



017029136

Enforceable Undertaking

Australian Securities and Investments Commission Act 2001

Section 93AA

The commitments in this undertaking are offered to the Australian Securities and Investments Commission ("ASIC") by:

NATIONAL AUSTRALIA BANK LIMITED

ACN 004 044 937

(Australian Financial Services Licence No. 230686)

Level 24, 500 Bourke Street

Melbourne VIC 3000

1 Background

- 1.1 On 13 January 2004, the National Australia Bank Limited ACN 004 044 937 ("**the National**") announced that it had identified irregular losses relating to unauthorised trading in foreign exchange options.
- 1.2 As a result of this announcement, the regulators of bodies in the financial sector, the Australian Prudential Regulation Authority ("**APRA**") and ASIC, commenced investigations into the conduct of four currency traders on the National's Foreign Currency Options desk.
- 1.3 As part of APRA's investigations, it has released its "Report Into Irregular Currency Options Trading at the National Australia Bank" dated 23 March 2004 ("**the APRA Report**").
- 1.4 The APRA Report makes a series of recommendations, in relation to a number of areas of the National's business, which are summarised in schedule 1 to this enforceable undertaking ("**APRA Recommendations**").
- 1.5 The National has agreed with APRA that, in relation to the APRA Recommendations, it will give APRA the reports set out in schedule 2 to this enforceable undertaking ("**APRA Remedial Reports**").
- 1.6 ASIC has reviewed the APRA Report, in particular the APRA Recommendations, and received details from both APRA and the National in relation to the APRA Remedial Reports.
- 1.7 In light of the APRA Report and the circumstances leading to both ASIC and APRA's investigations into the National, ASIC is concerned to ensure that the National complies with its obligations under its Australian financial services licence (No. 230686) issued pursuant to section 913B of the *Corporations Act 2001* ("**AFSL**"), in particular that the National:
 - (a) properly identifies, records and escalates to ASIC, breaches of its AFSL in accordance with its section 912D *Corporations Act 2001* obligations;

- (b) has adequate procedures to properly select, formally appoint, conduct background and character checks, monitor and remove its responsible officers; and
 - (c) has adequate procedures to properly recruit, train, monitor and supervise its representatives.
- 1.8 As a result, ASIC believes that the National, as the holder of an AFSL, should give to ASIC the APRA Remedial Reports, along with certain further reports that document how the National complies with its relevant obligations under the AFSL.
- 1.9 ASIC has decided to accept this enforceable undertaking as an alternative to seeking to impose additional conditions, or otherwise vary the conditions currently imposed on the AFSL, pursuant to section 914A of the *Corporations Act 2001*. However, the National acknowledges that should ASIC form the view that the National has failed to comply with any of the undertakings in this enforceable undertaking, ASIC may take additional action, including (without limitation):
- (a) seeking to impose further conditions, or otherwise seeking to vary the AFSL under section 914A of the *Corporations Act 2001*; and
 - (b) seeking orders from the Court under section 93AA(4) of the *ASIC Act 2001* requiring the National to comply with the terms of this enforceable undertaking.

2 Undertakings

- 2.1 To address ASIC's concerns, the National has offered, and ASIC has agreed to accept, an enforceable undertaking in the terms set out below.

The National's undertaking to give to ASIC the APRA Remedial Reports

- 2.2 The National will give ASIC a copy of each of the APRA Remedial Reports as drafted by the National, not later than 1 working day after first giving each such report to APRA.
- 2.3 The National will further give ASIC a copy of the APRA Remedial Reports, once each such report has been reviewed and approved by APRA in accordance with any agreement reached between APRA and the National, not later than 1 working day after APRA has communicated to the National that it has reviewed and approved each such report.

The National's undertaking to give further reports to ASIC

- 2.4 The National will give ASIC a report that details how breaches of the AFSL are identified, recorded and escalated to ASIC in accordance with section 912D of the *Corporations Act 2001*, not later than 2 months after the date of this enforceable undertaking.
- 2.5 The National will give ASIC a report that details how the National:
- (a) selects responsible officers;
 - (b) formally appoints responsible officers;
 - (c) conducts background and character checks on potential responsible officers (including internal and external checks);
 - (d) monitors the performance of responsible officers, having regard to Part D of ASIC Policy Statement 164;
 - (e) decides when and why a responsible officer will be removed, not later than 3 months after the date of this enforceable undertaking.

