

Answer to question in writing:

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE APRA ANNUAL REPORT 2019

APRA14QW:

- a) Has APRA required NAB to put aside additional operational risk capital after the internal fraud, allegedly perpetrated by NAB's former chief of staff, exposed a failure of NAB's three lines of risk management defence in preventing the multi-million-dollar loss?
- b) Is APRA aware whether NAB risk teams were prevented from performing their monitoring and assurance activities across the Office of the CEO because of the influence exerted by NAB's former chief of staff? If so, when did this come to your attention? Why didn't APRA's supervisory activity, including on-site visits, pick it up?
- c) What is APRA's current assessment of the effectiveness of NAB's internal controls?

Answer:

- a) No, APRA has not asked NAB to put aside additional operational risk capital for the specific internal fraud referenced in the question. However, in July 2019, APRA announced that it would apply an add-on to NAB's minimum capital requirement of \$500 million to reflect higher operational risk. This came into effect from 30 September 2019 and will apply until NAB has completed their planned remediation to strengthen risk management and closed gaps identified in their self-assessment. The additional capital requirement was not confined to the specific issues associated with the alleged internal fraud, but reflected the underlying weaknesses in the management of non-financial risk which NAB is required to address.
- b) APRA's supervision is risk based. APRA conducted operational risk reviews at NAB in 2017, 2018 and 2019. The focus of these reviews was the implementation of the risk control framework and the risk assurance framework across the entire bank, and this specific area was not examined (nor, based on a risk assessment, would it be expected to be). APRA has not been directly investigating this matter as it is currently the subject of a police investigation and actions before the Courts. As noted above, however, APRA has undertaken broader actions to ensure underlying weaknesses that contributed to this matter are being addressed.
- c) In APRA's view, there is heightened operational risk at NAB and improvements are needed in the management of non-financial risk. This is consistent with NAB's published risk governance self-assessment, which acknowledged significant shortcomings in certain aspects of its approach to non-financial risk management. Weaknesses were found in areas such as conduct, compliance and the integrated management of operational risk. This has been reflected in capital requirements, with APRA applying an additional \$500 million operational risk capital requirement to NAB in September 2019.