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TRANSCRIPT OF PROCEEDINGS

O/N H-871451

THE HONOURABLE K. HAYNE AC QC, Commissioner

**IN THE MATTER OF A ROYAL COMMISSION
INTO MISCONDUCT IN THE BANKING, SUPERANNUATION
AND FINANCIAL SERVICES INDUSTRY**

MELBOURNE

10.00 AM, WEDNESDAY, 14 MARCH 2018

Continued from 13.3.18

DAY 3

**MS R. ORR QC appears with MR A. DINELLI and MS E. DIAS as Counsel Assisting
with MS S. ZELEZNIKOW**

**DR M. COLLINS QC appears with MR M. RUSH, MR N. DE YOUNG and MS K.
BRAZENOR for ANZ**

MR R. DICK SC appears with MR J. WATSON and MS E. BEECHEY for APRA

MS L. NICHOLS SC appears with MS C. VAN PROCTOR for ASIC

MR C. SCERRI QC appears with MR P. KULEVSKI for CBA

MS D. HOGAN-DORAN SC appears for Aussie Home Loans

MR P. ANASTASSIOU QC appears with MR B. JELLIS for Commonwealth

MS K. REES SC appears with MR D. HEALEY for Citigroup

MR A. SLEVIN appears for Finance Sector Union of Australia

MR D. MACKAY appears for ING Bank

**MS W. HARRIS QC appears with MR R. CRAIG, MS K. FOLEY and MS P.
THIAGARAJAN for NAB**

MS R. DOYLE SC appears with MR D. FAHEY for Smartline Home Loans

**MR J. SHEAHAN QC appears with MS P. NESKOVCIN QC and MR J. ARNOTT
for Westpac**

THE COMMISSIONER: As I foreshadowed yesterday, unless somebody has good reason to the contrary I propose to start sittings from tomorrow commencing at 9.45. Anybody game enough to suggest otherwise?

5 MS ORR: No, Commissioner.

THE COMMISSIONER: There being silence, 9.45 tomorrow and thereafter it will be. Yes, Ms Orr. Now, Mr Waldron is giving evidence. Mr Waldron, do come back into the box.

10

<ANTHONY JOHN WALDRON, RECALLED

[10.01 am]

15 <EXAMINATION-IN-CHIEF BY MS ORR

THE COMMISSIONER: Yes, Ms Orr.

20 MS ORR: Mr Waldron, before I come back to the document that we were looking at when I last asked you questions yesterday, I want to raise with you a document that has been handed to me by NAB's counsel this morning. Now, this document is not, I'm afraid, Commissioner, on the online court book. I have some hard copies and I can provide a hard copy to you, Commissioner, and to the witness. I
25 understand NAB has requested that this document be added to the court book, and it will soon be there, but for now we only have hard copies.

Mr Waldron, can you see that this document is minutes of the principal board risk committee meeting of NAB held on 4 November 2015?---Yes, I can.

30

Now, you were not a participant in this meeting?---No, I was not.

Have you seen this document before?---No, I have not

35 Could I ask you to turn to the third page, which is marked at the bottom, page 11; do you see that?---Yes.

And perhaps if I can direct you to the heading, the top part of this page fits under First. At the bottom of page 10 we see that the chief risk officer made a report to this
40 meeting?---Yes.

And can you see on the second paragraph, at the top of page 11, that the group CRO – that the Chief Risk Officer, also briefed the committee on an issue that had been very recently identified relating to potentially fraudulent payments to introducer and noted that further detail would be provided in December?---Yes, I can see that. Yes.
45

Can you see that the – that the – we have it now. Thank you. That the principal board risk committee noted the update?---Yes, I can see that. Yes.

5 Now, this relates to the line of questioning I asked you yesterday about when the board was notified of these incidents?---Yes.

Do you regard this as a notification to the board?---Yes, I would say there is some form of notification to the board, yes.

10 So a notification to the board in those very general terms, that we see there, on 4 November 2015?---Yes.

15 Why did you not refer to this in your witness statement, Mr Waldron?---I was unaware of it.

And I've been informed by NABs counsel that although there was a notice to produce served on NAB, which would have captured this document, this document was not produced to the Commission under that notice to produce; are you aware of that?---No, I'm not.

20 Could I hand you a copy of that notice to produce, Mr Waldron, just so you can see this. I have limited copies I'm afraid, Commissioner, but I will read the relevant part of the notice to produce.

25 THE WITNESS: Thank you.

MS ORR: You may not have seen this document before, Mr Waldron, but can you see it's a notice to produce to NAB?---Yes, I can.

30 Requiring NAB to produce documents by 13 February 2018?---Yes, that's correct.

35 And can I ask you to turn to page 2 of the document, category F of the notice to produce. In respect of the incidents referred to in section 3.11 on pages 5 to 6 of the NABs submissions – you will recall that the page I took you to yesterday that deals with these events, the page of NABs original submission – in respect of those incidents, NAB was required to produce:

40 *(iv) any reports to the CEO, executive committee or board, or to the chief risk officer in respect of the incidents.*

Do you see that?---Yes.

45 Can you offer any explanation for why NAB did not produce this document to the Commission in accordance with this notice to produce?---I'm sorry, I can't.

Yes?---This is the first time I've seen the document.

I would like to tender the notice to produce, if the Commission pleases. Perhaps the hard copy that Mr Waldron has could be tendered.

5 THE COMMISSIONER: Exhibit 1.7, notice to produce numbered NP006 dated 7 February 2018 to the proper officer NAB.

10 **EXHIBIT #1.7 NOTICE TO PRODUCE NUMBERED NP006 TO THE PROPER OFFICER NAB DATED 07/02/2018**

10

MS ORR: So what we now learn, Mr Waldron, as a result of this document that been provided to the Commission for the first time this morning, is that there was some form of notification to the board on 4 November 2015, of which you say you were unaware?---That's correct. Yes.

15

Yes.. And what the board was told was that there was an issue that had been very recently identified relating to potentially fraudulent payments to introducers. Now, very recently identified, I want to put to you, that issues of this nature had been on NABs radar since at least April 2015 as a result of the documents I showed you yesterday?---Those documents do outline that. So I don't – I don't know where that - - -

20

Yes?--- - - - response came from.

25

Well, what I want to put to you is it's not correct to say the issue had been very recently identified as at 4 November 2015?---As I said, I have only just seen that then, so I'm not sure the background of that paper.

But, in any event, the board is aware that there is a problem from 4 November 2015, but as we heard yesterday there is no report to ASIC for some months after that time?---So there was no section 912D report, but there was a notification to ASIC in December and then a subsequent meeting in January before the - - -

30

There is a letter in December - - -?---A letter in December - - -

35

- - - which we will come to - - -?---That's correct, yes.

- - - but the statutory breach report was not until February 2016?---That's correct.

40

Thank you. All right. Could we return to the document that I was - - -

THE COMMISSIONER: We should – I think if this principal board risk committee document is an exhibit, exhibit 1.8, NAB.005.030.0001, minutes principal board risk committee meeting minutes Wednesday, 4 November 2016.

45

**EXHIBIT #1.8 NAB MINUTES PRINCIPAL BOARD RISK COMMITTEE
MEETING MINUTES DATED 04/11/2016 (NAB.005.030.0001)**

5 MS ORR: Could I take you back to the document that we were looking at the end of yesterday, Mr Waldron, which is 005.074.0540. Your volume 3, tab 126.

THE COMMISSIONER: Sorry, tab?

10 MS ORR: 126.

Now, can I ask you to turn to 0541 within that document?---Yes.

And if we could have 0541 and 0542 both displayed on the screen, please.

15

Now, yesterday I had put to you that there were these three employees who were not dismissed but whom – but who received conduct gates, amber reversible and amber non-reversible conduct gates. Could you explain what those are, Mr Waldron?---So an amber non-reversible conduct gate is a gate that means that you – it will be with you for the full performance year and that your incentives will be reduced by 25 per cent. A non-reversible amber gate is a gate that may be reversed pending on the view of - - -

20

25 THE COMMISSIONER: Sorry, could you start again? Because I think you said a non-reversible could be reversed. You're talking now about the amber reversible, are you?---Yes, sorry. So a non-reversible gate cannot be reversed for the full financial year.

30 Yes, I understood that. You then went on to the amber reversible and that can be reversed during the year?---Yes.

I probably misheard you, but I thought there was some confusion, that's all, Mr Waldron.

35 MS ORR: But the consequence that can be reversed is what, Mr Waldron?---So that a – if that is reversed then you are still eligible for your incentive payment, if it is reversed.

So this relates to bonuses, essentially - - -?---Yes, that's right.

40

- - - paid to NAB staff. And so if someone has engaged in conduct that warrants an amber gate, the consequence of that is that they get a reduction in their bonus; is that right?---Yes, so an amber non-reversible gate means an immediate 25 per cent reduction, yes.

45

Right. So they still get their bonus, they just get 25 per cent less?---Yes.

Yes. And is that all that happens to them?---It is obviously goes on record, of the individual and there is usually coaching and counselling that comes with that to ensure that the person is coached and understands issues that they have – the reason they’ve received the Amber gate and obviously effectively there is a component of people being on watch from management at that point.

But despite being on watch, they still receive bonuses, just a smaller – a slightly smaller bonus?---75 per cent. Yes.

10 They receive 75 per cent?---Up to 75 per cent.

Yes. Thank you. So that – we see here from this document that at this point, as well as the five dismissals there are three employees for whom NAB told them that - - -?---Yes.

15 - - - they had these Amber gates, either reversible or non-reversible applied?---That’s correct, yes.

20 Yes. Okay. Now, I want to keep moving through the chronology. You might recall that this email was an email of 1 December 2015, providing an update on things as at that date?---Yes.

