

NATIONAL AUSTRALIA BANK LIMITED

ACN 004 044 937



BOARD RISK COMMITTEE CHARTER

1 Purpose of Charter

This Charter sets out the authority, responsibilities, membership and terms of operation of the Board Risk 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 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 (although ultimate responsibility for risk oversight, risk appetite 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, including ensuring that the risk management framework is reviewed at least annually to confirm that it continues to be sound;
- (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) 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;
- (h) 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 and overseeing APRA statutory risk reporting requirements;
- (i) ensuring the Group Chief Risk Officer (Group CRO) and executive management have unfettered access to the Committee via the Committee Secretary or Committee Chairman; 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, monitor and approve, as required, the Group's material 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 (as determined by the Board);
- (b) oversee 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 risk 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) recognise uncertainties, limitations and assumptions attached to the measurement of each material risk;
- (e) receive and review reports from management regarding:
 - (i) the Group's credit, market, balance sheet liquidity, regulatory, conduct, compliance 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;

- (ii) any significant breach of, or material deviation from, the risk management framework and make recommendations to the Board;
 - (iii) oversee the Group's compliance framework; and
 - (iv) 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 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 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 risk management; and
- (j) oversee reports from management regarding the Group's insurance strategy.

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) 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 and encourage open lines of communication with significant subsidiary risk committees;
- (g) receive minutes and reporting from significant subsidiary risk committees;

- (h) refer to the Board Audit Committee or Board Remuneration Committee any matters that have come to the attention of the Committee that are relevant for those Committees; and
- (i) examine any other matters 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. 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.

3.6 The Board Audit Committee has 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 the Board Audit Committee any matters that come to its attention that are the domain of or relevant to the Board Audit Committee in accordance with 3.3(h).

3.7 The Board Remuneration Committee has primary responsibility for oversight of matters relating to remuneration, including risk-adjusted performance measures. The Committee will refer to the Board Remuneration Committee any matters that come to its attention that are the domain of or relevant to the Board Remuneration Committee in accordance with 3.3(h).

Operational procedures

3.8 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 deemed by the Committee, as requiring 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 the 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), all of whom must be non-executive directors, a majority of whom must be independent 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. '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 Chief Financial Officer (Group CFO) and Group CRO 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 all or part of 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 finance control personnel and other relevant internal and external parties including Internal Audit and the External Auditor. The Committee Chairman will normally keep the Group CFO and Group CRO 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.