

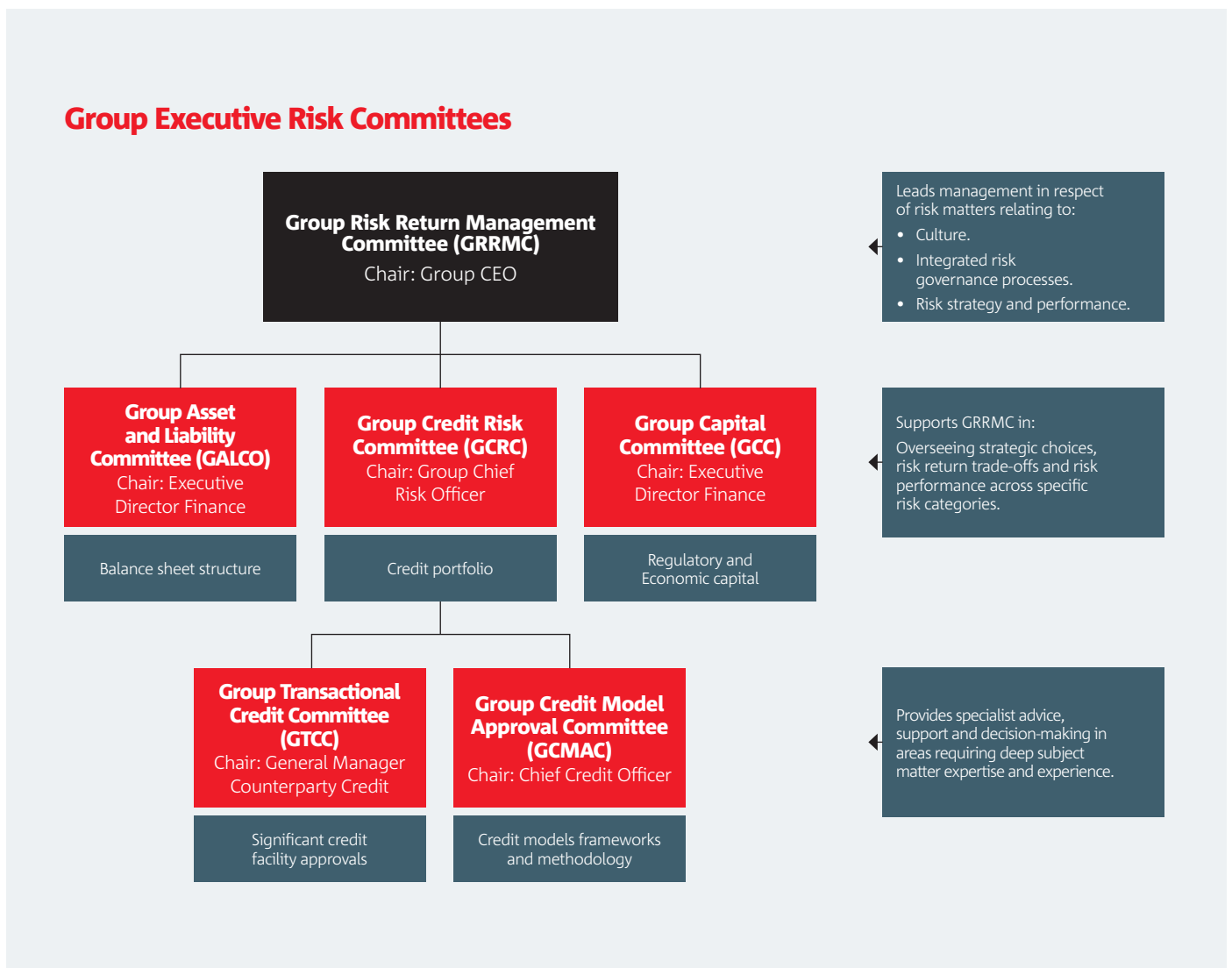
# Risk management

Risk exists in all aspects of our business and the environment in which we operate. The Group's collective risk management capability and competency supports successful implementation of our strategic priorities. It also enables the development of a sustainable and resilient business that is appropriately responsive to an ever-changing environment.

