



## PRINCIPAL BOARD RISK COMMITTEE CHARTER

### 1 Purpose of Charter

- 1.1 This Principal Board Risk Committee Charter sets out the authority, responsibilities, membership and terms of operation of the Principal Board Risk Committee (**PBRC or Committee**) of National Australia Bank Limited (**Company**).

### 2 Authority

- 2.1 The Committee is appointed and authorised by the Board of Directors of the Company (**Board**) to assist the Board in fulfilling its statutory, fiduciary and regulatory responsibilities. The authority of the Committee is sourced from:
- (a) the Company's Constitution;
  - (b) this Charter; and
  - (c) separate Board delegations, resolutions and approvals granted to it from time to time.
- 2.2 The Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the Company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.
- 2.3 The Committee may form and delegate authority to sub-committees, comprised of one or more members of the Committee. Any such sub-committee will have the full power and authority of the Committee, subject to the terms of its delegated authority.

### 3 Responsibilities

- 3.1 The Committee is responsible for:
- (a) oversight of the risk profile and risk management of the Company and its controlled entities (**Group**) within the context of the Board determined risk appetite (although ultimate responsibility for risk oversight and risk management of the Group rests with the Board, and the Committee will refer all matters of significant importance to the Board);
  - (b) making recommendations to the Board concerning the Group's current and future risk appetite, risk management strategy and particular risks or risk management practices;
  - (c) reviewing management's plans to mitigate material risks faced by the Group;

- (d) oversight of the implementation and operation of the risk management framework and internal compliance and control systems throughout the Group;
- (e) oversight of stress testing of the Group risk portfolio including both scenario analysis and sensitivity analysis;
- (f) oversight of the promotion by management of awareness of a risk based culture throughout the Group and the establishment by management of a balance between risk and reward for risks accepted;
- (g) reviewing assurances to be provided to enable the Board and the Committee to make a declaration to the Australian Prudential Regulation Authority (APRA) on risk management;
- (h) commissioning a comprehensive review (to be conducted at least every three years by independent experts) on the appropriateness, effectiveness and adequacy of the risk management framework and considering the results of the report;
- (i) ensuring the Group Chief Risk Officer (Group CRO) and executive management have unfettered access to the Committee via the Committee Secretary or Chairman of the Committee; and
- (j) referring any matters of significant importance to the Board for its consideration and attention.

3.2 In performing the oversight responsibilities referred to in Clause 3.1, the Committee will:

- (a) consider and approve, as required, the strategies, frameworks, plans, policies, processes, models, limits and regulatory requirements in place to govern risk taking that are consistent with the risk management strategy and the established risk appetite of the Group;
- (b) monitor the extent to which: (i) the operational structure of the Group facilitates effective risk management; and (ii) the key risk related strategies, frameworks, policies, processes, models, limits and regulatory requirements have been embedded throughout the Group;
- (c) establish a view of the Group's current and future risk position relative to its appetite and capital strength including reviewing processes to allocate economic capital to business areas on the basis of assessed risks and in line with Group risk appetite;
- (d) receive and review reports from management regarding:
  - (i) the Group's credit, market, balance sheet, liquidity, insurance, pension, regulatory and operational risks and any other risk arising from strategic objectives or which may have a material impact on the Group in order to oversee these risks and assess their effect on the Group and capital levels; and
  - (ii) any significant breach of, or material deviation from, the risk management framework and make recommendations to Board; and

- (iii) certain transactional credit submissions beyond the approval discretion of the Group Chief Executive Officer, that the Chairman of the Committee has approved (in accordance with the delegation of authority from the Committee);
- (e) evaluate risk exposure and set appropriate transaction or trading limits;
- (f) constructively challenge senior management's proposals and decisions that have been brought to the attention of the Committee regarding all aspects of risk management arising from the Group's activities that may have a material impact on the Group;
- (g) monitor the ongoing effectiveness and independence of risk management functions and overview the budget and headcount allocated to risk management functions at the Group level; and
- (h) review any issues raised by Internal Audit that may impact the Group's risk management framework or the Group's risk management.

3.3 In addition, the Committee will:

- (a) in consultation with the Managing Director and Group Chief Executive Officer (Group CEO), oversee and recommend to Board, the appointment of the Group CRO (including establishing objectives for the role); and if relevant, the dismissal of the Group CRO;
- (b) in consultation with the Managing Director and Group CEO, review the Group CRO's performance;
- (c) meet privately with the Group CRO as required;
- (d) consider significant correspondence with the Group's regulators and receive reports from management on the Group's regulatory relations;
- (e) obtain from management on an annual basis, reasonable assurance that the policies and controls designed to maintain compliance with those laws and regulations applicable to the Company's various business activities, are being adhered to;
- (f) maintain close lines of communication with major subsidiary risk committees;
- (g) refer to the Principal Board Audit Committee (PBAC) any matters that have come to the attention of the Committee that are relevant for PBAC; and
- (h) examine any other matters referred to it by the Board.

