1 Purpose of Charter

This Charter sets out the authority, responsibilities, membership and terms of operation of the Board Risk & Compliance Committee (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 certain of 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 may directly engage and 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. Any such sub-committee will have the full power and authority of the Committee, subject to the terms of its delegated authority, and must report to the Committee in relation to material developments arising in the exercise of that authority.

3 Duties and 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 (ultimate responsibility for risk oversight, risk appetite and risk management of the Group rests with the Board; 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, including ensuring that the risk management framework is reviewed at least annually to confirm that it continues to be sound and is operating effectively;

(e) 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;
(f) oversight and reviewing the outcomes of stress testing of the Group risk portfolio, including both scenario analysis and sensitivity analysis for the Group’s internal capital adequacy assessment process and internal liquidity adequacy assessment process;

(g) guiding management on establishing, promoting and maintaining a sound risk culture throughout the Group;

(h) reviewing inputs to and the drafting of the Board’s annual declaration to the Australian Prudential Regulation Authority (APRA) on risk management. In reviewing this declaration, the Committee will, in conjunction with the Board Audit Committee and Board, review Internal Audit reports on the effectiveness of the risk management framework;

(i) reviewing advice from the Office of the BEAR and making subsequent determinations regarding notification of breaches of the Banking Executive Accountability Regime (BEAR) to APRA;

(j) ensuring the Group Chief Risk Officer (Group CRO), the Executive, Compliance, the Group’s Money Laundering Reporting Officer and executive management have unfettered access to the Committee via the Committee Secretary or Committee Chairman; and

(k) 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, monitor and approve, as required, the Group’s material strategies, frameworks, plans, policies, processes, models, limits and regulatory requirements that are in place to manage risk and compliance, and consider whether they are consistent with the risk management strategy and the established risk appetite of the Group (as determined by the Board);

(b) oversee the extent to which: (i) the operational structure of the Group facilitates effective risk management and compliance; and (ii) the material risk management and compliance strategies, frameworks, policies, processes, models, limits and regulatory requirements have been embedded throughout the Group;

(c) establish a view on the Group’s current and future risk position relative to its risk appetite and capital strength;

(d) recognise uncertainties, limitations and assumptions attached to the measurement of each material risk type;

(e) receive and review reports from management, external parties or any Board Committee regarding:

   (i) the Group’s credit, market, balance sheet and liquidity, regulatory, compliance and operational risks and any other risk arising from strategic objectives or that may have a material impact on the Group in order to oversee these risks and assess their effect on the Group and capital levels;

   (ii) the Group’s risk management framework, including any significant breach of, or material deviation from, it;

   (iii) any material incident of fraud or a break-down of risk controls;

   (iv) the resolution of significant risk matters and incidents and the monitoring of management’s risk and control remediation plans;
(v) the effectiveness of the Group’s compliance framework for identifying, monitoring and managing compliance with relevant obligations that may impact the material risk types. This includes compliance processes to anticipate and effectively manage the impact of regulatory changes on the Group’s activities; and

(vi) certain transactional credit submissions beyond the approval discretion of the Group Chief Executive Officer (Group CEO) that the Committee Chairman has approved (in accordance with the delegation of authority from the Committee);

(f) set appropriate transaction or trading limits;

(g) constructively challenge senior management’s proposals and decisions that have been brought to the attention of the Committee regarding aspects of risk management and compliance arising from the Group’s activities that may have a material impact on the Group;

(h) oversee the ongoing effectiveness and independence of the Group’s risk management function, including whether it is appropriate for the size, business mix and complexity of the Group, and whether sufficient resources are allocated to risk management and compliance functions at the Group level;

(i) review any issues raised by External Auditors or Internal Audit that may materially impact the Group’s risk management framework or the Group’s management of risk, including reviewing periodic Internal Audit reports on compliance with, and the effectiveness of, the risk management framework and internal control environment so that matters are managed and addressed in an appropriate and timely manner; and

(j) oversee the Group’s insurance strategy and adequacy of the Group’s insurance program, having regard to the Group’s activities and insurable risks.

