 31 March 2012 have been updated accordingly.*

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

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

IRB approach	As at 31 Mar 12					
	PD risk grade mapping					
	0<0.1% $m	0.1<0.5% $m	0.5<2.0% $m	2.0<5.0% $m	5.0<99.9% $m	100% $m
Total exposure						
Residential mortgage	67,119	93,940	81,077	16,544	9,573	2,272
Qualifying revolving retail	4,044	2,816	2,068	1,099	1,006	67
Retail SME	155	3,907	10,304	3,067	1,202	577
Other retail	1,073	842	1,199	836	573	68
Total exposure (EaD)	**72,391**	**101,505**	**94,648**	**21,546**	**12,354**	**2,984**
Undrawn commitments						
Residential mortgage	16,984	14,407	4,801	390	41	6
Qualifying revolving retail	3,046	1,647	490	148	86	1
Retail SME	122	1,239	1,720	310	79	55
Other retail	657	240	186	86	45	1
Total undrawn commitments	**20,809**	**17,533**	**7,197**	**934**	**251**	**63**

IRB approach						
Exposure weighted average EaD ($m)						
Residential mortgage	0.06	0.26	0.24	0.27	0.33	0.19
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.01	0.04	0.04	0.03	0.03	0.03
Other retail	-	0.01	0.01	0.01	-	0.01
Exposure weighted average LGD (%)						
Residential mortgage	20.0 %	20.0 %	20.4 %	20.0 %	20.0 %	20.8 %
Qualifying revolving retail	83.5 %	84.5 %	86.5 %	87.0 %	87.3 %	89.1 %
Retail SME	30.8 %	25.9 %	30.5 %	31.7 %	33.9 %	41.9 %
Other retail	82.5 %	80.9 %	79.2 %	78.7 %	76.7 %	75.4 %
Exposure weighted average risk weight (%)						
Residential mortgage	3.9 %	10.7 %	26.9 %	55.9 %	91.8 %	169.5 %
Qualifying revolving retail	4.1 %	12.1 %	37.8 %	83.4 %	168.4 %	228.7 %
Retail SME	6.7 %	17.8 %	32.7 %	47.1 %	64.1 %	178.2 %
Other retail	14.9 %	42.6 %	89.0 %	116.7 %	143.4 %	397.2 %

5.4 Credit Risk Mitigation

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

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

Collateral Management

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

Collateral commonly includes:

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

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

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

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

Credit Hedging

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

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

Credit Exposure Netting

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

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

Portfolio Management

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

Internal reporting systems are utilised to record all:

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

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

Table 5.4A: Mitigation by Eligible Collateral

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

	As at 30 Sep 12	
	Total exposure	of which is covered by eligible financial collateral [1]
	$m	$m
Specialised lending (SL)	**60,391**	**290**
Standardised approach		
Australian and foreign governments	3,835	132
Bank	11,129	-
Residential mortgage	36,159	68
Corporate	29,397	551
Other	3,521	67
Total standardised approach	**84,041**	**818**

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

	As at 31 Mar 12	
	Total exposure	of which is covered by eligible financial collateral
	$m	$m
Specialised lending (SL)	**54,330**	**510**
Standardised approach		
Australian and foreign governments	4,248	173
Bank	9,661	258
Residential mortgage	34,963	70
Corporate	30,424	552
Other	3,648	67
Total standardised approach	**82,944**	**1,120**

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 12		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	189,318	21,225	-
Sovereign	39,037	1	-
Bank	59,184	119	372
Residential mortgage	279,330	-	-
Qualifying revolving retail	11,148	-	-
Retail SME	17,367	-	-
Other retail	4,490	-	-
Total IRB approach	**599,874**	**21,345**	**372**
Specialised lending (SL)	**60,391**	**-**	**-**
Standardised approach			
Australian and foreign governments	3,835	421	-
Bank	11,129	189	-
Residential mortgage	36,159	-	-
Corporate	29,397	-	-
Other	3,521	-	-
Total standardised approach	**84,041**	**610**	**-**

	As at 31 Mar 12		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	193,723	23,003	-
Sovereign	43,882	2	-
Bank	78,607	221	713
Residential mortgage	270,525	-	-
Qualifying revolving retail	11,100	-	-
Retail SME	19,212	-	-
Other retail	4,591	-	-
Total IRB approach	**621,640**	**23,226**	**713**
Specialised lending (SL)	**54,330**	**-**	**-**
Standardised approach			
Australian and foreign governments	4,248	541	-
Bank	9,661	195	-
Residential mortgage	34,963	-	-
Corporate	30,424	-	-
Other	3,648	-	-
Total standardised approach	**82,944**	**736**	**-**

5.5 Counterparty Credit Risk

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

Credit Limits

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

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

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

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

Collateral

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

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

Wrong Way Risk

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

Downgrade Impact

As at 30 September 2012, with respect to counterparty derivatives, the Group would need to post $316 million of collateral in the event of a one notch downgrade to the Group's credit rating, and $418 million in the event of a two notch downgrade.

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

6. Securitisation

Introduction

Securitisation is a structure where the cash flow from a pool of assets 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. The Group engages in securitisation activities for two primary purposes:

- securitisation activities for business purposes, including arranging and managing securitisations for third parties (clients). These activities are undertaken primarily through securitisation SPVs that provide funding for single or multiple transactions
- securitisation of its own assets for funding, liquidity (including contingent liquidity) purposes, primarily for risk and capital management reasons.

The Group has discontinued all securities arbitrage activities (i.e. the funding of purchased assets) and remaining exposures are managed separately in Specialised Group Assets (SGA).

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

Special Purpose Vehicle

- a special purpose vehicle, or an SPV, is an entity set up solely for the purpose of securitisation, usually a trust or a company
- the Group does not sponsor any SPVs used to securitise third party exposures which are currently issuing securities.