**Limitation**

3.4 The Committee's principal function is one of supervision, oversight and monitoring. The Committee performs its principal function based on information provided to it by management. Without limiting the Committee's responsibilities as described in this Charter, neither the Committee, as a committee, nor any member of it by virtue of being a member, has the duty to actively seek out activities occurring within the Group that are not compliant with the Group's policies and procedures, although they have a duty to act promptly if any such activity comes to their attention. The Board itself remains ultimately responsible for the risk appetite and risk settings.

## Operational Procedures

- 3.5 A separate detailed checklist of operational matters and agenda items to be considered by the Committee over a full year is used as a means to manage the Committee's responsibilities. This checklist includes review processes and assessment procedures recommended by the Basel Committee on Banking Supervision and the APRA and other relevant regulatory sources. The checklist is maintained and regularly reviewed by the Committee Secretary against the checklist of operational matters and agenda items of PBAC.

## 4 Reporting and Assessment

- 4.1 Minutes must be kept of all Committee meetings and be circulated to the Board. The Committee, through its Chairman, will report to the Board, at the earliest possible Board meeting after each Committee meeting, any matters that should be brought to the attention of the Board and any recommendations requiring Board approval and/or action.
- 4.2 The Committee will make recommendations to the Board regarding the:
- (a) establishment and approval of the Group Risk Appetite Statement which addresses material risks; and
  - (b) acceptance of risk related limits, policies and regulatory certifications deemed by the Committee as requiring Board approval.
- 4.3 A review of the Charter and its continuing adequacy will be performed on a regular basis as required.
- 4.4 An evaluation of the Committee's performance as it relates to the requirements of the Charter will be performed annually.
- 4.5 The Chairman of the Committee will submit an annual report to the Board on the Committee's activities during the year.

## 5 Composition

- 5.1 The Committee must consist of a minimum of three members and is to have a majority of non-executive directors, at least one of whom will also be a member of PBAC. All non-executive directors must be independent of the Company. 'Independence' for these purposes will be assessed by reference to the standards adopted by the Board from time to time consistent with the law and current governance guidelines issued by the Australian Securities Exchange and other regulatory bodies.
- 5.2 Members of the Committee are appointed by the Board. The Chairman of the Board will recommend the appointment or reappointment of each member of the Committee.
- 5.3 Having regard to the operational, financial and strategic risk profile of the Group, it is appropriate that members of the Committee have a diverse range of backgrounds, skills and experiences.

## 6 Term

- 6.1 Each member will be appointed for an initial term of three years, or shorter if circumstances dictate. The performance of each member will be reviewed by the Chairman of the Committee in conjunction with the Chairman of the Board.
- 6.2 Periodic rotation of members' appointments is to be encouraged. However, no more than one member should leave the Committee pursuant to rotation in any one year.

## 7 Chairman

- 7.1 The Chairman of the Committee will be appointed by the Board and must be an independent non-executive director of the Board.
- 7.2 The Chairman of the Committee must not be the Chairman of the Board but may also be the Chairman of PBAC.
- 7.3 Should the Chairman of the Committee be absent for all or part of a meeting, a designated member of the Committee will deputise for the Chairman.

## 8 Meetings

### Meetings other than in person

- 8.1 Committee members may attend meetings in person, or by teleconference or video conference.

### Frequency of meetings

- 8.2 The Committee should meet often enough to undertake its role effectively, but not less than quarterly.
- 8.3 In addition, the Chairman of the Committee may call a meeting at any time and will call a meeting of the Committee if so requested by any member of the Committee or by the Chairman of the Board.

### Quorum

- 8.4 A quorum will be two members.

### Attendance at meetings

- 8.5 The Group Executive, Finance & Strategy and Group CRO are expected to attend each meeting of the Committee.
- 8.5 The Chairman of PBAC will be invited to attend meetings of the Committee.
- 8.6 Any other members of management and/or parties external to the Company may be invited to attend any meeting of the Committee or part thereof.
- 8.7 Non-members of the Committee may be asked to withdraw for all or any part of any meeting.
- 8.8 The Company Secretary or a designate will be appointed Secretary of the Committee.

## 9 Access

- 9.1 The Committee will have at all times free and unfettered access to senior management, risk and finance control personnel and other relevant internal and external parties including Internal Audit and the External Auditor. The Chairman of the Committee will normally keep the Group Executive, Finance & Strategy, and Group CRO fully informed of any such dialogue.

## 10 Fees

- 10.1 Committee members are entitled to receive remuneration as determined from time to time by the Board.

This Charter supersedes any terms of reference previously in force.