(A "responsible officer" for the purposes of paragraph 2.5 is an officer of the National, nominated by the National from time to time, who performs duties in connection with the holding of the AFSL.)

2.6 The National will give ASIC a report that details how the National recruits, trains (with respect to the obligations under the *Corporations Act 2001*), monitors and supervises:

- (a) representatives (as that term is defined in section 910A of the *Corporations Act 2001*); and
- (b) authorised representatives (as that term is defined in section 761A of the *Corporations Act 2001*, including individuals and bodies corporate),

of the AFSL, not later than 3 months after the date of this enforceable undertaking. The report will also detail any changes that the National proposes to make to its procedures in relation to the relevant recruitment, training, monitoring and supervision of representatives and the timeframes for the implementation of those proposed changes.

The National's undertaking to procure audit opinions on current internal procedures and the implementation of proposed internal procedures

2.7 The National will give each of the reports referred to in paragraphs 2.4 to 2.6, inclusive, to the registered company auditor engaged by the National pursuant to condition 9 of the AFSL, or, to a registered auditor of a major firm acceptable to ASIC, ("**the Auditor**") not later than 1 working day after each report is provided to ASIC.

2.8 In relation to the *current internal procedures* identified in each report referred to in paragraph 2.7, the National will procure reports from the Auditor ("**Auditor's Report(s) (Current Internal Procedures)**"), who will (not later than 2 months after the Auditor receives each report referred to in paragraph 2.7) give an opinion as to whether the current internal procedures detailed in each of the reports provided to it under paragraph 2.7 are reasonably appropriate:

- (a) in the case of paragraph 2.4, to enable the National to properly identify, record and escalate to ASIC, breaches of the AFSL in accordance with section 912D of the *Corporations Act 2001*;
- (b) in the case of paragraph 2.5, to enable the National to properly select, formally appoint, conduct background and character checks, monitor and remove responsible officers; and
- (c) in the case of paragraph 2.6, to enable the National to properly recruit, train, monitor and supervise representatives,

and, if not, will state with precision what further actions ("**Auditor Remedial Actions (Current Internal Procedures)**") are required to be taken in relation to the National's current internal procedures to make them so reasonably appropriate. In forming a view as to the Auditor Remedial Actions (Current Internal Procedures) that may be required (if any), the Auditor will have regard to the National's proposed internal procedures (if any).

2.9 In relation to any *proposed internal procedures* contained in the reports referred to in paragraph 2.7, the National will procure reports from the Auditor ("**Auditor's Report(s) (Proposed Internal Procedures)**"), who will (not later than 2 months after the Auditor receives each report referred to in paragraph 2.7) give an opinion as to:

- (a) whether the proposed internal procedures detailed in each of the reports provided to it under paragraph 2.7 (in combination with the current internal procedures detailed in the same reports) are reasonably appropriate:

- (i) in the case of paragraph 2.4, to enable the National to properly identify, record and escalate to ASIC, breaches of the AFSL in accordance with section 912D of the *Corporations Act 2001*;
 - (ii) in the case of paragraph 2.5, to enable the National to properly select, formally appoint, conduct background and character checks, monitor and remove responsible officers; and
 - (iii) in the case of paragraph 2.6, to enable the National to properly recruit, train, monitor and supervise representatives;
- (b) the extent to which (if at all) the proposed internal procedures have been implemented at the time of completion of the Auditor's Report(s) (Proposed Internal Procedures);
 - (c) whether, if the proposed internal procedures have not been fully implemented at the time of completion of the Auditor's Report(s) (Proposed Internal Procedures), the timeframes proposed by the National for full implementation of the proposed internal procedures are reasonably appropriate, having regard to the nature and complexity of the proposed internal procedures,

and, if not, will state with precision (in the case of (a)) what further actions ("**Auditor Remedial Actions (Proposed Internal Procedures)**") are required to be taken in relation to the National's proposed internal procedures to make them so reasonably appropriate and, (in the case of (c)) what timeframes are reasonably appropriate .