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 Asset Backed Commercial Paper (ABCP) Program
- non-originating ADI facilities: any facility provided by the Group in which the Group is not an Originating ADI
- originated assets: these refer to assets that were originally written by the Group and transferred to the SPV, or in the case of indirect origination, written directly by the SPV at the direction of the Group.
- traditional securitisations: securitisations in which the pool of assets is assigned to a SPV, usually by a sale
- synthetic securitisations: securitisations in which the risk of the pool of assets is transferred to an SPV through a derivative, usually a credit default swap.

The Group's assessment and management of securitisation risk is governed by *Prudential Standard APS 120: Securitisation (APS 120).*

Affiliated Entities

The Group manages and advises MLC Limited which may invest in securitisation exposures that the Group has securitised. These investments are made as part of MLC Limited's investment process and are made on an arm's length basis. These investments do not form a material percentage of the total funds invested by MLC Limited.

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.
Liquidity Facility provider	Provider of liquidity facilities to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV.
Buyer of protection over assets(1)	Entering into derivative transactions that provide credit protection over assets on the Group's balance sheet.
Dealer	Buyer and seller in the primary and secondary markets of securities.
Derivative provider	Counterparty to swaps and other derivative transactions, including interest rate and currency derivatives provided to securitisation SPVs and credit derivative transactions.
First loss provider(1)	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	Purchaser of securitisation debt securities for either trading or banking book purposes.
Letter of credit provider(1)	Provider of credit enhancement to securitisation transactions.
Manager	Operator of securitisation SPVs, including managing assets and liabilities and providing accounting and administrative services.
Redraw Facility provider	Provider of liquidity to cover redraws of underlying loans for residential mortgage-backed securitisation transactions.
Securitisation funding facility provider	Lender to securitisation SPVs where the term of the funding extends beyond one year and may match the expected redemption date of the underlying security held by the SPV.
Sponsor(1)	The entity that establishes the securitisation SPVs including ABCP conduits and often provides other services.
Standby liquidity provider(1)	Provider of liquidity facilities to an SPV to cover the inability of the SPV to roll over ABCP.
Warehouse facility provider	Provider of lending (warehouse) facilities to an SPV for the financing of exposures in a pool.

(1) *Immaterial level of involvement.*

Structure and Organisation

The 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 GRRMC and the PBRC.

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

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

Management

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

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

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

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

Measurement

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

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

The IAA methodology is applied to the following asset classes:

- residential mortgages
- equipment receivables
- auto loan receivables.

The IAA methodology has been developed by specialists within the Group's securitisation function as part of the Third Party Asset Securitisation policy and was approved as set out under the heading 'Structure and Organisation' above.

The IAA methodology incorporates many of the elements of the external credit assessment institutions (ECAIs) used by the Group including stress factors that are at least as conservative as the publicly available ECAI stress factors. The ECAIs used by the Group are predominantly Standard & Poor's for rating securitisations for which the Group is an originating ADI and Moody's and Fitch for some term transactions.

In addition to providing the basis for assessing the regulatory capital under *APS 120* for the relevant asset classes, the IAA is used in the Group's internal risk management process. The IAA process is reviewed annually by the Group's risk management area to evaluate the performance of the assigned internal assessments.

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

Monitoring and Reporting

Finance functions perform regular measurement and reporting of securitisation and resecuritisation exposures, including revenue, capital, asset and facility limits and exceptions. Key elements of these reports are provided to the various risk committees.

Specialist securitisation areas monitor the quality of the pools of assets underlying securitisation or resecuritisation exposures and model the effect on the exposures. Material changes in credit quality of the assets or the exposures are reported to the risk function and, if required, to the relevant risk committees.

Accounting Treatment

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

Interest income is recognised in the income statement using the effective interest method. Line fees received are recognised on an accruals basis. Arrangement fees are recognised as revenue over the life of the securitisation transaction.

Most of these facilities fund NAB-sponsored securitisation SPVs which are consolidated by the Group. On consolidation, the facilities are eliminated and the underlying liabilities and assets, including held to maturity investments in the SPVs, are brought onto the Group's balance sheet. Held to maturity investments are accounted for at amortised cost, net of any provision for impairment. Exposures held in the trading book are valued on a mark-to-market basis taking into account the rating, tenor, interest and exchange rates, and other relevant factors.

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

In general, there is no difference in accounting treatment between securitisation and resecuritisation exposures.

Securitisation Risks

Risks arising from securitisation activities include credit, liquidity, market and operational risks. Interest rate risk and securities price risk are managed as part of the market and non-traded market risk processes. In some cases risks are assumed by acquiring securities or entering into facilities. In other cases risks are transferred through the securitisation of Group assets. The Group engages in credit risk mitigation on a case-by-case basis.

The Group has certain exposures which are classed as resecuritisation exposures. These are predominantly, but not exclusively, contained in the SGA portfolio referred to above. The Group does not specifically target resecuritisation exposures for investment.

Trading book securitisation exposures are not material at a Group level. As such, these exposures are included in the tables below and are not separately disclosed within this document.

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 shows the amount of securitisation exposures 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. This table does not provide information on Group assets that have been sold to securitisations.

	As at 30 Sep 12				
	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	10,831	25	-	1,006	736
Credit cards and other personal loans	-	-	-	42	-
Auto and equipment finance	660	-	-	80	-
CDOs/CLOs [(1)]	-	-	-	-	1,286
Commercial mortgages	21	-	-	-	425
Corporate bonds	-	-	-	-	720
Other	642	-	-	-	445
Total underlying asset	**12,154**	**25**	**-**	**1,128**	**3,612**

[(1)] *As at 30 September 2012, all exposures are traditional securitisations, where the pool of assets is assigned to an SPV, usually by a sale.*

	As at 31 Mar 12				
	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	10,018	25	-	1,006	1,535
Credit cards and other personal loans	-	-	-	47	-
Auto and equipment finance	668	-	-	13	-
CDOs/CLOs [(1)]	-	-	-	-	1,317
Commercial mortgages	22	-	-	-	513
Corporate bonds	-	-	-	-	716
Other	650	-	-	-	461
Total underlying asset	**11,358**	**25**	**-**	**1,066**	**4,542**

[(1)] *As at 31 March 2012, all exposures are traditional securitisations, where the pool of assets is assigned to an SPV, usually by a sale.*

Table 6.1B: Type of Exposure

The following two tables provide information about assets that the Group manages as securitisations (predominantly for third party clients) where the exposures are risk weighted under APS 120. These tables do not provide information on Group assets that have been sold to securitisations whether or not the assets are risk weighted under APS 120. The table below breaks down the securitisation exposures by type of facility as defined in the Glossary.

