

2.2 **QW:** The Committee requests documents relating to NAB's internal risk management processes, compliance processes, and, specifically, the bank's processes for dealing with whistleblowers and related matters.

Answer

NAB has developed a risk management framework that is appropriate to the size, business mix and complexity of the bank's operations. NAB's overarching Risk Management Framework (RMF) articulates the NAB Group's approach to managing risk. It is the totality of systems, structures, policies, processes and staff that manage all internal and external sources of identified material risks facing the NAB Group. The RMF is approved by the NAB Board and reviewed annually, at a minimum.

The RMF supports a proactive culture across the NAB Group with respect to managing risk through:

- Identifying, analysing and understanding each of the material risks at all levels.
- Employing appropriate strategies, policies, effective operating controls and other mitigants.
- Applying appropriate balance to understanding our historical risk performance with our potential risk performance.
- Providing reliable and meaningful risk information (i.e. reporting) to decision-makers.
- Ensuring adequate oversight of the risk profile and effective operation of the RMF.

The Board is ultimately responsible for the RMF, and retains this responsibility when it delegates responsibilities to Board committees and senior management.

Compliance with, and the effectiveness of, the RMF is attested to by NAB management through the semi-annual Requisitions on Management (ROM) process and is reported to the Board Audit Committee. A more comprehensive independent review of the appropriateness, effectiveness and adequacy of the RMF is undertaken at least every three years and results are reported to the Board Risk Committee (BRC). The Australian Prudential Regulation Authority (APRA) is notified of any significant breaches, or material deviation, from the RMF and/or instances where the RMF does not adequately address a material risk in line with requirements under Prudential Standard CPS 220 Risk Management.

NAB's Risk Management Strategy (RMS) describes the key elements of the RMF and how it applies in practice.

NAB's internal audit division annually reviews the RMS to determine compliance with Prudential Standard CPS 220, and that the NAB Group has complied with each measure and control described in the RMS. The Board makes a declaration annually (as part of the Risk Management Declaration) that the RMS complies with the requirements of CPS 220 and that the NAB Group is compliant with the measures and controls described.

The objective of the RMS is to ensure:

- The RMF is robust and effective, which means the NAB Group takes the right risks, with the right controls, for the right return.
- Accountability for risk taking and management is clearly defined across the NAB Group (primarily through a Three Lines of Defence model and a Risk Management Accountability Model (RMAM)) and there are robust frameworks, tools and risk policies and practices in place to manage risk.
- NAB's risk appetite is clearly defined, communicated and understood across the bank with a risk measure in every employee's scorecard.
- Material risks of the NAB Group are understood and there are defined risk management practices in place for these risks.

In response to the Committee's request for documents relating to NAB's internal risk management process, NAB has included with this response the following:

- 2015 NAB Annual Review (Section on Governance p23 & Risk pp25-26). The 2016 NAB Annual

Review is due for release on 14 November 2016 (Annexure A).

- Board Risk Committee Charter (**Annexure B**).
- Latest release of NAB Risk Factors, contained in the Prospectus for *NAB Capital Notes 2*, released on 31 May 2016 (Annexure C).

Whistleblower Policy & Program

NAB's Whistleblower Policy and Program is part of NAB's Group Operational Risk Framework. Governance of NAB's Whistleblower Program is undertaken by the NAB Board's Audit Committee via the Group Whistleblower Committee. Day to day operation of the program is managed by NAB's Internal Audit division. The Policy and associated guidance notes are designed to encourage and enable employees to raise serious concerns within NAB. A copy of the Policy is included in this response (Annexure D).

In accordance with the Policy, processes are in place to ensure:

- Employees can make disclosures about a broad range of actual or suspected misconduct.
- Employees making disclosures are supported and protected from reprisals as a result of making a disclosure.
- Disclosures, and the identity of the employee making a disclosure, are kept confidential and can be made anonymously if required.
- Disclosures are investigated on a timely basis and appropriate corrective action taken.
- Mandatory training is undertaken by all employees as part of induction training and on an annual basis. Executive management and Board members receive appropriate training and updates throughout the year to reiterate their responsibility for maintaining effective whistleblowing arrangements.

As part of initiative three of the six Australian Bankers' Association (ABA) initiatives announced in April 2016, '*Reaffirming our support for employees who 'blow the whistle' on appropriate conduct*', NAB has taken or is undertaking the following actions to further enhance the whistleblower policy and practices. These are:

- Appointed a Head of the Whistleblower Program.
- Engaging an external consultant, *Ernst & Young*, to undertake an independent review of NAB's Whistleblower Program.
- Strengthening the independence of the Whistleblower Program by outsourcing the call and email receipt of whistleblower disclosures.
- Revising Whistleblower Policy and Procedures and developing a communication and awareness plan for all employees to raise awareness.
- Developing a Whistleblower Champion network across NAB to act as high profile advocates of the Whistleblower Program and provide a contact point for employees in their business.