- 2.10 The National will give each of the Auditor's Report(s) (Current Internal Procedures) and the Auditor's Report(s) (Proposed Internal Procedures) to ASIC, not later than 1 working day after the National receives each report.
- 2.11 Subject to paragraph 2.12, and any extension under paragraph 2.13, if any Auditor's Report(s) (Current Internal Procedures) or any Auditor's Report(s) (Proposed Internal Procedures) includes Auditor Remedial Actions (Current Internal Procedures) or Auditor Remedial Actions (Proposed Internal Procedures) (collectively the "**Auditor Remedial Actions**"), then the National will:
- (a) complete all Auditor Remedial Actions; and
 - (b) give ASIC and the Auditor a separate report signed by a Group General Manager of the National showing how, and confirming that, the National has complied with each of the Auditor Remedial Actions,
- not later than 3 months after receiving each such relevant Auditor's Report(s) (Current Internal Procedures) or Auditor's Report(s) (Proposed Internal Procedures).
- 2.12 If any Auditor's Report(s) (Current Internal Procedures) or Auditor's Report(s) (Proposed Internal Procedures) contains a timeframe relating to a particular Auditor Remedial Action, beyond that specified by paragraph 2.11 of this enforceable undertaking, that extended timeframe will apply to such Auditor Remedial Action.
- 2.13 If required, the National may request ASIC's consent to an extension of the time specified in paragraph 2.11 or (if applicable) paragraph 2.12 (such consent not to be unreasonably withheld).

The National's undertaking to report breaches of this enforceable undertaking and further action ASIC may take

- 2.14 Without derogating from any other obligation on the National to report to ASIC, if the National forms a view that it has breached a term of this enforceable undertaking, the National must notify ASIC in writing:

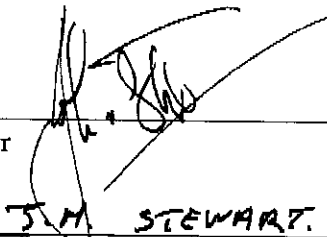
- (a) (not later than 1 working day from it forming a view that a breach has occurred) the particulars of that breach;
- (b) (not later than 5 working days from the date of the written notice referred to in sub-paragraph 2.14(a)) the steps the National intend to take to rectify the breach;
- 2.15 If, either as a result of receiving a written notice from the National pursuant to paragraph 2.14, or otherwise ASIC forms the view that the National has breached this enforceable undertaking in a material way, then ASIC will provide a notice to the National (pursuant to this paragraph) which specifies with precision the steps that ASIC requires the National to take (within 30 days of the date of the notice) in order for the National to comply with its obligations under this enforceable undertaking.
- 2.16 If the National is provided with a written notice pursuant to paragraph 2.15 and the National fails to comply with such notice, then in addition to any other right or remedy ASIC may have available to it, arising from a breach of this enforceable undertaking, ASIC may seek to refer any breach to a delegate of ASIC for them to consider whether it would be reasonable to impose further conditions on, or otherwise vary, the AFSL in accordance with section 914A the *Corporations Act 2001*. Such conditions to reflect the terms of this undertaking which have (in the opinion of the delegate of ASIC) been breached ("**Condition(s)**").
- 2.17 If a breach of this enforceable undertaking is referred to an independent delegate of ASIC pursuant to paragraph 2.16 of this enforceable undertaking, the National agrees that in exercising its rights pursuant to section 914A(3) of the *Corporations Act 2001* it will not oppose the imposition of any Condition(s) and will only:
- (a) appear or be represented at any hearing; and
- (b) make submissions;
- in relation to the nature and form (including as to timing) of the Condition(s).
- 2.18 Any report or notification to be provided to ASIC in accordance with this enforceable undertaking is to be delivered to:
- Director Financial Services Regulation – Regulatory Compliance
Australian Securities and Investments Commission
Level 13
485 LaTrobe Street
Melbourne VIC 3000
- 2.19 Any report or notification to be provided to the National by ASIC in accordance with this enforceable undertaking is to be delivered to:
- Company Secretary
Level 24
500 Bourke Street
Melbourne Vic 3000
Fax: 03 8641 4927
- with a copy to:
- Chief General Counsel
Level 24
500 Bourke Street
Melbourne Vic 3000
Fax: 03 8641 4902