25 We’ve heard from you already that on 11 December there was a report to the board?---That’s correct.

Yes. And on the same date NAB engaged an external consultant; is that right?---That’s correct, yes.

30 So NAB engaged KPMG?---That’s correct.

And what did NAB engage KPMG to do?---To assist us in identifying the issues to help us identify whether there were – where the control breakdowns had occurred, the level of exposure that was there, and to assist us in identifying what the potential exposure was.

35 And NAB ultimately produced two reports for NAB – I’m sorry, KPMG - - -?---Correct.

40 - - - ultimately produced - - -?---Yes.

- - - two reports for NAB?---That’s correct. The first report was essentially a report of scope and what the work that they would be doing and the timeframes to that work, and the second was their findings.

45 The substantive report?---Yes.

Yes. Thank you. I will come to those reports. But sticking with the timeline, so it's 11 December that NAB is in – sorry, that KPMG is engaged, and on 16 December NAB notifies New South Wales Police about these events; is that right? You refer to that in your statement?---Yes, I need to check the date, but that's – yes, certainly.

5

It's in December that that occurs?---Yes. Yes.

And on 21 December, just before Christmas, there is another NAB employee dismissed; is that right?---I believe so. Again, I would need to check the date in the statement but I believe that's correct, yes.

10

I will take you to your tab 127, and to 005.074.0576?---Yes.

This relates to the dismissal of a further person, a sixth person, it's an email dated 21 December 2015?---Yes, that's correct.

15

Do you see that?---Yes, I do.

And you know the name of this person - - -?---Yes, I do.

20

- - - who is dismissed on 21 December? We can see from this email that they're another branch manager; is that right?---Yes, that's correct.

And the conduct that led to this branch manager being dismissed is described in those bullet points there?---Yes, that's right.

25

On multiple occasions you wilfully entered false phone numbers on customer files, further, on multiple occasions you have entered false information in relation to referrer contact details. You were dishonest in your response when you initially stated you were unaware how identical numbers had come to be entered on different customer profiles, later admitting you had knowingly entered those details. On multiple occasions you emailed confidential confidence information to your personal email address. On multiple occasions you have accepted documents from an introducer as verification to support lending applications rather than from the customer directly and you directed other employees to process loans using verification documents which had been received by an introducer rather than the customer. That was the summary of the conduct of the sixth employee who was dismissed by NAB?---Yes.

30

35

And we see there, also on that page that there is another branch manager who has been interviewed by Fraud?---Yes.

40

And we see the results of Fraud's investigation into that branch manager, allegations from the whistle-blower not substantiated?---Yes.

45

And do you see further down:

However, a review of sample of lending files identified some issues, and this was reviewed by Lending Standards Review, final outcome determined as Amber reversible.

5 ?---Correct.

10 So another person who received that form of consequence. All right. So on the same date, on 21 December 2015, more than two months after the first whistle-blower disclosure, and weeks after the dismissal of the employees commenced, NAB writes to ASIC for the first time; is that right?---Yes, that's right.

15 And can I show you the letter to ASIC which is in volume 3, your tab 159, 032.001.0042. Thank you. So this is the first communication with ASIC about these events?---That's correct.

And it's not a significant breach report in compliance with the obligation under 912 D?---No, at this stage it is not. No.

20 No. Instead it's a letter that provides background and details of an investigation that NAB is conducting into bankers in Western Sydney; do you see that?---Yes.

And there is an update to come in the New Year?---That's correct.

25 And NAB told ASIC here, under the heading Investigation Findings to Date:

The investigations to date have identified banker fraud as well as potential control breakdowns in the NAB Introducer Program origination and application process and income verification procedures for both personal loans and home loans.

30 There's a reference to a working group being convened:

And consequences applied to date have included the dismissal of five bankers and the termination of two introducer relationships.

35 It may have been six bankers by that time, but in any event ASIC is notified of the dismissal of a number of bankers and the termination of two introducer relationships. So at this point NAB is telling ASIC that it has identified banker fraud; is that right?---That – yes, and that we are investigating that. Yes.

40 Yes.. Well there's reference to the investigation but there's a clear reference there to the investigations to date have identified banker fraud?---Yes, that's right.

45 Yes. And that was what had occurred?---Yes, sorry. Yes.

Yes. And I raise again for you to consider why in NABs response to the Commissioner about these events there was no reference to banker fraud, a reference

instead to inappropriate conduct?---As – as said at the time, there was still investigation going on. But I understand your point.

5 Yes. All right. So still in December, just before Christmas on 23 December, NAB receives the first KPMG report that you've referred to, which was the scoping exercise?---Yes.

Is that right?---Yes.

10 And then, on 15 January 2016, a draft of the substantive KPMG report comes; is that right?---Yes.

15 And I will take you to that document. That's in your volume 4, Mr Waldron, at tab 161, and it's 005.037.0887. So this is the draft of the final report of KPMG?---That's correct.

You are familiar with this document?---Yes, I am.

20 Thank you. Can I take you to 0896. Can you see in the final paragraph on that page:

25 *Whilst the above analysis performed by the task force has initially concluded that there may be approximately \$50 million of loans with ongoing issues in serviceability, a further procedure that could be performed to help arrive at a more precise figure would be to perform a review of the underlying securities themselves.*

30 So at this point, by this date on 15 January 2016, the task force has identified approximately \$50 million worth of loans with ongoing issues of serviceability – or potentially \$50 million of loans with ongoing issues in serviceability as a result of this misconduct; is that right?---Yes, that's right.

35 Right. And do you know when the task force made that estimate?---Well, this was done – the KPMG work outlines that and this was the report back from KPMG identifying that, so this work was done at – in conjunction together, so the KPMG team is working with the task force .

I see. So the task force worked with KPMG to come up with that estimate?---The teams worked closely together, yes.

40 Yes, I see. And are you familiar with the work of the task force?---I wasn't directly involved - - -

Yes?--- - - - only from what I've read since.

45 Yes. And you've referred to the task force - - -?---Yes, I have. Yes.

- - - and explained how it works in your statement?---Yes.

And are you aware that the task force focused primarily on four particular introducers?---Yes.

5 Yes. And I want to come back to the work of the task force, but while we are in this document, can I take you back to 0892. Can you see there that there are eight introducers of interest, their names are blocked out at the top of the page?---Yes, I can.

10 And are you aware – I will just take you to the page before this as well, if the two could be displayed together: 0891 and 0892. Are you aware that, as a result of KPMGs work, they identified a further 13 bankers – I’m sorry, there were 13 bankers of interest, eight introducers of interest; do you see those two tables?---Yes, I can see those two tables, yes.

15 That was what the work focused on, but as a result of KPMGs work, we see at 0894 that in addition to those eight introducers and 13 bankers that they started with, in the middle of the page:

20 *As a result of these observations we identified a list of 11 additional bankers for potential further investigation.*

And over on to 0895 – perhaps the two could be displayed together again, 894 and 895. So KPMG is up to the figure of bankers of interest by 11, and over on the first substantive paragraph of 895 we see they’ve identified a list of 33 additional
25 introducers for potential further investigation as well?---Yes.

Is that right?---Yes, that’s right.

30 Yes. So by the end of this work that led to this draft report, the number of bankers and introducers of interest in this investigation was significantly larger than originally thought?---Yes, absolutely. That part of the report process was to identify that.

35 Yes. And I want to put to you that in this draft report KPMG identified a litany of control issues for NAB; would you agree with that?---There was certainly a number of control issues that they identified, yes.

40 And those control issues were both in relation to bankers and in relation to introducers?---That’s correct.

And there were control issues in relation to customers; the effect on customers?---Yes.

45 Can I take you to 0964 in this document. It might be helpful to start with 0964 and 0965 displayed together, please.

You see there the heading Control Issues Identified During The Course Of The Review?---Yes, I can.

5 Now, just before I go to this, “control” is a word that we see a lot in these documents. It’s a word you’ve used a lot in your evidence; what does it mean? What is a NAB control?---A control is something that is put in place to either prevent or deter activity that’s going on, or then is used to identify something is going on, report on it and make sure that you can come back to review. So it’s a way of either stopping something occurring, it’s a preventative controls, or reactive controls, are there to
10 pick it up once it has occurred.

So KPMG identifies many control issues?---Yes.

15 We see that from this list. I count 18 issues relating to introducers, but you can see there is a long list - - -?---Yes.

- - - there. But significantly there’s issues relating to customers. I just want to take you to some of those. What KPMG has identified is that bankers are not holding face-to-face meetings with customers: they are accepting lending applications and
20 supporting documentation without regard for reasonableness; they are transferring their own funds to customer accounts; they are assisting customers in preparing false payslips; they are accepting payments from customers for loan approvals. There is – it’s unclear from the language there whether it’s one or multiple, but at least one person is fabricating translations. And you see there are some other items listed in
25 that list as well. So multiple control issues identified by KPMG that are affecting customers. Do you agree?---Yes.

And do you agree that these are very significant control issues for NAB?---They are significant and – absolutely.
30

Yes. Can I come back, now, to the task force that we referred to earlier. It focused on credit loss in connection with the four introducers; is that right?---That’s certainly where it started, yes.

35 Yes. Okay. Can I show you a document which is not annexed to your statement. It’s NAB.032.001.0119. Have you seen this document before, Mr Waldron?---Yes.

I might ask that it be enlarged, if possible, so it’s easier for us all to read?---Yes, I - - -
40

Have you - - -?--- - - - have.

- - - seen this document? Yes. Now, just so that you get a sense of the document, before I start asking you questions, I want to show you briefly each page. It’s a four-
45 page document. So this is the first page. The second page?---Yes.

The third page. And the fourth page. Do you understand what this document is now?---Yes, I understand.