	As at 30 Sep 12			As at 31 Mar 12		
	On-balance sheet $m	Off-balance sheet $m	Total $m	On-balance sheet $m	Off-balance sheet $m	Total $m
Securitisation exposure type						
Liquidity facilities	10	2,576	2,586	23	1,944	1,967
Warehouse facilities	8,100	1,597	9,697	9,952	1,002	10,954
Credit enhancements	6	28	34	12	56	68
Derivative transactions	174	-	174	236	-	236
Securities	230	-	230	32	-	32
Credit derivatives transactions	-	-	-	-	-	-
Other	4,200	-	4,200	3,764	-	3,764
Total securitisation exposures	**12,720**	**4,201**	**16,921**	**14,019**	**3,002**	**17,021**

Table 6.1C: Recent Third Party Securitisation Activity

This table provides information about new securitisation facilities provided in the six months to reporting date.

	Notional amount of facilities provided	
	6 months ended 30 Sep 12 $m	6 months ended 31 Mar 12 $m
Securitisation exposure type		
Liquidity facilities	713	23
Warehouse facilities	-	815
Credit enhancements	-	66
Derivative transactions	72	104
Securities	146	-
Credit derivatives transactions	-	-
Other	982	932
Total new facilities provided	**1,913**	**1,940**

Table 6.1D: Exposures by Risk Weight

These tables show the risk weights for securitisation and resecuritisation exposures as calculated under Prudential Standard APS 120: Securitisation, split between the Ratings-Based Approach (RBA), the Internal Assessment Approach (IAA), and Other.

Securitisation Exposures by Risk Weight

Securitisation exposures are on-balance and off-balance sheet risk positions held by the Group arising from a securitisation, excluding exposures which have been classified as resecuritisations. Resecuritisation exposures are disclosed on the following page.

	As at 30 Sep 12		As at 31 Mar 12	
Risk weight bands	**Exposure $m**	**RWA $m**	**Exposure $m**	**RWA $m**
RBA				
≤10%	6,396	441	5,862	409
> 10% ≤ 25%	256	32	308	41
> 25% ≤ 35%	-	-	-	-
> 35% ≤ 50%	-	-	-	-
> 50% ≤ 75%	-	-	-	-
> 75% ≤ 100%	-	-	-	-
> 100% ≤ 650%	-	-	-	-
Deductions	-	-	-	-
RBA sub-total	**6,652**	**473**	**6,170**	**450**
IAA				
≤10%	1,932	138	1,987	144
> 10% ≤ 25%	4,234	592	4,536	642
> 25% ≤ 35%	53	17	48	16
> 35% ≤ 50%	14	7	14	7
> 50% ≤ 75%	170	127	193	142
> 75% ≤ 100%	227	227	244	244
> 100% ≤ 650%	8	31	14	56
Deductions	-	-	1	-
IAA sub-total	**6,638**	**1,139**	**7,037**	**1,251**
Other				
≤10%	-	-	-	-
> 10% ≤ 25%	181	23	232	37
> 25% ≤ 35%	48	17	49	17
> 35% ≤ 50%	89	44	302	152
> 50% ≤ 75%	200	142	231	162
> 75% ≤ 100%	929	929	806	806
> 100% ≤ 650%	100	390	48	215
Deductions	155	-	154	-
Other sub-total	**1,702**	**1,545**	**1,822**	**1,389**
Total	**14,992**	**3,157**	**15,029**	**3,090**

Resecuritisation Exposures by Risk Weight

Resecuritisation exposures are securitisation exposures in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. In addition, an exposure to one or more resecuritisation exposures is a resecuritisation exposure.

	As at 30 Sep 12		As at 31 Mar 12	
Risk weight bands	**Exposure $m**	**RWA $m**	**Exposure $m**	**RWA $m**
RBA				
≤10%	-	-	-	-
> 10% ≤ 25%	-	-	-	-
> 25% ≤ 35%	-	-	-	-
> 35% ≤ 50%	-	-	-	-
> 50% ≤ 75%	-	-	-	-
> 75% ≤ 100%	-	-	-	-
> 100% ≤ 650%	-	-	-	-
Deductions	-	-	-	-
RBA sub-total	**-**	**-**	**-**	**-**
IAA				
≤10%	-	-	-	-
> 10% ≤ 25%	209	41	213	43
> 25% ≤ 35%	160	48	160	48
> 35% ≤ 50%	4	2	-	-
> 50% ≤ 75%	-	-	4	3
> 75% ≤ 100%	-	-	-	-
> 100% ≤ 650%	16	78	16	78
Deductions	-	-	-	-
IAA sub-total	**389**	**169**	**393**	**172**
Other				
≤10%	73	3	72	3
> 10% ≤ 25%	10	1	10	1
> 25% ≤ 35%	-	-	-	-
> 35% ≤ 50%	1,063	424	891	357
> 50% ≤ 75%	-	-	-	-
> 75% ≤ 100%	270	270	474	474
> 100% ≤ 650%	33	165	45	217
Deductions	89	-	77	-
Other sub-total	**1,538**	**863**	**1,569**	**1,052**
Total	**1,927**	**1,032**	**1,962**	**1,224**

Total Exposures by Risk Weight

This table is the sum of the tables 'Securitisation Exposures by Risk Weight' and 'Resecuritisation Exposures by Risk Weight' disclosed on the previous pages.

