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ASX Announcement

Thursday, 26 November 2009

National Australia Bank Limited – Full Year Basel II Risk and Capital Report

National Australia Bank Limited (NAB) today released its full year Risk and Capital Report (RCR), as required under the Australian Prudential Regulation Authority Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information.

The RCR has been prepared consistently with information otherwise published or supplied to APRA. The RCR should be read in conjunction with NAB's 2009 Full Year Results and NAB's 2009 Annual Financial Report.

The report is available at http://www.nabgroup.com

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2009 RISK & CAPITAL REPORT

Incorporating the requirements of APS 330
as at 30 September 2009

National Australia Bank

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1. Introduction

The effective management of risk is essential to the strategy and business practices of a bank. The Group's approach to risk management is through the consideration of the key risk categories of credit risk, operational risk, traded market risk and balance sheet related risks including non-traded market risk. This cascades through the Group by the Principal Board establishing risk appetite, a strong internal audit program, active risk oversight functions, risk management awareness by managers at all levels, communication with our regulators and informed Board oversight.

Basel II is the common name for the framework issued by the Basel Committee on Banking Supervision in 2004. This framework sets the standard for the measurement of risk and capital that applies to all banks internationally. In Australia, the Australian Prudential Regulation Authority ("APRA") has regulatory responsibility for the implementation of Basel II through the release of prudential standards.

This Risk and Capital Report addresses the requirements of APRA's Pillar 3 public disclosure standard, *Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information* ("APS 330"). APS 330 aims to enhance transparency in Australian financial markets by setting minimum requirements for the public disclosure of information on the risk management practices and capital adequacy of locally incorporated Authorised Deposit-taking Institutions ("ADIs"). In line with this objective, the Risk and Capital Report is designed to provide our stakeholders with enhanced information about the approach taken by the Group to manage risk and to determine the Group's capital adequacy, having regard to the operating environment.

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

1.1 The Group's Basel II Methodologies

The Basel II Capital Adequacy Framework ("the Basel II Framework") sets out minimum capital and risk management requirements for banks and other financial institutions globally. The objectives of the Basel II Framework are to promote the adoption of stronger risk management practices by the banking industry and strengthen the soundness and stability of the international banking system.

The Group operates in multiple regulatory jurisdictions. The Group's regulatory capital and risk weighted assets ("RWAs") are calculated in accordance with defined Basel II methodologies, with the exception of its subsidiary Great Western Bank in the USA, which uses Basel I methodology and is reported under "Standardised – Other" for the purposes of calculating the consolidated banking group position.

The Group's Australian, New Zealand and Wholesale Banking operations have been granted Basel II advanced status for credit and operational risk management by APRA in 2008. The Reserve Bank of New Zealand ("RBNZ") granted Basel II advanced status for credit and operational risk management to the Bank of New Zealand in 2008. The Group also received accreditation for interest rate risk in the banking book for its banking operations, excluding Great Western Bank in 2008. The Group's internal model for calculating traded market risk was re-accredited by APRA in 2006, and further enhanced under Basel II to include new guidance on valuation methods, clarification of the trading book definition and expanded guidance on illiquid instruments.

The Group's subsidiary in the United Kingdom, Clydesdale Bank PLC, regulated by the Financial Services Authority ("FSA"), received standardised operational and credit risk accreditation on 1 January 2008 in accordance with the FSA's requirements.

Great Western Bank is regulated by the South Dakota Division of Banking, the Federal Deposit Insurance Corporation and the Federal Reserve Bank.

The following table sets out the methodologies applied across the Group as at 30 September 2009.

The Group's Basel II Methodologies

Basel II Approach	Credit Risk	Operational Risk	Non-Traded Market Risk	Traded Market Risk
National Australia Bank Limited (1)	Advanced IRB	AMA	IRRBB	Standardised and IMA
Bank of New Zealand	Advanced IRB	AMA	IRRBB	n/a
Clydesdale Bank PLC	Standardised	Standardised	IRRBB	n/a
Great Western Bank	Basel I	n/a	n/a	n/a

(1) Australian and Wholesale Banking operations are accredited under the Basel II accreditation of National Australia Bank Limited.

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

For the advanced approaches, the Group uses internal models and data to calculate regulatory capital including any regulatory adjustments. For loans secured by residential property, APRA requires a 20% Loss Given Default ("LGD") floor under the Internal Ratings Based approach ("IRB"). APRA has also provided guidance with respect to LGD and Exposure at Default ("EaD") estimates for other asset categories in order to conservatively model the impact of an economic downturn. The standardised approach uses the Basel II Framework methodology as defined by regulators. Effective 30 September 2009, Bank of New Zealand credit risk exposures consolidated within the banking group position are calculated under RBNZ requirements as mandated by APRA.

1.2 APS 330 Disclosure Governance

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

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

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

1.3 Regulatory Capital

Prudential Standard APS 111 Capital Adequacy: Measurement of Capital sets out the various regulatory requirements for the Group's capital base. These minimum levels are applied after all required capital deductions are undertaken, as outlined in Section 10.

2. Scope of Application

As required under APS 330, this disclosure applies to the Level 2 consolidated Group, being the National Australia Bank Limited ("the Company" or "NAB") and the entities it controls subject to certain exceptions set out in this part ("the Group").

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

Under guidelines issued by APRA, the activities of life insurance and funds management entities are excluded from the calculation of Basel II risk weighted assets and the related controlled entities are deconsolidated from the National Australia Bank Group for the purposes of calculating capital adequacy. Capital adequacy deductions are applied to the investments in, and profits of, these activities.

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

Differences arising in consolidation between Regulatory and Accounting approaches

The primary difference in consolidation between the regulatory and the accounting approaches - as defined by the Australian equivalents to the International Financial Reporting Standards ("AIFRS") - is in the area of investments in life insurance, funds management and securitisation. Under AIFRS, all entities, including special purpose vehicles, where the National Australia Bank Group has the power to govern the financial and operating policies so as to obtain benefit from their activities, are consolidated. This includes life insurance, funds management and special purpose vehicles used to house assets securitised. A list of material controlled entities included in the consolidated National Australia Bank Group for accounting purposes can be found in the National Australia Bank Group's 30 September 2009 financial report.

Restrictions on the transfer of funds or regulatory capital within the National Australia Bank Group

The transfer of regulatory capital and funding within the National Australia Bank Group is subject to restrictions imposed by National Australia Bank Group or local regulatory requirements as reflected in internal policies.

Further, for funding transfers within the National Australia Bank Group, *Prudential Standard APS 222: Associations with Related Entities* establishes limits on the level of exposure (for example debt and equity) that NAB may have to a related entity. National Australia Bank Group policy requires compliance with these limits and that the NAB takes account of risks associated with dealings with other members of the National Australia Bank Group.

Table 2A: Scope of Application

	As at	
	30 Sep 09	31 Mar 09
Capital deficiencies in non-consolidated subsidiaries	**$m**	**$m**
Aggregate amount of under capitalisation in non-consolidated subsidiaries of the ADI group	-	-

Clydesdale Bank PLC

Clydesdale Bank PLC has made use of 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

Bank of New Zealand ("BNZ") is a wholly owned subsidiary of National Australia Bank Limited and operates as a regionally autonomous, full-service bank in New Zealand. The BNZ Board is responsible for corporate governance and derives its authority from the New Zealand Companies Act 1993 and the Constitution of Bank of New Zealand.

BNZ is subject to the Basel II capital adequacy requirements applicable in New Zealand. 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 RBNZ disclosure regime applicable to banks incorporated in New Zealand.

3. Capital

3.1 Capital Adequacy

As an ADI, the National Australia Bank Limited is subject to regulation by APRA under the authority of the Banking Act 1959. APRA has set minimum regulatory capital requirements for banks that are consistent with the Basel II Framework.

Regulatory capital requirements within this report are for the Group and its banking subsidiaries. The life insurance and funds management businesses are not consolidated for capital adequacy purposes.

APRA sets a Prudential Capital Ratio ("PCR") that is a minimum ratio comparing regulatory capital with total risk weighted assets (including on and off balance sheet assets). APRA prescribes the PCR on a bilateral basis, it is not publicly disclosed. Under APRA's Prudential Standards, the minimum PCR for Australian banks is 8.0%, of which a minimum of 4.0% must be held in Tier 1 capital.

$$\frac{\text{Tier 1 capital}}{\text{Total risk weighted assets}} > 4\%$$

APRA may specify a higher PCR for both Tier 1 and Total Capital, proportional to an ADI's overall risk profile. A breach of the required ratios under the Prudential Standards may trigger legally enforceable directions by APRA, which can include a direction to raise additional capital or to cease business.

The Group monitors its capital ratios against internal capital targets that are set by the Principal Board and which are over and above minimum capital requirements. Target ranges are set by reference to factors such as the risk appetite of the Principal Board, and market, regulatory and rating agencies expectations. The Group targets a Tier 1 ratio above 7% on a through the cycle basis. Tier 1 is being maintained above 8% while the outlook remains uncertain.

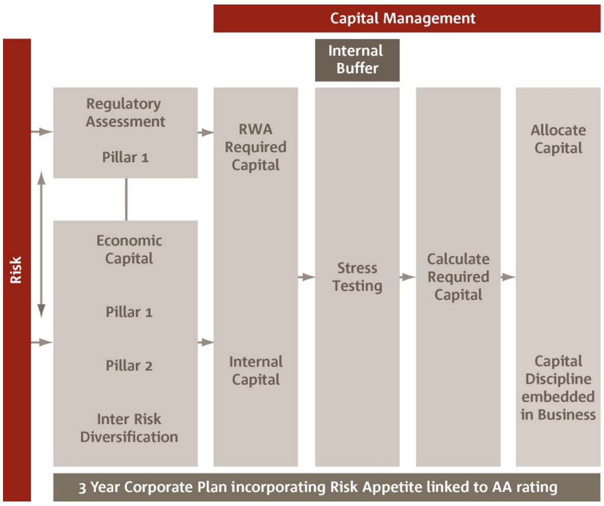
Capital Adequacy Assessment

The Group assesses its overall capital adequacy in relation to its risk profile using its Internal Capital Adequacy Assessment Process ("ICAAP"). ICAAP is part of the Group's risk and capital management system, which collectively provides the Group with a framework to balance the generation of an adequate return on the capital while addressing the fundamental need of solvency. As part of the ICAAP process, the Group considers adequacy of capital using the following components:

- Regulatory requirements,
- The Group's risk appetite, in line with target credit rating,
- Internal capital adequacy (economic capital) models to consider its material Pillar 1 and Pillar 2 risks,
- A buffer to bottom up or accumulation of business unit level assessment of risk capital requirements,
- Peer analysis,
- Qualitative factors relevant to risk management and investor requirements, and
- The 3 Year Corporate Plan.

An overview of this process is illustrated below.

The Group's Internal Capital Adequacy Assessment Process



Both Basel II and economic capital models are used in the ICAAP process. The Group's Basel II models assess Pillar 1 risks to determine the regulatory capital requirements for credit risk, traded market risk, operational risk and interest rate risk in the banking book. The Group's economic capital models assess these Pillar 1 risks as well as material Pillar 2 risks, which include business risk, equity risk, and defined benefit pension risk.

The Principal Board Risk Committee ("PBRC"), in approving the Group's risk appetite, initiates and reviews the Group's enterprise-wide stress testing of adverse external events and their potential impact on the Group's capital plan. Stress testing provides a measurement of risks that may arise through events that are unexpected and of high consequence. The Group's Risk Scenario Planning process considers the impact of a range of "severe but plausible" scenarios on the Group's balance sheet, earnings and capital position. The scenario outputs provide the basis to define a set of key triggers for early warning to events which may stress the Group's business performance activities, as well as a range of mitigating actions.

The setting and monitoring of the Group's risk appetite is supported by the Group's implementation of credit, operational and market risk tools defined by the Basel II framework, as well as the Group's ICAAP and economic capital frameworks.

The Group's Corporate Plan and Risk Appetite Statement specify the planned cash earnings and ROE outcomes within the context of its target credit rating, targeted capital ratios (e.g., Tier 1 capital and minimum total regulatory capital), economic capital requirements, and potential downside financial outcomes. The corporate risk appetite is broken down to business unit levels, as the targets are cascaded to the businesses.

RWAs and economic capital are embedded in the corporate planning process through:

- Measuring and allocating capital to assess risk-adjusted returns from businesses, portfolios and transactions, and
- Assessing and measuring material risks across the Group to ensure capital adequacy consistent with the Group's desired credit rating.

Corporate plans are reviewed and approved by the Principal Board on an annual basis. The Group monitors progress of its corporate plan on a monthly basis.

The Group reports its actual capital position on a quarterly basis to the Group Capital Committee ("GCC") and the Principal Board. The capital forecast, prepared as part of the Corporate Plan, is updated and presented to each meeting of the GCC and the Principal Board, which meet approximately monthly.

Table 3.1A: Capital Adequacy

The following table provides the Basel II risk weighted assets for the Group.

	As at	
	30 Sep 09	**31 Mar 09**
	RWA	**RWA**
	$m	**$m**
Credit risk (1)		
IRB approach		
Corporate (including SME) (2)	137,460	156,070
Sovereign (3)	1,041	-
Bank (9)	6,914	6,584
Residential mortgage	47,924	44,449
Qualifying revolving retail	4,031	4,610
Retail SME (2)	6,994	-
Other retail	3,916	2,991
Total IRB approach (4)	**208,280**	**214,704**
Specialised lending (SL) (5)	**23,218**	**21,598**
Standardised approach		
Australian and foreign governments	91	334
Bank (9)	777	1,084
Residential mortgage	20,336	20,376
Corporate	32,465	37,921
Other	8,799	10,323
Total standardised approach	**62,468**	**70,038**
Other		
Securitisation (6)	10,968	7,860
Equity	1,030	831
Other (7)	6,011	6,585
Total other	**18,009**	**15,276**
Total credit risk	**311,975**	**321,616**
Market risk (8)	3,415	5,121
Operational risk	22,972	24,336
Interest rate risk in the banking book	4,160	1,300
Total risk weighted assets	**342,522**	**352,373**

(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. Effective 30 September 2009, BNZ exposures consolidated within the banking group numbers are calculated under RBNZ requirements. The impact of the change in methodology from APRA requirements to RBNZ requirements resulted in an increase in RWA of $4.0 billion.*

(2) *Effective 30 September 2009 the Group received approval from APRA to segment the Retail SME portfolio classification (which was previously included in the Group's corporate portfolio) excluding BNZ, which has been approved to segment post 30 September 2009 by RBNZ.*

(3) *Effective 30 September 2009 the Group received approval to change the treatment of the sovereign asset class from the standardised to advanced IRB approach, excluding BNZ (which is awaiting RBNZ approval).*

(4) *For IRB approach: 'Bank' includes ADIs, overseas banks and non-commercial public sector entities. 'Qualifying revolving retail' exposures are revolving, unsecured and unconditionally cancellable (both contractually and in practice), for individuals and not explicitly for business purposes.*

(5) *Specialised lending exposures are subject to slotting criteria. As part of an industry review with APRA, changes to the classification of the commercial property portfolio meeting the slotting criteria will be introduced in the December 2009 quarter.*

(6) *APRA approved the Group's use of the Internal Assessment Approach (IAA) under APS 120 for certain unrated securitisation exposures effective 31 March 2009. The impact of the use of IAA and associated requirements account for a large part of the increase in securitisation RWA of approximately $3.1 billion between 31 March 2009 and 30 September 2009.*

(7) *'Other' includes non-lending asset exposures which are not covered in the above categories. Non-lending assets are specifically excluded from credit risk exposures shown on pages 22 to 47 of this report.*

(8) *The decrease in traded market risk RWA since 31 March 2009 was partly due to an APRA approved change in methodology with respect to calculating regulatory capital for general market risk. The change in methodology, from a 'sum of regions' basis to a 'global diversified VaR' basis, contributed to a decrease in the general market risk (Internal Model) RWA of approximately $0.5 billion.*

(9) *As at 30 September 2009 the Group held $4.1 billion (31 March 2009: $4.0 billion) of government guaranteed Financial Institution Debt. This resulted in, the application of lower risk weights on these holdings with, a reduction in RWA of $1.8 billion (31 March 2009: $1.2 billion) and an effective increase in Tier 1 capital ratio of 0.05% (31 March 2009: 0.03%) and Total capital ratio of 0.06% (31 March 2009: 0.04%). This debt is assessed in accordance with normal credit approval processes.*

Table 3.1B: Capital Ratios

The table below provides the key capital ratios defined in APS 330. Capital ratios for offshore banking subsidiaries reflect host regulator discretions.

	As at	
	30 Sep 09	**31 Mar 09**
Capital ratios (1)	**%**	**%**
Level 2 total capital ratio (2)	11.48%	12.19%
Level 2 Tier 1 capital ratio (2)	8.96%	8.31%
Level 1 National Australia Bank total capital ratio (2)	13.23%	13.67%
Level 1 National Australia Bank Tier 1 capital ratio (2)	10.76%	9.52%
Significant subsidiaries		
Clydesdale Bank PLC total capital ratio	13.14%	13.29%
Clydesdale Bank PLC Tier 1 capital ratio	8.15%	8.31%
Bank of New Zealand total capital ratio	10.88%	10.80%
Bank of New Zealand Tier 1 capital ratio	8.08%	8.16%
Great Western Bank total capital ratio	11.55%	11.60%
Great Western Bank Tier 1 capital ratio	10.58%	10.51%

(1) *Level 1 group represents the extended license entity (note: Extended license entity status was applied for the first time in accordance with APRA's requirements at 30 September 2008). The Level 2 group represents the consolidation of Group and all its subsidiary entities, other than non-consolidated subsidiaries as outlined within section 2 'Scope of Application' of this report.*

(2) *Since 31 March 2009, the Group has made a number of acquisitions as detailed in our ASX announcements and the Group's 2009 Annual Financial Report including the acquisition of 80.1% of JB Were Pty Limited and the acquisition of Aviva Australia Holdings Limited within our Wealth Management business and the acquisition of the mortgage management business of Challenger Financial Services Group Limited by acquiring Challenger Mortgage Management Holdings Pty Limited in our Banking Business. The regulatory capital impacts for the Aviva acquisition includes a $224 million 100% deduction from Tier 1 capital and $601 million 50/50 deduction for net tangible assets; while the JB Were impact has been a 100% Tier 1 deduction for Goodwill of $99 million. Similarly the Challenger acquisition has involved a goodwill deduction of $312 million at Tier 1 for the purchasing entity. The Challenger loan portfolio will initially be risk weighted using the standardised approach from the date of acquisition and will be reflected in the Group's December 2009 Risk and Capital Report.*

3.2 Capital Structure

The Group's capital structure comprises various forms of capital. For regulatory purposes, capital has two base elements, eligible Tier 1 and Tier 2 capital, from which certain deductions are made to arrive at net Tier 1 and net Tier 2 capital. Allowable items for inclusion in Tier 1, Tier 2 and total regulatory capital are defined in APS 110.

Under guidelines issued by APRA, life insurance and funds management entities activities are excluded from the calculation of Basel II risk-weighted assets, and the related controlled entities are deconsolidated for the purposes of calculating capital adequacy. The intangible component of the investment in these controlled entities is deducted from Tier 1 capital, with the balance of the investment deducted 50% from Tier 1 and 50% from Tier 2 capital under Basel II.

Innovative Tier 1 Capital

BNZ Income Securities

On 28 March 2008, the Group raised $380 million through the issue by BNZ Income Securities Limited of 449,730,000 perpetual non-cumulative shares (BNZIS Shares) at NZ$1 each. Each BNZIS Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 28 March 2013, of 9.89% per annum. The dividend rate is reset every five years, on each rate reset date, to the aggregate of a reset benchmark rate determined on that date by reference to the mid market swap rate for the five year term plus a margin of 2.20% per annum.

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

On 26 June 2009, the Group raised $203 million through the issue by BNZ Income Securities 2 Limited of 260,000,000 perpetual non-cumulative shares (BNZIS 2 Shares) at NZ$1 each. Each BNZIS 2 Share earns a non-cumulative distribution, payable quarterly in arrears, at a rate to, but excluding, 30 June 2014, as 28 June 2014 is not a business day, of 9.10% per annum. The dividend rate is reset every five years, on each rate reset date, to the aggregate of a reset benchmark rate determined on that date by reference to the mid market swap rate for the five year term plus a margin of 4.09% per annum.

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

Trust Preferred Securities

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

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

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

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

National Capital Instruments

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

With the prior consent of APRA, the Australian NCIs may be redeemed on 30 September 2016 and any subsequent distribution payment date after 30 September 2016. In a winding-up of NAB, the Australian NCIs and (if issued) the Australian NCI preference shares will generally rank equally with the holders of other preference shares and will rank for return of capital behind all deposit liabilities and creditors of NAB, but ahead of ordinary shareholders.

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

Convertible Notes

On 24 September 2008, the Group issued $300 million Convertible Notes. The Group extended the terms of the Convertible Notes on 19 August 2009. The Convertible Notes continue to pay a non-cumulative distribution at a rate of 2.00% over the 30-day bank bill swap rate ("BBSW"). Subject to APRA approval, the notes are redeemable at the Group's option on or about 24 September 2010, or every monthly interest payment date thereafter. The notes are convertible at the holder's option into a variable number of National Australia Bank Limited ordinary shares on or about 24 September 2010 or every 3 months thereafter.