5 And you say you have seen it before?---Yes. I've seen it in the preparation for this process.

10 Thank you. So it seems to be – if we could go back to the first page – and just be to be clear, you have seen it in the preparation for this process, but you didn't include it in your statement?---I've only seen it in the last 48 hours.

I see. I see. Okay. So on the first page – can I put to you first that this appears to be an early document produced by the task force probably in late 2015?---Yes.

15 Do you agree with that?---Yes.

And it refers to five dismissals in the second line, which seems to put it in 2015, because we have six dismissals by early 2016?---Yes.

20 Now, on the first page, there is a reference to:

Over 100 deep dive file reviews have been conducted and information provided to the fraud team.

25 Do you see that?---Yes, I do.

And I will ask you to look at the table and the results of this. What we see is that total loans drawn down for the four introducers that the task force was looking at were valued at \$139.78 million?---Yes.

30 So this is four introducers who have provided \$139.782 million of loans drawn down to NAB to the end of October 2015?---Yes, that's correct.

35 So do you accept that that is a very significant volume of loans to be coming from four introducers?---It – again, without knowing the details of the introducers, that a difficult question to answer, because - - -

40 Well, you know the details of these introducers, don't you, Mr Waldron? They are redacted in this document, but you know who they are?---Yes. We do have numbers of introducers that have multiple people within those – within those businesses that operate within them. So there is numerous introducers where we would be receiving volumes that are not dissimilar to this.

45 Well, what were the businesses of these four introducers?---I'm sorry, I need to go back and see the - - -

You have – do you have an unredacted version of this document, Mr Waldron? We did ask for you to have those?---I – not here.

We will hand you one now. Can you see the names of the four introducers in the third and fourth pages of the document, Mr Waldron? They are redacted in our version, but they appear in the appendix introducer Summary, which runs across two pages?---Yes, I can.

5

Are you familiar with those introducers whose names appear in those two pages?---I am familiar by name of those introducers. I'm not familiar with all of their activities.

10 All right. Which are you familiar with? You don't need to name the introducer; I want to understand what you know about the business of the introducers?---The second of them was a – was a gym.

Was a gymnasium. Thank you?---Yes.

15 All right. Can we go to the second page of this document, which is the early insights of the task force. And the first early insight here is an important one, isn't it? This is very early in the piece and the first early insight is "remuneration structure driving inappropriate behaviours"?---That's correct.

20 "(SSI)". Which is the Star Sales Incentive program?---Correct

So from a very early point NAB was aware that a driver for these – called "inappropriate", but we know fraudulent – behaviours was its own remuneration structure?---That's certainly one of the root causes, yes.

25

Yes. Now, these early insights also include, in the third dot point:

Double dipping through duplication and/or postdating of opportunities.

30 Is that again connected with the remuneration structure?---It would appear so.

So the double dipping is about double dipping to get more bonuses?---It would appear so, yes.

35 Yes. And there's also an – one of the early insights into the root causes, "sales cultural issues". Do you see the second-last dot point:

Potential duress and internalised behaviours.

40 ?---Yes, I do see it.

So, again, there is an early acknowledgment by NAB that there are issues with its sales culture?---Yes. That is what is pointed out in this report.

45 That are identified as a root cause of this misconduct?---Yes.

All right. Can I show you another document that appears to be a task force document. Commissioner, I'm referring to - - -

THE COMMISSIONER: Is this a - - -

5

MS ORR: - - - a number of documents that are not annexed to Mr Waldron's witness statement. I can either tender those as a list of - - -

THE COMMISSIONER: Let's do it as we go, Ms Orr.

10

MS ORR: Yes.

THE COMMISSIONER: Otherwise I will certainly lose count. Exhibit 1.9, document NAB.032.001.0119. What shall I describe it as? Four-page - - -

15

MS ORR: Well, it's headed Task Force Summary.

THE COMMISSIONER: Task Force Summary. Thank you.

20

EXHIBIT #1.9 TASK FORCE SUMMARY (NAB.032.001.0119)

MS ORR: I said I wanted to take you to another task force document, Mr Waldron, which is 032.001.0123. Now, you have an unredacted version of this document there now, Mr Waldron, in that bundle that was just handed to you?---I'm just trying to find which one it is.

25

I think it's - - -?---Thank you.

30

You can see from what you have there – I don't need to go through the exercise I went through with the last one on the screen?---No, you don't.

You can see that this is a four-page document that appears to be a set of PowerPoint slides for the task force; is that right?---Yes. That's correct.

35

And it's another untitled, undated document, but do you agree that this is another document that appears to be from relatively early in the piece, towards the end of 2015?---Yes, it does.

40

Thank you. And the first page is a list of bankers involved in the misconduct, their locations which are both redacted, and their positions within those locations, as well as the outcome. Do you see that?---Yes.

So we can see there that at this point there are six branch managers in the list; do you see that?---Yes, I do.

45

And a number of them have been dismissed. And there's also a reference to RER towards the bottom. Could you explain what that is?---It stands for Regional Executive Retail. They have a - - -

5 THE COMMISSIONER: I'm sorry, Mr Waldron I missed that. Say again?---Regional Executive Retail. Sorry.

Thank you?---It's

10 MS ORR: Is that a position that someone holds?---Yes, it is.

So - - -?---Yes. It's – it's a person who has carriage of a local area market, has a number of branches that report through to those regional executives.

15 I see. So someone in a supervisory role over the entire local area market?---That's correct.

Is that a fair characterisation? And there's no outcome listed here for that person, it just has "outcome" in red. Do you know whether there was an outcome for that person?---From memory – and I believe – that they were amber gated.

20 Yes. So not dismissed and amber. Do you think reversible or non-reversible?---I'm sorry, I would have to check. I'm not sure.

25 We may be able to check in some documents as we go. Can I take you to the second page of the document. And, again, this is dealing with the volume of loans brought in by these four introducers that the task force has been looking at?---Yes.

30 You can see that the four introducers, which we can't see in the redacted version, are the same introducers - - -?---Yes, they are the same , yes.

- - - as referred to in the previous document?---Yes.

35 And again you can see that the total value of the loans drawn down, is that \$139.782 million figure?---Yes.

Same as in the previous document. Now, what we see additionally here is the total number of those loans, or the total value of those loans that is currently delinquent. Do you see that final column there?---Yes, I can.

40

So there are – there is \$3.609 million worth of loans from those introducers that, at the date of this document, is delinquent; is that right?---Yes, that what it say.

45 What does it mean for a loan to be delinquent?---I'm not sure of the definition they have used for the preparation of this report.

What do you understand it to mean?---It generally would mean that it has not been paid, and it's in arrears.

Yes. So that's a significant - - -?---Yes.

5

- - - value of loans where the customers are struggling to make their repayments and have ended up in arrears?---That's correct.

Thank you. And on this same page we see some discussion of the personal loans attached to a particular banker whose name you can see. That's one of the bankers who was dismissed?---Yes.

10

Is that right?---That's correct.

And there have been 44 customer loans reviewed for that banker. And what we see there is that a considerable proportion of those loans were found by the task force to be in distress. Do you accept that?---Yes. That what's said here, yes.

15

Yes. So 44 loans were reviewed. 34 of the 44 were currently active. 20 of the 34 are currently managed by collections?---Yes.

20

With a total outstanding balance of 400,000 and 14 of the loans in collections are in currently in arrears for more than 90 days, and three have been written off. So of this very small sample of 44 loans reviewed, again, we see a proportion where there were customer consequences, where the customers were not able to meet their liabilities under these loans?---Yes, that's correct.

25

Yes. All right. I will leave that document. I will tender it, if the Commissioner pleases.

30

THE COMMISSIONER: Exhibit 1.10, NAB 032.001.0123 entitled People Update.

EXHIBIT #1.10 ENTITLED PEOPLE UPDATE (NAB 032.001.0123)

35

MS ORR: I'm going to return again to the chronology, Mr Waldron. We were at the KPMG report, the draft KPMG report, that was provided to NAB in January 2016. Now, you refer to other events in January 2016 in your statement. One those is the escalation of the matter to something called the Group Risk Return Management Committee; is that right?---Yes, that's right.

40

Okay. Could we look at the document that shows that, which is your volume 4 tab 166. 032.011.2605.

45

THE COMMISSIONER: Where does this committee sit in the structure of the bank, Mr Waldron? What sort of level are we talking about?---This is the highest management risk committee that we have. So this is - - -

5 The next level of Board Risk Committee?---It is – it – yes, it’s below the - - -

So this is under the Board Risk Committee; it’s - - -?---That’s correct.

- - - executive level?---Correct. It’s the executive team at the bank.

10

Thank you.

MS ORR: So we see that this is a memo that went to this Group Risk Return Management Committee. Perhaps it’s helpful to have the first and second pages displayed on the screen so that you can see the date of it, which is at the bottom of the second page. It’s 11 January 2016?---Yes.

15

Okay. And again here we see a reference to – under the heading Background – the launching of the investigation in late October 2015; do you see that?---Yes, I do.

20

Okay. And then we’ve got a series of dot points about what the investigation has revealed. This is what the Group Risk Return Management Committee is being told in January 2016?---Yes.

25 And the first thing that they are told is that:

There is a localised, systemic risk culture issue with some bankers colluding to take advantage of and manipulate the gaps in our end-to-end loan process.

30 What does that mean, Mr Waldron?---I think it goes to the points that you’ve already made, that there has been breakdowns right throughout the end-to-end process here for the application of loans, as we’ve talked about already.

35 What is the “end-to-end” loan process?---From the process of first meeting a customer, being introduced to a customer potentially through an introducer, through to – right through to the fulfilment and the settlement of a loan.

So it’s the start to end?---Start to the finish, yes.