3.3 In addition, the Committee will:

(a) in consultation with the 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 Group CEO, review the Group CRO’s performance;

(c) periodically meet privately with the Group CRO and Executive, Compliance;

(d) consider significant correspondence with the Group’s regulators and receive reports from management on the Group’s regulatory relations;

(e) maintain and encourage open lines of communication with significant subsidiary risk committees;

(f) refer to the Board Audit Committee, Board People & Remuneration Committee and Board Customer Committee any matters that have come to the attention of the Committee that are relevant for those Committees; and

(g) examine any other matters delegated or referred to it by the Board.

3.4 Members will be available to meet with regulators on request.

Limitation

3.5 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. Management is responsible for the preparation, presentation and integrity of information
provided to the Committee. The Board itself remains ultimately responsible for the risk appetite and risk settings.

3.6 The Board Audit Committee has primary responsibility for oversight of matters relating to financial control systems, external auditor and internal audit processes, accounting compliance processes, external financial and statutory reporting, taxation matters and concerns received through (and ongoing compliance with) the Group’s Whistleblower Protection Policy. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee.

3.7 The Board People & Remuneration Committee has primary responsibility for oversight of matters relating to people and remuneration, including risk-adjusted variable remuneration and other outcomes for the Group CEO, the direct reports of the Group CEO and other people within the remit of the Board People & Remuneration Committee. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee.

3.8 The Board Customer Committee has primary responsibility to require, and oversee, a significant lift in the importance given to the voice of the customer and a more intense focus on customer outcomes. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee.

**Operational procedures**

3.9 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 APRA and other relevant regulatory sources. The checklist is maintained and regularly reviewed by the Committee Secretary.

### 4 Reporting and Evaluation

4.1 Minutes must be kept of all Committee meetings and be circulated to the Board. All Committee papers will be made available to Directors who are not members of the Committee.

4.2 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.

4.3 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 that require Board approval.

4.4 A review of this Charter and its continuing adequacy will be performed on a regular basis, as required.

4.5 An evaluation of the Committee’s performance as it relates to the requirements of this Charter will be performed annually.

4.6 The Committee Chairman will submit an annual report to the Board on the Committee’s activities during the year.

4.7 The Committee must refer any matter of significant importance to the Board for its consideration and attention.
5 Composition

5.1 The Committee must consist of a minimum of three members (including the Committee Chairman), and at least one of whom will also be a member of the Board Audit Committee. Additionally, to assist with the linkage between risk and remuneration, a member of the Board Risk Committee will also be a member of the Board Remuneration Committee. All members must be independent non-executive directors 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 are appointed by the Board. The Chairman of the Board will make a recommendation to the Board on 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 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 Committee Chairman in conjunction with the Chairman of the Board.

6.2 Periodic rotation of members’ appointments is encouraged. No more than one member should leave the Committee pursuant to rotation in any one year.

7 Chairman

7.1 The Committee Chairman will be appointed by the Board and must be an independent non-executive director of the Company.

7.2 The Committee Chairman must not be the Chairman of the Board but may also be the Chairman of the Board Audit Committee.

7.3 Should the Committee Chairman be absent for all or part of a meeting, a designated member of the Committee will deputise in accordance with the Company’s Constitution.

8 Meetings

8.1 Members may attend meetings in person or by electronic means.

8.2 The Committee should meet often enough to undertake its role effectively, but not less than quarterly.

8.3 In addition, the Committee Chairman 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.

8.4 A quorum will be two members.

8.5 Directors who are not members of the Committee, the Group CEO and other executives may attend meetings at the invitation of the Committee Chairman.

8.6 The Group CRO and Group Chief Financial Officer (Group CFO) are expected to attend each scheduled meeting of the Committee.

8.7 Senior representatives of the External Auditor and Internal Audit are expected to attend each scheduled meeting of the Committee.

8.8 The Chairman of the Board Audit Committee will be invited to attend Committee meetings.
8.9 Any other persons of management and/or parties external to the Company may be invited to attend all or part of any Committee meeting.

8.10 The Group Company Secretary or a designate will be appointed Secretary of the Committee.

9 Direct Access

The Committee will at all times have free and unfettered access to senior management, risk and financial control personnel and other relevant internal and external parties, including Internal Audit and the External Auditor. When appropriate, the Committee Chairman will keep the Group CRO and Group CFO fully informed of relevant dialogue between the Committee and those parties.

10 Fees

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.