

Governance & Service Quality in the Finance Sector

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20th May



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National Australia Bank

2nd headline regular

- ▶ 40,000 employees
- ▶ 10 million customers
- ▶ 1800+ Branches
- ▶ 4654 ATM's
- ▶ 70+ Regulators

Loss Events - examples

Allied Irish Bank (AIB)

A series of unauthorised currency trades caused AIB to lose US \$691m. An employee falsified key bank records over a long period, involving buying currency options where the risks were supposed to have been offset by separate currency trades. These bets were not hedged, and when they started going wrong the employee invented bogus option trades to hide his losses and size of his positions. Investigators blamed both the employee & his immediate bosses for failing to supervise his supposed hedge-fund style trades.

Foreign Currency Options Fraud

NAB discovered that as a result of unauthorised spot trades on its foreign currency options desk, losses totalling \$A360 million had been covered up. The losses were a result of a failed speculative position where the traders falsified profits to trigger bonuses over a number of years. In order to generate the reported profits, the traders speculated on the US dollar, betting that it would rise against the Australian dollar and other currencies. Investigations highlighted a need for cultural change. This incident led to the resignations of the CEO and the Chairman at that time. Two traders were jailed for their fictitious trades.

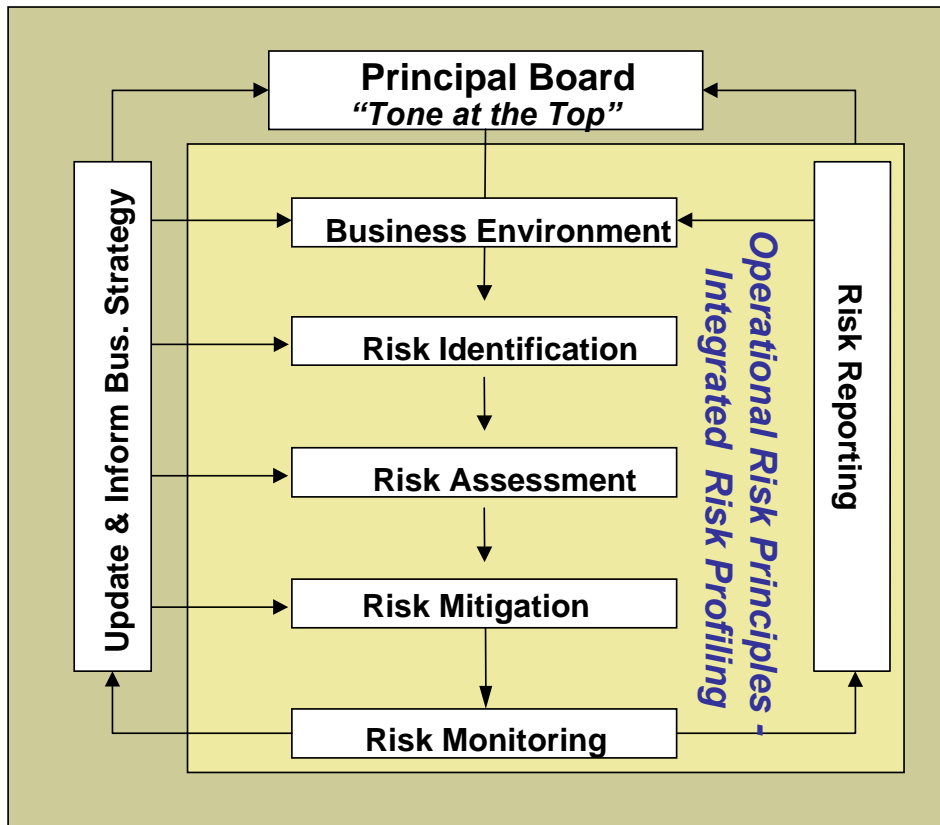
Operational Risk & Event Capture

Operational Risk

- ▶ The risk involved with running a business.
- ▶ Operational risk represents some of the key risks to the business world today.
- ▶ It exists throughout all of our businesses at all levels and is represented in most activities we undertake.
- ▶ We capture events to understand how well we are managing our risks and the impacts of not managing them

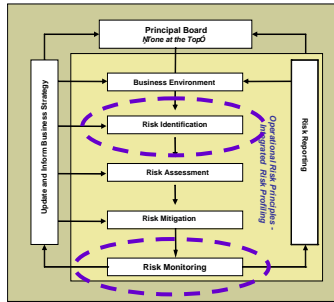
Operational Risk Framework (ORF)

The ORF highlights the core elements of Principal Board & 'Tone at the Top', Operational Risk Principles & Business Strategy:



Understanding and managing Operational Risk is imperative to the successful achievement of business objectives and is integral to all the Group's activities

The ORF provides business management with a structured and robust vehicle for ensuring that Operational Risk is managed on behalf of the Group's stakeholders



Controls & Monitoring

Controls need to be put in place to prevent the risk from occurring, or reduce the impact if it does occur

Detective: those controls that alert you to the fact that the risk has occurred after the event;

Preventative: those controls that help to mitigate either the occurrence of the risk (i.e. reduce the likelihood of it occurring) or the impact should it occur.