40 Right. Got it?---Yes.

45 Okay. So we see other findings that are said to have been revealed by the investigation here, and we’ve discussed a number of these already. We’ve discussed that the introducers were from industries unrelated to financial services, such as gymnasiums and tailors. And commission payments to these introducers, we see from this document, totalled approximately 630,000 over four years, of which 488,000 was paid to a single introducer?---Yes, that’s correct.

That's what occurred?---Yes.

Yes. And then we see a reference under Actions Taken to the disciplinary action, dismissals and impacts on SSI, that's the conduct gate that we have been talking
5 about. And also a reference to the credit exposure review, that's the work of the task force that we've discussed; is that right?---Yes, in part. Yes.

Yes. Together with KPMG?---Yes.

10 Yes. Now, can I just try and clear up for you the consequences for the person referred to as the RER. You called that person the retail - - -?---Regional Executive - - -

Regional Executive - - -?--- - - - Retail.

15 - - - Retail?---Yes.

So if you turn to the page that is 2607?---Yes.

20 You see an appendix that describes - - -?---Yes.

- - - the actions. So we've got the primary bankers who have been dismissed at the top and then we've got a series of amber non-reversible and amber reversible gate outcomes. And one of those is directed to the RER. That person receives an amber
25 non-reversible gate; is that right?---Correct, yes.

So a reduction – a 25 per cent reduction in the bonus?---Yes.

30 Thank you. All right. We can leave that document. You also refer, in January 2016, to something called a Significant Event Review Panel doing a piece of work. Can I take you to a document about that. Volume 4, tab 162, NAB.032.001.0044. So this is a – an agenda for the Significant Event Review Panel, dated 20 January 2016, is that right?---Yes, that's right.

35 Can you explain what the Significant Event Review Panel is and what it does?---The Significant Event Review Panel decides on whether something should be reported to ASIC.

40 I see?---And so it decides on whether, you know, a 912 statement needs to be issued, etcetera.

So do we take from this that this matter is escalated for consideration as to whether there should be a 912D report for this meeting?---That's correct.

45 In January 2016?---Yes, that's right.

So the Significant Event Review Panel had not met prior to this time to discuss whether to make a brief report in relation to this misconduct?---No, it had not.

5 Okay. Now, can I take you to page 6 of this document, which is 0049. So this panel looks at a number of things. One of the things they looked at here was:

How did the risk and compliance systems operate in respect of the breach?

10 Do you see that?---That's correct. Yes.

And there are initial and draft findings of internal reviews that are summarised there?---Yes.

15 And there's a number of significant failings listed there. Do you agree with that?---Yes.

Including limited training being available and provided to frontline bankers regarding introducers?---Yes, that's it. Yes.

20 And a lack of or limited ongoing due diligence of introducers against risk data bases. Do you see that too?---That's right, yes.

All right. So as a result of the deliberations - - -

25 THE COMMISSIONER: Sorry. What does that mean, Mr Waldron? Does that mean that NAB hasn't done something or does did mean that introducers haven't done something? It says "lack of due diligence". Who's lacking? Is it the NAB, the introducer, what?---It's NAB.

30 I see.

MS ORR: So this panel, based on the information provided to it, in January 2016, makes the decision to lodge a written breach report with ASIC?---That's correct.

35 That's right. And that occurs, as we have already discussed, on 3 February 2016?---I believe that the correct date, yes.

Yes. I will show you the document. It's your tab 167 and it's 032.001.0069. Right. So this is the letter from NAB to ASIC on 3 February 2016?---Yes, it is.

40 And the first paragraph says:

The purpose of the letter is to update ASIC on the matter of banker investigations in Greater Western Sydney.

45 And then we see two sentences down:

To the extent necessary this letter is to be regarded as a breach report for the purposes of section 912D of the Corporations Act.

5 Why that qualification? It was necessary for this to be regarded as a breach report because there had been a significant breach; is that right?---So I'm not certain why they've written that letter in that particular way.

10 Okay. All right. So NAB explains to ASIC in this letter why it considers this breach to be a significant incident that requires reporting. Do you see that under the heading Breach Significance?---Yes.

Continuing:

15 *The issue is considered a significant incident and a reportable breach to ASIC under the Act for the following reasons: the number of bankers involved in the issue, and number of customers and loan, and the issue was identified through the NAB Whistleblower Program.*

20 Those are the two reasons given; do you see that?---Yes.

Well, the second of those had been known right from the start, hadn't it?---Yes, it had. And then the table goes on to the criteria and considerations undertaken.

25 That's right?---Yes.

That's right. So that table that follows deals with the matters that ASIC tells entities like NAB it should have – pay regard to when assessing - - -?---Assessment, yes.

30 - - - whether something is a significant breach?---That's right.

And each of those is dealt with in turn - - -?---That's correct.

35 - - - in the table. But what I wanted to put to you first was that both of the matters that were referred to as justifying this report at this time to ASIC were things that NAB had known about for some time. They were not new matters?---No, they were not new matters. As your – the – as you pointed out, there is certain criteria that you are asked to assess in putting forward a 912D notice and that is what's outlined further in the table underneath those two points.

40 And the table includes on the second page – if we could pull both up – one of the things that entities are required to look at is financial loss to clients; you understand that - - -?---Yes.

45 - - - in assessing whether something is a significant breach. And we see here what NAB tells ASIC about that:

A detailed investigation is underway to identify and assess the level of customer impact. To date we have identified six customers with 3.449 million in loans –

have I got that right –

5

who are in NAB collections and 90 customers with 50 million in loans where we have potential concerns about their ability to service these loans on an ongoing basis.

10 Do you see that?---Yes, I do see that. Yes.

So this conduct is known by NAB, and is still known to NAB, to have resulted in significant detriment to customers?---Yes. And financial loss, yes.

15 Yes. Thank you. All right. I just – I want to move now to some examples of findings that you have referred to in your statement from the file review that NAB conducted, which I think probably commenced around this time; is that right?---Yes. The file review started around about February of that year, yes.

20 Around February 2016?---Yes. Noting that we had to do file reviews to get to that point.

Yes?---But to do the full file review process started about that point, yes.

25 And what did the file review process involve? You selected customer file reviews to review carefully; is that right?---Yes. So every time we found what we termed a “banker of interest” we went back through files to assess whether we thought there was issues with responsible lending with documentation, with potential fraud, and obviously reviewing those end-to-end. And you need to have people who are able to
30 assess those documents and have a large amount of credit expertise and expertise in dealing with these particular issues. And, if I may add to that, it’s also when you’re able to look at loans in – or documentation in – all of them at once you start to see pattern. And, you know, that is what occurs through this process.

35 And NAB did see patterns, did they not, in this file review process?---That’s correct. Yes.

They saw patterns of consumer detriment in that there were numerous customers who were having issues servicing their loans, making the repayments?---And what
40 we saw was issues - - -

Just before you move on, do you agree with what I just said then?---That was the outcome of what we found.

45 Yes?---Yes.

Carry on?---For some customers.

Yes?---We also found a situation of particular introducers, particular bankers – yes, we were able to identify, you know, for example similar payslips from one lot of introducers, for example, and you’re able to identify that only when you look at a pattern, when you look at all of the files together.

5

I see. I see. I’m focused, though, on the detriment to the customers. I understand what you are saying, which is then when you have got a lot of files you can start to see patterns of - - -?---Yes.

10 - - - fraudulent documents that appear on multiple files, for example. But I want to focus on what you learnt from the file review about the consequences of all of this for customers?---Sure. I understand that.

15 And the customers included – sorry, those customer issues included significant responsible lending issues, did they not? There were many customers who had received loans that they ought not to have received because they did not have the capacity to repay under the loans?---At this stage we were still uncertain of that.

20 Yes?---What we had was potential that that was the case.

Yes?---But at this stage we were uncertain of that. Particularly if there was an issue, say with an income verification, what we didn’t know was what was the actual income situation.

25 Yes?---What was the real situation for that particular customer. And in many instances that actually requires getting right back and talking to the customer again. So we had to go and do full file reviews to assess some of those things, and when we say you see patterns, you – not everything is the same. So you might see a – from one introducer, three customers who have got similar looking payslips or whatever,
30 but 15 who don’t. And so we had to go through a full assessment of each individual customer and individual loan file to do that. And to truly assess whether the customer had been impacted, in many cases you physically need to speak to the customer, which is what our remediation program eventually does get to.

35 Yes. So you are emphasising in your answer there what you knew at this point. I want to ask you to look back based on what you now know - - -?---Correct.

40 - - - having done the file review and I want to put to you that the file review reveals that there were many, many customers who ended up with loans that they ought not to have had as a result of this misconduct and they were unable to service those loans. Do you accept that the file review resulted in that finding?---The first file review has resulted in us needing to get more information to truly understand that.

45 Yes?---The first file review has not told us that they are definitely in that situation. There are some obvious cases where that is the case, and it’s important to note that for those customers who may have been feeling that through the process, they always had access to our – what we call NAB Assist Team, who are there to help customers

through financial hardship and there were examples of that where customers did go through that process and received assistance through that process and who are identified in these groups of files as well. But at this stage we were not certain - - -

5 Okay?--- - - - of the situation because whilst we might have had an – and again, I’m using income verification as the example here, but there are other things to talk about as well.

Yes?---We didn’t know the real situation for the customer.

10

So I’ve managed to move you slightly further along, Mr Waldron. You started with what you knew at the time the file reviews were started. I have moved you to - - -?---Yes.

15 - - - having done the first file review, there was a second file review?---So as we get to in our remediation process later on, we talk about a process of first five review, second file review.