	As at 30 Sep 12		As at 31 Mar 12	
Risk weight bands	**Exposure $m**	**RWA $m**	**Exposure $m**	**RWA $m**
RBA				
≤10%	6,396	441	5,862	409
> 10% ≤ 25%	256	32	308	41
> 25% ≤ 35%	-	-	-	-
> 35% ≤ 50%	-	-	-	-
> 50% ≤ 75%	-	-	-	-
> 75% ≤ 100%	-	-	-	-
> 100% ≤ 650%	-	-	-	-
Deductions	-	-	-	-
RBA sub-total	**6,652**	**473**	**6,170**	**450**
IAA				
≤10%	1,932	138	1,987	144
> 10% ≤ 25%	4,443	633	4,749	685
> 25% ≤ 35%	213	65	208	64
> 35% ≤ 50%	18	9	14	7
> 50% ≤ 75%	170	127	197	145
> 75% ≤ 100%	227	227	244	244
> 100% ≤ 650%	24	109	30	134
Deductions	-	-	1	-
IAA sub-total	**7,027**	**1,308**	**7,430**	**1,423**
Other				
≤10%	73	3	72	3
> 10% ≤ 25%	191	24	242	38
> 25% ≤ 35%	48	17	49	17
> 35% ≤ 50%	1,152	468	1,193	509
> 50% ≤ 75%	200	142	231	162
> 75% ≤ 100%	1,199	1,199	1,280	1,280
> 100% ≤ 650%	133	555	93	432
Deductions	244	-	231	-
Other sub-total	**3,240**	**2,408**	**3,391**	**2,441**
Total	**16,919**	**4,189**	**16,991**	**4,314**

Table 6.1E: 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 12					
	Deductions relating to ADI-originated assets securitised				Deductions relating to other securitisation exposures	Total
	Residential mortgage	Credit cards and other personal loans	Commercial loans	Other		
	$m	$m	$m	$m	$m	$m
Securitisation exposures deducted from capital [1]						
Deductions from Tier 1 capital	-	-	-	122	-	**122**
Deductions from Tier 2 capital	-	-	-	122	-	**122**
Total securitisation exposures deducted from capital	**-**	**-**	**-**	**244**	**-**	**244**

[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 12					
	Deductions relating to ADI-originated assets securitised				Deductions relating to other securitisation exposures	Total
	Residential mortgage	Credit cards and other personal loans	Commercial loans	Other		
	$m	$m	$m	$m	$m	$m
Securitisation exposures deducted from capital						
Deductions from Tier 1 capital	-	-	-	116	-	**116**
Deductions from Tier 2 capital	-	-	-	116	-	**116**
Total securitisation exposures deducted from capital	**-**	**-**	**-**	**232**	**-**	**232**

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, seller and servicer of assets from the Group's balance sheet. This includes responsibility for collecting interest and principal on the securitised assets. The Group may or may not retain an exposure to securitisation SPVs to which the Group has sold assets. It may also manage or provide facilities for the securitisation (including credit enhancements, liquidity and funding facilities), roles which are outlined in *Section 6.1 Third Party Securitisation*.

This section includes information about the Group's internal securitisation pools of residential mortgage-backed securities (RMBS). These securities have been developed as a source of contingent liquidity to support the Group's liquid asset holdings outlined in *Section 9.1 Funding and Liquidity Risk*. The amount of these securitised assets is $20 billion as at 30 September 2012.

Structure and Organisation

The Group Asset and Liability Committee (GALCO) and subsidiary ALCOs are responsible for the oversight of management's performance, and of the compliance and governance frameworks around balance sheet risks, including secured funding (which incorporates owned asset securitisation).

The GNTMR Policy and GNTMR Secured Funding Guidance Note set out the principles and control framework for secured funding. Among other forms of secured funding, it applies to traditional securitisation, synthetic securitisation and a combination of the two.

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

Management

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

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

Group and subsidiary Treasuries have responsibility for the management of secured funding, including:

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

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

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

Measurement

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

Monitoring and Reporting

Reporting is conducted periodically including:

- pool performance for each securitisation transaction
- investor and regulatory reporting
- rating agency and financial reporting
- funding plan updates to GALCO and subsidiary ALCOs.

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

Accounting Treatment

Through its securitisation program, the Group engages in two main activities:

- it packages and sells loans (principally housing mortgage loans) and other finance receivables as securities to investors through a series of securitisation vehicles
- it develops securities as a source of contingent liquidity to support the Group's liquid asset holdings.

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. The transactions are therefore considered financings rather than sales.

Table 6.2A: Assets Securitised by the Group

This table shows the classes of assets that have been securitised by the Group. This table and table 6.2B may include assets which are sold to SPVs (1) which issue securities which meet the Reserve Bank of Australia's repurchase eligibility criteria; (2) which otherwise do not result in significant risk transfer and are considered on-balance sheet for regulatory purposes; or (3) in which significant risk transfer has taken place and which are considered off-balance sheet for regulatory purposes.

	As at 30 Sep 12				
	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	35,685	-	55	58	-
Credit cards	-	-	-	-	-
Auto and equipment finance	381	-	-	2	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**36,066**	**-**	**55**	**60**	**-**

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

	As at 31 Mar 12				
	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	31,427	-	42	59	-
Credit cards	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-
Commercial loans	-	-	-	-	-
Other	-	-	-	-	-
Total underlying asset	**31,427**	**-**	**42**	**59**	**-**

Table 6.2B: Recent Securitisation Activity

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

	6 months ended 30 Sep 12			6 months ended 31 Mar 12		
	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 [1]						
Residential mortgage	7,293	-	-	2,857	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	381	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**7,674**	**-**	**-**	**2,857**	**-**	**-**

[1] *The amount securitised during the period is securitisation undertaken for funding purposes, where no significant risk transfer has occurred.*

Disclosure 6.2C: Securitisation Subject to Early Amortisation

Attachment G of *APS 120* provides for specific regulatory treatment for securitisations of certain types of assets. As at 30 September 2012 and 31 March 2012, none of these securitisations have been undertaken by the Group.

Disclosure 6.2D: Forthcoming Securitisation Activity by the Group

The Group has a securitisation strategy, and sets funding indices and securitisation targets as part of its Annual Funding Plan. The aim of the securitisation program is to ensure that the Group is capital efficient and has diversity of funding and liquidity sources.