3 Acknowledgements

- 3.1 The National acknowledges that ASIC:
- (a) may issue a media release on execution of this undertaking referring to its terms and the concerns of ASIC which led to its execution;
 - (b) may from time to time publicly refer to this undertaking; and
 - (c) will make this undertaking available for public inspection.
- 3.2 The National acknowledges that this undertaking in no way derogates from the rights and remedies available to any other person or entity arising from any conduct described in this undertaking.
- 3.3 The National acknowledges that ASIC's acceptance of this undertaking does not affect ASIC's power to investigate, conduct surveillance or pursue a criminal prosecution or its power to lay charges or seek a pecuniary penalty order in relation to any or all of the conduct described in this enforceable undertaking or any contravention arising from future conduct.
- 3.4 ASIC acknowledges that nothing in this enforceable undertaking constitutes any admission by the National.
- 3.5 The National acknowledges that this undertaking has no operative force until accepted by ASIC.

Signed for
National Australia Bank Limited
by its duly authorised representatives on
this 19th day of October 2004
in the presence of:

Director



Name (please print)

J.M. STEWART.

~~Director~~ / Secretary

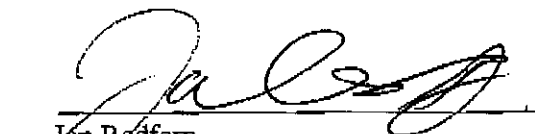


Name (please print)

G.F. NOLAN

Accepted by the Australian Securities and Investments Commission pursuant to section 93AA of the *Australian Securities and Investments Commission Act 2001* by its duly authorised delegate.

Dated this 20th day of October 2004



Jan Redfern
Executive Director, Enforcement
Australian Securities and Investments Commission

Schedule 1 – APRA Recommendations

1. In relation to Corporate and Institutional Banking, that:
 - a. the roles and responsibilities of each of Market Risk and Prudential Control and Global Markets is clearly articulated in respect of risk analysis. (APRA Report p 19);
 - b. the Global Markets initiative to introduce risk reporting for use by the front office is supported by clear role descriptions for the staff hired to perform this duty. (APRA Report p 20);
 - c. the role descriptions of Corporate and Institutional Banking clearly enunciate the risk identification and escalation responsibilities of senior personnel within Global Markets and that the Executive General Manager, Corporate and Institutional Banking review the management structure and relevant role descriptions to put this into effect. (APRA Report p 20);
 - d. NAB formalise its approach to limits, including treatment of excesses and requests for new limits – completion by 30 April 2004 (APRA Report p 21);
 - e. NAB review and administer role statements, processes and procedures of currency options Operations staff to identify and close gaps and weaknesses. Role statements and procedural manuals should closely reflect the required responsibility of the staff and adequate training should be provided to ensure that line management and staff understand their own oversight responsibilities and their respective duties regarding escalation of changes to work practices (APRA Report p 23);
 - f. NAB ensure that dealers are made aware that a tight Operations control framework and strict separation exists between Global Markets and Operations. (APRA Report p 23);
 - g. NAB is required to tighten its confirmation and reconciliation processes, particularly as they relate to currency options and foreign exchange deals to ensure that these processes are sound. This should encapsulate both internal and external trades and also whether any inadequacies exist associated with other Corporate and Institutional Banking products due to the variety of end-of-day times for the processing systems used by NAB. The details of all revised procedures are to be provided to APRA for review. (APRA Report p 24);
 - h. NAB is required to implement additional reporting and control procedures in Operations to identify unusual deals and activities. Specifically, these should include exception reporting, settlement day movements, unusual or suspect trades, trades done at off-market rates and balance movements. The details of all revised reports and control procedures are to be provided to APRA for review. (APRA Report p 24);
 - i. NAB is required to review its change management procedures and how those procedures are communicated and understood by Operations staff. (APRA Report p 25);