Capital Notes

On 24 September 2009, the Group issued USD$600 million hybrid tier 1 Capital Notes. The Capital Notes are perpetual capital instruments. The Capital Notes initially carry a fixed distribution of 8.0% per annum, payable semi annually in arrears, from and including 24 September 2009 up to but not including 24 September 2016. The fixed distribution of 8.0% per annum is made up of the 7 year US Treasury benchmark rate of 3.06% (the base rate) plus an initial margin of 4.94%. The base rate is reset to the then prevailing US Treasury benchmark rate every seven years, and the margin steps up to 150% of the initial margin after 14 years. Subject to APRA approval, the notes are redeemable at the Group's option after seven years or on any interest payment date thereafter.

Non-Innovative Tier 1 Capital

National Income Securities

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

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

Stapled Securities

On 24 September 2008, the Group issued $300 million Stapled Securities (2008 Stapled Securities). The Group extended the terms of the 2008 Stapled Securities on 19 August 2009. The 2008 Stapled Securities are perpetual capital instruments. Each 2008 Stapled Security continues to pay a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 24 September 2010. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 24 September 2010.

On 30 September 2009, the Group issued $500 million Stapled Securities (2009 Stapled Securities). The 2009 Stapled Securities are perpetual capital instruments. Each 2009 Stapled Security pays a non-cumulative distribution at a rate of 2.00% over the 30-Day BBSW. Subject to APRA approval, the securities are redeemable at the Group's option on or about 30 December 2009, 30 March 2010 or every monthly distribution payment date thereafter. In the event that the securities are not redeemed, they will convert into a variable number of National Australia Bank Limited ordinary shares, subject to the satisfaction of conversion conditions, on or about 30 March 2010.

Upper Tier 2

Perpetual Floating Rate Notes

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

Lower Tier 2

Subordinated Medium-term Notes

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

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

- Under the Euro medium-term note program of the Company, $2,193 million (2008: $2,408 million) fixed rate notes maturing between 2015 and 2016 with fixed rates between 3.88% - 5.38% (2008: 3.88% - 5.38%) are outstanding and nil (2008: $2,010 million) floating rate notes;
- Under the previously registered US medium-term note program of the Company, $1,023 million (2008: $1,213 million) fixed rate notes maturing between 0 to 5 years with a fixed rate of 8.60% (2008: 8.60%) are outstanding;
- Under the Domestic debt issuance program of the Company, $300 million (2008: $756 million) fixed rate notes maturing 2017 with fixed rate of 7.25% (2008: 6.50% - 7.25%) and $1,200 million (2008: $1,420 million) floating rate notes maturing between 2017 and 2018 are outstanding;
- Under the Global medium-term note program, $2,826 million (2008: $3,100 million) fixed rate notes maturing between 2016 and 2023 with fixed rates between 4.55% - 7.13% (2008: 4.55% - 7.13%) and $2,238 million (2008: $2,793 million) floating rate notes maturing between 2016 and 2017 are outstanding; and
- The Group has conducted a number of stand-alone subordinated medium-term note issues: $57 million (2008: nil) fixed rate notes maturing between 0 to 5 years with a fixed rate of 5.47%, $40 million (2008: $108 million) fixed rate notes maturing greater than 5 years with a fixed rate of 7.50% (2008: 5.47% - 7.50%), $60 million (2008: $3 million) floating rate notes maturing between 0 to 5 years and nil (2008: $62 million) floating rate notes maturing greater than 5 years, and NZ$350 million (2008: NZ$350 million) with a fixed yield of 8.42% maturing 15 June 2017 but can be called by the bank on 15 June 2012.

Table 3.2A: Capital Structure [(1)]

	As at	
	30 Sep 09	31 Mar 09
	$m	$m
Tier 1 capital		
Paid-up ordinary share capital	19,119	15,002
Reserves	(1,098)	(49)
Retained earnings including current year earnings	14,769	16,793
Minority interests	20	40
Innovative Tier 1 capital	4,601	3,835
Non-innovative Tier 1 capital	2,738	2,242
Gross Tier 1 capital	**40,149**	**37,863**
Deductions from Tier 1 capital		
Banking goodwill	1,694	1,474
Wealth management goodwill and other intangibles	4,211	3,892
Deferred tax assets	1,209	1,160
Other deductions from Tier 1 capital only	886	848
50/50 deductions from Tier 1 capital		
Investment in non-consolidated controlled entities	881	581
Expected loss in excess of eligible provisions	355	402
Deductions relating to securitisation	239	220
Total Tier 1 capital deductions	**9,475**	**8,577**
Net Tier 1 capital	**30,674**	**29,286**
Tier 2 capital		
Upper Tier 2 capital	822	985
Lower Tier 2 capital	9,371	13,947
Gross Tier 2 capital	**10,193**	**14,932**
Deductions from Tier 2 capital		
Deductions from Tier 2 capital only	75	74
50/50 deductions from Tier 2 capital		
Investment in non-consolidated controlled entities	881	581
Expected loss in excess of eligible provisions	355	402
Deductions relating to securitisation	239	220
Total Tier 2 capital deductions	**1,550**	**1,277**
Net Tier 2 capital	**8,643**	**13,655**
Total capital	**39,317**	**42,941**

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

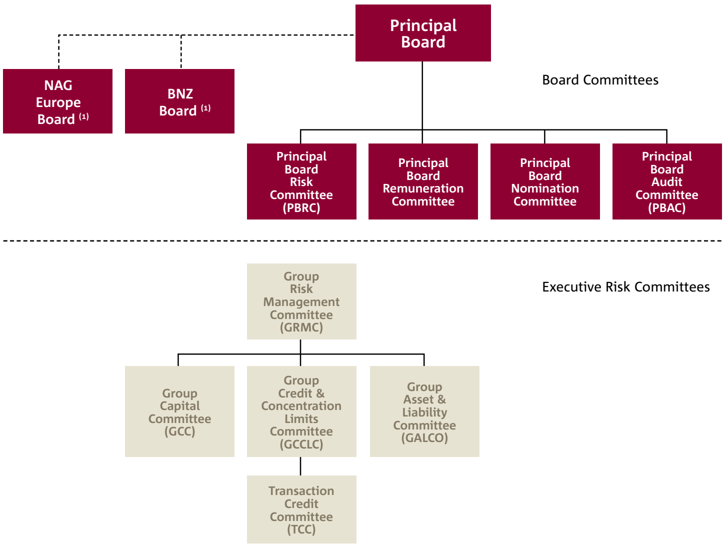
4. Risk Exposure and Assessment

Introduction

Risk permeates every aspect of the Group's business and therefore its effective management is fundamental to the strategy and operational practices of the Group and is essential to the Group's ongoing success.

Risk Governance and Strategy

The Group's Risk Committee Structure



(1) Regional risk governance structures largely replicate the Principal Board Sub-Committees and Executive Risk Committees

Principal Board

The Principal Board establishes the formal risk appetite statement for the Group, which sets an overall limit on the total amount of risk that the Group is prepared to take, based on the returns that the Group is seeking to provide to shareholders, the credit rating that the Group is seeking to maintain, the Group's capital position, and the Group's desired capital ratios. The risk appetite statement informs the Group's risk, capital and business management limits and policies. It is reviewed quarterly by the Principal Board and is a critical component of the strategic and operational planning process.

The Principal Board and/or its risk sub-committee (the Principal Board Risk Committee "PBRC"), approves all material risk policies and monitors and reviews the adequacy of the risk management framework including overseeing the material risks faced by the Group, reviewing management plans for risk mitigation and the implementation of these plans. This framework establishes responsibility and accountability for risk management through clearly defined authorities, policies and controls.

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

Executive Management

The Group CEO chairs the Group Risk Management Committee ("GRMC"), which leads management in respect of risk matters relating to culture, integrated risk governance processes, and risk strategy and performance.

The GRMC is supported by three sub-committees [2] each overseeing a specific risk area: Group Credit and Concentrations Limits Committee ("GCCLC") [3] Group Asset and Liability Committee ("GALCO"), and the Group Capital Committee ("GCC"). The major businesses have risk management committees comprising senior business unit executives. Their role is to provide management focus on risk issues within the Business Units.

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

Risk Management

The Group's approach to risk management is based on the principle that, to be effective, risk management capability must be embedded in front-line teams, with independent design, oversight and objective assurance. Implementation of risk management is carried out through the Group's three lines of defence, summarised as follows:

- The first line: each business unit is accountable for managing the risks associated with its activities. This includes implementing and monitoring the effectiveness of controls, the adherence to policies, limits and escalation requirements, with regular reporting of breaches, and evaluation of the level and trends of material risks.
- The second line: comprises the Group Finance and central risk management functions, which are accountable for independent design, monitoring, oversight and objective assurance.
- The third line: is the responsibility of Internal Audit, which operates as a global, independent function reporting directly to the Chairman of the Principal Board Audit Committee ("PBAC"). It provides independent audit, validation and oversight of business unit compliance with risk policies and procedures and, on an annual basis, attests to the adequacy of the Group's risk management systems. Internal Audit is supported by independent testing of key controls undertaken throughout the year across the Group's business units and risk management functions. It also considers the results of various external reviews and incidents.

[2] *The activities of the previous GRMC sub-committee known as the Group Operational Risk and Compliance Committee ("GORCC") have recently been transferred to a number of 'business as usual' forums and individuals to manage and oversee on behalf of the Group. The Group Market Risk Committee has been transferred to Wholesale Banking.*
[3] *The GCCLC is an amalgamation of the previous Group Credit Risk Committee and its sub-committee, the Credit Concentration Limits Committee, and is supported by the Transactional Credit Committee ("TCC").*

Risk Governance

Credit Risk

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

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

The GRMC oversees the processes, systems, methodologies and models for credit risk management across the Group. It is supported by the GCCLC, which considers credit risk matters that relate to risk culture, integrated risk governance processes, risk strategy and performance.

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

The Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, and to geographic and industry segments. These limits are set by PBRC consistent with the Group's risk appetite. Such risks are monitored on a regular basis and are subject to annual or more frequent reviews.

The Group's Credit Policy applies globally. It provides the principles of the Group's credit risk appetite, and the credit underwriting framework that is used to assess borrower risk. The Group Credit Policy conforms to various regulatory standards and is reviewed at least annually to ensure continued compliance. Amendments to the Group Credit Policy require approval by the GCCLC or as delegated under limited authority. Each business unit is responsible for operating procedures that comply with Group Credit Policy, approved in accordance with business unit governance frameworks.

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

Operational Risk

The Principal Board, upon the recommendation of the PBRC, is responsible for approving the Group Operational Risk Framework, which provides a consistent and structured approach to operational risk management across the Group. Together with GRMC, the PBRC monitors and reviews the Group's operational risk profile at their regular meetings. GRMC approves Group operational risk policies that are developed by the Operational Risk team. In addition, each business reports its operational risk profile in the Group CRO Report, which goes to GRMC.

Traded Market Risk

The Principal Board, under guidance of the PBRC, monitors and reviews the adequacy of the Group's Traded Market Risk Framework, and endorses the management and reporting framework for market risk. The PBRC approves the Group Traded Market Risk Policy, which includes elements such as limits, stress testing and the definition of the trading book.

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

The PBRC and the Wholesale Banking Risk Management Committee oversee market risk activities by monitoring key indicators, such as Value at Risk ("VaR") and profit and loss trends, limit breaches and actions taken, and significant market risk events.

Non-Traded Market Risk

Interest Rate Risk in the Banking Book (IRRBB)

The IRRBB Policy, inclusive of the risk appetite and limits, is approved by the Principal Board, with Group authority delegated to the GALCO and regional Asset and Liability Management Committees ("regional ALCOs") for implementation and monitoring. Authority for development and execution of IRRBB strategy, performance targets and implementation is delegated by GALCO to Group Treasury.

Group Non-Traded Market Risk ("GNTMR"), a risk function, provides oversight and the IRRBB governance framework. GNTMR is the owner of policies and APRA-approved models.

Equities Risk in the Banking Book

The Principal Board, upon the recommendation of the PBRC, approves risk appetite for equity investments with a defined delegation of authority to management to undertake equity investments.

Other Material Risks:

Liquidity Risk

The Principal Board, upon the recommendation of the PBRC, approves the Group Liquidity Policy, endorses an effective management and reporting framework, and monitors and reviews the adequacy of the Group's liquidity framework.

The PBRC receives regular reports on Group liquidity management activity, risk limits and sensitivity metrics, and is informed of any significant developments in relation to external stakeholders (e.g., regulatory bodies), internal change management initiatives and other relevant items.

Funding Risk

Upon the recommendation of the PBRC, the Principal Board approves the risk appetite, funding principles and objectives, and endorses the risk management and compliance framework for funding.

The PBRC, on behalf of the Principal Board, receives regular presentations on Group funding activity, risk limits and sensitivity metrics, and is informed of any significant developments in relation to external stakeholders (e.g., regulatory bodies), internal change management initiatives and other relevant items.

Foreign Exchange Risk in the Banking Book

Upon the recommendation of the PBRC, the Principal Board approves the risk appetite, principles and objectives, and endorses the risk management and compliance framework for managing Foreign Exchange Risk in the Banking Book.

Key risk and performance metrics are reported to GALCO on a monthly basis and any significant internal and external developments are reported to PBRC.

Capital Risk

Group capital targets are set by the GALCO and approved by the Principal Board. Group capital targets are reviewed at least annually as part of the Board-approved Group Capital Management Plan.

PBRC on behalf of the board receives regular presentations on the Group's capital position including key risks, issues, sensitivities and limits. PBRC is also informed of any significant developments in relation to external stakeholders (e.g., regulatory bodies), internal change management initiatives and other relevant items.

Securitisation Risk

Third Party Securitisation

The Principal Board periodically monitors and reviews third party asset securitisation management and reporting with guidance from Wholesale Banking Risk Management Committee, GRMC and the PBRC.

Group Owned Securitised Assets

Upon the recommendation of the PBRC, the Principal Board approves the Group Owned Asset Securitisation Policy and the Group's securitisation management and reporting framework.

The governance processes related to securitisation are contained in the Group's risk management framework. Securitisation compliance and governance by GNTMR is independent of securitisation execution.

The First and Second Line of Defence by Risk Type

The following table provides an overview of the key activities of the first and second line of defence for the APS 330 risk types. The third line of defence includes independent audit, validation and oversight activities, which are similar for all risk types. The third line of defence is outlined in more detail on page 12 of this report.

	First line of defence	Second line of defence
Credit Risk	Senior and line management within each business constitute the first line of defence. Their primary responsibility is to ensure that credit policies, processes and standards are followed in their area. More specifically, senior and line management are required to: - Ensure that credit approvals are made within delegated authorities or escalated. - Operate within given portfolio and concentration limits as part of their ongoing monitoring of credit approvals. - Report on exposures that qualify for inclusion in relevant regulatory returns, such as *APS 221: Large Exposures* and *APS 222: Associations with Related Entities.* - Undertake a review of most facilities at least annually. Policies and procedures are in place that limit exposure to areas subject to unacceptable political or environmental risk, or where credit risk concentration is deemed to be outside risk appetite. When assessing an exposure for potential escalation to specialist credit areas, a comprehensive checklist is in place to guide the assessment process.	The second line of defence is provided by credit management risk functions at the Group and business unit levels, as well as the Risk Asset Review function. At Group level, the Credit Risk function, lead by the Chief Credit Officer: - Owns and is accountable for the credit risk policies and systems, concentration limits, large counterparty credit approvals and the management of large under-performing loans. - Ensures that such policies and systems comply with the various regulatory and prudential requirements. - Is responsible for the credit risk management architecture and for the administration of certain critical credit risk assessment processes and controls, such as credit risk identification, assessment, monitoring and reporting, and the delegation framework. - Ensures that the business units manage their risks as required. The Risk Asset Review ("RAR") team is responsible for the independent review of and reporting on asset quality, lending process standards and credit policy compliance across non system-based lending portfolios. RAR operates independently from the credit approval process and reports its findings to the respective business units and risk management committees highlighting adverse trends and required remedial action. The main areas of focus are on asset quality and the effectiveness of the lending process.
Operational Risk	The head of each region or line of business are accountable for managing the risks associated with their respective business activities. They constitute the first line of defence. Through implementation of the Operational Risk Framework and related policies, business management is able to identify, assess and monitor operational risk exposures, implement appropriate mitigation strategies, and provide effective reporting to business and Group governance committees and, ultimately, to the Principal Board. To achieve this, business areas continuously – and at least quarterly – update their Operational Risk Profiles in line with changes in the business or its environment. They also conduct an annual scenario analysis to identify and assess their exposure to potential extreme events, and monitor, record and act upon actual losses or "near misses" they have suffered. In addition, the effectiveness of the controls on which the business relies to mitigate its risks, are subject to regular testing and attestation, and detailed processes are in place to control and monitor specific operational risk types, such as Business Continuity and Financial Crime.	The Group and business unit Chief Risk Officers are accountable for the specific risk management, compliance and support functions at the Group and the business unit levels, respectively. The Group's Operational Risk function, led by the General Manager of Operational Risk, is responsible for designing, maintaining and overseeing implementation of: - The Operational Risk Framework, - The Group Events Management Policy, - The Operational Risk capture tools, and - The model for Operational Risk capital calculation. Business unit Operational Risk teams monitor, oversee and report loss events, business unit Operational Risk Profiles, and implementation of operational risk management processes within their respective business units.

	First line of defence	Second line of defence
Traded Market Risk	The first line of defence for traded market risk resides with the head of each trading desk along with their line management. The prime responsibility of trading desk heads is to achieve the business plan by providing expert services to clients as well as proprietary trading, while effectively managing risk and ensuring compliance with all limits and policies. This includes monitoring market risk exposures both intra-day and at end-of-day.	The Wholesale Banking Market Risk function is the second line of defence for traded market risk activities. It is a specialist global function responsible for identification, measurement, oversight, control and reporting of traded market risk activities undertaken across the Group. The Wholesale Banking Market Risk function, led by the General Manager of Market Risk, is responsible for: - The quantification of market risk for the trading book at the desk, regional and global portfolio levels, - The daily oversight and analysis of risk, including limit monitoring and limit breach management and escalation, and - Policy formulation, limit approval as per delegated authority, limit breach analysis reporting and model validation. Each day, the Market Risk Oversight team monitors desk and regional positions against the relevant limits. Any breaches are escalated in accordance with policy and procedures. The team also performs extensive portfolio analyses to assess the validity of the VaR numbers when compared to the underlying trading exposures and to escalate any anomalies that may arise. Results of the portfolio analyses are communicated to senior management within both Wholesale Banking Global Markets and the Market Risk team.
Non-Traded Market Risk	Non-traded market risk first line of defence across the Group is managed by Group Treasury, with execution at regional level by regional treasury units.	Group Non-Traded Market Risk ("GNTMR") acts as the second line of defence and owns all non traded market risk policies.
- Interest Rate Risk in the Banking Book	Group and regional treasuries are responsible for managing the risk profile on the balance sheet arising from customer preferences, equity reserves and infrastructure balances required to run the business. Regional treasuries undertake scenario analyses to quantify the impact of strategies on earnings. Group Treasury quantifies the impact of regional strategies on Group earnings and prepares and distributes the monthly management report, which includes interest rate strategies, to the GALCO.	GNTMR is the owner of IRRBB related policies and APRA accredited models, and provides compliance monitoring and oversight. GNTMR is responsible for standards of independence and control resilience, with teams in place across the regional businesses.
- Liquidity Risk	Group and regional treasuries are responsible for development and execution of liquidity strategies, approval of performance targets and pricing, maintaining and actioning crisis management recovery plan and reporting to GALCO.	GNTMR and regional Non-Traded Market Risk ("NTMR") teams are responsible for formulating policy, developing and maintaining systems and processes, establishing liquidity crisis recovery plans, establishing reporting and monitoring framework, reviewing strategy and performance targets, undertaking stress tests, monitoring and reporting liquidity exposures and compliance.
- Funding Risk	Group and regional treasuries are responsible for the development and execution of funding risk strategies. Group Treasury is responsible for the management of relationships with all credit rating agencies, investment banks and debt investors for the Group and all subsidiaries. Regional treasuries are responsible for developing and executing securitisation strategy in support of the annual funding plan.	GNTMR and regional NTMR are the owners of the Funding Policy. They are responsible for ensuring that funding activity is conducted within the limits detailed in this policy and maintaining a robust reporting and compliance framework.
- Foreign Exchange Risk in the Banking Book	Group and regional treasuries are responsible for execution of all Group and regional foreign exchange risk management strategies, development and maintenance of systems and processes, and internal and external reporting.	GNTMR is responsible for policy formulation and development, ensuring foreign exchange risk in the banking book is conducted within policy requirements, maintaining an efficient reporting and compliance framework, and reviewing strategy and performance targets from a risk compliance perspective.