20 Yes?---And we found – so in our remediation processes that we have established around GWS and when we get the Project Beacon later on, what we have done on all of those cases is a first file review, which you get some sense of could there be an issue on that file, and then a second file review which goes into more detail around that, and then we move on to the contact to the customer at that point to assess whether there is true issue or not.

25

I understand that’s the process. So I want to ask you sitting here today - - -?---Yes.

30 - - - knowing what you know, as a result of the file reviews that have been done up to today with that state of knowledge, do you accept what I’m putting to you that the file reviews have revealed that there were significant numbers of customers who ended up with loans as a result of this misconduct that they ought not to have had and which they were unable to service?---At this point in time we are still uncertain on most of those cases.

35 So you don’t accept that you’ve identified customers in that position?---We have identified some, sorry. You’re talking about most, etcetera, at this point - - -

40 Many?--- - - - there are some who we identified in that situation, what we can’t be certain of is their actual financial position at this point in time. We need – there’s potential to have to go back and talk to them and understand that.

Okay. Do you accept that your file review revealed responsible lending breaches - - -?---Yes.

45 - - - by these bankers?---Yes.

Yes. And the customers were not having their income and expenses adequately assessed to work out whether these loan products were suitable for them?---In some cases that was the breach, in other cases there were other things that were breaches. But in some cases that absolutely true.

5

All right. Can I just take you to an example of a file review document that we have from 30 March 2016. This is another document that was not annexed to your statement. It's 036.016.2115?---Sorry – sorry, is that in one of these? Okay. Thank you.

10

This is a one-page document, Mr Waldron. This is a one-page summary of findings of a particular file review; is that right?---Yes, that's right.

On 30 March 2016?---Yes, that's right. This is the – this is an initial file review for a - - -

15

This is a first round file review; is that right?---This is essentially done to ascertain whether a banker has done the wrong thing.

Yes. And we see from this file review that it was ascertained that the banker had done the wrong thing; is that right. I will come to the details.?---Yes, we do. Sorry, I haven't – I was just re-reading it. So – sorry. Yes.

20

I will let you do that. But before you do, you can see the banker name, which we can't?---Yes, I can.

25

And I want to put to you that that banker is a branch manager?---Yes, I believe that so.

And is that banker one of the branch managers who was dismissed?---Yes, it is.

30

Yes. And what this review shows for this particular file is that this branch manager for an investment housing loan, had included rental income for the investment property into the serviceability assessment, but the file showed that there was no rent and that this person had \$2381 per month included as rent?---Yes.

35

Which resulted in total useable funds for the customer of \$754 per month and once that rent was removed, as it should have been, because this borrower lived in the house - - -?---Yes.

40

- - - did not rent it out to anyone - - -?---Yes.

- - - this borrower would not have had any useable fund, they would have been in deficit and, therefore, unable to service this loan?---That is the most probable outcome.

45

Yes. So isn't just about dishonesty on the part of this broker - - -

THE COMMISSIONER: This banker – I think you mean - - -

THE WITNESS: It was the banker.

5 MS ORR: I'm sorry, this banker, I apologise. What this shows is poor assessment
processes by NAB as to the suitability of a loan for a customer. This was not
detected by NAB that the banker had done this, and the customer ended up with a
loan in breach of NABs responsible lending obligations under the National Credit
Act?---So what we know at this stage is that this customer has – and I can't – from
10 this information I can't tell you whether it's the customer, the introducer or the
banker - - -

No?--- - - - at this particular point has held out this is an investment property and
they have used the rental income as part of the income there. And then they have
15 moved into it. At this point what I can't tell you is who has been the person who has
said that this is going to be an investment property. whether it's the customer,
whether the introducer has played a role in that – and, in fact, I'm not even sure if
there was an introducer – from this I can't tell you that – or the banker has played a
role in that particular situation for that customer. It's actually a good example of
20 where we would need to talk and understand the situation with the customer to get a
true and fair view of what the situation was for that customer.

I understand. So the finding is that there has been deliberate misrepresentation of
data into bank systems, your point is you don't know - - -?---At this - - -
25 - - - whose fault - - -?---At this stage we don't know.

- - - that was at this stage, but we do?---So we – what we would need to be doing is
having a conversation. What this is telling us is we absolutely need to have a
30 conversation with the customer, and what it's also telling us is that there's work that
– and, in this case, we know that the banker and the branch manager here gets
dismissed. So in hindsight you can look back on it quite easily, but we didn't have
hindsight when we were going through this process.

35 So at the time this file review was done, this branch manager had been
dismissed?---Yes, and that's why this one has popped up. Yes.

Yes. Thank you. All right. I will tender that document

40 THE COMMISSIONER: Exhibit 1.11, NAB 036.016.2115 – what shall we call it
Ms Orr?

MS ORR: It's a – an LSR report dated 30 March 2016.

45 THE COMMISSIONER: Thank you.

EXHIBIT #1.11 LSR REPORT DATED 30/03/16 (NAB 036.016.2115)

5 MS ORR: You give an example in your statement, Mr Waldron, of a particular situation where the misconduct resulted in an unsuitable loan for a customer; do you recall that?---Yes, is that – which example were you talking – referring to.

Good point. Can I take you to paragraph 29 of your statement?---Yes.

10 So paragraph 29 you give a chronological account by way of example of one application which on the current state of the investigation appears to be an unsuitable loan for the customer?---Yes.

15 And this loan involved an introducer who was a real estate agent; is that right?---That's correct, yes.

And it was a home loan. And the customer provided the documents to the introducer?---Yes.

20 Now, that was contrary to NABs policy?---Correct.

And the customer provided the funds to complete the transaction not to NAB, but to the introducer?---Yes, that's right.

25 So more than \$100,000 in total - - -?---Yes.

- - - provided to the introducer, also contrary to NABs policy?---Yes.

30 And the banker must, therefore, have accepted that money directly from the introducer rather than from the customer; is that right?---Yes.

Now – and that was a breach by the banker of NABs policies?---Yes, that's right.

35 And the introducer and the customer, we see from this account, attended the bank together to complete the application, and we see from your statement that the introducer did most of the talking in that meeting?---Correct. Yes.

40 Again, that would be contrary to NABs policies in relation to introducers, both for the banker and the introducer?---That's correct.

And the loan was then approved?---Yes.

45 And in a review of this file, as part of NABs investigations, it was discovered that this particular customer had five dependants who were not disclosed to NAB?---Yes.

But NAB had an obligation under the responsible lending provisions in the National Credit Act to make reasonable inquiries into this customer's financial situation, did they not?---Yes, we did.

5 And do you accept that NAB breached that obligation?---In this case, yes, we have . This is not a good outcome for anybody, and for the customer at all. .

No, because NAB didn't understand the customer's true financial position when it approved this loan, did it?---No, we did not.

10

Yes. And the customer was there with the banker in this meeting that the introducer was at, and did most of the talking. So the banker could have discussed these matters with the customer directly but it appears that they did not?---It appears they did not.

15 And this particular customer suffered financial hardship as a result of this conduct; do you agree?---Yes.

This customer went into arrears three times and at the time of your statement is still in arrears?---That's correct.

20

Yes. You annexed to your statement a copy of a note of a telephone discussion that NAB had with this particular customer; do you recall that?---Yes, I do. I know it's one of the attachments.

25 I will take you to it Mr Waldron?---Thank you.

It is volume 5, tab 299. I'm sorry, I didn't give the DOC ID, 005.074.0273. So this is a multi-page document that records the questions asked and the answers given by a NAB person who contacted this customer about this experience; is that right?---Yes, that's correct.

30

And we see that there's a script for how that's to be conducted - - -?---Yes.

- - - which is followed. And if we turn to the second page, we see that the person from NAB asked this customer who they spoke with, about their interaction with the banker, and the customer advises that her initial conversation was with a broker who is also a real estate agent, and she said it was a broker not an - a broker or introducer and she said it was a broker. It appears the customer was confusing introducer with broker as their application on is attributed to an introducer, not broker?---That's correct.

35

40

So the customer doesn't seem to have fully understood the role - - -?---No, they don't.

45 - - - of this person at all?---No.

The customer advised that the broker said he/she will apply for the loan for her. She couldn't remember the introducer's name, but believed they could have been called. Now, could I take you to 276 – I'm sorry, I will take you to 275 first, where the NAB representative asked the customer about her circumstances at the time of the loan,
5 and at the time of the application the customer worked – and we've got a redaction there, but I think it is permissible for me to say that the customer worked two casual jobs as – and the jobs are redacted. Her net salary from the two jobs was in the range of what you see there. Those figures don't make sense, but - - -?---No, they don't.

10 - - - I interpret them to be \$2200 per fortnight?---Yes, I think that's what it's supposed to say.

And her expenses below are listed. She's asked about where she lives, still resides at a particular address, pays \$900 a fortnight of rent and, at the time of the application,
15 she paid \$850 per fortnight. Now, if we move over to 276, still the customer's talking about their current financial position. And if I could take to you the paragraph 3 from the bottom there:

20 *I asked the customer if she paid the broker/introducer and she responded that yes, she did. She paid \$5,000 in broker or introducer fees, \$29,000 in stamp duty, and \$73,000 to NAB. She appeared to not know exactly how much she paid and where. She advised that she gave the estate agent the money and he made all the payments. She asked me to tell her how much was paid to NAB. I provided her with the basic number of her contract price less her contribution.*

25

And also on 276, we see in Conclusion down the bottom:

30 *That this person from NAB would have thanked the customer for their time and assistance, and advised the customer that we will continue our review and may need to call the customer for further verification and we will advise the customer we will be in contact with an outcome.*

Now, this telephone call – it's not clear to me when it took place. Are you able to say when this telephone call took place, Mr Waldron?---I don't have a date, no.
35 Sorry, on this. It's obviously after 8 January, but I do not know when.