- j. NAB is required to review the adequacy of its Operations resources, including systems, skills and headcount. The findings of this review are to be provided to APRA. (APRA Report p 25);
- k. NAB is required to ensure that Operations management receive periodic, centrally produced statistical information to assist management identify risk issues and better understand current trading activities. (APRA Report p 25);
- l. the task of reviewing the profit and loss components and attribution be assigned to the Finance Division, and that there be adequate and appropriately skilled staff to review this information. (APRA Report p 26);
- m. the responsibility of ensuring general ledger data integrity be assigned to finance. (APRA Report p 27);
- n. NAB review the use of two different spot rates for internal trades to ensure that profit characteristics of all internal deals match at least once daily. (APRA Report p 28);
- o. NAB make adjustments to general ledger cut-off procedures to ensure that month-end profit includes any restatement for amended or cancelled deals. (APRA Report p 28);
- p. Finance to determine appropriate materiality thresholds for each desk, product and deal. These materiality levels should be based on the business needs and planned budget for each desk. (APRA Report p 28);
- q. all materiality levels be formally documented and clearly communicated to all staff within finance, along with the appropriate escalation procedures. The monthly reporting package issued by finance should include an explanation if the profit movements which exceed revised materiality thresholds. (APRA Report p 28);
- r. the reporting of the components of profit on a monthly basis and, upon request, to Senior Management. This report should reconcile the aggregate profit reported in the monthly reporting pack. (APRA Report p 29);
- s. Finance report the value and details of cancelled or amended deals in the daily and monthly reports. (APRA Report p 29);
- t. the procedures for initial testing and ongoing monitoring of pricing models by Quantitative Support be formalised and communicated to all staff by Quantitative Support and Market Risk and Prudential Control. The procedures for documenting model limitations and any ongoing validation responsibilities should be clarified. (APRA Report p 30);
- u. the reporting lines for Quantitative Support be reviewed to ensure that the independence of Quantitative Support is maintained. (APRA Report p 30);
- v. the budget allocation for Quantitative Support be reviewed to ensure that Quantitative Support has the appropriate resourcing to effectively undertake its role. (APRA Report p 30);
- w. the sign-off authorities for each Product Usage Authority for Global Markets is to include Quantitative Support. Quantitative Support should be given appropriate feedback on the status of Product Usage Authority and Market Risk and Prudential Control's decisions regarding Quantitative Support's input. (APRA Report p 30);
- x. the formal involvement of Quantitative Support in the ongoing assessment of the products dealt by Global Markets and their associated pricing models.

Quantitative Support is to review the pricing Models at least annually. (APRA Report p 31);

- y. the 'test bed' limitations be documented for each test of the pricing models. Where possible, alternative reviews of these limitations should be made. (APRA Report p 31);
 - z. NAB have its model validated by an external party for both pricing and risk, at least for the major exotic option types traded by Global Markets. (APRA Report p 31);
 - aa. NAB is required to reassess the adequacy of its resources in Quantitative Support, including systems, skills and headcount. The findings of this report are to be provided to APRA. (APRA Report p 32);
 - bb. the appropriate feedback be sought and given to Quantitative Support regarding the deals transacted and their compliance with the Product Usage Authority limitations set by Quantitative Support. Where monitoring deficiencies are identified, this should be discussed between Market Risk and Prudential Control and Quantitative Support to ensure that appropriate action is taken to properly monitor Product Usage Authority. (APRA Report p 32);
 - cc. NAB revisit the plan for development of systems within its trading operations, in light of matters raised by the APRA Report, and consider the timeframe for implementation of system upgrades, including development of better system interfaces, should be accelerated. NAB is to report back to APRA on the outcome of this review. (APRA Report p 33);
 - dd. NAB undertake an internal review of the processes followed in the development, implementation and upgrades of the Horizon system and, in particular, identify the non-compliance with NAB policies on user acceptance testing and system change control processes.
2. In relation to Risk Management, that:
- a. agenda items for critical risk management meetings and forums devote appropriate attention to market risk issues. (APRA Report p 34);
 - b. the responsibilities and authorities of the Market Risk and Prudential Control aspect of Group Risk Management be reviewed and defined by the Executive General Manager, Risk Management and a board agreed mandate be given to the Executive General Manager, Risk Management and the General Manager, Market Risk and Prudential Control. (APRA Report p 35);
 - c. key tasks be allocated to individual members of Market Risk and Prudential Control and that processes, as they relate to important facets of risk management such as escalation and treatment of limit excesses should be clearly enunciated. (APRA Report p 36);
 - d. the responsibilities and reporting lines for the General Manager, Market Risk and Prudential Control be streamlined with a view to ensuring that the role devotes greater attention to market risk issues and to improving the quality of management processes. Any perceived or potential conflict of interest related to the General Manager, Market Risk and Prudential Regulation having dual reporting lines be removed. Responsibilities for the control of market risk and the administration of prudential control more widely, be split. (APRA Report p 36);
 - e. Product Usage Authority process be reviewed to ensure full coverage of Risk Management issues. The process should be formalised, with the required authorisations clearly identified. Product Usage Authorities which cannot be