	First line of defence	Second line of defence
- Equities Risk	The first line of defence resides with the relevant business unit with the designated authority responsible for managing and mitigating this risk. Business units and embedded review committees are responsible for monitoring and compliance of all material risks and ensuring that all commercial and risk aspects of the transactions are addressed.	GNTMR is responsible for independently monitoring equity and underwriting transactions against delegation limits, and adherence to other compliance requirements. GNTMR is also responsible for providing oversight of the periodic valuation process conducted by the business units.
- Capital Risk	Group Treasury constitutes the first line of defence and is the designated authority responsible for managing and mitigating capital risk. Group Treasury is responsible for maintaining the Group's capital ratio to satisfy regulatory and rating agency requirements and in line with the Group's target rating of AA.	GNTMR is the owner of the Group's Capital Policy and is also accountable for ensuring that capital management activity is conducted within the limits detailed in this policy. GNTMR also maintains a robust reporting and compliance framework.
Securitisation	*Third Party Securitisation:* The first line of defence is the expert knowledge within the securitisation business. Specialists work with customers, trustees and rating agencies to structure the each transaction according to the requirements of Group policies, APS 120 and the rating agencies' requirements. Approvals must be in accordance with the delegated commitment authority schedule.	*Third Party Securitisation:* The second line of defence is Wholesale Banking Risk – Credit function, which is responsible for credit decisions for securitisation transactions. In addition to making credit decisions, the Wholesale Banking Risk – Credit team: - monitors ongoing developments in securitisation markets and manages non-recurring business demands, limit breaches and escalation. - Wholesale Banking Risk is responsible for ensuring that securitisation activity is conducted within the approved limits together with maintaining ongoing reporting and compliance.
	Group Owned Securitised Assets: The first line of defence consists of Group and regional treasuries. The business owner of the assets to be securitised develops the proposal, determines the financial viability of the transaction against established benchmarks and confirms compliance with the Group's securitisation framework. Delegates of the Principal Board, Group Capital Committee and the Group Asset and Liability Committee review and approve the transactions.	*Group Owned Securitised Assets:* GNTMR serve as the second line of defence. GNTMR is responsible for ensuring that securitisation activity is conducted within the limits of the Group's securitisation framework and maintains robust reporting and compliance.

Key Policies for Hedging and Mitigating Risks

The Group has the following key policies that define its approach to the management and mitigation of risk. These policies are reviewed at least annually.

Policy	Objective
Risk Appetite	The Group's risk appetite is based on the level of risk that the Group is able to bear while pursuing its targeted returns to shareholders and maintaining its desired credit rating. The Group's ability to bear risk is measured by comparing the actual level of risk embedded in its underlying portfolio, with the risk taking capacity implied by the Group's capital position and dividend payment ability. The setting and monitoring of the Group's risk appetite is supported by the Group's implementation of credit, operational and market risk tools defined by the Basel II framework, as well as the Group's ICAAP and Economic Capital frameworks.
Credit Risk	The Group's Credit Policy addresses the assessment of credit to individual counterparties through the operation of Delegated Commitment Authorities. It incorporates the application of individual credit risk gradings and arrangements for managing counterparties where their credit risk grading deteriorates. The Group's Credit Policy addresses risks associated with credit concentration by providing limits for single large exposure, industries (including commercial property) and countries. Specific policy areas are outlined below.
- Single Large Exposures	Prudential Standard APS 221: Large Exposures defines the management of large exposures, providing a consistent quantification of counterparty exposure. The Group's Single Large Exposure Policy sets limits on lending to a particular borrowing group that is consistent with the Group's risk appetite and regulatory expectations. Management of the Group's portfolio risks and customer concentration levels promotes diversification across the lending portfolio, reducing the potential for financial loss and damage to the Group's reputation, resulting from a single customer's default.
- Industry Limits	The Group's Industry Limits Policy identifies and communicates the Group's risk appetite in respect to industry sectors. It outlines the framework for managing concentrations of the Group's lending book and how the Group will monitor and review industry concentration limits. The framework ensures consistent quantification of the risk, which is measured in terms of exposure, economic capital and industry concentration. Concentration also measures the extent to which factors in one industry can impact another and while recognised by the Group is an area of continued refinement.
- Country Limits	The determination of the risk of holding credit exposure of or within a country is essential to the development and management of credit portfolios. Outside of the Group's core countries of Australia, the United Kingdom, New Zealand and the United States of America, the Group has established country limits that are based on the maximum proportion of total economic capital the Group is willing to put at risk for credit exposures in specific countries.
Operational Risk	The Group's Operational Risk Framework ("ORF") provides a structured approach within a business operating environment to identify, assess, mitigate, monitor and report on the operational risk. The ORF is supported by a number of policies, principles and processes that provide business management with a structured and robust vehicle for ensuring that operational risk is managed on behalf of the Group. Key policy areas are outlined below.
- Model Risk	The Group's Model Risk Policy describes how risk associated with or arising from the use of models should be managed. The policy reinforces business unit accountability by providing business units with clear authority and responsibility for the model risk management processes. All models considered to have a high materiality, based on specified criteria, are required to be independently validated at the time of implementation and every three years thereafter, or more frequently if required by a regulator. A material change to a modelling approach is treated as a new implementation and requires independent validation. All medium and low materiality models are independently validated. The definition of 'independence' is aligned to that proposed by APRA in draft revisions of prudential standards APS 115 and APS 117.
- Financial Institution Customers	The Group's Financial Institution Customers Policy sets out a Group-wide Risk Assessment and Due Diligence Standards for Financial Institutions ("FI") Customers to manage and mitigate the potential risk for systemic money laundering and terrorist financing. This policy defines a framework to manage and mitigate the risks faced by the Group when dealing with FI customers, and to standardise the assessment, acceptance and maintenance of business relationships with FI customers.
- Anti-Money Laundering	The Group's Anti-Money Laundering Policy outlines a consistent framework for the management of money laundering and terrorist financing risk across the Group. It reduces the risk of the Group's products, services and reputation being used by those engaged in money laundering or terrorist financing activities.
- Economic and Trade Sanctions	The Group's Economic and Trade Sanctions Policy sets out the Group's approach for complying with all legal and regulatory requirements, including sanctions and embargoes, including the Australian International Trade and Integrity Act. The policy governs the Group's approach for developing and deploying appropriate resources in order to comply with these requirements and to protect the Group's reputation.
- Fraud & Corruption	The Group's Anti-Fraud and Anti-Corruption policy sets out the Group's approach to deterring and detecting internal and external fraud. It defines how staff in the performance of functions of their employment, are not to act dishonestly or take advantage of their employment with the Group to obtain any benefit for themselves, or for another person or organisation, or to cause loss to another party or organisation.
- Business Continuity Management	The Group's Business Continuity Management process is aligned to APS 232. Business units comply with the requirements and develop Business Continuity Plans to ensure the Group's business critical processes continue to operate during periods of significant disruption.

Policy	Objective
Traded Market Risk	The Group's Traded Market Risk Policy and the Rates and Revaluation Policy identify market risks relevant to the Group and outline limit management requirements. The policy framework also contains the Group's Trading Book Policy Statement and articulates responsibilities and authorities for measuring, monitoring and reporting market risk. Key policy areas are outlined below.
- Limit Management	Limit management contained in the Traded Market Risk Policy requires independent overview of limit compliance and staff to act in accordance with policy in the event of a limit excess. Limits are a management and control tool used to align the degree of risk assumed by trading desks within the Group's risk tolerance and its revenue operations.
- Rates and Revaluation	The Rates and Revaluation Policy outlines how end-of-day revaluation rates are sourced, validated, reviewed and reported. This ensures that rates are sourced appropriately and validated before they are employed for valuation and risk measurement.
Non-Traded Market Risk	Non-traded market risk covers the risk inherent in the warehousing of loans and accepting deposits and other forms of borrowing from the public. As a result of these activities, the Group is exposed to potential movements in interest rates and must be able to access sufficient funds to meet both demand for new loans and withdrawal of deposits and borrowings. These risks are collectively managed as part of the Group's non-traded market risk process. Key policy areas are outlined below.
- Interest Rate Risk in the Banking Book	The Group's IRRBB Policy defines compliance, the management framework and the process to ensure that: - All interest rate risk positions in the banking book are identified, measured, managed and reported, with an aim to manage fluctuations in the Group's economic value and earnings under different scenarios, - Interest rate risk positions are managed within the Principal Board approved risk appetite, both regionally and on a consolidated banking book basis, - A consistent risk management framework is applied across the Group, with regional responsibilities for measuring, monitoring and managing interest rate risk in the banking book, from both an earnings and economic value perspective, and - Interest rate risk is measured, managed and monitored regionally using both a valuation and earnings approach, incorporating Value at Risk, Earnings at Risk, Economic Value Sensitivity and Net Interest Income Sensitivity limits, cashflow analysis, scenario analysis and stress testing.
- Funding	The Group's Funding Policy exists to ensure that Group and subsidiary balance sheet management practices do not introduce unacceptable levels of funding risk. The policy states the Principal Board's risk appetite, guiding principles and objectives with regard to funding. The policy also details the framework by which funding activity will be governed and managed.
- Liquidity	The Group's Liquidity Policy ensures that the Group can meet its current and future payment obligations as they become due under diverse operating scenarios. It states the Principal Board's risk appetite, guiding principles and guiding objectives with regard to liquidity, and details the framework by which Group's liquidity management will be monitored and governed.
- Capital	The Group's Capital Policy defines the appropriate level of capital commensurate with the risks to which it is exposed from its activities. The policy: - Ensures that Group and subsidiary business practices do not introduce unacceptable levels of capital management risk, - States the Group's risk appetite and the Principal Board's guiding principles and objectives with regard to capital, - Details the framework by which capital activities will be governed and managed, and - Defines an efficient capital mix to optimise returns.
- Foreign Exchange in the Banking Book	The Group's Structural Foreign Exchange Risk Policy defines compliance, the management framework and the process to ensure that all structural foreign exchange risks are captured, managed, monitored and reported on a consistent basis, and that all structural foreign exchange risks comply with Group policy and regulatory requirements.
- Equities Risk	The Group's Non-Traded Equity Risk Policy requires that all non-traded equity management activities are consistent with prudent risk management practices applied to other financial risks and are within approved non-traded equity risk limits. It assists with compliance of regulatory and legal requirements at all times, and helps maximise shareholder returns.
Securitisation	The Securitisation Policy sets out how securitisation activity will be governed and managed within the Group. The Group's frameworks for owned asset securitisation and for third party securitisation define the measurement of RWAs predominantly using the internal assessment approach, the risk appetite requirements as approved by the Principal Board, and satisfy regulatory and legal requirements, both at Group and business unit level.

5. Credit Risk

5.1 General Disclosure

Credit is defined as any transaction that creates an actual or potential obligation for a borrower to pay the Group. Credit risk is the potential that a borrower will fail to meet its obligations to the Group in accordance with agreed terms.

Management

The Group categorises and manages credit risk in two portfolios: non-retail (business) credit and retail (personal) credit. The Group manages credit risk within its established three lines of defence framework, with control exercised through the defined delegation of authority, and with clear communication and escalation channels throughout the organisation.

The Credit Risk management function provides sound risk management principles and practices to maintain appropriate asset quality across the Group. It plays a key role in managing risk appetite, monitoring the portfolio, assisting business units with portfolio management and measuring compliance to strategic targets and limits. This ensures all business units operate with the embedded three lines of defence.

Measurement

Later sections detail the credit risk measurement approaches.

Monitoring and Reporting

A comprehensive process for reporting credit and asset quality is well established within the Group. The Credit Risk function relies on the output from, among others, the credit risk rating, monitoring and limit reporting systems, for details of exposures and risk parameters, and for the assessment of credit risk.

The Group and business unit Chief Risk Officers receive regular reports covering credit risk, credit quality, asset concentrations and asset quality for both business and retail credit. They incorporate key credit risk measures including economic capital and detailed analysis of concentration risk, Transactional Credit Committee approvals, and updates on defaulted counterparties. These reports are provided to the Principal Board and the PBRC.

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

Definitions of Default and Impairment

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

Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Group will be paid in full, without recourse to actions such as realisation of security.

There are no material exceptions to the Group's definition of default.

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

Impaired assets consist of:

- retail loans (excluding credit card loans and 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;
- non-retail loans that are contractually 90 days or more past due and/or sufficient doubt exists about the ultimate ability to collect principal and interest; and,
- impaired off-balance sheet credit exposures, where current circumstances indicate that losses may be incurred.

Creation of Specific Provisions and the General Reserve for Credit Losses

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

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

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

Specific provisions are raised for assets classified as Default Loss Expected and represent the estimated shortfall between the face value of an asset and the estimated future cash flows, including the estimated realisable value of securities after meeting security realisation costs. A specific provision will be raised when the estimated cash flows accruing to an asset are less than the face value of the asset.

The calculation and raising of specific provisions is subject to tight controls with only appropriate Categorised Asset Approval Authority ("CAAA") holders capable of establishing these provisions. CAAA holders comprise officers within the Group and business unit Strategic Business Services or the Retail Collections functions and senior risk executives of the Group, where appropriate.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability. All assessments are conducted within the requirements of AIFRS, which requires objective evidence.

For the purposes of this disclosure, the general reserve for credit losses is calculated as the pre-tax collective provisions (excluding securitisation and credit risk adjustments for fair value assets and trading derivatives) less provisions on default no loss assets. Default no loss assets are defaulted or otherwise non-performing assets regardless of expected loss, such as those for 90+ days past due retail and in default with no loss non-retail exposures. Provisions for default no loss assets have been reported as additional regulatory specific provisions from 30 September 2009. The collective provision is as disclosed in the Group's 2009 Annual Financial Report.

The Group has been engaged in discussions with APRA in relation to the calculation of the general reserve for credit losses. This is an industry issue, and also foreshadows probable changes to loan loss methodology being deliberated by the International Accounting Standards Board. The revised calculation of the general reserve for credit losses is expected to be finalised by 31 December 2009, with an estimated reduction in the Group’s Tier 1 capital ratio by approximately 10 to 12 basis points. A general reserve will be created through a deduction from retained earnings.

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 Foundation IRB approaches. Gross credit risk exposure refers to the potential exposure as a result of a counterparty default prior to the application of credit risk mitigation. For the IRB approach, Exposure at Default ("EaD") is reported gross of specific provisions, partial write-offs and prior to the application of on-balance sheet netting and credit risk mitigation. For the Standardised approach, EaD is reported net of any specific provision. Gross credit exposures is defined to be the outstanding amount on drawn commitments plus a credit conversion factor on undrawn commitments on a given facility. For derivatives, the exposure is defined as the mark-to-market value plus a potential value of future movements. Exposures exclude non-lending assets, equities and securitisation.

	As at 30 Sep 09					6 months ended 30 Sep 09
	Total exposure (EaD)	Risk weighted assets	Regulatory expected loss	Impaired facilities (1)	Specific provisions (2)	Write-offs (3)
Exposure Type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach						
Corporate (including SME)	195,289	137,460	2,950	2,962	1,117	714
Sovereign	13,559	1,041	3	-	-	-
Bank	61,697	6,914	83	-	-	-
Residential mortgage	208,419	47,924	734	750	137	118
Qualifying revolving retail	9,987	4,031	221	-	-	63
Retail SME	15,171	6,994	252	124	66	23
Other retail	4,806	3,916	182	11	6	80
Total IRB approach	**508,928**	**208,280**	**4,425**	**3,847**	**1,326**	**998**
Specialised lending (SL)	**26,678**	**23,218**	**665**	**397**	**25**	**32**
Standardised approach						
Australian and foreign governments	5,827	91	-	-	-	-
Bank	13,391	777	-	-	-	-
Residential Mortgage	31,633	20,336	-	52	17	7
Corporate	34,798	32,465	-	1,091	154	363
Other	8,767	8,799	-	49	20	149
Total standardised approach	**94,416**	**62,468**	**-**	**1,192**	**191**	**519**
Total	**630,022**	**293,966**	**5,090**	**5,436**	**1,542**	**1,549**
Additional regulatory specific provisions (2)					529	
General reserve for credit losses (4)					2,409	
Provision held on assets at fair value (5)					425	
Collective provision (6)					**3,363**	
Provisions for doubtful debts and provisions for assets at fair value (7)					**4,905**	

(1) *Impaired facilities includes $384 million of restructured loans (March 2009: nil). These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude $312 million of facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty.*

Impaired facilities includes $366 million of gross impaired fair value assets. While not included for March 2009, the value of gross impaired fair value assets was $142 million.

(2) *Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with AIFRS excluding securitisation. Effective 30 September 2009 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 of $529 million as at 30 September 2009 (March 2009: $581 million).*

Specific provisions includes $98 million of specific provisions on impaired fair value assets. While not included for March 2009 the value of specific provisions on impaired fair value assets was $39 million.

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

(4) *The 'general reserve for credit losses' for the purposes of this disclosure is calculated as; the pre-tax collective provisions (as disclosed in the Group's 2009 Full Year Results) excluding securitisation and credit risk adjustments for fair value assets and trading derivatives; less provisions on defaulted or otherwise non-performing assets, regardless of expected loss, which have been reported as additional regulatory specific provisions from 30 September 2009. The 'general reserve for credit losses' is gross of deferred tax assets. For information on further changes refer to page 21 of this report.*

(5) *From 30 September 2009, provisions held on assets at fair value exclude those attributable to securitisation exposures and associated hedges (including a management overlay of $160 million that has been taken in respect of conduit related assets and derivative transactions). March comparative information in this disclosure includes the management overlay.*

(6) *Comparison to Note 9 Doubtful Debts within the Group's 2009 Full Year Results:*

	$m
Collective provision (for this disclosure)	*3,363*
Add management overlay for conduit assets and derivatives	*160*
Add collective provision for securitisation	*30*
Less collective provision for loans at fair value (from Note 9)	*(247)*
Less collective provision for derivatives at fair value (from Note 9)	*(358)*
Collective provision for doubtful debts (from Note 9)	*2,948*

(7) *For the purpose of this disclosure the provisions for doubtful debt and provisions for assets at fair value as at 30 September 2009 also excludes $39 million of collective and specific provisions relating to securitisation.*

	As at 31 Mar 09					6 months ended 31 Mar 09
	Total exposure (EaD)	Risk weighted assets	Regulatory expected loss	Impaired facilities	Specific provisions	Write-offs
Exposure Type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach						
Corporate (including SME)	223,740	156,070	2,833	2,255	960	122
Sovereign	-	-	-	-	-	-
Bank	68,384	6,584	12	-	-	-
Residential mortgage	201,362	44,449	711	648	108	26
Qualifying revolving retail	11,596	4,610	244	-	-	89
Retail SME	-	-	-	-	-	-
Other retail	3,012	2,991	166	12	5	42
Total IRB approach	**508,094**	**214,704**	**3,966**	**2,915**	**1,073**	**279**
Specialised lending (SL)	**26,605**	**21,598**	**616**	**150**	**52**	**-**
Standardised approach						
Australian and foreign governments	21,808	334	-	-	-	-
Bank	15,293	1,084	-	-	-	-
Residential Mortgage	33,259	20,376	-	48	12	1
Corporate	39,846	37,921	-	750	118	190
Other	10,304	10,323	-	61	22	70
Total standardised approach	**120,510**	**70,038**	**-**	**859**	**152**	**261**
Total	**655,209**	**306,340**	**4,582**	**3,924**	**1,277**	**540**

General reserve for credit losses	2,870
Provision held on assets at fair value	675
Collective provision	**3,545**
Provisions for doubtful debts and provisions for assets at fair value	**4,822**

Credit Exposures by Measurement Approach

The tables "Total Credit Risk Exposures" and "Average Credit Risk Exposures" below provide credit exposures for the Standardised and Advanced IRB approach within the Group, including both on- and off-balance sheet exposures, excluding non-lending assets, equities and securitisation exposures.

Table 5.1B: Total Credit Risk Exposures

	As at 30 Sep 09			
Exposure type	On-balance sheet exposures $m	Non-market related off-balance sheet $m	Market related off-balance sheet $m	Total exposures [(1)] $m
IRB approach				
Corporate (including SME)	138,160	42,162	14,967	**195,289**
Sovereign	9,410	1,429	2,720	**13,559**
Bank	22,940	1,709	37,048	**61,697**
Residential mortgage	176,533	31,886	-	**208,419**
Qualifying revolving retail	4,955	5,032	-	**9,987**
Retail SME	12,009	3,162	-	**15,171**
Other retail	3,502	1,304	-	**4,806**
Total IRB approach	**367,509**	**86,684**	**54,735**	**508,928**
Specialised lending (SL)	**21,778**	**4,118**	**782**	**26,678**
Standardised approach				
Australian and foreign governments	5,529	224	74	**5,827**
Bank	9,320	370	3,701	**13,391**
Residential mortgage	29,327	2,306	-	**31,633**
Corporate	29,569	4,487	742	**34,798**
Other	8,330	437	-	**8,767**
Total standardised approach	**82,075**	**7,824**	**4,517**	**94,416**
Total exposures (EaD)	**471,362**	**98,626**	**60,034**	**630,022**

(1) Total Credit Exposures are Exposure at Default ("EaD") estimates of potential exposure, according to product type, for a period of 1 year including an estimate of future lending for undrawn balance sheet commitments. For off-balance sheet exposures, the EaD is calculated using Credit Conversion Factors ("CCFs") that convert the exposure into an on-balance sheet equivalent. For the IRB approach, EaD is reported gross of specific provisions, partial write-offs and prior to the application of on-balance sheet netting and credit risk mitigation. For the Standardised approach, EaD is reported net of any specific provision.

