

NAB essentials > Strong risk culture / Balance sheet strength

## Managing our risk

We aim to continually improve our risk management performance in order to protect the customer experience, and support sustainable, satisfactory returns for our shareholders.

Our annual planning process establishes NAB's strategic objectives and risk appetite, which are approved by the Board. These are translated into specific performance targets, such as cash earnings and cash return on equity.

Annual planning helps identify and provide a framework for:

- Our budget
- Our challenges
- Key risks and opportunities
- The actions, investments or divestments NAB undertakes.

## Improving risk performance

In 2014 we continued our Risk@nab program, which aims to embed risk awareness, accountability, management and compliance into all of our daily business activities. A range of initiatives are currently underway through Risk@nab to further transform the way risk is managed at NAB.

At NAB, we have a Risk Management Accountability Model based on 'the three lines of defence', in which all employees are responsible for managing risk every day.

Our focus has been to build greater clarity into roles and responsibilities across NAB. We have further clarified roles and responsibilities in our Risk Management Accountability Model, which articulates operational accountability for risk management activities across our 'three lines of defence'.

We continued to work on a new Risk IT system, risksmart, which will replace our existing operational risk portal and other legacy systems with a single integrated system. The new system aims to make it easier for our people to effectively manage operational risk and compliance across NAB's operations. We've also applied business excellence principles to our operational risk and compliance processes in a bid to make it easier for employees to manage such risks.

A new mandatory risk training program, Risk Ready, was launched for all new employees to complete. The new streamlined program has reduced training time, making learning easier and more effective.

## Balance sheet strength

In 2014, we continued to maintain strong capital, funding and liquidity positions in line with our ongoing commitment to balance sheet strength.

This provides us with confidence to respond to the changing market and regulatory conditions facing the finance sector in Australia and overseas.

This year we continued to access a diverse range of wholesale funding across senior and secured debt markets. The NAB Group raised \$28.2b of term wholesale funding, fulfilling its 2014 funding requirements.

We continued to grow deposits over the year and improved our Customer Funding Index, which represents the proportion of NAB Group's core assets that are funded by customer deposits, from 69.4% in 2013 to 70.4% in 2014.

Our capital management strategy is focused on adequacy, efficiency and flexibility. We focus on holding capital in excess of our internal risk-based assessment of required capital, while meeting regulatory requirements, being consistent with our balance sheet risk appetite and ensuring investors' expectations are met.

As at 30 September 2014, NAB's Common Equity Tier 1 ratio (CET1) was 8.63% and NAB remains well capitalised.

## Risk accountability across our three lines of defence

### 1 Line management

**Responsible for managing the risks originating within the business.**

Identify, assess, control and monitor risks.

Manage risks within risk appetite.

Establish and maintain a robust risk and control environment.

### 2 Risk

**Responsible for ensuring that the risk and control environment is actively and appropriately managed through the provision of risk insight, risk appetite and oversight.**

Establish NAB Group-wide and specific risk appetite.

Develop and maintain policies, tools and processes for risk management.

Oversee, monitor and challenge the business on risk-related activities.

Define minimum standards and oversee related consequence management.

Provide insight.

### 3 Internal audit

**Provides independent assurance over the risk and control framework.**

Independently review, monitor and test 1st and 2nd line risk activities.

Independent assurance on compliance requirements by regulators.

Assess the overall effectiveness of the business' risk and control environment and ability to self assess.

## Measuring our risk culture

We continue to analyse and refine our measures to quantify our risk culture. This includes the development of a risk culture dashboard and support for a risk key performance indicator to measure the maturity of risk management practices across the NAB Group.



Read more about our Risk Disclosures on pages 13–19 of our 2014 Annual Financial Report.