- accurately and effectively handled by any function (e.g., variation) should be known and transparent to all parties prior to the Product Usage Authority being approved. (APRA Report p 39);
- f. appropriate delegation of Product Usage Authorities should be established. The need for delegated signatories should be addressed within the support function. (APRA Report p 40);
 - g. the population of trades monitored by the Product Usage Authority system should be interrogated to determine which, if any, have no associated Product Usage Authority. The functionality of the Product Usage Authority system should be investigated to identify deal types or deal conditions which cannot be monitored by the system. (ARPA Report p 40);
 - h. the policy regarding the limit structure is required to be formalised – to be completed by 30 March 2004. (APRA Report p 40);
 - i. the Board approve and formally implement a revised set of market risk limits across Global Markets and, in particular those pertaining to all options trading business. This policy must describe the method and process to be followed in determining the cascading of limits from the Board and describe the roles and responsibilities of key functions within the process – to be completed by 30 April 2004. (APRA Report pp 40/1);
 - j. a review of all limits to be made at least annually, jointly by Market Risk and Prudential Control and Global Markets. (APRA Report p 41);
 - k. the responsibilities of the Market Risk division be restated to include a greater emphasis on risk analysis and the production of risk reports. It should be clearly specified which parts of the Market Risk and Prudential Control function are responsible for the production of such analysis. (APRA Report p 42);
 - l. the accuracy and independence of process and rates used within daily valuations be ensured. (APRA Report p 42);
 - m. a committee be formed which meets monthly to test the accuracy of process used to value concentrated positions, illiquid securities and options positions. (APRA Report p 43);
 - n. there be a dedication of resources to update and maintain appropriate policies and procedures for the Market Risk and Prudential Control function. (APRA Report p 43);
 - o. the adequacy of the Market Risk and Prudential Control functions resources, including systems, skills and headcount be reviewed. In particular, the risk engine should be analysed to determine whether the system offers a viable, flexible platform going forward. (APRA Report p 44);
 - p. explanatory notes to be included on distributed Market Risk and Prudential Control reports, which detail the deficiencies of the report. These notes may include details of data feeds excluded from the calculation, products for which Valuation at Risk has been approximated and so on. (APRA Report p 44);
 - q. timeframes given for all issues be made by Internal Audit, after due consideration of the business capabilities. Appropriate matters be raised with senior management in order to ensure that appropriate resources are devoted to rectifying the issue within a reasonable time frame. (APRA Report p 46);

- r. more serious audit issues be escalated to senior management and the Principal Audit Committee, along with comments from the business (unit). (APRA Report p 46);
- s. the ability of the business units to close off all two star audit points, without verification by Internal Audit be revoked. All two star issues will remain open until Internal Audit has verified that the controls have been updated. One star audit issues are to be closed off by the business pending follow-up at a later date by internal audit. (APRA Report p 47);
- t. the quantitative, qualitative and professional judgement involved in the elevation and escalation of audit issues to the Principal Board Audit Committee should be regularly discussed between Internal Audit and the Principal Board Audit Committee. (APRA Report p 47);
- u. changes to Internal Audit rating systems and the methodology used therein should be reassessed regularly to ensure they continue to be relevant and meet the desired consequences and the Principal Board Audit Committee's appetite for issue escalation. (APRA Report p 47);
- v. Internal Audit review its existing audit issues rating methodology and obtain the Principal Board Audit Committee's endorsement and approval for the criteria to be used in determining audit issues to be escalated to the Principal Board Audit Committee. (APRA Report p 47);
- w. the skill base of Internal Audit teams be maintained when key staff members are not available. That succession planning and continued training of members of the audit team would ensure that there are a number of members who would have the requisite knowledge to conduct an audit on complex areas of the business. (APRA Report p 48);