To support this strategy, the Group has a business practice in which pools of assets originated by the Group are available to be internally securitised (as a source of contingent liquidity) or externally securitised when market opportunities arise. The Group continually assesses opportunities for securitisation of these assets.

There have been no exposures identified for specific external securitisation deals between 30 September 2012 and the disclosure date of this report.

Disclosure 6.2E: Credit Risk Mitigation and Guarantors

APS 330 Table 9n requires disclosure of resecuritisation exposures retained or purchased, broken down according to the application of credit risk mitigation and exposures to guarantors. As at 30 September 2012, the Group did not have any resecuritisation exposures to which credit risk mitigation is applied or exposures to guarantors.

7. Market Risk

Introduction

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

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

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

Other business units within the Group do not conduct trading books. Clydesdale Bank PLC and Great Western Bank offer a range of treasury risk management products to their 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 and Great Western Bank is managed by the National Australia Bank Group so that, other than immaterial positions, market risk positions are not held on the balance sheet of Clydesdale Bank PLC or Great Western Bank.

Structure and Organisation

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

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

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

The Wholesale Banking Market Risk Subcommittee monitors the Group-wide market risk profile and exposures. It reviews and approves models, oversees compliance with market risk policies and reviews market risks for consistency with approved market risk settings and the Group's Risk Appetite. It also escalates market risk issues to these committees as necessary.

Management

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

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

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

- confidence level - 99 per cent one tail
- holding period - 10 days (1 day VaR scaled by square root of time)
- observation period - 550 days (unweighted, updated daily).

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

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

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

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

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

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

Measurement

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

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

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

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

Table 7.1A: Standard Method Risk-Weighted Assets

	As at	
	30 Sep 12 $m	**31 Mar 12 $m**
Risk-Weighted Assets		
Interest rate risk	676	1,136
Equity position risk	391	456
Foreign exchange risk	40	237
Commodity risk	8	1
Total risk-weighted assets - standard method	**1,115**	**1,830**

Table 7.1B: Total Risk-Weighted Assets

	As at	
	30 Sep 12 $m	**31 Mar 12 $m**
Market risk		
Standard method	1,115	1,830
Internal model approach	3,321	3,447
Total market risk RWA	**4,436**	**5,277**

Table 7.1C: Internal Model Approach Value at Risk

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

	6 months ended 30 Sep 12			As at
	Mean value $m	**Minimum value $m**	**Maximum value $m**	**30 Sep 12 $m**
Value at risk at a 99% confidence level [(1)]				
Foreign exchange risk	2	1	6	2
Interest rate risk	5	3	9	4
Volatility risk	1	-	1	1
Commodities risk	-	-	1	-
Credit risk	6	5	7	6
Inflation risk	-	-	1	-
Diversification benefit	(6)	n/a	n/a	(6)
Total diversified value at risk at a 99% confidence level	**8**	**6**	**12**	**7**
Other market risks [(2)]	1	-	2	1
Total value at risk for physical and derivative positions	**9**	**6**	**14**	**8**

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

(2) *Other market risks include exposures to various basis risks measured individually at a portfolio level. This is a new process therefore comparatives are not available.*

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

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 (P&L) to ensure that model integrity is maintained.

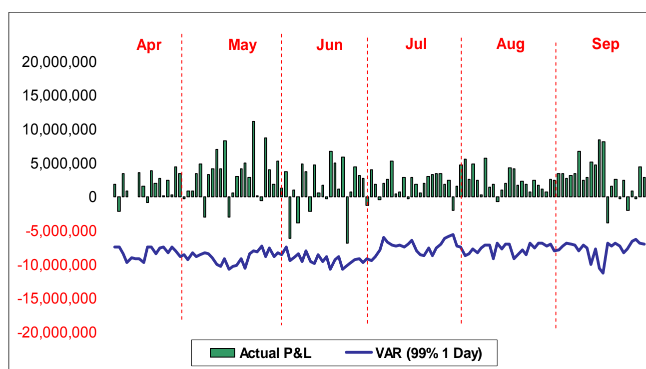
The results of back-testing are reported to senior management, risk committees and the regulators. In addition to back-testing, the risk measurement model and all pricing models are subject to periodical reviews and independent validation at frequencies specified by the Group Model Risk Policy.

Table 7.1D: Back-testing Results

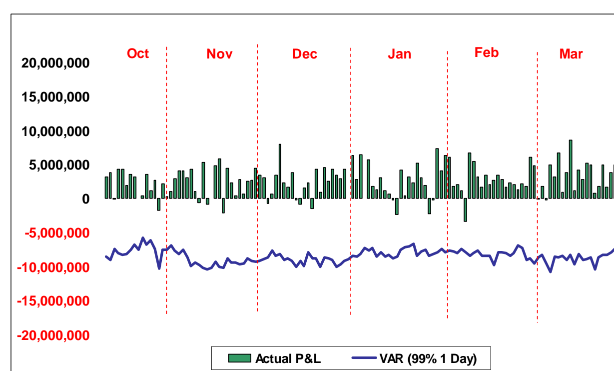
Comparison of value at risk estimates to actual gains/losses	6 months ended 30 Sep 12	6 months ended 31 Mar 12
Number of "outliers" incurred for the trading portfolio	-	-

The following graph compares the Group's daily VaR estimates against actual P&L.

6 months ended 30 Sep 12



6 months ended 31 Mar 12



Back-testing Outliers

Back-testing, carried out by comparing the Group's daily VaR estimate against actual P&L numbers, identified no exceptions during the six month period to 30 September 2012 and no exceptions during the previous six month period to 31 March 2012. This remains within the model parameters and indicates acceptable operation of the VaR model within APRA's guidelines.

8. Operational Risk

Introduction

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

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

Structure and Organisation

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

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

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

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

Management

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

The implementation of the GORF leads to:

- all staff taking responsibility and ownership for managing the operational risk inherent in their day-to-day activities
- promoting and embedding a risk conscious culture and behaviour throughout the Group
- consistency in the identification, assessment, mitigation, monitoring and reporting of operational risk
- proactive identification and management of operational risks and events to contain: direct and indirect financial loss, disruption to business processes, and non-financial impacts including regulatory, reputation, customer and management remediation
- credible estimates of operational risk capital that reflects the operational risk profile of the Group
- risk-reward decisions being made on an informed basis, considering risk appetite and the capital implications, thereby enhancing operational risk awareness and/or acceptance of operational risks.