What I want to ask you Mr Waldron, is whether this customer has been advised of the outcome?---They have not. We are literally in the midst of putting an offer to them in the next – it's – there are a number that we are about to send out offers to,
40 and she is one of them.

Sorry, you're in the midst of sending out offers?---We are – they are being – so part of our process - - -

45

Yes?--- - - - which I'm sure we will get to later, is that they are then reviewed – any offers that we are making to customers are reviewed through internal and then

KPMG are going through that process as well. We are just finishing that process to make offers to the customer now.

So this customer has not received an offer yet, but she will receive an offer?---Yes.

5

And what's happening with the fact that she is in arrears on the loan at present?---We are just managing that with her. So that she has been working with our NAB assisted team, which is our group that deal with people in financial hardship, and from memory, she has had her payments reduced significantly.

10

Are you able to say by how?---I can't remember her initial payments off the top of my head, I'm sorry.

So arrangements have been made that reduce her payments, but she's still needing to make repayments to NAB?---She is still making repayments, yes.

15

All right

THE COMMISSIONER: Before we leave this telephone record, Mr Waldron, let it be assumed for the moment that the account given by the customer is wholly accurate. Let it be further assumed that the banker and the real estate agent should not have done what they did?---Yes.

20

Let's leave aside whether either or both of them was knowingly in breach of obligations. Let's just assume that they should not have done what they did. What I want to look at is the subsequent processes in the bank just to pick up whether something has gone awry. On page 275, the customer is asked about her income and outgoings, unsurprising. If you were to go to the file of material collected at the time of the loan, would NAB ordinarily have expected there to be supporting documentation, not just a record of what the customer is asserted but supporting documentation?---Yes.

25

30

Payslips or some such material?---Yes.

It's said that the loan was to buy an owner-occupied house; is that right. See page 275. The first block on the right. Initial loan purpose, purchase owner-occupied house?---That's correct.

35

Is there anything you would have expected to see on the file in the way of documentary record that would support that as being the purpose, or is that just something the customer tells the bank and the bank has to act on?---She would have -- there would have been a process -- and, again, I'm not -- because there has been so many breakdowns in this file, I'm not sure who would have informed us that was the fact, that was the initial plan to be owner-occupied, but it looks though she has treated it as an investment property from day one, and that we -- and, again, I don't have the detail in front of me here, I would need to go back and check the actual

40

45

application, but it looks as though we would have treated it as an investment property.

5 Okay. The bottom line I'm lumbering towards, Mr Waldron, is this: that should the bank be able to pick up its file, in respect say of this loan, and find on it material that would verify the chief elements that go to the credit - - -?---Yes.

- - - decision?---Absolutely.

10 When we look at the sequence of events you described in paragraph 29 of your statement – which is about a different loan, isn't it? Paragraph 29?---No. This is the same customer.

Same customer?---Yes.

15

Then it's item (i) which captures my eye. The quality checks were completed by the file quality team?---Yes.

20 Now, recognising that that's the last safety net before approval leading to drawdown, what do you say about the quality of that safety net?---So in this particular case there's obvious misrepresentation that has occurred between what would appear to be, in here, the banker and the introducer and the customer in terms what we have been told. So we would have been given information, what has turned out to be incorrect information, fraudulent information, around this particular case. So that if

25 you – our initial documents that we would have received would have said there was income to cover it. It would have also said there were zero dependents in this particular case. What we – what has happened here is that a discussion has occurred with the introducer, not the customer. There are language difficulties in this particular customer case as well – which is no excuse at all.

30

Yes. Well, it's a human system - - -?---We have - - -

- - - and it happens?---We have services to offer customers if there are those types of situations. But there is language difficulties there. What we would have relied on at

35 the initial point of application, the documentation is incorrect. It is false.

That's the premise from which I begin. That – whether knowingly false, or just it happened - - -?---Yes.

40 The false material you start with. What I'm interested in is whether there is, at the end, any safety net in the bank's processes to verify by reference to materials of a kind that you would ordinarily expect on the file, that the file appears in order?---Yes, there is.

45 Well, we accept it didn't work in this case?---There are – there is documents that ultimately have fraudulent information in them that we have relied upon. Which we have discovered in this process and are in the midst of rectifying.

All right. Yes.

MS ORR: I'm interested, Mr Waldron, in the fact that you describe this as a loan
that was treated by NAB as an investment loan?---Again, I'm reading here she has
5 rental income. So when you go into this document here - - -

Which document, I'm sorry, Mr Waldron?---The phone call.

The phone call, yes?---Yes. She has then – she has made it into an investment loan
10 here by – by renting it out.

THE COMMISSIONER: Where do I see that?---She is renting a property herself to
live in, in a different address to the address of the property.

15 I see. Yes Yes?---So the assumption would be that she has turned it into an
investment property.

But that doesn't mean it was an investment loan, does it, Mr Waldron?---At the time.
I'm - - -
20

I'm confused by this. The purpose of the loan as described by the customer in this
telephone call is to - - -?---So my - - -

- - - purchase an owner-occupied property?---My language describing this document
25 is what I was talking about there. So sorry, if I've confused you, but when I was
talking about this document, and she was not living in the property, I said she turned
it into an investment loan. It's my – it's my language.

Right. So that's nothing to do with the form of loan that she applied for?---No, it's
30 not. It's my language.

She did not apply for an investment loan, did she?---That's my language in terms of
interpreting this document as we were talking. So I've taken you off on the wrong
path. That's my fault.
35

And so just so that I understand?---Yes.

She applied for a home loan for a house that she wanted to live in?---That appears so,
yes.
40

That's what she told the NAB officer - - -?---Yes.

- - - who called her?---Yes.

45 An occupier-occupied property. So it was not an investment loan?---No, it is further
on in this that she talks about then renting.

Subsequent events?---Yes.

5 Yes, thank you. All right. So we can take it, can we, that this conversation with this customer would have occurred sometime last year?---No. It has occurred certainly after the 8 January.

8 January this year?---If you look at the table here in the second component, debrief on correspondence, the first part of - - -

10 What page are you on, Mr Waldron?---273. Which is:

Have you had the chance to go through the documents I sent you on 8 January?

15 We should read - - -?---So this is not the first conversation with the customer and certainly not the last.

We should read that as 8 January 2018, should we?---I am presuming so, yes.

20 Do you – do you know so? Do you know that this isn't?---It's – I believe this is part of our – I don't know. So this is part of – these documents are part of our remediation program.

25 Yes?---So they would have had to have occurred post October, November last year. So I'm presuming, because we haven't had another 8 January, that it's 8 January 2018.

But this loan was taken out in July 2015?---Yes, that's right.

30 And the customer has been in hardship for a significant period since July 2015?---Yes. And the - - -

And you are still talking to her in January 2018?---Yes, we are.

35 And as at March 2018 you haven't made an offer to her to remediate her as a result of the misconduct involved in her getting this loan?---Correct. Because that's when the issues were identified, were back in that timeframe.

40 Thank you. You give other examples in your statement, Mr Waldron, of problems with particular files that you've identified. You give an example of a loan that involved false documentation in paragraph 31 - - -?---Yes.

45 - - - of your statement. And you give an example of a loan containing incorrect income figures in the serviceability assessment in paragraph 44 of your statement?---Yes.

And you give an example of a loan involves dishonest application of a customer's signature in paragraph 55 of your statement?---Yes.

These were all things that happened and you've given, for each of those, one example of a file where this was found to happen?---Correct. As requested.

5 Thank you. Now, we've moved into events that have occurred later in the piece as part of your remediation program, but I want to come back to the original chronology?---Sure.

10 As you pointed out there is another project that comes up, which is Project Beacon, and I want to talk to about that project, because that project identified additional misconduct, did it not?---Yes, it did.

So that project was established in July 2016?---That's correct.

15 Can you explain it's – Project Beacon is the name, can you explain what project beacon was?---So Project Beacon arose out of – obviously, after these issues, we were on heightened awareness for similar issues elsewhere. Project Beacon arose out of a review that was done in around July of that year to see if there were similar issues that may have occurred in other local areas around the country, and it identified some behaviour which was similar, and that we needed to investigate, and off the back of that Project Beacon was established.

20 And when you say behaviour that was similar, what sorts of behaviours were you identifying in Project Beacon?---Very similar to what we have seen through the GWS – the Greater Western Sydney project that we have talked about so far, and where we were finding relationships between introducers and bankers that were not at arm's length; that we were finding situations where we were concerned that documents that we were relying on for information verification shouldn't be relied on, that they may have been false; and that we needed to go and investigate to understand if there was an impact there.

30 Was there banker fraud uncovered as a part of Project Beacon?---Ultimately, yes.

35 Yes. Involving how many bankers?---Sorry. Off the top of my head – I just need to check the number, I'm sorry. The total number – I keep jumping to the total number, which is across Project Beacon and Project Winner, sorry. I can't remember off the top of my head.

We will come to that, then?---Thank you.

40 But we are talking about significant numbers - - -?--- Yes, we are.

- - - of bankers?---Yes, we are.

45 Project Beacon had a series of work streams; is that right?---Yes.

Four work streams?---That's correct.

And one of those was a customer work stream?---That's correct.

And the purpose of that work stream was to consider whether there was an impact on customers as a result of the misconduct?---That's right.

5

And the misconduct that you identified in Project Beacon was not, as you've said, in the Greater Western Sydney area. It was in other areas within New South Wales and in Victoria; is that right?---That's right. Yes.

10 Yes. So when exactly did NAB become aware that the problems it was dealing with in Greater Western Sydney were not restricted to Greater Western Sydney and were occurring in other part of Australia?---So the report which was done in July 2016 was the report that led us to do a full investigation of what was going on there. So we were concerned that was the case, and so as I said we did a review in July of –
15 that month to find the depth of the issue.