To help manage risk, we need early warnings, which we know as **Key Risk indicators (KRIs)**, in place, which may be either:

Leading indicator (identify where there is a potential change in the likelihood or impact of a future or emerging risk event, given the effectiveness of controls)

Lagging indicator (measure retrospective data to identify the change in likelihood or impact over a given period & the current state of the control environment).

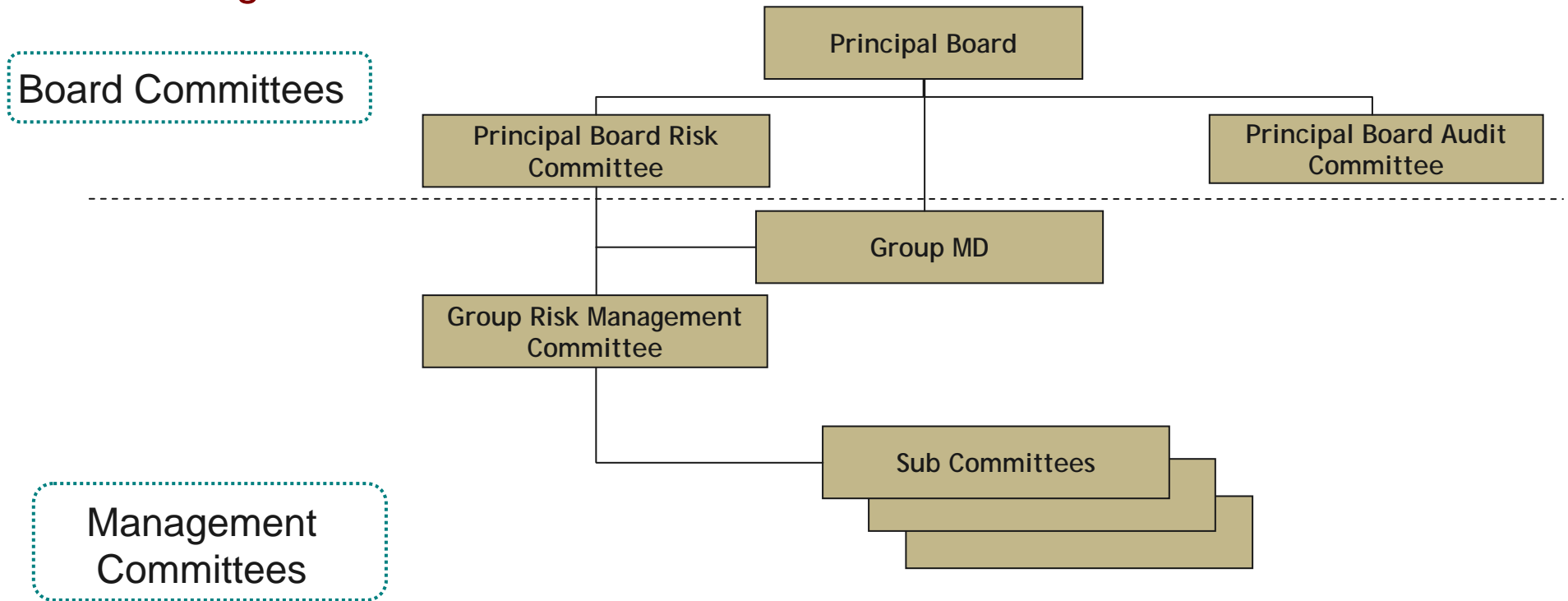
Governance

3 Lines of Defence

	Role	Accountabilities
1st line	Business Units	“Owner” of the risk management process Accountable for identifying & managing the business and its risks
2nd line	Risk Management	Design of the Operational Risk Management framework & monitoring adherence to it Advice, Guidance & Overview of key risks
3rd line	Internal Audit	Accountable for providing independent assurance of the NAB’s Operational Risk processes
	External Audit	Accountable for providing independent assurance of the NAB’s Operational Risk processes

Group Governance Structure

Oversight & Review



Scenario Analysis & Risk Appetite Analysis

Evolving and emerging practices

Stress Testing & Scenario Analysis

- ▶ Examine robustness of Strategy in times of uncertainty
- ▶ Examine full impact of events should they occur

Risk Appetite

- ▶ Revisiting risk appetite and associated tolerance levels to ensure front line staff can understand, interpret and use them to make good business decisions.

Thank you for your time & attention today!