	As at 31 Mar 09			
Exposure type	On-balance sheet exposures $m	Non-market related off-balance sheet $m	Market related off-balance sheet $m	Total exposures $m
IRB approach				
Corporate (including SME)	156,122	49,201	18,417	**223,740**
Sovereign	-	-	-	**-**
Bank	23,631	2,329	42,424	**68,384**
Residential mortgage	171,271	30,091	-	**201,362**
Qualifying revolving retail	5,864	5,732	-	**11,596**
Retail SME	-	-	-	**-**
Other retail	2,527	485	-	**3,012**
Total IRB approach	**359,415**	**87,838**	**60,841**	**508,094**
Specialised lending (SL)	**20,889**	**4,175**	**1,541**	**26,605**
Standardised approach				
Australian and foreign governments	16,523	758	4,527	**21,808**
Bank	11,525	421	3,347	**15,293**
Residential mortgage	31,748	1,511	-	**33,259**
Corporate	33,325	5,565	956	**39,846**
Other	9,593	711	-	**10,304**
Total standardised approach	**102,714**	**8,966**	**8,830**	**120,510**
Total exposures (EaD)	**483,018**	**100,979**	**71,212**	**655,209**

Table 5.1C: Average Credit Risk Exposures

This table provides the Average Credit Exposure being the sum of the Gross Credit Exposure at the beginning of the period plus the Gross Credit Exposure at the end of the reporting period divided by two.

	6 months ended 30 Sep 09			
Exposure type	**On-balance sheet exposures $m**	**Non-market related off-balance sheet $m**	**Market related off-balance sheet $m**	**Average total exposures [1] $m**
IRB approach				
Corporate (including SME)	147,141	45,681	16,692	**209,514**
Sovereign	4,705	714	1,360	**6,779**
Bank	23,285	2,019	39,736	**65,040**
Residential mortgage	173,902	30,989	-	**204,891**
Qualifying revolving retail	5,410	5,382	-	**10,792**
Retail SME	6,005	1,581	-	**7,586**
Other retail	3,014	895	-	**3,909**
Total IRB approach	**363,462**	**87,261**	**57,788**	**508,511**
Specialised lending (SL)	**21,333**	**4,147**	**1,162**	**26,642**
Standardised approach				
Australian and foreign governments	11,026	491	2,300	**13,817**
Bank	10,422	396	3,524	**14,342**
Residential mortgage	30,538	1,908	-	**32,446**
Corporate	31,447	5,026	849	**37,322**
Other	8,962	574	-	**9,536**
Total standardised approach	**92,395**	**8,395**	**6,673**	**107,463**
Total exposures (EaD)	**477,190**	**99,803**	**65,623**	**642,616**

[1] *Average Credit Exposure is equal to the sum of the Gross Credit Exposure at the beginning of the period plus the Gross Credit Exposure at the end of the reporting period divided by two.*

	6 months ended 31 Mar 09			
Exposure type	**On-balance sheet exposures $m**	**Non-market related off-balance sheet $m**	**Market related off-balance sheet $m**	**Average total exposures $m**
IRB approach				
Corporate (including SME)	157,587	51,314	16,942	**225,843**
Sovereign	-	-	-	**-**
Bank	25,375	3,248	54,060	**82,683**
Residential mortgage	169,926	29,607	-	**199,533**
Qualifying revolving retail	5,860	5,695	-	**11,555**
Retail SME	-	-	-	**-**
Other retail	2,501	481	-	**2,982**
Total IRB approach	**361,249**	**90,345**	**71,002**	**522,596**
Specialised lending (SL)	**16,936**	**3,957**	**947**	**21,840**
Standardised approach				
Australian and foreign governments	10,729	609	2,870	**14,208**
Bank	12,367	436	7,377	**20,180**
Residential mortgage	32,270	1,576	-	**33,846**
Corporate	35,418	6,575	659	**42,652**
Other	9,314	597	-	**9,911**
Total standardised approach	**100,098**	**9,793**	**10,906**	**120,797**
Total exposures (EaD)	**478,283**	**104,095**	**82,855**	**665,233**

Table 5.1D: Exposures by Geography

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

	As at 30 Sep 09				
	Australia	Europe	New Zealand	Other [(1)]	Total exposure
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	144,945	16,726	28,151	5,467	**195,289**
Sovereign	10,604	68	50	2,837	**13,559**
Bank	30,997	21,687	3,055	5,958	**61,697**
Residential mortgage	185,274	-	23,145	-	**208,419**
Qualifying revolving retail	9,987	-	-	-	**9,987**
Retail SME	15,171	-	-	-	**15,171**
Other retail	2,724	-	2,082	-	**4,806**
Total IRB approach	**399,702**	**38,481**	**56,483**	**14,262**	**508,928**
Specialised lending (SL)	**22,120**	**1,527**	**1,133**	**1,898**	**26,678**
Standardised approach					
Australian and foreign governments	-	3,878	1,870	79	**5,827**
Bank	-	11,230	2,161	-	**13,391**
Residential mortgage	1,127	29,486	13	1,007	**31,633**
Corporate	6,182	28,539	24	53	**34,798**
Other	173	4,075	-	4,519	**8,767**
Total standardised approach	**7,482**	**77,208**	**4,068**	**5,658**	**94,416**
Total exposures (EaD)	**429,304**	**117,216**	**61,684**	**21,818**	**630,022**

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

	As at 31 Mar 09				
	Australia	Europe	New Zealand	Other	Total exposure
Exposure type	$m	$m	$m	$m	$m
IRB approach					
Corporate (including SME)	165,133	20,942	29,091	8,574	**223,740**
Sovereign	-	-	-	-	**-**
Bank	44,091	15,751	2,657	5,885	**68,384**
Residential mortgage	179,149	-	22,213	-	**201,362**
Qualifying revolving retail	9,776	-	1,820	-	**11,596**
Retail SME	-	-	-	-	**-**
Other retail	2,691	-	321	-	**3,012**
Total IRB approach	**400,840**	**36,693**	**56,102**	**14,459**	**508,094**
Specialised lending (SL)	**21,486**	**1,784**	**1,254**	**2,081**	**26,605**
Standardised approach					
Australian and foreign governments	9,283	8,490	2,929	1,106	**21,808**
Bank	306	13,339	1,477	171	**15,293**
Residential mortgage	861	31,323	13	1,062	**33,259**
Corporate	6,806	32,886	22	132	**39,846**
Other	196	4,959	-	5,149	**10,304**
Total standardised approach	**17,452**	**90,997**	**4,441**	**7,620**	**120,510**
Total exposures (EaD)	**439,778**	**129,474**	**61,797**	**24,160**	**655,209**

Table 5.1E: Exposures by Industry

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

	As at 30 Sep 09												
	Accommodation cafes, pubs and restaurants	Agriculture, forestry, fishing and mining	Business services and property services	Commercial property	Construction	Finance and insurance [1]	Manufacturing	Personal	Residential mortgages	Retail and wholesale trade	Transport and storage	Other [2]	Total
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach													
Corporate (including SME)	6,436	31,780	10,886	42,729	6,463	29,846	20,137	675	-	19,534	8,138	18,665	**195,289**
Sovereign	-	-	-	-	-	3,793	-	-	-	-	-	9,766	**13,559**
Bank	-	-	-	-	-	59,304	-	-	-	-	-	2,393	**61,697**
Residential mortgage	-	-	-	-	-	-	-	-	208,419	-	-	-	**208,419**
Qualifying revolving retail	-	-	-	-	-	-	-	9,987	-	-	-	-	**9,987**
Retail SME [3]	1,056	175	2,112	2,518	1,887	592	1,082	1	-	3,401	820	1,527	**15,171**
Other retail	-	-	-	-	-	-	-	4,806	-	-	-	-	**4,806**
Total IRB approach	**7,492**	**31,955**	**12,998**	**45,247**	**8,350**	**93,535**	**21,219**	**15,469**	**208,419**	**22,935**	**8,958**	**32,351**	**508,928**
Specialised lending (SL)	**59**	**118**	**285**	**19,504**	**439**	**337**	**262**	**-**	**-**	**107**	**1,206**	**4,361**	**26,678**
Standardised approach													
Australian and foreign governments	-	-	-	-	-	1,158	-	-	-	-	-	4,669	**5,827**
Bank	-	-	-	-	-	13,391	-	-	-	-	-	-	**13,391**
Residential mortgage	-	-	-	-	-	-	-	-	31,633	-	-	-	**31,633**
Corporate	1,990	2,804	3,335	8,788	1,627	2,161	2,503	1,913	-	2,941	1,100	5,636	**34,798**
Other	5	7	140	3	15	2	9	4,017	-	20	4	4,545	**8,767**
Total standardised approach	**1,995**	**2,811**	**3,475**	**8,791**	**1,642**	**16,712**	**2,512**	**5,930**	**31,633**	**2,961**	**1,104**	**14,850**	**94,416**
Total exposures (EaD) [3]	**9,546**	**34,884**	**16,758**	**73,542**	**10,431**	**110,584**	**23,993**	**21,399**	**240,052**	**26,003**	**11,268**	**51,562**	**630,022**

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

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

(3) *The format of Table 5.1E has been updated to segment residential mortgages and commercial property for the purposes of providing more granular information.*

	As at 31 Mar 09												
	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)	7,330	32,567	13,826	46,816	8,393	35,976	23,776	737	-	23,147	9,612	21,560	**223,740**
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank	-	-	-	-	-	66,094	-	-	-	-	-	2,290	**68,384**
Residential mortgage	-	-	-	-	-	-	-	-	201,362	-	-	-	**201,362**
Qualifying revolving retail	-	-	-	-	-	-	-	11,596	-	-	-	-	**11,596**
Retail SME	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other retail	-	-	-	-	-	-	-	3,012	-	-	-	-	**3,012**
Total IRB approach	**7,330**	**32,567**	**13,826**	**46,816**	**8,393**	**102,070**	**23,776**	**15,345**	**201,362**	**23,147**	**9,612**	**23,850**	**508,094**
Specialised lending (SL)	**70**	**317**	**119**	**19,281**	**261**	**724**	**255**	**-**	**-**	**178**	**1,301**	**4,099**	**26,605**
Standardised approach													
Australian and foreign governments	-	-	-	-	-	5,253	-	-	-	-	-	16,555	**21,808**
Bank	-	-	-	-	-	15,205	-	-	-	-	-	88	**15,293**
Residential mortgage	-	-	-	-	-	-	-	-	33,259	-	-	-	**33,259**
Corporate	2,289	2,791	4,287	10,658	2,299	1,874	3,013	2,102	-	3,254	1,274	6,005	**39,846**
Other	5	813	37	2	700	2	9	5,589	-	17	3	3,127	**10,304**
Total standardised approach	**2,294**	**3,604**	**4,324**	**10,660**	**2,999**	**22,334**	**3,022**	**7,691**	**33,259**	**3,271**	**1,277**	**25,775**	**120,510**
Total exposures (EaD) (1)	**9,694**	**36,488**	**18,269**	**76,757**	**11,653**	**125,128**	**27,053**	**23,036**	**234,621**	**26,596**	**12,190**	**53,724**	**655,209**

(1) *The 31 March 2009 comparison has been re-presented in a consistent format with 30 September 2009. Total EaD as at 31 March 2009 has not changed.*

Table 5.1F: Exposures by Maturity

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

	As at 30 Sep 09			
	<12 months	1 – 5 years	>5 years	No specified maturity [1]
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	73,659	91,092	25,103	5,435
Sovereign	7,590	5,161	731	77
Bank	46,192	7,889	7,457	159
Residential mortgage	45,624	8,713	153,494	588
Qualifying revolving retail	1	-	-	9,986
Retail SME	5,581	5,409	4,068	113
Other retail	218	848	1,474	2,266
Total IRB approach	**178,865**	**119,112**	**192,327**	**18,624**
Specialised lending (SL)	**7,437**	**15,834**	**3,261**	**146**
Standardised approach				
Australian and foreign governments	2,527	2,553	520	227
Bank	11,830	1,089	470	2
Residential mortgage	3,949	4,268	22,874	542
Corporate	12,942	11,666	7,564	2,626
Other	643	2,101	4,880	1,143
Total standardised approach	**31,891**	**21,677**	**36,308**	**4,540**
Total exposures (EaD)	**218,193**	**156,623**	**231,896**	**23,310**

[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 09			
	<12 months	1 – 5 years	>5 years	No specified maturity
Exposure type	**$m**	**$m**	**$m**	**$m**
IRB approach				
Corporate (including SME)	83,146	104,062	31,256	5,276
Sovereign	-	-	-	-
Bank	50,707	7,279	10,291	107
Residential mortgage	43,845	10,830	146,092	595
Qualifying revolving retail	1	-	-	11,595
Retail SME	-	-	-	-
Other retail	222	811	1,480	499
Total IRB approach	**177,921**	**122,982**	**189,119**	**18,072**
Specialised lending (SL)	**7,104**	**15,303**	**4,045**	**153**
Standardised approach				
Australian and foreign governments	14,113	7,200	184	311
Bank	12,925	1,517	851	-
Residential mortgage	3,627	4,430	24,573	629
Corporate	15,079	12,526	9,182	3,059
Other	1,036	2,598	5,433	1,237
Total standardised approach	**46,780**	**28,271**	**40,223**	**5,236**
Total exposures (EaD)	**231,805**	**166,556**	**233,387**	**23,461**

Credit Provisions and Losses

Table 5.1G: Provisions by Asset Class

The following tables set out credit risk provision information by Basel II asset class, excluding non-lending assets, equities and securitisation exposures. Definitions of impairment and past due facilities are based on APRA Prudential Standard APS 220: Credit Quality and related guidance notes. The determination of specific provisions is in accordance with APRA Guidance Note AGN 220.2: Impairment, Provisioning and the General Reserve for Credit Losses. Impaired facilities are disclosed in accordance with APRA's definition of impaired facilities under Guidance Note AGN 220.1: Impaired Asset Definitions paragraph 7.

	As at 30 Sep 09			6 months ended 30 Sep 09	
	Impaired facilities (1)	Past due facilities ≥90 days	Specific provision balance (2)	Charges for specific provision	Write-offs (3)
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,962	431	1,117	856	714
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	750	918	137	141	118
Qualifying revolving retail	-	73	-	70	63
Retail SME	124	115	66	66	23
Other retail	11	56	6	86	80
Total IRB approach	**3,847**	**1,593**	**1,326**	**1,219**	**998**
Specialised lending (SL)	**397**	**10**	**25**	**9**	**32**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	52	185	17	14	7
Corporate	1,091	268	154	344	363
Other	49	78	20	154	149
Total standardised approach	**1,192**	**531**	**191**	**512**	**519**
Total	**5,436**	**2,134**	**1,542**	**1,740**	**1,549**
Additional regulatory specific provisions (2)			529		
General reserve for credit losses (4)			2,409		
Provision held on assets at fair value (5)			425		
Collective provision (6)			**3,363**		

(1) *Impaired facilities includes $384 million of restructured loans (March 2009: nil). These loans represent facilities which have been classified as restructured for reasons relating to the financial difficulty of the counterparty but exclude $312 million of facilities which have been classified as restructured for reasons which do not relate to the financial difficulty of the counterparty.*

Impaired facilities includes $366 million of gross impaired fair value assets. While not included for March 2009, the value of gross impaired fair value assets was $142 million.

(2) *Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with AIFRS excluding securitisation. Effective 30 September 2009 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 of $529 million as at 30 September 2009 (March 2009: $581 million).*

Specific provisions includes $98 million of specific provisions on impaired fair value assets. While not included for March 2009, the value of specific provisions on impaired fair value assets was $39 million.

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

(4) *The 'general reserve for credit losses' for the purposes of this disclosure is calculated as; the pre-tax collective provisions (as disclosed in the Group's 2009 Full Year Results) excluding securitisation and credit risk adjustments for fair value assets and trading derivatives; less provisions on defaulted or otherwise non-performing assets, regardless of expected loss, which have been reported as additional regulatory specific provisions from 30 September 2009. The 'general reserve for credit losses' is gross of deferred tax assets. For information on further changes refer to page 21 of this report.*

(5) *From 30 September 2009, provisions held on assets at fair value exclude those attributable to securitisation exposures and associated hedges (including a management overlay of $160 million that has been taken in respect of conduit related assets and derivative transactions). March comparative information in this disclosure includes the management overlay.*

(6) *For the purpose of this disclosure the collective provisions as at 30 September 2009 also excludes $30 million of collective provision relating to securitisation.*

	As at 31 Mar 09			6 months ended 31 Mar 09	
	Impaired facilities	**Past due facilities ≥90 days**	**Specific provision balance**	**Charges for specific provision**	**Write-offs**
Exposure type	**$m**	**$m**	**$m**	**$m**	**$m**
IRB approach					
Corporate (including SME)	2,255	393	960	652	122
Sovereign	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	648	1,056	108	53	26
Qualifying revolving retail	-	62	-	90	89
Retail SME	-	-	-	-	-
Other retail	12	60	5	38	42
Total IRB approach	**2,915**	**1,571**	**1,073**	**833**	**279**
Specialised lending (SL)	**150**	**16**	**52**	**46**	**-**
Standardised approach					
Australian and foreign governments	-	-	-	-	-
Bank	-	-	-	-	-
Residential mortgage	48	186	12	9	1
Corporate	750	229	118	217	190
Other	61	91	22	93	70
Total standardised approach	**859**	**506**	**152**	**319**	**261**
Total	**3,924**	**2,093**	**1,277**	**1,198**	**540**

General reserve for credit losses	2,870
Provision held on assets at fair value	675
Collective provision	**3,545**

Factors Impacting Loss Experience in the Preceding Period

Non-Impaired facilities 90+ Days Past Due

90+ Days Past Due facilities remained relatively stable at a Group level over the six months to September 2009.

In Australia Banking, 90+ Days Past Due facilities decreased marginally, with reductions in the levels of retail facilities partially offset by increases in non-retail facilities in line with deteriorating economic conditions. Although business lending defaults increased, driven mostly by small to medium size businesses, housing lending arrears declined during the September 2009 half year.

Both the UK and NZ regions experienced an increase in non-retail lending 90+ Days Past Due facilities during the September 2009 half year, as these regions continued to feel the effect of recessionary conditions. In the UK, rising loan defaults in the commercial property sector continued to affect asset quality. The level of UK 90+ Days Past Due mortgages continued to remain less than half the UK industry average.

Impaired facilities

Impaired facilities increased against March 2009, inclusive of gross impaired fair value assets. The increase during the September 2009 half year was almost entirely due to the rise in business lending impairments across a broad variety of industries.

The increase in Australia Banking during the September 2009 half year was almost entirely due to the rise in business lending impairments across a broad variety of industries. Impaired mortgage facilities for Australia Banking increased slightly during the half year since March 2009.

In the UK region, the increase in gross impaired facilities was partly offset by higher net write-offs. However the UK region continues to perform favourably in comparison to its local banking peer group. The impaired mortgage rate for the UK region remains at low levels.

The softer economic conditions in New Zealand, particularly in the property and agricultural sectors, caused impaired facilities to increase against March 2009. The impaired mortgage rate remained steady when compared to March 2009.

The subdued global economic environment continued to affect credit quality in Wholesale Banking. Impaired facilities increased against March 2009, predominately as a result of new impairments mainly in Australia and the UK, partly offset by an increase in net write-offs. Despite this increase, new impairments have slowed during the September 2009 quarter.

Charges for specific provisions

The increase in the September 2009 half year, including specific provisions on impaired assets at fair value was predominately due to higher corporate and business specific provisions in Australia Banking and UK region, partly offset by an increase in write-offs.

Net Write-Offs

Net Write-Offs continued to increase in the September 2009 half year, consistent with the current stage of the credit cycle and occurred predominately in Wholesale Banking and the business lending portfolios within Australia Banking and the UK region. The Group continues to proactively manage bad debt write-offs to maintain a clean balance sheet. The gross 12 month rolling write-off rate for retail loans has increased moderately, while mortgage write-offs remain low.