When did NAB become concerned that this was the case?---I – I don't have an exact date, I'm sorry, of when we were concerned. We were obviously – as soon as the GW – this started, we obviously became on heightened awareness through that. But
20 we wanted to – we needed to get our heads around actually what the issues were that were occurring in GWS and when went with and really did an in-depth review from the July period.

25 So you started a project to look into this?---Yes, we did.

To examine it further in July 2016?---Yes, we asked for a review to be done, which was – and the outcomes of that review were tabled in July 2016.

30 But you are unable to say when NAB started suspecting that there were issues in other areas that would require that review to occur?---I said I couldn't give you an exact date. So we were – we were concerned, obviously, from – right from the process of the GWS piece we wanted to investigate further throughout the country, but we didn't instigate it for review until July of twenty - - -

35 What caused you to instigate it for review in July 2016?---I'm sorry, I'm not aware of the exact thing that set us off to do that review at that point in time.

40 But someone thought, in July 2016, that it was a good idea to look into this further?---Well, we had been asking questions at different risk committees, etcetera, and so that became a, "We need to do this."

Right. So there was a Project Beacon working group set up to look at all of this?---Yes, there was.

45 And the first meeting of that working group was on 18 July 2016. You deal with this at paragraph 127 of your statement, Mr Waldron?---Thank you. Yes, that's correct.

And the next day, on 19 July, the matter was raised with Enterprise Operation Risk and Compliance. Now, am I right in thinking that that's the successor to the Significant Event Review Panel that we discussed earlier, or are they two different bodies?---Sorry, which - - -

5

I will take you to a document that's about this, that annexed to your statement Mr Waldron. It's in your volume 4, tab 100. I'm sorry, tab 200. And it's 020.014.2131. So you may not have referred to this in terms in your statement, Mr Waldron, but you've annexed this document - - -?---Yes.

10

- - - to your statement?---Yes.

So again we see this reference to the Significant Event Review Panel?---Yes. As – yes.

15

But the document is in a slightly different form to the one we saw before?---Yes, it is. Yes.

20

It has got this Enterprise Operational Risk and compliance banner. What does that mean?---That's just the team that would have helped us put this together and where it's taken to as part of the process.

Okay?---It's no – no real difference in the process.

25

Okay. So this is the same as what we saw before in relation to Greater Western Sydney, it is the - - -?---Essentially, in a slightly different format, yes, that's right.

Yes?---As we referred to in – I think it's 128 in the chronology.

30

So it's the elevation of this matter to the part of NAB that decides whether to make a report to ASIC under - - -?---That's correct.

- - - section 912D of the Corporations Act?---Yes, it is.

35

So it's 19 July 2016 that this matter goes to the Significant Event Review Panel?---Yes.

40

And you've told us that Project Beacon was established in July 2016. So this is something that occurs fairly quickly after the establishment of that project?---That's correct.

Is that right?---Yes.

45

Now, this document that goes to the Significant Event Review Panel tells us at page 2132 what the Significant Event Review Panel was told about how the event was discovered. Do you see there that in February and December 2015 - - -?---Yes.

- - - Retail proposed further enhancements and amendments to the testing of the retail Introducer Program?---Yes.

And then in the next paragraph?---It took - - -

5

Continuing:

10 *...in May and June 44 bankers were selected primarily on introducer commission volumes as follows: 39 bankers, mobile bankers and bankers advisors were selected primarily on their dependency for approximately 50 per cent of their loans obtained from introducer flow.*

?---Yes.

15 Continuing:

20 *And five bankers were added as a result of specific requests by the business and second line risk teams, and of those bankers 28 were located in New South Wales and the ACT and 16 in Victoria.*

?---That's correct. Yes.

25 So you can see now, from this document, that before the establishment of Project Beacon in May and June of 2016, these 44 bankers were selected for examination?---Yes. So this was – this was the review which was being done, which was tabled in the paper that I talked about in July.

Yes?---Yes. So this was the pre-work for that paper.

30 Yes?---Yes.

35 And this – I hope assists you though, with understanding and being able to answer questions about when the concerns started that led to Project Beacon being commenced?---Absolutely. Yes.

40 Yes. So the 44 bankers are selected and there is a review done of those bankers. Are you able – before I talk about the outcome of that review, are you able to say anything about the five bankers that were added as a result of specific requests by the business and second line risk teams? Do you know anything about why someone from those teams suggested that five extra bankers be added into the mix?---I don't have direct knowledge of that, no. Sorry.

45 Does it seem that they must have been bankers that were on the radar of people in the business and second-line risk teams as potentially problematic already?---It would – there is obviously a reason for it that would appear to be a logical reason.

Yes. So the outcome of the review identified that all of the 44 bankers utilised their NAB email address, not aligned with code of conduct expectations, or NAB policy. That was the first layer of the findings, wasn't it?---Yes.

5 But then there's a further review – and assurance test and resultant review that identified additional concerns in relation to 22 banker and email accounts?---Yes.

10 And can you see there that the concerns that are identified include 19 of the bankers receiving verification documents from introducers beyond the spot and refer model?---Yes, I can.

And, 11 of them, confidential information has been sent to a third party by the banker?---Yes.

15 And 16 of them have received information documents from the introducer relating to the application?---Yes.

20 And 14 of them, there is banker receipt of signed application or consent documentation from an introducer. So we are seeing very similar - - -?---Yes, we are.

- - - sorts of conduct as in relation to Greater Western Sydney?---Yes, we are.

25 Although the initial cause for looking into these bankers seems to be more connected with the use of their NAB email address; is that right?---That – we found that that was one of the early indicators that you could see these types of issue arising. So it was - - -

30 Yes, I see?--- - - - it certainly used as a way of trying to identify whether there were similar issue.

It was a flag - - -?---It was a flag, yes. Yes, it was a flag.

35 - - - that suggested you should look further for niece 44 bankers and when you looked further you did find a number of significant problems?---Yes, we have.

40 Yes. Okay. Now, this document tells the Significant Event Review Panel that based on the above – this is at the bottom of that page we were just looking at, 213T – 2132, potential areas which may have been breached include section 47 of the National Credit Act. We have spoken about that previously. That has the duty to do all things necessary to ensure that the credit activities authorised by the licensee are engaged in efficiently, honestly and fairly. And also potential breaches of 912A of the Corporations Act, which we also discussed yesterday?---Yes.

45 And then do you see, towards the middle of that page:

Based on the facts and information available at the time of drafting this memo, could the event constitute a significant breach for the purposes of reporting to ASIC and/or APRA for determination by the SERP?

5 Answer:

Yes. There is the potential significant breach based on the current information available at the time of drafting this memo.

10 ?---That's correct, yes.

So that's the recommendation made to the Significant Event Review Panel that this should be reported to ASIC?---Yes.

15 And do you see there that, in going through the criteria for working out whether this is a significant breach, now consideration is also being given to the prior breaches in connection with the Greater Western Sydney misconduct?---That's correct. Yes.

20 Yes. Okay. So the decision is recorded on 2134. Does the event require reporting? Yes. To whom is the event reportable? ASIC. And the reasons for reporting it are detailed there:

25 *The potential breach may be considered reportable under NABs AFSL obligations, which mirror elements of its ACL obligations. This specifically would be under 912D of the Corporations Act.*

And can I ask you, finally, to look at the last page of this document, 2135. There is – last line:

30 *Further review into the introducers involved is expected by 25 July. Currently, 62 introducers have been linked to issues identified in the review.*

?---Yes.

35 So at this point the 44 bankers have been identified and there has been work done into their conduct. And that is revealed – connections with 62 different introducers?---That's correct.

40 Right. Now, after this time, after 19 July 2016, NAB started interviewing the bankers; is that right?---That's correct, yes.

And as a result of those interviews 12 of them were suspended?---Yes.

45 And on 31 August 2016 – so you will recall that this memo to the Significant Event Review Panel was 19 July. On 31 August a breach report is made to ASIC; is that right?---Yes, it is correct.

You deal with that in 139 of your statement?---Yes.

And can I show you that breach report, which you've annexed to your statement, Mr Waldron. It's volume 4, tab 208. NAB.032.001.0020. You have that
5 document?---Yes, I have that. Yes.

I will just wait for that to come up on the screen. Thank you. So this is the 912D breach report to ASIC in respect of the conduct of the 44 bankers on 31 August 2016. Could I ask that you be shown the second and third pages of this document on the
10 screen together. You see the description there of the breach?---Yes, I do.

The date of the breach tells us it covers the activity of relevant NAB bankers for the period 1 December 2015 to 31 May 2016. Can you say anything about why that period is there for the period of the breach?---I don't know directly why those were
15 the dates that we used. Presumably it is what the report that we had done – the follow up on those bankers was around those dates. But I don't know for certain.

THE COMMISSIONER: Well, it may be connected with the email review. If you go down another part, I rather suspect that – but correct me if I am wrong – that the
20 email review took – surprise, surprise, it took artificial dates?---Yes. And that – that's what I was - - -

1 December to 31 May?---That's what I was alluding to as well.

25 Yes?---Yes.

MS ORR: And on page 5 of this document, which is 0024, there is a reference to the four streams of Project Beacon; is that right? There's customer stream, regulatory stream, introducer stream, people stream, are work streams of Project
30 Beacon?---That's correct.

Within the people stream we see there that it was:

35 *...established to review consequence management considerations and coordinate the interviews with NAB bankers to obtain a response to the potential breaches. These occurred throughout late July 2016. Review led to the suspension – the immediate suspension of 12 of 22 NAB bankers. Consequence management has resulted in six NAB bankers being dismissed; five NAB bankers tendering their resignation, which were accepted by NAB;*
40 *Five NAB bankers received red conduct gates.*

And, over the page:

45 *Three NAB bankers received Amber conduct gates, and two NAB bankers did not have consequence management applied and one NAB banker remains on carer's leave.*

So this is the first time we see a reference to a “red conduct gate”. What is a red conduct gate, Mr Waldron?---It’s when there is no incentive paid. So no bonus could be paid to a banker.

