

Symposium on Interest Rate Risk Management

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**National
Australia
Bank**

National Australia Bank Group is an integrated financial services organization providing financial products, advice and services through its major Australian franchise and its businesses in the United Kingdom, New Zealand, Asia and the United States.

- Total Assets: US\$577.5bn (AU\$654.1bn)
- Market capitalisation of US\$55bn (AU\$64bn) as at Sep. 30, 2009
- Pro forma Tier 1 capital ratio of 8.96% (Australian Regulatory Standards)
- Credit Ratings as at 12/31/09
 - S&P – AA
 - Moody's – Aa1
 - Fitch – AA



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Great Western Bank joined the National Australia Bank Group in June 2008.

- Total Assets: \$5.4 billion (Dec 31, 2009)
- 127 Great Western Bank locations
- 89 communities - Across 7 states
- 247,554 deposit accounts
 - 121,804 Checking Accounts
- 55,803 loan accounts



Clydesdale Bank

Yorkshire Bank



Great Western Bank

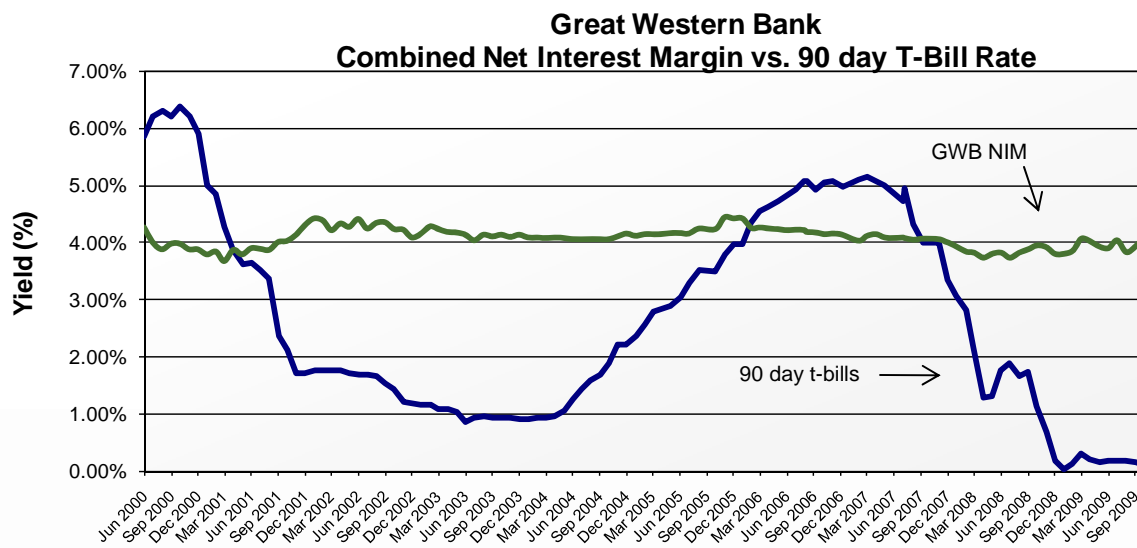


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GWB IRR Management Proposition

- Do not predict interest rates (but cognizant of the cycle).
- Manage long term margin to ensure earnings stability (not distracted by short term yield)
- View IRR Management as a core competency (no different than credit and liquidity)
- IRR balanced balance sheet and drive ownership



GWB Approach to IRR Management

Understand, monitor and define the risk tolerance for IRR just as we do for Credit and Liquidity Risk.

- Governance
- Policy and Procedures
- Measurement
- Report
- Respond when necessary

Measure the Risk

Measures

- Economic Value Perspective (life of the balance sheet)
 - Value at Risk (VaR)
 - Economic Value Sensitivity/Shocks (EVS)
- Earnings Perspective (12 month horizon)
 - Earnings at Risk (EaR)
 - Net Interest Income Sensitivity/Shocks

Modeling

- Assumptions reviewed at least annually.
- Utilize 3rd party behavioral prepayment models on Investment Portfolio.
- Utilize internally derived behavioral assumptions on consumer assets and liabilities.

Monitoring and Reporting

- Measures calculated at least monthly
- Reported to GWB ALCO, the GWB board, and the NAB group ALCO
- Monitor Investment Portfolio daily (Mark to Market and Duration)

Manage the Risk

Corporate Governance

- ALCO – IRR reported to ALCO monthly
- IRR management policy
 - Includes Risk Limits for VaR, EAR and EVS
- Investment Policy

Strategies

- Manage the duration of the investment portfolio – shift to shorter duration (sacrificing short term yield to protect against longer term risk)
- Pricing control and a balanced balance sheet
- Restricted long term lending – sell mortgages to secondary market
- For the limited long term lending, fully hedging with matched funding or interest rate swaps
- Loan floors to prevent yield compression in extremely low interest rate environments.
- Focus on retail funding – cheaper in the long run than wholesale funding
- Diversified Investment Portfolio

IRR Management Challenges

- Data capture, definition and analysis
 - Devoted resources and time (can't simply outsource due to needed historical data knowledge).
 - Difficult to gather historical asset and liability data, especially with acquisitions and product changes.
- Modeling behavioral characteristics
 - Limited Data across various interest rate cycles
 - Non-homogenous loan portfolio which makes behavioral predictions difficult
- Liquidity
 - Balance liquidity demands with asset investments - borrowing to loan not to invest
- Derivatives used for Hedging
 - Difficult and expensive to achieve hedge accounting treatment and can cause PnL volatility if not achieved
 - Creates Basis risk with liabilities as deposits are not Libor based
 - Necessary to manage counterparty risk
- FHLB or other counterparty long term funding
 - Requires stock holding (FHLB)
 - Inflates the balance sheet if fully retail funded
 - Limits on the amount of funding available
 - Creates liquidity risk when funding matures
 - If counterparty term funding, might be cost prohibitive