Table 5.1H: Loss Experience

This table represents the regulatory expected loss (which are forward-looking loss estimates based on the quality of the current portfolio) compared to the actual losses over the last 12 months. Actual losses (net write-offs) measured over the short-term will differ to regulatory expected loss estimates as actual losses are a lag indicator of the quality of the assets in prior periods. Other differences between these measures are noted below:

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

	12 months ended 30 Sep 09	As at 30 Sep 09	12 months ended 30 Sep 08	As at 30 Sep 08
	Actual loss (write-offs) $m	Regulatory expected loss $m	Actual loss (write-offs) $m	Regulatory expected loss $m
IRB approach				
Corporate	836	2,950	164	2,057
Sovereign	-	3	-	-
Bank	-	83	-	18
Residential mortgage	144	734	44	655
Qualifying revolving retail	152	221	168	226
Retail SME	23	252	-	-
Other retail	122	182	76	149
Total IRB approach	**1,277**	**4,425**	**452**	**3,105**

Table 5.1I: Provisions by Industry

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

	As at 30 Sep 09			6 months ended 30 Sep 09	
	Impaired facilities	Past due facilities ≥90 days	Specific provision balance	Charges for specific provision	Write-offs
	$m	$m	$m	$m	$m
Industry sector [(1)]					
Accommodation, cafes, pubs and restaurants	82	33	27	39	29
Agriculture, forestry, fishing and mining	698	66	205	125	4
Business services and property services	128	62	51	51	34
Commercial property	1,629	388	241	297	245
Construction	317	75	48	57	58
Finance and insurance	713	16	303	338	259
Manufacturing	296	34	183	110	89
Personal	32	218	14	268	304
Residential mortgages	802	1,103	154	155	125
Retail and wholesale trade	403	66	213	200	114
Transport and storage	52	24	28	29	45
Other	284	49	75	71	243
Total	**5,436**	**2,134**	**1,542**	**1,740**	**1,549**
Additional regulatory specific provision			529		

(1) *The format of Table 5.1I has been updated to segment residential mortgages and commercial property for the purposes of providing more granular information.*

	As at 31 Mar 09			6 months ended 31 Mar 09	
	Impaired facilities	Past due facilities ≥90 days	Specific provision balance	Charges for specific provision	Write-offs
	$m	$m	$m	$m	$m
Industry sector					
Accommodation, cafes, pubs and restaurants	59	23	17	8	3
Agriculture, forestry, fishing and mining	313	50	55	34	2
Commercial property, business services and property services	1,145	331	225	251	95
Construction	333	55	54	70	78
Finance and insurance	362	12	219	179	2
Manufacturing	243	39	155	64	8
Personal	25	224	11	211	242
Residential mortgages	696	1,242	120	62	27
Retail and wholesale trade	235	64	120	125	53
Transport and storage	89	13	43	37	6
Other	424	40	258	157	24
Total [(1)]	**3,924**	**2,093**	**1,277**	**1,198**	**540**

(1) *The 31 March 2009 comparison has been re-presented, where data is readily available, in a consistent format with 30 September 2009. The totals as at 31 March 2009 have not changed.*

Table 5.1J: Provisions by Geography

	As at 30 Sep 09				As at 31 Mar 09			
	Impaired facilities	**Past due facilities ≥90 days**	**Specific provision balance**	**General reserve for credit losses**	**Impaired facilities**	**Past due facilities ≥90 days**	**Specific provision balance**	**General reserve for credit losses**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Geographic region								
Australia (1)	3,132	1,445	1,006	1,625	2,316	1,464	927	1,871
Europe	1,673	517	310	629	1,221	498	242	793
New Zealand	523	172	182	96	313	126	91	124
Other (2)	108	-	44	59	74	5	17	82
Total	**5,436**	**2,134**	**1,542**	**2,409**	**3,924**	**2,093**	**1,277**	**2,870**
Additional regulatory specific provision			529				-	

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

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

Table 5.1K: Movement in Provisions

This table discloses the reconciliation of changes in provisions. It shows movements in the balance of provisions over the reporting period for both specific and collective provisions. Totals do not include amounts relating to non-lending assets, equities or securitisation exposures. The total provision for doubtful debts does not include provisions held on assets for fair value.

	6 months ended 30 Sep 09	**6 months ended 31 Mar 09**
	$m	**$m**
General reserve for credit losses		
Balance at start of period	2,870	2,318
Total charge to income statement for impairment loss	1,922	1,804
Net transfer to specific provision	(1,740)	(1,198)
Recoveries	-	-
Balances written off	-	-
Acquisition of controlled entities	-	-
Foreign currency translation and other adjustments	(134)	(54)
General reserve for credit losses and additional regulatory specific provisions	**2,918**	**2,870**
Specific provisions		
Balance at start of period	1,277	645
Net transfer from general reserve for credit losses	1,740	1,198
Bad debts recovered	75	90
Bad debts written off	(1,624)	(630)
Acquisition of controlled entities	2	(2)
Foreign currency translation and other adjustments	(26)	(24)
Specific provisions excluding provisions for assets at fair value	**1,444**	**1,277**
Total provisions	**4,362**	**4,147**
General reserve for credit losses and additional regulatory specific provisions	**2,918**	**2,870**
Less additional regulatory specific provisions (1)	509	-
General reserve for credit losses	**2,409**	**2,870**

(1) *Excludes additional regulatory specific provisions for assets held at fair value (September 2009: $20 million).*

5.2 Standardised and Supervisory Slotting Portfolios

Standardised Credit Risk Portfolios

The Group uses the standardised methodology in the Basel II Framework, as interpreted by APRA, for the calculation of Basel II credit risk capital for Clydesdale Bank PLC and for defined assets that are immaterial in terms of risk weighted assets or are not required to be treated as IRB under the Basel II Framework. For its local regulatory reporting to the UK FSA, Clydesdale Bank PLC uses the standardised methodology in the Basel II Framework, as interpreted by the UK FSA.

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 which defines the appropriate risk weight as outlined in APS 112.

In the UK, bank exposures and sovereigns are standardised, with External Credit Assessment Institutions ratings used in this process.

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

Table 5.2A: Standardised Exposures by Risk Weight

The following table shows the credit exposure amount before and after risk mitigation [1] in each risk category, subject to the standardised approach. For the purposes of this disclosure, an ADI's outstandings represent its exposure (drawn balances plus EaD on undrawn) after risk mitigation.

	As at 30 Sep 09		As at 31 Mar 09	
	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m	Credit exposure before risk mitigation $m	Credit exposure after risk mitigation $m
Standardised approach – risk weights				
0%	12,260	12,256	26,731	24,924
20%	7,358	5,030	6,600	6,440
35%	14,001	13,974	15,973	15,935
50%	3,919	3,548	4,730	3,648
75%	3,484	3,482	3,433	3,430
100%	51,728	49,703	61,671	56,733
150%	1,666	1,655	1,372	1,362
Total standardised approach (EaD) [2]	**94,416**	**89,648**	**120,510**	**112,472**

(1) *The Group recognises the mitigation of credit risk as a result of eligible financial collateral and mitigation providers. Eligible financial collateral, under the standardised approach, when used to reduce levels of exposure refers to cash and cash equivalents as defined in APS 112.*

(2) *Exposures are reported net of any specific provision.*

Table 5.2B: Standardised Exposures by Risk Grade

	As at 30 Sep 09		As at 31 Mar 09	
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	3,355	5,508	20,573	17,028
Credit rating grade 2	2,263	-	920	-
Credit rating grade 3	146	-	-	-
Unrated	63	46	315	282
Sub-total	5,827	5,554	21,808	17,310
Bank				
Credit rating grade 1	11,431	9,192	13,090	12,228
Credit rating grade 2	799	799	998	998
Unrated	1,161	313	1,205	225
Sub-total	13,391	10,304	15,293	13,451
Residential mortgage				
Unrated	31,633	31,543	33,259	33,156
Sub-total	31,633	31,543	33,259	33,156
Corporate				
Credit rating grade 1	631	631	-	-
Unrated	34,167	32,877	39,846	38,284
Sub-total	34,798	33,508	39,846	38,284
Other				
Unrated	8,767	8,739	10,304	10,271
Sub-total	8,767	8,739	10,304	10,271
Total standardised approach (EaD)	**94,416**	**89,648**	**120,510**	**112,472**

Portfolios Subject to Supervisory Risk-Weights in the IRB Approaches

The Group maps its internal rating grades to the five supervisory slotting categories of strong, good, satisfactory, weak and default (the criteria to map these exposures are found in APS 113 Attachment F). 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

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

Table 5.2C: Supervisory Slotting by Risk Weight

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

	As at	
	30 Sep 09	**31 Mar 09**
	Exposure after risk mitigation	**Exposure after risk mitigation**
	$m	**$m**
IRB supervisory slotting – unexpected loss risk weights		
0%	674	701
70%	9,846	11,278
90%	8,789	8,438
115%	5,790	4,823
250%	703	225
Total IRB supervisory slotting (EaD) (1)	**25,802**	**25,465**
IRB equity exposure – risk weights		
300% (2)	35	18
400% (3)	231	194
Total IRB equity exposure (EaD)	**266**	**212**

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

(2) *Relates to exposures that fall within 'equity' IRB asset class that are not deducted from capital and are listed on a recognised exchange.*

(3) *Relates to exposures that fall within 'equity' IRB asset class that are not deducted from capital and are not listed on a recognised exchange.*

5.3 Internal Rating Based Portfolios

General Disclosure on the Internal Rating Based System ("IRB")

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

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

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

Internal Risk Rating & External Ratings

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

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

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

Probability of Default ("PD")

PD measures the likelihood that a customer will default within a 12 month period. Two broad types of PD estimates are used:

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

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

PD models use both financial and non-financial data. Factors for non-retail models typically include profitability, financial ratios, industry factors, relevant external data and behavioural and qualitative components such as management ability, industry outlook, years of experience and track record. Retail models use factors such as application scores, behavioural scores, delinquency and limit utilisation. Factors are regression tested on empirical data using standard industry techniques, such as linear regression, to determine the optimal factor weightings, and to construct a robust and predictive model.

Expert judgement is also utilised to ensure that the models align to known business practices and outcomes.

Loss Given Default ("LGD")

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

The Group uses defined factors for all of its LGD models. These typically include standard data such as recoveries, write-offs, discount factor and post default management cost. The Group stresses the model factors to obtain downturn LGD estimates, using internal data, external reference data, benchmarks and applying expert judgement given the lack of empirical evidence due to the long positive credit cycle particularly in Australia.

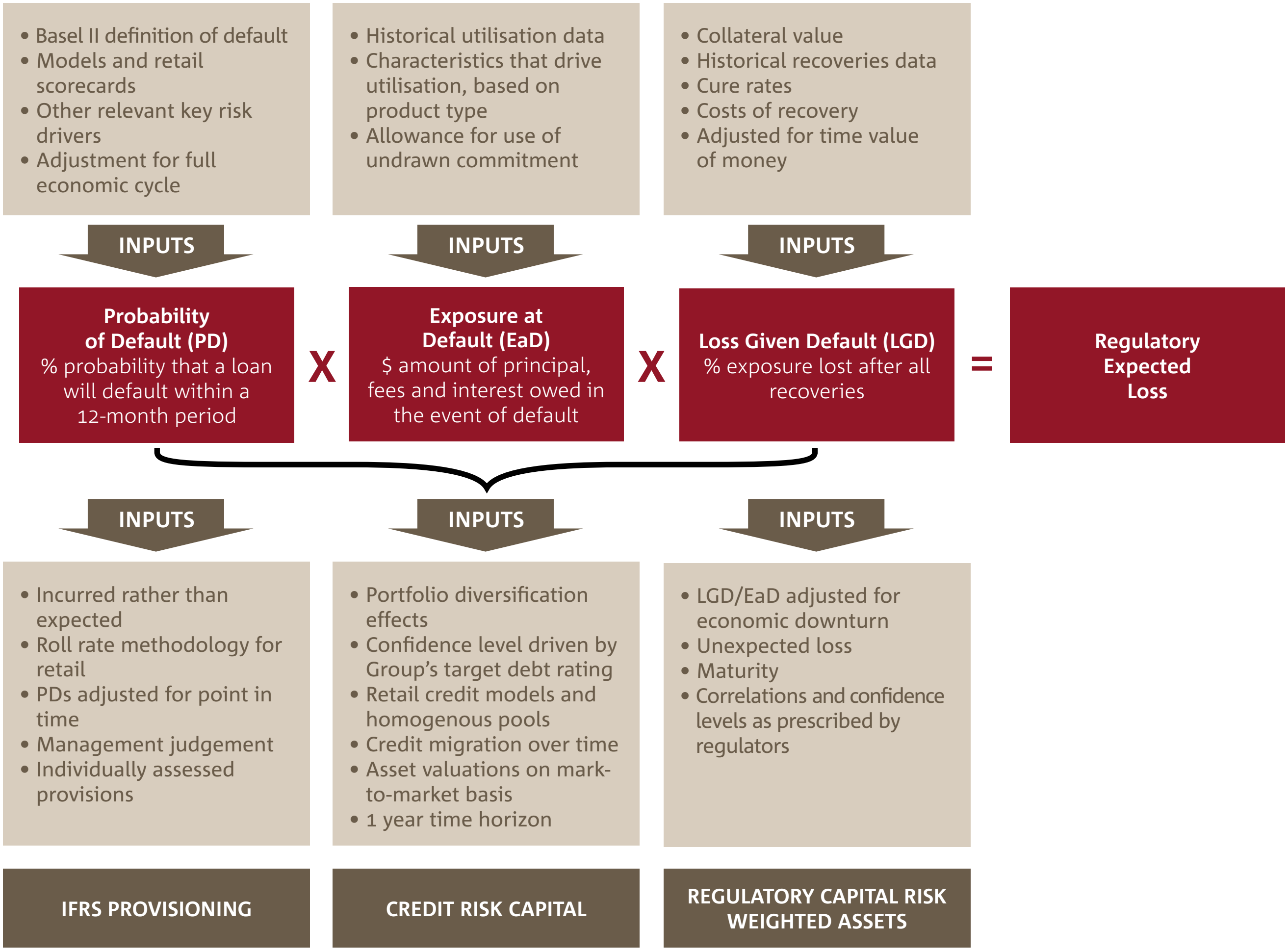
For loans secured by residential property, APRA has mandated the use of a supervisory floor of 20%.

Exposure at Default ("EaD")

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

Use of PD, LGD and EaD

Through the cycle, PD, LGD and EaD estimates are used for the calculation of Basel II Expected Loss, Risk Weighted Assets and Regulatory Capital. Adjusted PD, LGD and EaD measures are used for the determination of AIFRS provisioning for non-retail assets and economic capital. The linkage between the model inputs, the calculation of expected loss, and regulatory capital is shown below.



Credit Rating System Control

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

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

The Group's model validation methodology involves the selection of a set of customers with similar characteristics who are monitored over a full year to assess the outcomes. The validation process captures all default events for the customers during the year.

This methodology is applied to the validation of all credit models (PD, LGD and EaD).

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

Non-Retail Credit Internal Ratings Process

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

- Bank
- Corporate, including small and medium-sized enterprises ("SMEs")
- Sovereigns
- Specialised Lending including purchased corporate receivables

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

- Agriculture
- Bank
- Commercial Real Estate
- Large Corporate
- Middle Market
- Non-Bank Financial Institutions ("NBFI")
- Small Medium Enterprise
- Sovereigns

Non-Retail – Probability of Default Models

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

- Industry, based on ANZSIC code
- Financial information available
- Net sales/total assets and exposure

Specific PD models are used to assess risk for all non-retail customer segments. The Australian and New Zealand business units utilise either global models or models specific to each geography, with Wholesale Banking utilising models based on the counterparty's risk location. The basic structure of the Group's rating models relies on a combination of both quantitative and qualitative assessment of counterparties.

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

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

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

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

Non-Retail – Exposure at Default Models

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

The basic formula is:
EaD = Balance + (Credit Conversion Factor x Limit Headroom)

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

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

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

Non-Retail – Loss Given Default Models

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

LGR is the rate of loss sustained following the realisation of security held and is a major component of LGD. It is dependent on the bank values assigned to each asset type along with the Group's experience with unsecured recoveries. The market value of the collateral is the primary parameter to be affected by credit cycle changes, and the credit cycle downturn impact on LGD has been incorporated into bank value calculations through a haircut to the market value of the asset.

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

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

Where limited internal default data exists, data is supplemented by international benchmarks, market data and expert judgement. The economic downturn estimates are based on a combination of external data and expert judgement given the Group's internal data does not cover a downturn part of the economic cycle.

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

Retail Credit Internal Ratings Process

There are four asset classes for retail credit:

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

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

(iii) Other retail exposures, consisting of:
- Personal loan products (including any secured personal loans products within a business unit)
- Overdraft products, and
- Transaction account exposures. This captures all retail operational accounts that have created an overdrawn position without the formal approval of the Group.

(iv) Retail SME, consisting of Small-business lending where the total aggregated business-related exposures of the obligor and its related entities are less than $1 million (except for BNZ approved to segment post 30 September 2009 by RBNZ).

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

Retail Credit – Probability of Default Models

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

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

Retail Credit – Exposure at Default Models

EaD models use a combination of Credit Conversion Factors (“CCF”), similar to those used in non-retail, and scaling factors. CCFs have been developed mainly for revolving credit facility products, such as credit cards and overdrafts. Appropriate characteristics, such as delinquency and current limit utilisation are used for CCF models to estimate the amount of unutilised credit a customer may draw in the lead up to default.

Scaling factors have been applied mainly to term lending products where the customer has less availability of unutilised credit to draw from in the lead up to default. The historical performance of defaulted loans between point of observation and point of default is used to derive the appropriate scaling factors.

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

Retail Credit – Loss Given Default Models

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

For accounts that do not cure and are written off, internal recovery data is used to assess the ultimate loss (initial loss less recoveries achieved) incurred by the Group on these accounts. Internal data is also used to estimate all costs incurred by the Group for both cured and written-off loans to ensure that estimates of LGD are based on an assessment of economic loss.

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

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

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

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

Portfolios Subject to IRB Approach

Table 5.3A: Non-Retail Exposure by Risk Grade

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

	As at 30 Sep 09						
	PD risk grade mapping						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2, Ba3**	**B1, B2**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.15%**	**0.15<0.5%**	**0.5<3.0%**	**3.0<10.0%**	**10.0<100%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure [1]							
Corporate	1,061	26,670	43,012	87,667	29,471	2,115	5,293
Sovereign	12,100	303	1,117	36	2	-	1
Bank	25,070	33,359	2,912	249	5	-	102
Total exposures (EaD)	**38,231**	**60,332**	**47,041**	**87,952**	**29,478**	**2,115**	**5,396**
Undrawn commitments							
Corporate	319	8,358	11,334	12,423	3,279	205	332
Sovereign	388	40	863	21	1	-	-
Bank	348	1,008	11	8	-	-	2
Total undrawn commitments [2]	**1,055**	**9,406**	**12,208**	**12,452**	**3,280**	**205**	**334**

IRB approach							
Exposure weighted average EaD ($m) [3]							
Corporate	0.71	0.82	0.41	0.29	0.23	0.36	0.51
Sovereign	8.79	2.09	11.64	0.05	0.05	-	0.08
Bank	2.21	1.77	1.11	0.41	0.14	-	0.85
Exposure weighted average LGD (%)							
Corporate	39.5%	45.6%	41.2%	33.7%	35.3%	44.0%	47.3%
Sovereign	10.9%	15.3%	45.0%	44.6%	45.0%	-	45.0%
Bank	34.4%	29.3%	28.7%	54.3%	60.8%	-	60.9%
Exposure weighted average risk weight (%)							
Corporate	12.2%	27.2%	46.7%	69.1%	104.1%	217.5%	266.9%
Sovereign	1.1%	6.9%	75.7%	92.8%	137.6%	-	334.0%
Bank	8.4%	10.6%	28.8%	131.6%	183.4%	-	110.9%

(1) *Gross credit exposures are defined in Table 5.1B, "Total Credit Risk Exposures", on page 24 of this report.*

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

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

	As at 31 Mar 09						
	PD risk grade mapping						
External credit rating equivalent	**Aa3 and above**	**A1, A2, A3**	**Baa1, Baa2, Baa3**	**Ba1, Ba2, Ba3**	**B1, B2**	**B2 and below**	**Default**
	0<0.03%	**0.03<0.15%**	**0.15<0.5%**	**0.5<3.0%**	**3.0<10.0%**	**10.0<100%**	**100%**
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure							
Corporate	2,267	34,829	48,536	97,994	33,259	2,491	4,364
Sovereign	-	-	-	-	-	-	-
Bank	34,958	29,912	3,251	257	-	1	5
Total exposures (EaD)	**37,225**	**64,741**	**51,787**	**98,251**	**33,259**	**2,492**	**4,369**
Undrawn commitments							
Corporate	344	11,190	11,243	15,168	4,074	234	370
Sovereign	-	-	-	-	-	-	-
Bank	810	1,037	27	11	-	1	-
Total undrawn commitments	**1,154**	**12,227**	**11,270**	**15,179**	**4,074**	**235**	**370**
IRB approach							
Exposure weighted average EaD ($m)							
Corporate	1.83	0.82	0.23	0.18	0.15	0.17	0.19
Sovereign	-	-	-	-	-	-	-
Bank	2.41	1.80	1.37	0.59	-	0.48	0.03
Exposure weighted average LGD(%)							
Corporate	37.7%	45.9%	39.5%	35.4%	35.4%	46.8%	47.2%
Sovereign	-	-	-	-	-	-	-
Bank	36.6%	28.0%	20.5%	42.3%	-	61.0%	56.7%
Exposure weighted average risk weight (%)							
Corporate	11.8%	27.7%	45.0%	73.8%	103.7%	237.5%	264.4%
Sovereign	-	-	-	-	-	-	-
Bank	8.1%	9.5%	18.2%	97.7%	-	330.8%	740.4%