3. In relation to Governance, that:

- a. the Board provide greater clarity surrounding the ownership and reporting of high level market risk management issues, including the division of responsibilities between the principal board and its board committees for the oversight of market risk issues, the escalation of market risk issues, including market risk limit breaches, risk management frameworks and other established internal risk controls in accordance with the Basel Core Principles. (APRA Report p 56);
- b. the Board take steps to ensure that it possesses the expertise necessary to discharge its duties in relation to risk management. This includes taking on directors with a range of experience and expertise commensurate with the Group's activities. (APRA Report p 56);
- c. the Board to be pro-active in monitoring the workloads of established Board committees and consequent impact on their effectiveness. (APRA Report p 56);
- d. the Board be pro-active in setting both the risk appetite within the Group, including the Corporate and Institutional Banking division's markets division and in obtaining regular exception reporting based on compliance with established limits. (APRA Report p 56);
- e. the Chairman of the Board to table, at the earliest opportunity, all correspondence to the Chairman received from regulators. (APRA Report p 56);
- f. the Board ensure that there are adequate processes in place for the identification and monitoring of risk at operational level. Appropriate reporting against these

processes should be made through the risk committee structures. (APRA Report p 56);

- g. the Principal Board Audit Committee provide clarity to the executive management and other risk escalation channels, including internal audit and external audit, on the severity of issues it believes should be escalated to it for consideration and decision and those issues which can be dealt with through executive committees and the like. The criteria for the escalation of audit issues should be risk-based and unambiguous. (APRA Report p 56);
- h. the Principal Board Audit Committee ensure that the internal audit and the external auditor comment on the 'reasonableness' and 'accuracy' of the management responses provided to internal audit and external audit issues raised in their respective reports. (APRA Report p 56);
- i. the Principal Board Audit Committee ensure that all reports prepared by regulators on the operations of the Group be tabled and reviewed. (APRA Report p 57);
- j. in regard to management responses to regulators and actions taken to address issues raised by regulators, the Principal Board Audit Committee is to ensure that internal audit assess and verify that the management actions taken to address the issues raised by regulators have been completed before issues are closed out. (APRA Report p 57);
- k. the Principal Board Audit Committee commence regular private sessions with regulators in a similar way it does with internal audit, external audit and the consulting actuary (APRA Report p 57);
- l. the Principal Board Audit Committee review the reporting line for Internal Audit to clarify the role of the Executive General Manager and Risk Management Division in this regard. (APRA Report p 57);
- m. the Principal Board Risk Committee provide clarity to executive management and other risk escalation channels, in particular executive management and executive committees, on the severity of issues it believes should be escalated to it for consideration and decision and those issues which can be dealt with through executive committees and management streams. The criteria for the escalation of risk issues should be risk-based and unambiguous. (APRA Report p 64);
- n. the Principal Board Risk Committee review the operation of the Executive Risk Committee in the terms set out at pp 70/1 of the APRA Report;

4. In relation to Culture that:

- a. the Board undertake a review of the cultural norms at NAB and following this, clearly articulates the standards of behaviour and professionalism and openness it expects of the organisation. (APRA Report p 76);
- b. the standards referred to at paragraph 3 a. above be expressly built into staff performance plans and agreements and, where necessary, supported by relevant training (APRA Report p 76);
- c. codes of conduct and disciplinary procedures be vigorously enforced. (APRA Report p 76);
- d. the Board reinforce policies to promote and support 'whistle-blowing' within the organisation, and provide avenues to facilitate this. (APRA Report p 77);

the Board review incentive arrangements at NAB to remove potential conflicts of interest on risk management staff, and to ensure that all staff observe behaviours that have appropriate regard to risk. (APRA Report p 77).

Schedule 1 – Reports to be provided to APRA

1. The report in relation to the National work stream entitled "Internal Model".
2. The report in relation to the National work stream entitled "Rebuilding Currency Options".
3. The report in relation to the National work stream entitled "Risk Framework & Risk Reporting".
4. The report in relation to the National work stream entitled "Process, Systems and Data Integrity".
5. The report in relation to the National work stream entitled "Financial Reporting & Analysis and Off-Market Abnormal Transactions".
6. The report in relation to the National work stream entitled "Product Usage Authority".
7. The report in relation to the National work stream entitled "Internal Audit".
8. The report in relation to the National work stream entitled "Governance".
9. The report in relation to the National work stream entitled "Roles, Responsibilities & Resourcing".
10. The report in relation to the National work stream entitled "People & Culture".
11. The report in relation to the National work stream entitled "Technology".
12. The report in relation to the National work stream entitled "Quantitative Support".