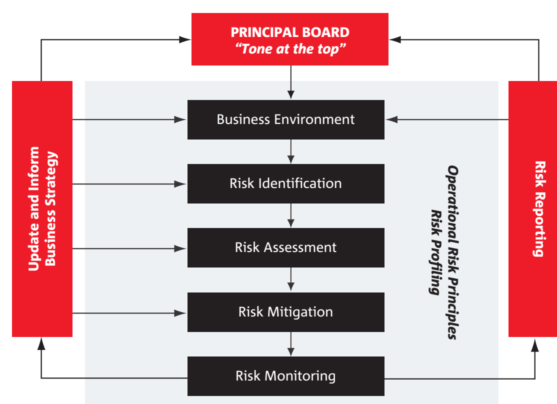
Risk culture and behaviour is paramount to the effective management of risk. When individuals at all levels of the Group are aware of the risks (in standard and non-standard activities) and expectations on how to manage them within agreed appetite, a strong risk culture is evident.

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

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

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

The Group's Operational Risk Framework



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

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

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

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

Measurement

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

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

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

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

Calculation of Operational Risk Capital

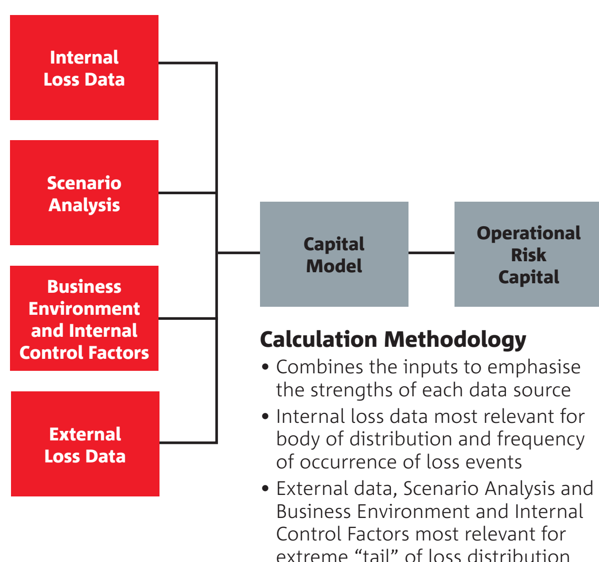


Table 8A: Total Risk-Weighted Assets

	As at	
	30 Sep 12	31 Mar 12
	$m	$m
Operational risk [(1)]		
Standardised approach	4,005	4,091
Advanced measurement approach	19,003	19,719
Total operational risk RWA	**23,008**	**23,810**

[(1)] *The Group's capital position is expected to be affected by higher Operational Risk RWAs in the December 2012 quarter due to increased regulatory requirements. As at 30 September 2012, the estimated impact of this is 22 basis points of Core Tier 1 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.

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

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

Risk Mitigation through Insurance

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

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

Regulatory and Compliance Management

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

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

9. Non-Traded Market Risk

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

Structure and Organisation

The Board approved risk appetite limits are outlined in the Group Non-Traded Market Risk (GNTMR) Policy, Guidance Notes and Limits Schedule, which provide direction for the management, measurement, monitoring, oversight, reporting and governance of non-traded market risks. The PBRC approves the GNTMR Policy.

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

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

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

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

Further information on the management of NTMR is included in the following sections of this report:

- Section 4.1 Capital Adequacy
- Section 6.2 Group Owned Securitised Assets
- Section 9.1 Funding and Liquidity Risk
- Section 9.2 Interest Rate Risk in the Banking Book
- Section 9.3 Equities Banking Book Position
- Section 9.4 Foreign Exchange Risk in the Banking Book.

9.1 Funding and Liquidity Risk

Introduction

Liquidity risk is the risk of the Group being unable to meet its financial obligations as they fall due. These obligations include:

- repayment of deposits
- repayment of borrowings and loan capital as they mature
- payment of operating expenses and taxes
- payment of dividends to shareholders
- ability to fund the Group's strategic plan and growth initiatives.

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

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

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

Management

Target funding indices are set by the GALCO at both Group and subsidiary levels, and communicated for approval by the Board in the annual Group Funding Plan. The target indices measure and monitor customer funding and wholesale term funding levels.

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

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

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

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

Measurement

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

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 for defined time buckets and scenarios. Concentration levels of funding sources, investor base and maturity terms are also monitored to avoid excessive concentration.

Monitoring and Reporting

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

9.2 Interest Rate Risk in the Banking Book

Introduction

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

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

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

Management

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

The key elements of the management framework for IRRBB include:

- the GNTMR Policy and GNTMR Interest Rate Risk in the Banking Book Guidance Notes define the compliance and management framework to ensure that all interest rate risk positions in the banking book are identified, measured, managed and reported, and are aligned to the requirements of *APS 117 Capital Adequacy: Interest Rate Risk in the Banking book*
- Group and subsidiary Treasuries are responsible for managing the interest rate risk profile of the balance sheet in line with the approved risk appetite. This includes development and execution of interest rate risk management strategies
- Funds Transfer Pricing (FTP) is a mechanism in place to transfer interest rate risk out of originating business units and into the Treasury functions for the management of interest rate risk
- Group and regional NTMR teams are responsible for IRRBB monitoring and are independent of Treasury. They maintain a risk framework for IRRBB, the systems and model for IRRBB measurement, and have responsibility for IRRBB measurement of exposures, compliance monitoring and reporting
- periodic reporting to management and governance committees of IRRBB exposures and compliance.