Table 5.3B: Retail Exposure by Risk Grade

This table provides a break down of gross retail (personal) 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 09						
	PD risk grade mapping						
	0<0.1%	0.1<0.3%	0.3<0.5%	0.5<3.0%	3.0<10.0%	10.0<100%	100%
IRB approach	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Total exposure (1)							
Residential mortgage	29,927	56,697	25,825	80,921	10,514	2,658	1,877
Qualifying revolving retail	2,995	2,179	920	2,080	1,278	479	56
Retail SME	74	2,697	203	7,796	3,660	257	484
Other retail	792	850	279	1,350	1,109	338	88
Total exposures (EaD)	**33,788**	**62,423**	**27,227**	**92,147**	**16,561**	**3,732**	**2,505**
Undrawn commitments							
Residential mortgage	10,825	10,122	3,723	7,068	117	23	8
Qualifying revolving retail	2,371	1,359	558	548	162	33	1
Retail SME	22	738	41	1,369	472	18	64
Other retail	571	305	82	227	86	32	1
Total undrawn commitments (2)	**13,789**	**12,524**	**4,404**	**9,212**	**837**	**106**	**74**

IRB approach							
Exposure weighted average EaD ($m)							
Residential mortgage	0.04	0.18	0.20	0.28	0.26	0.25	0.18
Qualifying revolving retail	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	0.06	0.03	0.05	0.03	0.04	0.04	0.03
Other retail	small	0.01	0.01	0.01	0.01	small	0.01
Exposure weighted average LGD (%)							
Residential mortgage	20.0%	20.0%	20.1%	20.3%	20.4%	21.0%	21.1%
Qualifying revolving retail	83.3%	84.0%	84.4%	86.1%	87.0%	87.4%	89.0%
Retail SME	29.5%	30.3%	31.2%	33.3%	33.0%	35.0%	44.6%
Other retail	80.9%	79.2%	80.1%	78.0%	77.3%	73.0%	70.8%
Exposure weighted average risk weight (%)							
Residential mortgage	3.5%	8.1%	15.2%	30.4%	67.5%	111.5%	196.5%
Qualifying revolving retail	3.9%	8.4%	17.1%	41.6%	112.9%	223.7%	339.0%
Retail SME	6.2%	15.2%	22.2%	37.9%	50.9%	80.6%	311.4%
Other retail	12.9%	29.9%	56.0%	91.7%	121.6%	164.8%	296.6%

(1) *Gross credit exposures are defined in Table 5.1B, "Total Credit Risk Exposures", on page 24 of this report.*

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

IRB approach	0<0.1% $m	0.1<0.3% $m	0.3<0.5% $m	0.5<3.0% $m	3.0<10.0% $m	10.0<100% $m	100% $m
	As at 31 Mar 09 PD risk grade mapping						
Total exposure							
Residential mortgage	32,057	54,202	29,929	69,266	11,042	2,915	1,951
Qualifying revolving retail	2,985	2,876	1,060	2,652	1,547	415	61
Retail SME	-	-	-	-	-	-	-
Other retail	131	437	156	922	961	315	90
Total exposures (EaD)	**35,173**	**57,515**	**31,145**	**72,840**	**13,550**	**3,645**	**2,102**
Undrawn commitments							
Residential mortgage	11,083	9,226	3,324	6,304	117	33	4
Qualifying revolving retail	2,317	1,826	634	734	193	27	1
Retail SME	-	-	-	-	-	-	-
Other retail	125	124	37	102	63	34	-
Total undrawn commitments	**13,525**	**11,176**	**3,995**	**7,140**	**373**	**94**	**5**

IRB approach							
Exposure weighted average EaD ($m)							
Residential mortgage	0.04	0.18	0.18	0.30	0.26	0.26	0.19
Qualifying revolving retail	small	0.01	0.01	0.01	0.01	0.01	0.01
Retail SME	-	-	-	-	-	-	-
Other retail	small	0.01	0.01	0.01	0.01	small	0.01
Exposure weighted average LGD (%)							
Residential mortgage	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Qualifying revolving retail	83.8%	83.9%	84.2%	85.8%	86.7%	87.0%	88.1%
Retail SME	-	-	-	-	-	-	-
Other retail	53.8%	74.4%	76.7%	76.5%	76.1%	71.4%	67.6%
Exposure weighted average risk weight (%)							
Residential mortgage	3.5%	7.8%	14.8%	29.8%	66.6%	104.4%	185.1%
Qualifying revolving retail	3.8%	8.2%	17.9%	41.4%	115.4%	230.1%	379.5%
Retail SME	-	-	-	-	-	-	-
Other retail	9.3%	27.5%	53.5%	90.6%	119.9%	162.3%	307.1%

5.4 Credit Risk Mitigation

The Group recognises the mitigation of credit risk as a result of eligible financial collateral and mitigation providers. The rules for establishing the quantum and quality of credit risk mitigates are embedded in credit risk policy. The assessment of the amount of mitigate recognised is based on the face value of the instrument discounted according to circumstances particular to the instruments. Independent credit officers, as part of the credit risk management infrastructure of the Group, provide oversight and sanction to the establishment, change or withdrawal of collateral and other security arrangements.

The Group's portfolio management area is responsible for managing the overall risk of the corporate, sovereign and bank credit portfolios using a wide variety of techniques including single name credit default swaps to manage loan and counterparty risk.

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

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

Limits may be established at a facility, product group and individual product level based on the level of financial sophistication exhibited by the counterparty. Limits are input and maintained by a specialist administration unit operating independently from relationship managers, dealers and credit approvers. The administration unit is responsible for recording limits that accurately reflect the written approval of the credit authority holder.

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

The Group uses credit risk mitigation techniques to reduce exposure to counterparty risk. Credit Exposure Netting ("CEN") reduces the level of recognised credit exposure. It is subject to legal documentation being in place and the Group's credit exposure measurement and reporting system being capable of managing netting pools in accordance with that documentation. CEN agreements in approved jurisdictions may take the form of International Swaps & Derivatives Association ("ISDA") agreements or other netting agreements as approved by the Group.

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

The Group revalues collateral positions on a daily basis to monitor the net risk exposure and margin requirements. A dedicated collateral management area monitors and maintains the system and acts on incoming and outgoing calls for top up.

Collateral assets must be easily liquidated and exhibit a stable value profile without any positive correlation to the credit worthiness of the counterparty. Eligible collateral include cash deposits (denominated in approved currencies), government securities, securities issued by government sponsored supranational entities and standby letters of credit. Non cash collateral is subject to a valuation "haircut".

Credit hedging in the banking book is managed to ensure avoidance of counterparty concentrations against protection sellers, with all (non-cash collateralised) hedge counterparties being with investment grade OECD banks. As at 30 September 2009, the face value of transactions outstanding with the largest credit protection provider is 15.2% of the banking book's hedge book.

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 09	
	Total exposure $m	of which is covered by eligible financial collateral[(1)] $m
Specialised lending (SL)	**26,678**	**876**
Standardised approach		
Australian and foreign governments	5,827	273
Bank	13,391	3,087
Residential mortgage	31,633	90
Corporate	34,798	1,290
Other	8,767	28
Total standardised approach	**94,416**	**4,768**

(1) *Eligible financial collateral, when used to reduced levels of exposure, refers to cash and cash equivalents as defined in APS 112.*

	As at 31 Mar 09	
	Total exposure	of which is covered by eligible financial collateral
	$m	$m
Specialised lending (SL)	**26,605**	**1,140**
Standardised approach		
Australian and foreign governments	21,808	4,498
Bank	15,293	1,842
Residential mortgage	33,259	103
Corporate	39,846	1,562
Other	10,304	33
Total standardised approach	**120,510**	**8,038**

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 09		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	195,289	18,133	-
Sovereign	13,559	-	-
Bank	61,697	617	2,000
Residential mortgage	208,419	-	-
Qualifying revolving retail	9,987	-	-
Retail SME	15,171	-	-
Other retail	4,806	-	-
Total IRB approach (1)	**508,928**	**18,750**	**2,000**
Specialised lending (SL)	**26,678**	**-**	**-**
Standardised approach			
Australian and foreign governments	5,827	-	-
Bank	13,391	484	-
Residential mortgage	31,633	-	-
Corporate	34,798	-	-
Other	8,767	-	-
Total standardised approach	**94,416**	**484**	**-**

(1) Exposures covered by eligible financial collateral and eligible IRB collateral are measured after the application of regulatory haircuts.

	As at 31 Mar 09		
	Total exposure	of which is covered by guarantees	of which is covered by credit derivatives
	$m	$m	$m
IRB approach			
Corporate (including SME)	223,740	20,310	604
Sovereign	-	-	-
Bank	68,384	871	2,051
Residential mortgage	201,362	-	-
Qualifying revolving retail	11,596	-	-
Retail SME	-	-	-
Other retail	3,012	-	-
Total IRB approach	**508,094**	**21,181**	**2,655**
Specialised lending (SL)	**26,605**	**-**	**-**
Standardised approach			
Australian and foreign governments	21,808	-	-
Bank	15,293	451	-
Residential mortgage	33,259	-	-
Corporate	39,846	-	-
Other	10,304	-	-
Total standardised approach	**120,510**	**451**	**-**

5.5 Counterparty Credit Risk

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

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

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

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

Limit Setting

Credit risk concentration limits, expressed in economic capital terms, are set for industry segments (including commercial real estate), country and single-large exposures. Limits are approved annually by the PBRC as part of the Group's Risk Appetite Statement and Corporate planning process.

The Group's credit risk economic measurement and allocation framework models credit risk on a portfolio-wide basis. The model employs Monte Carlo simulation techniques and methodologies to generate many possible future realisations of the credit portfolio in order to construct a representation of the portfolio's expected loss distribution based on estimates of counterparty unexpected loss ("UL") and pair-wise default correlation. Credit risk economic capital is calculated at the 99.97% percentile cut-off of the loss distribution, in line with the Group's target level of solvency, measured over a one year horizon. Credit risk economic capital is then allocated to individual counterparty exposures based on their relative risk contribution to UL.

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

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

Counterparty credit exposures may be collateralised by an approved list of eligible collateral via market standard master agreements (ISDA and CSA). Eligible collateral may be subject to haircuts depending on asset type.

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

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

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

In the event of a multiple rating downgrade, the Group would have some requirements to post collateral across unutilised stand-by liquidity facilities provided to conduits. However, based on the dislocation in the asset backed commercial paper markets over the past 12 months, many of these have been subject to drawdown for liquidity reasons leading to high utilisation rate, hence materially reducing exposure to post collateral in the event of a downgrade.

Wrong Way Risk

Wrong way risk occurs when credit exposure to a counterparty is positively correlated with collateral held and any market risk factors impacting the transaction – hence, credit exposures and potential losses may increase under these circumstances as a result of market conditions. The Group addresses wrong way risk through application of its credit policies and procedures, and through the transaction credit decisions made by its credit officers.

6. Securitisation

Introduction

In accordance with *Prudential Standard APS 120: Securitisation* ("APS 120"), securitisation is a structure where the cash flow from a pool is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors). As an exception to this, a warehouse special purpose vehicle ("SPV") is a securitisation even if it does not have at least two different tranches of creditors or securities.

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

The Group engages in securitisation activities for two purposes:

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

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

Role	Definition
Arranger	Structurer of securitisation transactions.
Asset liquidity provider	A provider of liquidity to cover mismatches in cashflow for securitisation structures.
Buyer of protection over assets	Entering into derivative transactions which 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.
First loss provider	Principally for securitisation of the Group's own assets, the provider of credit enhancement that bears the first losses (if any) incurred by the securitised pool of assets.
Investor	Investor in asset backed securities.
Letter of credit provider	Provider of credit enhancement to securitisation transactions.
Manager	Operator of securitisation SPVs, including managing assets and liabilities and providing accounting and administrative services.
Redraw provider	Provider of liquidity to cover redraws for residential mortgage-backed bonds.
Seller of assets	Originator and seller of assets from the Group's balance sheet (e.g., mortgage loans).
Securitisation funding facility provider	A lender to securitisation SPVs where tenor of the funding extends beyond 1 year and may match the expected redemption date of the underlying security held by the SPV.
Servicer of assets	Responsible for collecting interest and principal on the securitised assets, principally for securitising the Group's own assets.
Sponsor	The entity that establishes the securitisation SPVs including ABCP conduits and often provides other services. Group sponsored ABCP conduits are Titan Securitisation, TSL (USA) Inc, Quasar Securitisation, CentreStar and MiraStar Securitisation.
Standby liquidity provider	A provider of liquidity available to repay ABCP if unable to reissue.
Warehouse facility provider	Lender to securitisation SPVs pending issuance of securities or on an on-going basis.

Management

The Group manages securitisation within its established three lines of defence, with control exercised through clearly defined authorities and accountabilities.

As part of the restructure of the Group announced in March 2009, the Securitisation business has been segregated into an ongoing core client-based business and exposures managed by the Group's Specialised Group Assets ("SGA") portfolio. SGA exposures comprise "non-franchise" activities (largely Northern Hemisphere originated exposures) and are set for an orderly run-off by the Group.

Measurement

Securitisation exposures, risks and capital are measured in accordance with regulatory requirements outlined in APS 120. Key metrics in the measurement of these exposures include any external rating (if available), internal risk grading, the seniority of the exposure and the composition of the pool of securitised assets.

The Group views securitisation exposures for facilities provided to securitisation transactions as "hold to maturity" exposures. The main mitigants lie in the initial structuring and assessment of the transactions, supported by the regime of reviews and reporting outlined below in the section on Monitoring and Reporting. Initial structuring and assessment includes an analysis of matters such as portfolio composition and quality, the level and type of credit enhancement, due diligence on, and the quality of, the servicer of the assets, and specific structural enhancements such as trigger events. The Group also has securitisation exposures via the purchase of asset backed securities for trading, investment portfolio or liquidity activities and the provision of derivatives through the trading book to securitisation SPVs.

The Group's risk management frameworks for own asset securitisation and third party securitisation define the measurement of RWAs. Depending on the asset class, the Group uses either the ratings-based approach ("RBA"), the internal assessment approach ("IAA") or APS 120 methodologies to calculate risk weighted assets for the portfolio. The IAA methodology is applied to the following asset classes:

- Residential mortgages
- Equipment receivables
- Auto loan receivables

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

Third Party Securitisation

Wholesale Banking is engaged in the business of securitising third party assets. Third party securitisation activities follow the Group's credit decision making and oversight processes.

The first line of defence for third party securitisations is the Wholesale Banking securitisation business, which works with the customer, trustees and rating agencies. The second line of defence is Wholesale Banking Risk, Group Non-Traded Market Risk ("GNTMR") and Group Treasury.

Group Owned Securitised Assets

For Group owned securitised assets, Group Treasury performs the role of the first line of defence as the business owner of the assets. GNTMR serves as the second line of defence.

Monitoring and Reporting

Measurement and reporting of securitisation profit and loss, and impact to capital and provisioning, is undertaken in accordance with requirements set by business unit finance functions and encompasses:

- Total outstanding issuance and expected run-off of outstandings,
- Available pool size for future securitisation, including details on asset type and quality, and
- Assessment of the average asset quality of retained exposures.

Management risk reporting consists of a comprehensive system of regular reports and reviews, with more detailed reviews for lower quality credits and continuous management where required, including:

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

Third Party Securitisation Reporting

For third party securitisation, funding reports containing the global amount of ABCP and the funding of standby liquidity facilities are provided weekly to the Wholesale Banking Chief Risk Officer along with monthly reports on the securitisation portfolio including the limit and the credit rating. Key elements of these reports are provided to the Wholesale Banking Credit Risk Committee and the Group Risk Management Committee. Monthly reports on SGA transactions includes market value, mark-to-model, internal and external ratings, comments on credit issues and detailed modelling and stress test results.

Group Owned Securitised Assets Reporting

For Group owned securitised assets, Group Treasury, with oversight by GNTMR, is responsible for meeting all reporting requirements to Group ALCO. Reporting to Group ALCO forms the basis of all reports to GRMC, the PBRC and the Principal Board. Regional treasuries, with oversight by the relevant Non-Traded Market Risk team, are responsible for meeting all reporting requirements to their respective business unit ALCO and subsidiary Board.

Securitisation Exposures and Definitions

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

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

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

Special Purpose Vehicle

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

Origination

- Originating ADI: The Group is an "Originating ADI" if it originally sold the asset to the SPV (directly or indirectly), manages the SPV or provides a non-derivative facility to an ABCP Program.
- 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 an 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.

Type of Exposure

The Group participates in certain securitisation activities as defined below:

- 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).
- 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.
- 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 significant first loss credit enhancements have been exhausted.
- Derivative transactions include interest rate and currency derivatives provided to securitisation SPVs, but do not include credit derivative transaction.
- Securities include the purchase of securitisation debt securities for either trading or banking book purposes.
- 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.

The Group predominately uses Standard & Poor's for rating securitisations for which the Group is an originating ADI. Moody's rates some term transactions and some ABCP programs for the Group. Fitch rates some term transactions, but no ABCP programs.

Accounting Treatment

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

Interest and line fees received are treated as revenue in the period in which they are accrued. Arrangement fees are treated as revenue and recognised as revenue over the life of the securitisation transaction. Derivatives such as interest rate swaps, basis swaps or cross-currency swaps have the same accounting treatment as non-securitisation derivatives.

Under the Group's accounting policy, NAB sponsored ABCP conduits and a number of related securitisation SPVs are consolidated by the Group.

6.1 Third Party Securitisation

The tables in this section ("Traditional Originating ADI Securitisation Exposures", "Synthetic Originating ADI Securitisation Exposures" and "Total Originating ADI Securitisation Exposures") are broken down by the type of asset within the securitisation SPV and provide the Group's exposures to those securitisations. These tables do not provide Group assets that have been sold to securitisations.

Table 6.1A: Total Originating ADI Securitisation Exposures

This table is the sum of tables 'Traditional Originating ADI Securitisation Exposures' (Table 6.1B) and 'Synthetic Originating ADI Securitisation Exposures' (Table 6.1C) on the following pages. It sets out the amounts of facilities and provides an indication of the relative extent to which the Group has exposure.

	As at 30 Sep 09			
	Total outstanding exposures			
	Directly originated assets $m	Indirectly originated assets $m	Facilities provided $m	Other (manager services) $m
Underlying asset				
Residential mortgage	146	-	8,290	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	1,014	-
CDOs/CLOs (1)	466	-	3,469	-
Commercial loans	71	-	-	-
Commercial mortgages	-	-	857	-
Corporate bonds	-	-	1,150	-
Other	-	-	2,167	-
Total underlying asset	**683**	**-**	**16,947**	**-**

(1) *Subsequent to year end two of the SCDOs fell below internal investment grade based on NAB's modelling as a result of a credit event.*

	As at 31 Mar 09			
	Total outstanding exposures			
	Directly originated assets $m	Indirectly originated assets $m	Facilities provided $m	Other (manager services) $m
Underlying asset				
Residential mortgage (1)	168	-	8,853	-
Credit cards and other personal loans	-	-	457	-
Auto and equipment finance	-	-	2,402	-
CDOs/CLOs	627	-	4,126	-
Commercial loans (1)	139	-	-	-
Commercial mortgages	-	-	909	-
Corporate bonds	-	-	1,223	-
Other	-	-	3,634	-
Total underlying asset	**934**	**-**	**21,604**	**-**

(1) *Ongoing review of the securitisation portfolio has resulted in a change in the classification between Directly Originated and Facilities Provided, March numbers have been restated on that basis.*

Table 6.1B: Traditional Originating ADI Securitisation Exposures

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

	As at 30 Sep 09			
	Total outstanding exposures			
	Directly originated assets	Indirectly originated assets	Facilities provided	Other (manager services)
	$m	$m	$m	$m
Underlying asset				
Residential mortgage	146	-	8,290	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	1,014	-
CDOs/CLOs	-	-	1,884	-
Commercial loans	71	-	-	-
Commercial mortgages	-	-	857	-
Corporate bonds	-	-	1,150	-
Other	-	-	2,167	-
Total underlying asset	**217**	**-**	**15,362**	**-**

	As at 31 Mar 09			
	Total outstanding exposures			
	Directly originated assets	Indirectly originated assets	Facilities provided	Other (manager services)
	$m	$m	$m	$m
Underlying asset				
Residential mortgage (1)	168	-	8,853	-
Credit cards and other personal loans	-	-	457	-
Auto and equipment finance	-	-	2,402	-
CDOs/CLOs (2)	-	-	2,331	-
Commercial loans (1)	139	-	-	-
Commercial mortgages	-	-	909	-
Corporate bonds	-	-	1,223	-
Other (2)	-	-	3,634	-
Total underlying asset	**307**	**-**	**19,809**	**-**

(1) *Ongoing review of the securitisation portfolio has resulted in a change in the classification between Directly Originated and Facilities Provided, March numbers have been restated on that basis.*

(2) *Ongoing review of the securitisation portfolio has resulted in a change in the classification between Traditional and Synthetic exposures, March numbers have been restated on that basis.*

Table 6.1C: Synthetic Originating ADI Securitisation Exposures

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

	As at 30 Sep 09			
	Total outstanding exposures			
	Directly originated assets	Indirectly originated assets	Facilities provided	Other (manager services)
	$m	$m	$m	$m
Underlying asset				
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
CDOs/CLOs	466	-	1,585	-
Commercial loans	-	-	-	-
Commercial mortgages	-	-	-	-
Corporate bonds	-	-	-	-
Other	-	-	-	-
Total underlying asset	**466**	**-**	**1,585**	**-**

	As at 31 Mar 09			
	Total outstanding exposures			
	Directly originated assets	Indirectly originated assets	Facilities provided	Other (manager services)
	$m	$m	$m	$m
Underlying asset				
Residential mortgage	-	-	-	-
Credit cards and other personal loans	-	-	-	-
Auto and equipment finance	-	-	-	-
CDOs/CLOs [(1)]	627	-	1,795	-
Commercial loans	-	-	-	-
Commercial mortgages	-	-	-	-
Corporate bonds	-	-	-	-
Other [(1)]	-	-	-	-
Total underlying asset	**627**	**-**	**1,795**	**-**

(1) *Ongoing review of the securitisation portfolio has resulted in a change in the classification between Traditional and Synthetic exposures, March numbers have been restated on that basis.*

Table 6.1D: Type of Exposure

The table below breaks down the securitisation exposures by type of facility, as defined in section 6. The Group holds securities issued by securitisation SPVs as part of its trading book and banking book.