Risk is identified and managed as part of a Group-wide Risk Management Framework that starts with the Board-approved Strategy, Risk Appetite, Capital, Funding and Operational Plans. Risk Appetite is translated and cascaded to our businesses qualitatively (through our risk postures, policies, standards and operating procedures) and quantitatively (through our risk limits, settings and decisioning authorities). Compliance with our Risk Management Framework is non-negotiable. When we make mistakes, we reflect on our experience, share our learnings and hold ourselves accountable through the application

of balanced performance scorecards and a risk-adjusted performance and rewards framework.

At an executive level, risk is overseen by the Group Chief Executive Officer through the Group Risk Return Management Committee (GRRMC) and its supporting sub-committees, as shown in the figure below:



The Group identifies key categories of material risk that it is exposed to (referred to as the Group Risk Inventory or GRI). Currently the GRI comprises the following risk categories:

- Credit Risks.
- Operational Risks.
- Regulatory and Compliance Risks.
- Market and Non Traded Market Risks.

- Strategic Positioning and Strategic Execution Risks.
- Life Insurance Risks.

The systems and processes to identify, assess, measure, monitor, mitigate and report against these risks on a consistent basis are documented in our internal Risk Management Systems Descriptions.

On a six monthly basis, the Group informs a range of market participants of the principal risks and uncertainties that could materially impact our financial performance and position. This is available in the Shareholder Centre (under the ASX Announcements section) in the Group's website at

[www.nabgroup.com](http://www.nabgroup.com)

While every employee of our organisation is responsible for managing risk as part of their performance scorecard, our operating model differentiates accountabilities using a 'three lines of defence' approach, which is represented in the diagram below.

### Risk accountability across our three lines of defence

Management (1st Line) Ownership	Risk (2nd Line) Insight, Appetite, Oversight	Internal Audit (3rd Line) Independent Assurance
<ul style="list-style-type: none"> <li>• Execute and manage risk appetite.</li> <li>• Identify, control and monitor risks.</li> <li>• Establish and maintain a robust risk and control environment.</li> <li>• Ensure business activities are conducted in an appropriate control environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop and maintain policies, frameworks, tools and processes.</li> <li>• Define minimum standards and oversee related consequence management.</li> <li>• Establish Group-wide and specific risk appetite.</li> <li>• Oversee, monitor and challenge the business.</li> <li>• Provide insight.</li> </ul>	<ul style="list-style-type: none"> <li>• Independently review, monitor and test across the 1st and 2nd lines.</li> <li>• Activities to be informed by, and respond to, issues raised by Risk.</li> <li>• Independent assurance on compliance requirements by regulators.</li> <li>• Assess the overall effectiveness of the business's risk and control environment and ability to self assess.</li> </ul>

### During 2012 we:

- Increased our focus on risk and return to better understand, debate and decide on the more significant trade-offs that we face in running our business.
- Continued to reinforce risk accountabilities across our three lines of defence (including expected risk management activity across each).
- Made progress in maturing our risk insight, appetite and oversight processes to help inform strategic choices and reposition of the portfolio.
- Strengthened our preparedness in responding to potentially significant risk events in the global environment.
- Deployed an enhanced credit risk training and accreditation programme and increased the rotation of employees from across the Enterprise into the Risk function (and vice versa) to strengthen NAB's risk management capability.
- Increased our focus on engagement with key regulators and improved our approach to managing regulatory change.
- Invested in improving our stress testing capability.
- Completed development of a set of environmental, social and governance (ESG) risk principles to further embed ESG risk considerations into our day-to-day business decisions.
- Delivered risk awareness training, including ESG risk, to more than 28,000 employees in Asia and Australia.