Measurement

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

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

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

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

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

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

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

Monitoring and Reporting

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

Table 9.2A: Interest Rate Risk in the Banking Book

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

	As at 30 Sep 12		As at 31 Mar 12	
	200 bp parallel increase	200 bp parallel decrease	200 bp parallel increase	200 bp parallel decrease
	$m	$m	$m	$m
Change in economic value [(1)]				
AUD	(41)	42	12	(6)
CHF	(2)	2	-	-
EUR	(12)	13	(4)	4
GBP	(26)	31	(2)	8
HKD	2	(2)	1	-
JPY	(1)	1	(1)	1
NZD	2	(3)	35	(37)
USD	61	(23)	59	(66)
Other	10	(10)	19	(21)
Total change in economic value	**(7)**	**51**	**119**	**(117)**

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

Table 9.2B: Total Risk-Weighted Assets

	As at	
	30 Sep 12	31 Mar 12
	$m	$m
IRRBB risk-weighted assets	4,021	6,281

9.3 Equities Banking Book Position

Introduction

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

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

- strategic investments
- capital gains
- distressed debt management (e.g. Debt for Equity swaps).

Management

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

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

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

Measurement

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

Monitoring and Reporting

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

Monitoring and Reporting Framework

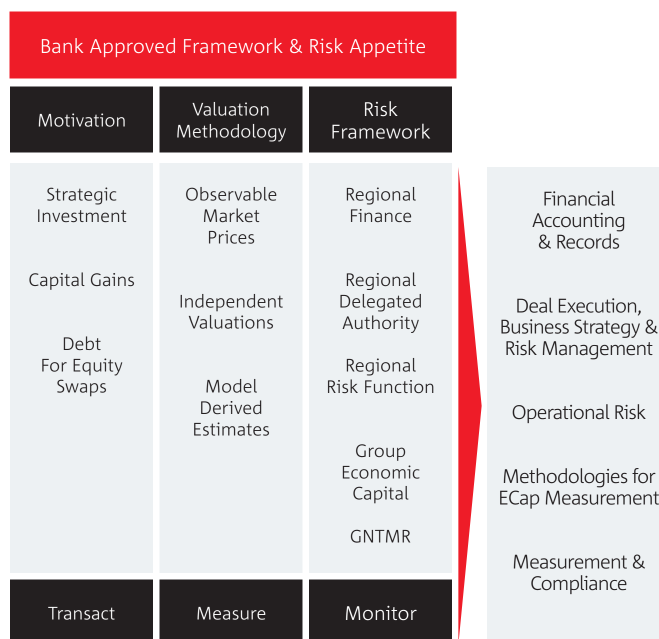


Table 9.3A: Equities Banking Book Position

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

	As at 30 Sep 12		As at 31 Mar 12	
	Carrying value [(1)]	Fair value [(2)]	Carrying value	Fair value
	$m	$m	$m	$m
Total listed equities (publicly traded)	64	64	68	68
Total unlisted equities	457	457	502	502

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

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

Table 9.3B: Gains and Losses on Equity Investments

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

	6 months ended	
	30 Sep 12	31 Mar 12
	$m	$m
Gains (losses) on equity investments		
Cumulative realised gains (losses) in reporting period	30	2
Total unrealised gains (losses)	12	7
Total unrealised gains (losses) included in Tier 1/Tier 2 capital	5	3

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

This table shows RWA 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 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 are not listed on a recognised exchange.

	As at	
	30 Sep 12	31 Mar 12
	$m	$m
Risk-weighted Assets		
Equities subject to 300% RW	191	205
Equities subject to 400% RW	1,627	1,801
Total risk-weighted assets	1,818	2,006

Disclosure 9.3D: Equity Investments Subject to Grandfathering Provision

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

9.4 Foreign Exchange Risk in the Banking Book

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

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

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

The key elements of the management framework for FXRBB include:

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

10. Glossary

Term	Description
ADI	Authorised Deposit-taking Institution.
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	Australian Prudential Regulation Authority.
APS	Prudential Standards issued by APRA applicable to ADIs.
Back-testing	Back-testing refers to the process undertaken to monitor performance of the Group's risk models. Historical data is used to compare the actual outcomes to the expected outcomes. Theoretical (or hypothetical) back-testing refers to the process whereby the trading positions at the end of the preceding day are revalued using the end-of-day rates for that day and then again at the succeeding day's closing rates. The difference between the two mark-to-market values of the portfolio which represents the profit and loss that would have occurred had there been no transactions on the day, is compared with the VaR. VaR is also compared with the actual daily traded profit and loss as a cross-check of the reasonableness of the theoretical portfolio movement.
BIPRU	BIPRU refers to the UK Financial Services Authority's requirements and guidance for accreditation under Basel II. It refers to the Prudential Sourcebook for Banks, Building Societies and Investment Firms.
Board	Principal Board of Directors of NAB.
Capital adequacy	Capital adequacy is the outcome of identifying and quantifying the major risks the Group is exposed to, and the capital that the Group determines as an appropriate level to hold for these risks, as well as its strategic and operational objectives, including its target credit rating.
CDO	Collateralised Debt Obligation.
CLO	Collateralised Loan Obligation.
Company	National Australia Bank Limited ABN 12 004 044 937.
Credit derivatives	Credit derivatives include single-name credit default and certain total rate of return swaps, cash funded credit linked notes and first-to-default and second-to-default credit derivative basket products. ADIs may also recognise many more complex credit derivatives that do not fall into the list above, that have been approved by APRA.
Credit derivative transactions	In relation to securitisation exposures, credit derivative transactions are those in which the credit risk of a pool of assets is transferred to the Group, usually through the use of credit default swaps.
Credit enhancements	Credit enhancements are arrangements in which the Group holds a securitisation exposure that is able to absorb losses in the pool, providing credit protection to investors or other parties to the securitisation. A first loss credit enhancement is available to absorb losses in the first instance. A second loss credit enhancement is available to absorb losses after first loss credit enhancements have been exhausted.
The Credit Risk function	All areas reporting directly to the Chief Credit Officer including Credit Insight & Appetite, Credit Frameworks, Credit Oversight, Counterparty Credit and Strategic Business Services.
Derivative transactions	In relation to securitisation exposures, derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transactions.
EaD	Exposure at Default (EaD) is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the Group would incur in the event of a default. It is used in the calculation of RWA.
Economic capital	Economic capital represents the Group's internal assessment of the amount of capital required to protect against potential unexpected future losses arising from its business activities, in line with its target credit rating.
ELE	The Extended License Entity (ELE) comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in *APS 110.*
Eligible financial collateral	Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach, for corporate, sovereign and bank portfolios, is limited to the collateral items detailed in paragraphs 4 and 23 of Attachment G of *APS 112*. Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment, paragraph 6.
Economic value sensitivities	Economic value sensitivities (EVS) refer to a modelling technique whereby the value of an asset is assessed through a number of different scenarios, such as different interest rates or period in time for loan repayment. This allows the Group to establish a price with some degree of certainty across the various scenarios and develop risk management techniques to protect the assets value.
Fair value	Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Foundation IRB (FIRB)	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.