	As at	
	30 Sep 09	31 Mar 09
	$m	$m
Securitisation exposure type		
Liquidity facilities [(1)] [(2)]	3,586	15,873
Warehouse facilities [(1)]	12,212	4,481
Credit enhancements	159	389
Derivative transactions	572	864
Securities	228	410
Credit derivatives transactions [(2)]	1,585	1,795
Other	88	-
Total securitisation exposures	**18,430**	**23,812**

(1) *There are no funding, underwriting or lending facilities, as defined in APS 120. These types of facilities have been removed from Table 6.1D and replaced with liquidity and warehouse facilities to better reflect the nature of the exposures.*

(2) *The 31 March 2009 comparison has been re-presented in a consistent format with 30 September 2009. The totals as at 31 March 2009 have not changed.*

Table 6.1E: New Facilities Provided

The table below shows new securitisation facilities provided in 6 months to 30 September 2009.

	6 months ended 30 Sep 09	6 months ended 31 Mar 09
	Notional amount of facilities provided	
	$m	$m
Securitisation exposure type		
Liquidity facilities [(1)]	10	3
Warehouse facilities [(1)]	2,254	-
Credit enhancements	-	-
Derivative transactions	-	-
Securities	-	-
Credit derivatives transactions	-	-
Other	-	-
Total new facilities provided	**2,264**	**3**

(1) *There are no funding, underwriting or lending facilities, as defined in APS 120. These types of facilities have been removed from Table 6.1E and replaced with liquidity and warehouse facilities to better reflect the nature of the exposures.*

Table 6.1F: Exposures by Risk Weight

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

	As at 30 Sep 09		As at 31 Mar 09	
	Exposure $m	RWA $m	Exposure $m	RWA $m
Risk weight bands (1)				
≤10%	3,742	270	-	-
> 10% ≤ 25%	6,754	1,076	16,706	2,197
> 25% ≤ 35%	183	64	977	342
> 35% ≤ 50%	621	309	640	320
> 50% ≤ 75%	536	370	536	389
> 75% ≤ 100%	2,935	2,935	2,311	2,311
> 100% ≤ 650%	2,375	5,944	920	2,301
Deductions	484	-	448	-
Total securitisation exposures	**17,630**	**10,968**	**22,538**	**7,860**

(1) *APRA approved the Group's use of the Internal Assessment Approach (IAA) under APS 120 for certain unrated securitisation exposures effective 31 March 2009. The impact of the use of IAA and associated requirements account for a large part of the increase in securitisation RWA of approximately $3.1 billion between 31 March 2009 and 30 September 2009.*

Table 6.1G: Exposures Deducted from Capital

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

	As at 30 Sep 09						
	Deductions relating to ADI-originated assets securitised					Deductions relating to other securitisation exposures	Total
	Residential mortgage $m	Credit cards and other personal loans $m	Auto and equipment finance $m	Commercial loans $m	Other $m	$m	$m
Securitisation exposures deducted from capital (1)							
Deductions from Tier 1 capital	47	-	-	36	-	162	245
Deductions from Tier 2 capital	41	-	-	36	-	162	239
Total securitisation exposures deducted from capital	**88**	**-**	**-**	**72**	**-**	**324**	**484**

(1) *These exposures fall into three categories:*
- *Exposures which 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 that have been made.

	As at 31 Mar 09						
	Deductions relating to ADI-originated assets securitised					Deductions relating to other securitisation exposures	Total
	Residential mortgage $m	Credit cards and other personal loans $m	Auto and equipment finance $m	Commercial loans $m	Other $m	$m	$m
Securitisation exposures deducted from capital							
Deductions from Tier 1 capital	54	-	-	70	-	104	228
Deductions from Tier 2 capital	46	-	-	70	-	104	220
Total securitisation exposures deducted from capital	**100**	**-**	**-**	**140**	**-**	**208**	**448**

6.2 Group Owned Securitised Assets

This section provides information about assets that the Group has securitised. The Group may or may not retain an exposure to securitisation SPVs to which the Group has sold assets. As such, the information in this section is not related to the information in the previous section "Securitisation Exposures".

This section does not include information about the Group's internal securitisation pools of residential mortgage backed securities. These securities have been developed as a source of contingent liquidity to further support the Group's liquid asset holdings.

Table 6.2A: Assets Securitised by the Group

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

	As at 30 Sep 09				
	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	6,330	-	23	59	-
Credit cards	-	-	-	-	-
Auto and equipment finance	15	-	-	-	-
Commercial loans	-	1,758	-	-	-
Other	-	-	-	-	-
Total underlying asset	**6,345**	**1,758**	**23**	**59**	**-**

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

	As at 31 Mar 09				
	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	7,766	-	43	81	-
Credit cards	-	-	-	-	-
Auto and equipment finance	33	-	-	-	-
Commercial loans	-	3,727	-	-	-
Other	-	-	-	-	-
Total underlying asset	**7,799**	**3,727**	**43**	**81**	**-**

Table 6.2B: Recent Securitisation Activity

This table shows the amount of assets sold by the Group to securitisation SPVs in the six months to 30 September 2009 and any gain or loss on sale.

	6 months ended 30 Sep 09			6 months ended 31 Mar 09		
	Amount securitised during period directly originated	Amount securitised during period indirectly originated	Recognised gain or loss on sale	Amount securitised during period directly originated	Amount securitised during period indirectly originated	Recognised gain or loss on sale
	$m	$m	$m	$m	$m	$m
Underlying asset						
Residential mortgage	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total underlying asset	**-**	**-**	**-**	**-**	**-**	**-**

Table 6.2C: Securitisation Subject to Early Amortisation

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

	As at 30 Sep 09					
	Aggregate drawn exposure attributed to:		Aggregate IRB capital charge against ADI's retained shares from:		Aggregate IRB capital charge against the ADI from investors' shares of:	
	Seller interest	Investor interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
	$m	$m	$m	$m	$m	$m
Recent securitisation activity						
Residential mortgage	-	-	-	-	-	-
Commercial mortgage	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
CDOs	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total recent securitisation activity	**-**	**-**	**-**	**-**	**-**	**-**

	As at 31 Mar 09					
	Aggregate drawn exposure attributed to:		Aggregate IRB capital charge against ADI's retained shares from:		Aggregate IRB capital charge against the ADI from investors' shares of:	
	Seller interest	Investor interest	Drawn balances	Undrawn lines	Drawn balances	Undrawn lines
	$m	$m	$m	$m	$m	$m
Recent securitisation activity						
Residential mortgage	-	-	-	-	-	-
Commercial mortgage	-	-	-	-	-	-
Auto and equipment finance	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
CDOs	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total recent securitisation activity	**-**	**-**	**-**	**-**	**-**	**-**

7. Market Risk

Introduction

Traded market risk is the potential for losses to arise from trading activities undertaken by the Group as a result of adverse movement in market prices.

The Group undertakes trading activities to support its clients and to profit in the short term from differences in market factors, such as interest rates, foreign exchange rates, commodity prices, equity prices and credit spreads. Trading activities are carried out by specialist areas within the Group and generate revenue through active management of market risk in the Group's dealing rooms in various locations.

Management

The Group manages market risk within its established three lines of defence framework, with control exercised through clearly defined delegations of authority, and clear communication and escalation channels throughout the organisation.

The Principal Board defines the risk appetite for traded market risk, including setting the overall Value at Risk ("VaR") and stress test limits.

The Group's Traded Market Risk framework sets out the approach and policy for the management and reporting of market risk in compliance with the Principal Board directives, and includes the definition of the trading book.

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

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

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

Measurement

The Group uses both the Standard Method and the Internal Model Approach ("IMA") for measuring traded market risk. There are two types of market risk measures related to regulatory capital: general market risk, which is related to changes in the overall market prices; and specific market risk, which is related to changes for the specific issuer. As required by Group policy, all models employed for valuation or for risk measurement in the trading book are independently validated before they are implemented in production, and then periodically.

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

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

Portfolios Subject to the Standard Method

The Standard Method, detailed in APS 116 Attachment B, is used for calculating general market risk for transactions in commodities, equities, carbon trading and CPI-linked instruments. The Group uses both maturity ladder and contingent loss matrix methodologies in its calculations. In addition, specific market risk is measured for all applicable products using the Standard Method. The trading positions subject to Standard Method are small in value, except for the exposure to commodities transactions.

Table 7.1A: Standard Method Risk Weighted Assets

	As at	
	30 Sep 09 $m	**31 Mar 09 $m**
Risk weighted assets		
Interest rate risk	1,798	2,660
Equity position risk	1	1
Foreign exchange risk	134	196
Commodity risk	370	327
Total risk weighted assets - standard method (1)	**2,303**	**3,184**

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

Portfolios Subject to the Internal Model Approach

Under approval from APRA, the Group uses IMA to calculate general market risk for all transactions in the trading book other than those covered by the Standard Method detailed above. However, specific market risk capital for all applicable products, including those covered by IMA, is calculated using the Standard Method.

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

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

The risk weighted asset equivalent for traded market risk using the IMA was $1,112m at 30 September 2009. This is the capital requirement multiplied by 12.5 in accordance with APS 110.

Table 7.1B: Total Risk Weighted Assets

	As at	
	30 Sep 09 $m	31 Mar 09 $m
Market risk		
Standard method	2,303	3,184
Internal model approach	1,112	1,937
Total market risk RWA [(1)]	**3,415**	**5,121**
% of total Group (level 2) RWA	1.0%	1.5%

(1) *The decrease in Total Traded Market Risk RWA since 31 March 2009 was partly due to an APRA approved change in methodology with respect to calculating regulatory capital for general market risk. The change in methodology, from a 'sum of regions' basis to a 'global diversified VaR' basis, contributed to a decrease in the general market risk (Internal Model) RWA of approximately $0.5 billion.*

Table 7.1C: Internal Model Approach Value at Risk

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

	6 months ended 30 Sep 09			As at
	Mean value $m	Minimum value $m	Maximum value $m	30 Sep 09 $m
Value at risk at a 99% confidence level [(1)]				
Foreign exchange risk	4	1	9	1
Interest rate risk	8	5	12	6
Volatility risk	2	1	3	1
Commodities risk	-	-	-	-
Credit risk	6	4	8	6
Inflation risk	-	-	-	-
Diversification benefit	(9)	(4)	(16)	(6)
Total value at risk for physical and derivative positions	**11**	**7**	**16**	**8**

(1) *Value at risk is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk, credit risk and inflation risk. The individual risk categories do not sum up to the total risk number due to diversification benefits. Risk limits are applied in these categories separately and against the total risk position.*

	6 months ended 31 Mar 09			As at
	Mean value $m	Minimum value $m	Maximum value $m	31 Mar 09 $m
Value at risk at a 99% confidence level				
Foreign exchange risk [(2)]	3	1	6	3
Interest rate risk	10	1	15	13
Volatility risk	4	3	6	3
Commodities risk	-	-	-	-
Credit risk	11	7	16	9
Inflation risk	-	-	-	-
Diversification benefit	(12)	(1)	(23)	(12)
Total value at risk for physical and derivative positions	**16**	**11**	**20**	**16**

Value at Risk Estimation

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

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

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

Monitoring and Reporting

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

For theoretical (or hypothetical) back-testing, the trading positions at the end of the preceding day are revalued using the end-of-day rates for that day and then again at the succeeding day's closing rates. The difference between the two mark-to-market values of the portfolio, which represents the profit and loss that would have occurred had there been no transactions on the day, is compared with the VaR. Results of this test are stored for observation over an extended period of time. Additionally, VaR is compared with the actual daily traded profit and loss as a cross-check of the "reasonableness" of the theoretical portfolio movement.

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

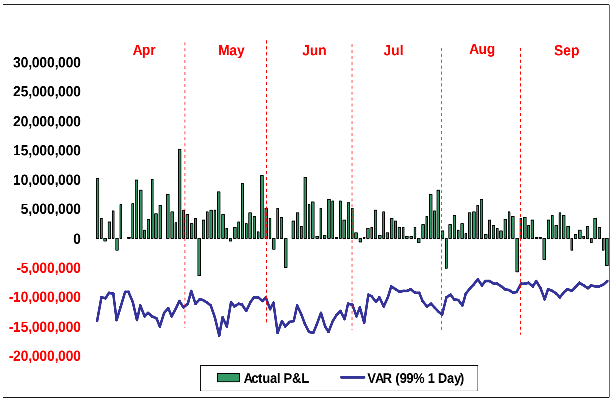
The results of back-testing are reported to senior management, the PBRC and the regulators. In addition to back-testing, the risk measurement model and all pricing models are subject to annual assessment, periodical reviews and independent validation at frequencies specified by the Group Model Risk Policy.

Table 7.1D: Back-testing Exceptions

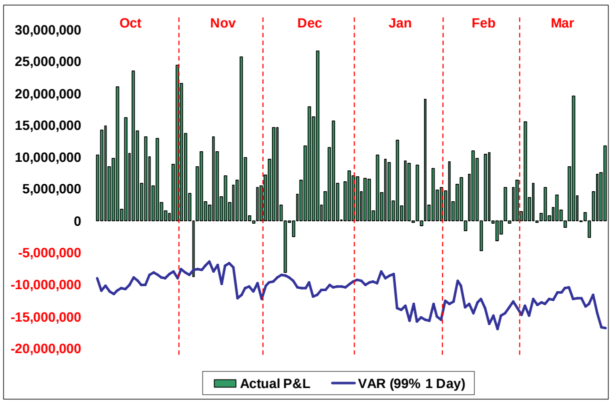
Comparison of value at risk estimates to actual gains/losses	6 months ended 30 Sep 09	6 months ended 31 Mar 09
Number of "outliers" incurred for the trading portfolio	-	1

VaR estimates are back-tested for reasonableness on a daily basis. The following graph compares the Group's daily VaR estimates against actual profit and loss.

6 months ended 30 Sep 09



6 months ended 31 Mar 09



Back-testing Outliers

There were no back-testing exceptions against actual P&L incurred during the six month period to 30 September 2009, and only one during the previous six month period to 31 March 2009. One back-testing exception against actual P&L during the 12 months to 30 September 2009 is well within the acceptable model parameters and indicates proper operation of the VaR model within APRA Guidelines.

8. Operational Risk

Introduction

The Group adopts the Basel II definition of operational risk, namely, "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.

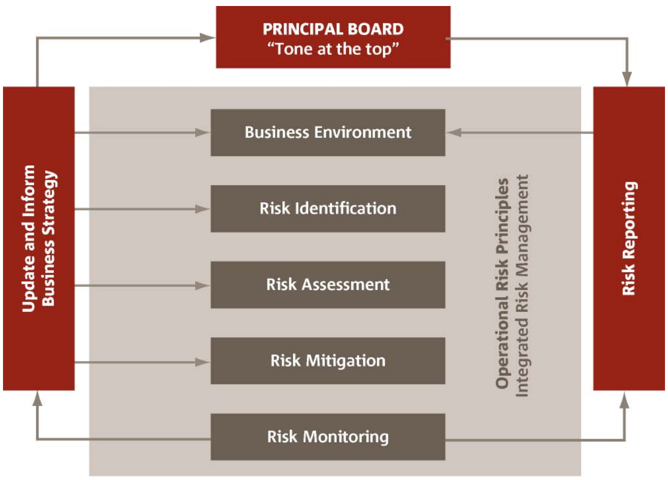
Operational risk is inherent within the Group activities. Operational risk management is not about being risk averse, rather, it is about understanding and managing risks for the successful achievement of business objectives.

Management

The Group manages operational risk within its established three lines of defence framework, with control exercised through clearly defined delegation of authority, with clear communication and escalation channels throughout the organisation.

The Principal Board via the PBRC approves the Group's Operational Risk Management Framework ("ORF"). The ORF is supported by policies, principles and processes, which provide business management with robust tools for ensuring that operational risk is managed on behalf of the Group's stakeholders. The ORF is illustrated in the diagram below.

The Group's Operational Risk Management Framework



At the core of the ORF are the Operational Risk Principles, which outline the integrated approach to operational risk management that applies across the Group.

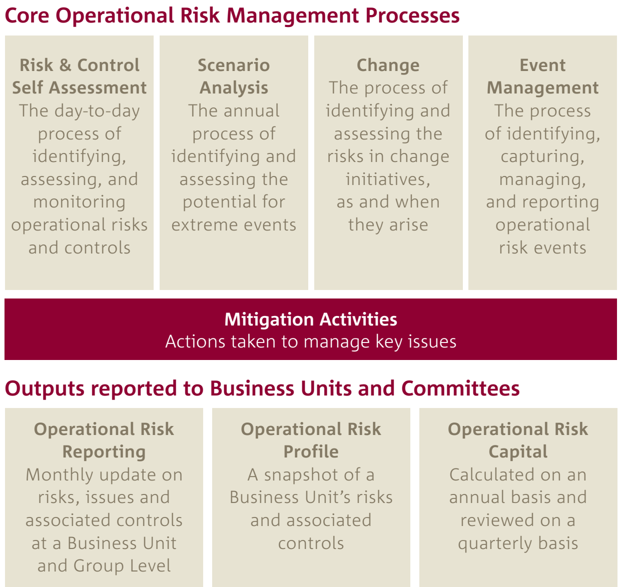
Business units review their business operating environment to identify and assess operational risk. In doing so, business units consider various inputs including the Business Environment and Internal Control Factors ("BEICF") [1]. The identified risks are the possible exposures that may affect business units' abilities to achieve their business objectives. The controls associated with the risks are assessed for their effectiveness, and the potential financial and non-financial impact/exposure associated with the risk is determined.

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

Business units are supported by dedicated risk teams who provide ongoing oversight of the business units' implementation and usage of the ORF, policies, processes and tools. This provides assurance to the Principal Board and the Risk committees that operational risk is being effectively managed by each business unit.

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

Framework in Operation



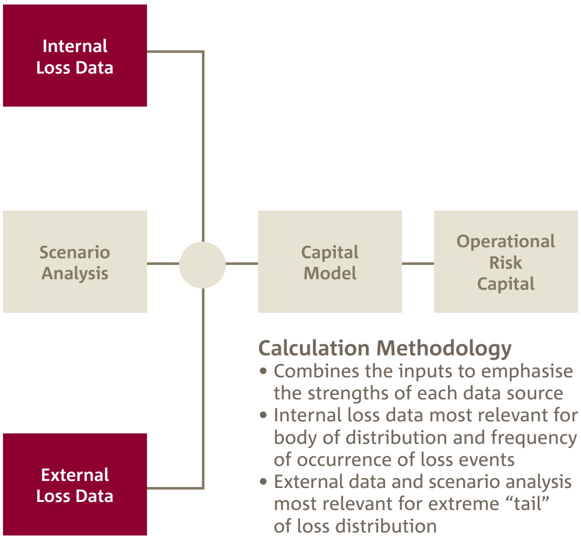
Measurement

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

[1] *Business Environment and Internal Control Factors are inputs to the Risk Identification processes. These inputs are: Internal Events; External Events; Management Experience and Observations; Business Model and Business Environment; Key Risk Indicators; Audit and Regulatory Reporting; and Change.*

The Group's Advanced Measurement Approach ("AMA") calculation of regulatory capital for operational risk uses data captured from the operational losses that have occurred within the Group, relevant data from losses incurred by other financial institutions, the output of a scenario process that analyses potential extreme losses faced by the Group, and factors reflecting the business environment and internal control systems. AMA capital is determined separately for the AMA jurisdictions, and summed to arrive at the AMA figure at the Group level. This figure is then allocated to major business lines.

Calculation of Operational Risk Capital



Monitoring and Reporting

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

Operational risk reports are produced at management, committee and Board level to assist with oversight and monitoring, and reflect both current and forward-looking views of the operational risks, issues and events facing the Group. These incorporate business unit and Group reporting of risk profiles, key operational risk events, as well as consideration of external events and their relevance to the Group. This process generates visibility and understanding of the Group's overall operational risk profile.