Term	Description
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.
IAA	Internal Assessment 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.
IFRS	International Financial Reporting Standards.
ISDA	International Swaps & Derivatives Association.
IMA	Internal Model Approach (IMA) describes the approach used in the assessment of traded market risk. The Group uses, under approval from APRA, the IMA to calculate general market risk for all transactions in the trading book other than those covered by the Standard Method.
Impaired facilities	Impaired facilities consist of Retail loans (excluding unsecured portfolio-managed facilities) which are contractually 90 days or more past due with security insufficient to cover principal and arrears of interest revenue. Unsecured portfolio managed facilities are classified as impaired assets when they become 180 days past due (if not written off) as per ARF 220 instructions; Non-retail loans that are contractually 90 days or more past due and/or sufficient doubt exists about the ultimate ability to collect principal and interest; and Impaired off-balance sheet credit exposures, where current circumstances indicate that losses may be incurred.
IRB	Internal Ratings Based (IRB) describes the approach used in the assessment of credit risk. Within this document it is used interchangeably with the term advanced Internal Ratings Based approach. This reflects the Group's development of internal credit risk estimation models covering both retail and non-retail credit.
IRRBB	Interest rate risk in the banking book.
Level 3 Conglomerate Group	Contains APRA-regulated entities with material operations across more than one APRA-regulated industry and/or in unregulated entities.
LGD	Loss Given Default (LGD) is an estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default. It is used in the calculation of RWA.
LGR	Loss Given Realisation (LGR) is a parameter used for estimating LGD.
Liquidity facilities	Liquidity facilities are provided by the Group to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV (asset liquidity facilities), or to cover the inability of the SPV to roll over ABCP (standby liquidity facilities).
Loan to value ratio	Loan to Value Ratio (LVR) is the ratio between the loan and value of the security provided.
Masterscale	Masterscale is a consistent series of grades applied to credit exposures that allows the Group to place every credit exposure into a specific grade or range that represents the likelihood of a credit default. This allows comparison of customers and portfolios.
NAB	National Australia Bank Limited ABN 12 004 044 937.
National Australia Bank Group	NAB and its controlled entities.
Net write-offs	Write-offs on loans at amortised cost net of recoveries.
Non-retail credit	Non-retail credit broadly refers to credit exposure to business customers. It excludes retail credit defined below.
Non-traded book	Non-traded book refers to the investment in securities held by the Group through to maturity.
The Operational Risk function	All areas reporting directly to the General Manager, Operational Risk.
Past due facilities ≥ 90 days	Past due facilities ≥ 90 days consist of well-secured assets that are more than 90 days past due and portfolio-managed facilities that are not well secured and between 90 and 180 days past due.
PD	Probability of Default (PD) is an estimate of the likelihood of a customer defaulting or not repaying their borrowings and other obligations to the Group in the next 12 months.
Point in time	Point in Time (PiT) within this document refers to risk models that estimate the likelihood of default and resulting loss over a 12-month period having regard to the current economic conditions.
Qualifying revolving retail exposures	For the purposes of regulatory reporting, credit cards are referred to as qualifying revolving retail.
RBA	Ratings-Based Approach.
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.
Resecuritisation	Resecuritisation exposures are securitisation exposures in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. In addition, an exposure to one or more resecuritisation exposures is a resecuritisation exposure.
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.

Term	Description
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.
Risk-Weighted Assets (RWA)	A quantitative measure of the Group's risk, required by the APRA risk-based capital adequacy framework, covering credit risk for on- and off-balance sheet exposures, market risk, operational risk and interest rate risk in the banking book.
Securities	Securities include the purchase of securitisation debt securities for either trading or banking book purposes.
Securitisation	Structured finance technique which involves pooling and packaging cash-flow converting financial assets into securities that can be sold to investors.
SME	Small and medium sized enterprises.
SGA	Specialised Group Assets.
Specific provisions	Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with IFRS excluding securitisation; all collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss, are reported as additional regulatory specific provisions.
Sponsor	The entity that establishes the securitisation SPVs including ABCP conduits and often provides other services.
Standardised approach	Standardised refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine RWA.
Stress testing	Stress testing refers to a technique whereby the Group's capital position is assessed against a number of different scenarios used to determine the movement on expected losses and subsequent impact on capital.
Through the cycle	Through the Cycle (TtC) within this document refers to risk models that estimate the likelihood of default and resulting loss over a 12-month period having regard to the impact of an economic downturn.
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 1 capital ratio	Tier 1 regulatory capital, as defined by APRA, divided by RWA.
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.
Tier 2 capital ratio	Tier 2 capital as defined by APRA divided by risk-weighted assets.
Traded book	Traded book refers to the Group's investment portfolio that is traded or exchanged in the market from time to time that reflects market opportunities.
Value at Risk	Value at Risk (VaR) is a mathematical technique that uses statistical analysis of historical data to estimate the likelihood that a given portfolio's losses will exceed a certain amount.
Warehouse facilities	Warehouse facilities are lending facilities provided by the Group to an SPV for the financing of exposures in a pool. These may be on a temporary basis pending the issue of securities or on an on-going basis.
Write-offs	Write-offs represent credit losses in accordance with accounting rules.

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