The Group Risk Management Committee may request reporting on topics of interest (themed reviews) such as business continuity, information technology security, fraud and security, and results of regional oversights.

Risk Mitigation

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

At present, the regulatory capital measure for operational risk does not include any adjustment for insurance.

Table 8A: Total Risk Weighted Assets

	As at 30 Sep 09 $m	As at 31 Mar 09 $m
Operational risk		
Standardised approach	4,575	4,671
Advanced measurement approach	18,397	19,665
Total operational risk RWA	**22,972**	**24,336**
% of total Group (level 2) RWA	6.7%	6.9%

9. Non-Traded Market Risk

9.1 Equities Banking Book Position

Introduction

Non-traded market 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,
- Originate, Warehouse and Distribute,
- Capital gains, and
- Distressed debt management (i.e. Debt for Equity swaps).

Management

The Group manages equity risk in the banking book within its established three lines of defence framework, with control exercised through clearly defined delegation of authority, with clear communication and escalation channels throughout the organisation.

The Principal Board defines the risk appetite for equity risk in the banking book and allocates limits based on the nature of equity investment or underwriting.

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 Group Finance and, where required, by Group Non-Traded Market Risk ("GNTMR").

Monitoring and Reporting

Monthly reports are provided to senior management and executive committees as part of the Group Chief Risk Officer's ("GCRO") report, which is tabled when the PBRC convenes. The overall monitoring and reporting framework is shown below.

Monitoring and Reporting Framework

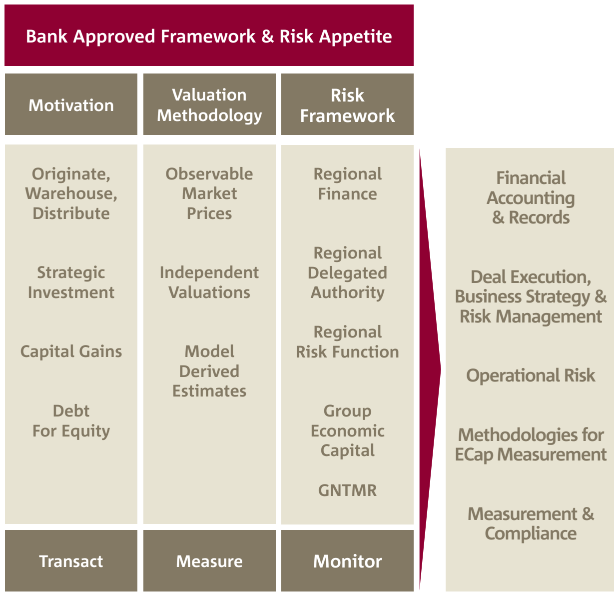


Table 9.1A: Equities Banking Book Position

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 09		As at 31 Mar 09	
	Carrying value [1]	Fair value [2]	Carrying value	Fair value
	$m	$m	$m	$m
Total listed equities (publicly traded)	35	35	18	18
Total unlisted equities	231	231	194	197

(1) *Carrying value as recorded in the Statement of Financial Position, in accordance with accounting standards.*

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

Table 9.1B: 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 09	**31 Mar 09**
	$m	**$m**
Gains (losses) on equity investments		
Cumulative realised gains (losses) in reporting period	12	8
Total unrealised gains (losses)	(39)	3
Total unrealised gains (losses) included in Tier 1/ Tier 2 capital	6	8

Table 9.1C: Risk Weighted Assets by Equity Asset Class

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

	As at	
	30 Sep 09	**31 Mar 09**
	$m	**$m**
Risk weighted assets		
Equities subject to 300% RW	105	53
Equities subject to 400% RW	925	778
Total risk weighted assets	1,030	831

Table 9.1D: Equity Investments Subject to Grandfathering Provision

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

	As at	
	30 Sep 09	**31 Mar 09**
	$m	**$m**
Total equity investments	-	-

9.2 Interest Rate Risk in the Banking Book

Introduction

Interest Rate Risk in the Banking Book ("IRRBB") is the risk to the Group's earnings and capital that arises out of customer demand for interest rate related products with various re-pricing profiles. As interest rates and yield curves change over time, the Group may be exposed to a loss in earnings and capital due to the re-pricing structure of the balance sheet.

The objective of the Group in managing its interest rate risk is to secure a stable and optimal net interest income over both a 12-month period and over the long term. Interest rate risk is primarily managed using interest rate swaps, forward rate agreements, overnight index swaps, and futures, based on the perceived view of the yield curve.

Management

The Group manages IRRBB within its established three lines of defence framework, with control exercised through clearly defined delegation of authority, with clear communication and escalation channels throughout the organisation.

The Principal Board defines the risk appetite for IRRBB, and sets the overall limits for VaR and Earnings at Risk ("EaR") and stress tests. The Group IRRBB Policy sets out the approach and policy for the management and reporting of IRRBB.

Measurement

The Group has been accredited by APRA to use its internal models for the measurement of IRRBB. The Group employs VaR as one of its principal measures for interest rate risk, along with the EaR measure, which calculates the impact on future net interest income over the next 12 months. Economic Value Sensitivities ("EVS") are measured to identify potential impact of interest rate changes on the calculated net present value of the banking book. To complement the static VaR and EaR metrics, a series of stress tests, including a break down of key modelling assumptions and yield curve shock scenarios, are modelled and reported to regional and GALCO by GNTMR.

For measuring IRRBB the Group takes into consideration:

- Prepayments
  - A constant prepayment rate based on historical prepayment rates analysis,
  - The variability of the customer behaviour,
  - The expected prepayment rate, which is incorporated in repricing and yield curve risk, and
  - The variability of expected prepayment, which is incorporated in Optionality Risk.
- Non-bearing interest accounts, interest-free credit cards and instruments with indeterminate maturities
  - Core/non-core spot balance approach, combining the expected behavioural term and variance around the expected behavioural term using historical data,
- Rate locks
  - Modelled as Delta-equivalent volume of linear forward start amortising swaps, and
- Basis
  - Movement in overnight index swap/bills basis and risk due to lead/lag re-pricing effects,
  - Overnight index swap/bills basis risk is incorporated in yield curve risk, and
  - Lead/lag basis risk is incorporated in basis risk.

Monitoring and Reporting

IRRBB is measured and monitored on a weekly basis with exceptions reported to the GCRO. Monthly results are also submitted for inclusion in the GCRO report which is tabled when the PBRC convenes.

Table 9.2A: Interest Rate Risk in the Banking Book

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

	As at 30 Sep 09		As at 31 Mar 09	
	200 bp parallel increase $m	200 bp parallel decrease $m	200 bp parallel increase $m	200 bp parallel decrease $m
Change in economic value [(1)]				
AUD	(80)	90	(98)	105
CAD	-	-	-	-
CHF	-	-	-	-
EUR	-	-	-	-
GBP	(5)	6	(75)	80
HKD	-	-	-	-
JPY	-	-	-	-
NZD	6	(5)	(92)	101
SGD	-	-	-	-
USD	(1)	1	-	-
Other	-	-	-	-
Total change in economic value	**(80)**	**92**	**(265)**	**286**

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

Table 9.2B: Total Risk Weighted Assets

	As at 30 Sep 09 $m	As at 31 Mar 09 $m
IRRBB risk weighted assets	**4,160**	**1,300**
% of total Group (level 2) RWA	1.2%	0.4%

All components of IRRBB regulatory capital are calculated using a historical VaR simulation using at least 8 years of historical data at a 99% confidence level, one year investment term of capital, and a 12-month holding period.

9.3 Funding and Liquidity Risk

Introduction

Liquidity risk is the risk that the Group is unable to meet its financial obligations at acceptable costs as they fall due. These obligations include capital and interest payments on existing transactions and future commitments.

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

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

- To ensure that the current and future payment obligations of the Group are met as they become due,
- To retain confidence in the Group's liquidity and funding compliance, and management framework among external and internal stakeholders,
- To retain adequate liquidity buffers in the Group and regional balance sheets so as to withstand severe market and institutional disruptions,
- To meet planned business funding needs over a 3-year forward horizon,
- To maintain sufficient unused market capacity above that required to fund above-forecast asset growth and provide for acquisition funding if required, and
- To maintain access to global short term and long term debt capital markets consistent with the target credit ratings of the Group and its subsidiaries.

Management

The Group manages funding and liquidity risk within its established three lines of defence framework, with control exercised through clearly defined delegation of authority, with clear communication and escalation channels throughout the organisation. The Group policies on funding and liquidity risk set out the framework and approach for the management and reporting of these risks.

Liquidity risk is managed by regional management, based on cumulative cash flow mismatch, gap analysis, stress tests and scenario analysis and within a defined global risk appetite.

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

Measurement

Liquidity risk is measured, managed and monitored on a cash flow basis, using appropriate scenario analysis and stress testing. Key scenarios include a name crisis and the continuation of current market disruption. The liquidity measurement also addresses all regulatory requirements.

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

APRA have released a discussion paper outlining the proposed revisions to its APS 210 Liquidity Standard. The proposal incorporates significant changes to scenario modelling, liquid asset composition and reporting requirements. The Group is assessing the impacts and will respond to APRA on 30 November 2009 through the discussion process.

Monitoring and Reporting

Funding and liquidity risk is measured and monitored on a daily basis with any non-compliance immediately escalated to the GALCO and GCRO. Monthly results are reported to Group and regional Asset and Liability Committees and to PBRC via the GCRO report. Clearly defined escalation procedures exist whereby liquidity events, both systemic and name specific are monitored, and appropriate actions outlined against triggers.

10. Regulatory Capital Requirements

Prudential Standard APS 111 Capital Adequacy: Measurement of Capital sets out the various regulatory requirements for the Group's capital base. These minimum levels are applied after all required capital deductions are undertaken as follows:

- Net Tier 1 capital is the sum of Fundamental Tier 1 and Residual Tier 1 capital less Tier 1 deductions.
- Fundamental Tier 1 capital must constitute at least 75% of net Tier 1 capital.
- Residual Tier 1 capital is limited to 25% of net Tier 1 capital. Any excess is counted as Upper Tier 2 capital.
- Innovative Tier 1 capital is limited to 15% of net Tier 1 capital. The Group did not seek transitional relief on innovative capital, unlike some of our peers. As at September 2009, this had no material impact on the Group's capital levels.
- Net Tier 1 capital must constitute at least 50% of the capital base.
- Total Tier 2 capital (net of deductions and amortisation) is limited to a maximum of 100% of net Tier 1 capital.
- Total Lower Tier 2 capital (net of deductions and amortisation) is limited to a maximum of 50% of net Tier 1 capital. As at September 2009, this had no impact on the Group's capital levels.
- Any prudential General Reserve for Credit Losses for IRB portfolios is excluded from upper Tier 2 capital.
- Capital is calculated for multiple types of risk, including credit risk, operational risk, market risk, interest rate risk in the banking book, securitised assets and equities in the banking book.
- A capital floor is based on 90% of the capital required under Basel I. As at September 2009, this had no impact on the Group's capital levels.

Certain regulatory deductions are required to be taken 50% from Tier 1 and 50% from Tier 2 Capital. These are:

- Deductions for the net tangible component in "Equity and other investments in non-consolidated subsidiaries and controlled entities".
- Deductions for "Credit support of a capital nature provided to other non-level 2 entities".
- Shortfall in provisions for credit losses. The Basel II deduction is the excess of the total Expected Loss for defaulted and non-defaulted internal ratings based ("IRB") exposures over Total Eligible Provisions. Eligible Provisions are the sum of credit related provisions and partial write-offs for IRB portfolios. Collective Provisions are determined on an after tax basis, Specific Provisions are determined on a pre-tax basis for IRB portfolios.
- Securitisation exposures which have an internal rating below an equivalent Standard & Poor's rating of BB- or are unrated, and certain derivative transactions where the Group is expected to be a net payer.
- All other deductions relating to securitisation as required by Prudential Standard APS 120.

11. Glossary

Term	Description
ADI	Authorised Deposit-taking Institution ("ADI") as defined by APRA, and authorised by APRA to take deposits from customers.
Advanced IRB approach	The advanced Internal Ratings Based ("IRB") approach refers to the processes employed by the Group to estimate credit risk. This is achieved through the use of internally developed models to assess potential credit losses using the outputs from the PD, LGD and EaD models.
AMA	Advanced Measurement Approach ("AMA") is the risk estimation process used for the Group's operational risk. It combines internally developed risk estimation processes with an integrated risk management process, embedded within the business with loss event management.
APRA	The Australian Prudential Regulation Authority ("APRA") is the prudential regulator of the Australian financial services industry. APRA has defined its Basel II requirements in a series of Australian Prudential Standards ("APS").
Back testing	Back-testing refers to the process undertaken to monitor performance of the Group's risk models. Historical data is used to compare the actual outcomes to the expected outcomes.
BIPRU	BIPRU refers to the UK Financial Services Authority's requirements and guidance for accreditation under Basel II. It refers to the Prudential Sourcebook for Banks, Building Societies and Investment Firms.
Capital adequacy	Capital adequacy is the outcome of identifying and quantifying the major risks the Group is exposed to, and the capital that the Group determines as an appropriate level to hold for these risks, as well as its strategic and operational objectives, including its target credit rating.
Credit derivatives	Credit derivatives include single-name credit defaults and certain total rate of return swaps, cash funded credit linked notes and first and second to default credit derivative basket products. ADIs may also recognise any more complex credit derivatives that do not fall into the list above, that have been approved by APRA.
CDO	Collateralised Debt Obligation.
CLO	Collateralised Loan Obligation.
Company	National Australia Bank Limited ABN 12 004 044 937
The Credit Risk function	All areas reporting directly to the Chief Credit Officer including Credit Strategy, Credit Frameworks, Credit Metrics, Counterparty Credit and Strategic Business Services.
EaD	Exposure at Default ("EaD") is an estimate of the total committed credit exposure expected to be drawn at the time of default for a customer or facility that the Group would incur in the event of a default within the next 12 months. It is used in the calculation of regulatory capital.
Economic capital	Economic capital represents the Group's internal assessment of the amount of capital required to protect against potential unexpected future losses arising from its business activities, in line with its target credit rating.
ELE	The Extended License Entity ("ELE") comprises the ADI itself and any APRA approved subsidiary entities assessed as effectively part of a single 'stand-alone' entity, as defined in APS 110.
Eligible financial collateral	Eligible financial collateral, under the standardised approach, will be the amount of cash collateral, netting and eligible bonds and equities. Eligible financial collateral, under the IRB approach, for corporate, sovereign and bank portfolios, is limited to the collateral items detailed in paragraphs 4 and 23 of Attachment G of APS 112. Recognition of eligible financial collateral is subject to the minimum conditions detailed in that same Attachment, paragraph 6.
Economic value sensitivities	Economic value sensitivities ("EVS") refers to a modelling technique whereby the value of an asset is assessed through a number of different scenarios, such as different interest rates or period in time for loan repayment. This allows the Group to establish a price with some degree of certainty across the various scenarios and develop risk management techniques to protect the assets value.
Foundation IRB	Foundation Internal Ratings Based ("FIRB") approach refers to an alternative approach to advanced IRB defined under Basel II where a Group develops its own PD models and seeks approval from its regulator to use these in the calculation of regulatory capital, and the regulator provides a supervisory estimate for LGD and EaD.
Group	The Level 2 Group, being the Company and the entities it controls subject to certain exceptions set out in section 2 'Scope of Application' of this report.
Guarantees	Guarantors under the standardised approach are recognised according to APS 112 Attachment F paragraph 3. The secured portion of an exposure is weighted according to the risk weight appropriate to the guarantor and the unsecured portion is weighted according to the risk weight applicable to the original counterparty (Refer to Attachment A for the appropriate risk weights). Under the IRB approach, for corporate, sovereign and bank portfolios, the ADI may recognise credit risk mitigation in the form of guarantees and credit derivatives according to the FIRB substitution approach where an ADI uses supervisory estimates of LGD (refer to APS 113 Attachment B paragraph 49), an AIRB substitution approach where the ADI has approval from APRA to use its own estimates of LGD (refer to APS 113 Attachment B paragraph 60) and, for certain exposures, a double default approach (refer to APS 113 Attachment B paragraph 67). An ADI may decide, separately for each eligible exposure, to apply either the relevant substitution approach or the double default approach. For retail portfolios there are two approaches for the recognition of credit risk mitigation in the form of guarantees and credit derivatives under the retail IRB approach, a substitution approach (refer to APS 113 Attachment C paragraph 19) and, for certain exposures, a double default approach (refer to APS 113 Attachment C paragraph 28). An ADI may decide separately for each eligible exposure to apply either the substitution approach or the double default approach.
ICAAP	Internal Capital Adequacy Assessment Process (ICAAP) is the mechanism developed and used by the Group to determine capital requirements as outlined under Basel II. It results in the Group identifying and assessing all risks to which it is exposed and allocating an appropriate level of capital to each.
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 credit card loans and portfolio managed facilities) which are contractually past due 90 days with security insufficient to cover principal and arrears of interest revenue; non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest; and impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred. Unsecured portfolio managed facilities when they become 180 days past due, and loans where some concerns exist as to the ongoing ability of the borrowers to comply with the present loan repayment terms, are classified as impaired assets.

IRB	Internal Ratings Based ("IRB") describes the approach used in the assessment of credit risk. Within this document it is used interchangeably with the term advanced Internal Ratings Based approach. This reflects the Group's development of internal credit risk estimation models covering both retail and non-retail credit.
IRRBB	Interest Rate Risk in the Banking Book ("IRRBB") quantifies the inherent risk arising from the Group's banking operations as a result of movements in interest rates. This also includes the impact of differing maturities between assets and liabilities. Quantification of the resulting risk is used in determining capital adequacy.
LGD	Loss Given Default ("LGD") is an estimate of the expected severity of loss for a credit exposure following a default event. Regulatory LGDs reflect a stressed economic condition at the time of default. It is used in the calculation of regulatory capital.
LGR	Loss Given Realisation ("LGR") is a parameter used for estimating LGD.
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
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.
Regulatory capital	Regulatory capital is the total capital held by the Group as a buffer against potential losses arising from the business the Group operates in. Unlike economic capital, it is calculated based on guidance and standards provided by the Group's regulators, including APRA. It is designed to support stability in the banking system and protect depositors.
Regulatory expected loss	Regulatory Expected Loss ("EL") is a calculation of the estimated loss that may be experienced by the Group over the next 12 months. Regulatory EL calculations are based on the PD, LGD and EAD values of the portfolio at the time of the estimate, which include stressed LGDs for economic conditions. As such, regulatory EL is not an estimate of long-run average expected loss (as was the case previously under dynamic provisioning).
Retail credit	For the purposes of managing credit, two broad categories are used: retail credit and non-retail credit. This reflects the different approaches to the sales and ongoing management of credit and is consistent with the approach taken by Basel II. Retail credit refers to the credit provided to retail or personal customers. For the purposes of regulatory capital, retail credit is categorised into four groups: residential mortgages, credit cards (or qualifying revolving credit) and retail SME and other.
Risk appetite	Risk appetite defines the level of risk the Group is prepared to accept as part of its business. The resulting level of risk is a direct input into the Group's capital requirements.
RWA	Risk Weighted Assets
Specific provisions	Specific provisions for prudential purposes include all provisions for impairment assessed on an individual basis in accordance with AIFRS excluding securitisation; and effective 30 September 2009 include all collective provisions on defaulted or otherwise non-performing assets, regardless of expected loss are reported as additional regulatory specific provisions.
Standardised approach	Standardised refers to an alternative approach to the assessment of risk (notably credit and operational) whereby the institution uses external rating agencies to assist in assessing credit risk and/or the application of specific values provided by regulators to determine risk weighted assets.
Stress testing	Stress testing refers to a technique whereby the Group's capital position is assessed against a number of different scenarios used to determine the movement on expected losses and subsequent impact on capital.
Through the cycle	Through the Cycle ("TtC") within this document refers to risk models that estimate the likelihood of default and resulting loss over a 12-month period having regard to the impact of an economic downturn.
Tier 1 capital	Tier 1 capital comprises the highest quality components of capital that fully satisfy all of the following essential characteristics: provide a permanent and unrestricted commitment of funds; are freely available to absorb losses; do not impose any unavoidable servicing charge against earnings; and rank behind the claims of depositors and other creditors in the event of winding-up.
Tier 2 capital	Tier 2 capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 capital but nonetheless contribute to the overall strength of an entity as a going concern. It is divided into: Upper Tier 2 capital comprising components of capital that are essentially permanent in nature, including some forms of hybrid capital instrument; and Lower Tier 2 capital comprising components of capital that are not permanent.
Traded book	Traded book refers to the Group's investment portfolio that is traded or exchanged in the market from time to time that reflects market opportunities.
Value at Risk	Value at Risk ("VaR") is a mathematical technique that uses statistical analysis of historical data to estimate the likelihood that a given portfolio's losses will exceed a certain amount. Using a minimum of one year's historical data, VaR calculates the potential loss in earnings from adverse market movements, over a one-day time horizon, using a 99% confidence level.
Write-offs	Write-offs represent credit loss expenses recognised in the Consolidated Income Statement during the reporting period in accordance with accounting rules.

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