5 So they lose their bonus altogether?---Yes, they do.

Have we had any red conduct gates in connection to the Greater Western Sydney conduct?---Sorry, I would need to go back and check. Again, looking at it in total. We had a number.

10

Yes?---But I would need to go back and check. We must have, from the maths of it though, yes.

15 Right. But you are unable to say how many there were?---Off the top of my head, no. I would need to go back and look at it.

Okay. The conduct that led to these consequences for the bankers is summary summarised earlier in the document on page 3?---Yes.

20 0022. Do you see a table there, Areas of Non-Adherence?---Yes, I do.

And do we see there the same sort of information that we saw in the document that went to the Significant Event Review Panel?---Yes, we do.

25 Yes. All right. Are you able to say looking at this table what sort of conduct led to dismissal, what sort of conduct led to a red conduct gate, what sort of conduct led to the other consequences that we’ve seen in this document; do you know that?---Not directly from this table, no.

30 So you don’t know what the conduct was that caused NAB to dismiss these bankers?---I can’t link it to this table.

What was the - - -

35 THE COMMISSIONER: I’m sorry, Mr Waldron. I missed - - -?---So I can’t link it to this table here. So there’s not – and in some cases there will be multiple examples, you know, they – someone who may have been dismissed may have appeared in all of these tables, as an example. So I can’t link it to the table per se.

40 MS ORR: Yes. So you can tell us this was the conduct they engaged in and you can tell us about the consequences across the number banker of bankers but you are unable to connect the two?---Not draw the links between these tables and so on, no.

45 All right. So that’s the 912D breach to ASIC in relation to the second set of misconduct that NAB commenced working on in July 2016; is that right?---That’s correct, yes.

Okay. That wasn't the last project that NAB set up to deal with all of this, was it?---No, it wasn't. We – we bought together the GWS project and Project Beacon under a project that we called Winnow. Which is – that was the point that I took over ownership of the Introducer Program and bought it all together under one
5 project.

So you tell us in your statement that this project Winnow commenced in October 2016?---That's correct.

10 And it had a steering committee?---That's correct.

Did that steering committee meet monthly?---Yes, it did.

And you were the chair of the steering committee?---Yes.
15

And so you had final decision making capacity for committee?---Ultimately, yes.

THE COMMISSIONER: My sort of chairman, Mr Waldron?---I'm sorry, I missed that.
20

My sort of chairman, Mr Waldron.

MS ORR: Were you accountable for the delivery of the outcomes that were agreed in those committee meetings?---I hold myself accountable, yes.
25

Yes. So the steering committee first met, you tell us, on 27 October 2016?---Yes.

Yes. And you also tell us in your statement that the Introducer Program reopened on 2 November 2016, shortly after the Project Winnow work commenced; is that
30 right?---Yes. So we closed it to new introducers in July of 2016. So that we stopped putting on new introducers to ensure that our processes around on-boarding and accreditation and so on were of the standard they needed to be. So we paused adding any new introducers from July through to November for direct introducer arrangements. And it was February in – in the following year, 2017, for those
35 coming through the national referral partners.

So what was it that caused you to close the Introducer Program to new referrals at that point? What was the trigger for that?---We wanted to ensure our controls were adequate.
40

And when did you say that occurred, July?---In July 2016.

And did that coincide with Project Beacon in any way or not?---It was all around about the same time that it all – that all occurred.
45

And who made the decision to close the Introducer Program to new referrals at that time?---I'm sorry, I'm not too sure which individual made that decision at the time.

But in any event, once you have started Project Winnow in October 2016, not long after that at all the Introducer Program is reopened?---In November it's reopened for direct introducers, so those that have a direct relationship with us, yes.

5 Yes. And did the work of Project Winnow have anything to do with the Introducer Program being reopened in that way?---It was more the work that had been happening prior around ensuring that our controls were – we believed – adequate and in place, and that we had been able to also do some back book review of introducers at that point as well. So we were going through a process of starting to remove
10 introducers from our list as well.

I want to come to that process. But, before I do, you have annexed to your statement a number of the Project Winnow steering committee meeting agendas and minutes?---Yes. And – and the papers, yes.

15 Yes. Which – and the work of Project Winnow has gone for a number of months and is continuing, I assume?---Yes, it is. In a slightly different format, but yes, it is.

Okay. Could I take you to just a couple of the documents that you've provided us.
20 The first one is at volume 3, tab 131, and it's 005.043.0427?---Yes.

Now, this is a document relating to the first steering committee meeting on 27 October 2016?---That's correct.

25 Can I take you to page 6 of that document. So these documents are all organised according to these work streams, these different work streams. So like Project Beacon, Project Winnow had a number of work streams; is that right?---That's correct.

30 And this page gives an update on the introducer channel work stream?---That's right.

And there are core issues in relation to the introducer channel that are identified in this first meeting of the steering committee; is that right?---Yes, there is.

35 And one of those, which we see is the second-last dot point, is that:

Banker incentive and introducer commission structures potentially not driving the right behaviours.

40 ?---That's correct.

So there's continuing awareness by NAB that its incentive and remuneration structures are a causal factor in this misconduct that now underpins not just the Greater Western Sydney conduct but also the Project Beacon conduct?---Yes. That's
45 correct. And there were changes that were going on within that structure as well during that period of time.

But this is October 2016. These incentive and commission structures are still in place, and are still a problem?---Those structures are in place, but there has been changes to those structures, which - - -

5 By this point?---By this point, yes.

10 What changes had been made by this point, in October 2016?---So there was a couple of changes, first up to our – what we called the Star Sales Incentive Program for the bankers who were largely selling mortgages. There had been the introduction of what we called a decelerator. So the way that this worked is it worked off revenue payment, so if you – once you – reached a certain level of revenue you became – you continued to earn above target-like reward, and what we did is – got to certain levels. Instead of earning – and I’m making the numbers up for – for example.

15 Yes, I understand?---Instead of earning \$3 for every \$1000 of revenue, you would earn \$1.50 and then when you reached another level you would earn 50 Cents. So it reduced the total amounts that could be paid quite substantially through the introduction of that – what we called decelerator process. There was also score card changes that were being made around this time, and they were significant in terms of
20 changing the percentage of sales, particularly for leaders that were specifically based on sales as well and what was termed, at the time, “cross-sell”.

25 So as I understand it the decelerator – or the decelerator, as you called it – it didn’t change the fact that bonuses were still paid and they related to revenue payments. It just reduced the rate at which those bonuses would be paid after certain revenue levels were reached; is that right?---Yes. That’s correct.

30 Okay. And score cards still had sales revenue as a percentage factor on someone’s score card review. But what you are saying is that, for sales leaders, the percentage that related to sales was reduced; is that right?---Yes. So it became a more balanced approach for some of our - - -

THE COMMISSIONER: Sorry. It was?---More balanced.

35 I see.

MS ORR: But sales are still there as a factor that goes into the score card?---Yes, it is.

40 Okay. Now, back to this document about an update on the introducer channel and the core issues identified in there, another one identified about halfway down the dot points is:

45 *Inconsistent and ineffective application across the enterprise of regulatory requirements due to varying levels of understanding, ie, operating under NCCP Exception to provide brief customer details, spot and refer.*

Now, what does that mean, Mr Waldron?---It means there was inconsistent understanding that the introducers role was purely to spot and refer. Part of this was caused because we had also, at some instances, allowed mortgage brokers who are licensed to be providing a spot and refer deal and introducer deal for residential mortgages as well. And there had been confusion around those who are licensed versus those who were not licensed providing referrals. And ultimately it shouldn't have mattered if they were acting as an introducer, it should have been purely a spot and refer-type situation, and I think yesterday I spoke to the fact about us removing – becoming quite clear that you are either a broker or an introducer with us. And this was part of that process of moving to that.

So in lay terms what this core issue is, is that bankers don't understand that introducers are to do no more than spot and refer?---There was confusion especially where that introducer was potentially a licensed credit systems provider?---And there is still that confusion in October 2016, although these events that led to all of this were detected – on one view in April 2016, on other views September and October 2015. So you haven't cleared up bankers understanding of this situation more than a year later?---I think what we're trying to identify here is all the core issues that were there. We certainly were going through training programs and so on with people at that point in time, but to say it was 100 per cent fixed was not the case.

Can I just take you to one final page in this document, which is page 10 of the document. This is another work stream. It's the regulatory reporting work stream and there is a reference at the top there to progress made, which refers to notices having been responded to. That's ASIC notices, I assume?---That's correct.

And the first update letter with respect to the banker behaviour and introducer relationships risk smart ID event was provided to ASIC on 29 September 2016, and you've got another scheduled update on 30 November 2016. I want to ask you about the next entry:

A straw man has been prepared with respect to the strategic engagement with ASIC about the Greater Western Sydney introducer fraud matter and the banker behaviour and introducer relationships risk smart event. Internal engagement continues on this stream of work. We have not yet approached ASIC for a meeting and will wait until the key messages are further refined before we do so.

What straw man is being referred to here, Mr Waldron?---It's important to note that from an ASIC perspective they were still talking about GWS project and our Project Beacon pieces, and whilst internally we had started to draw those together and draw together the issues behind the scenes as being one, they just had occurred in – and identified at different times, and that we needed to go back here through to – to ASIC to ensure that we could explain the fact that these were linked, that there was some understanding of the core issues that sat behind what caused GWS – and at this stage we had also done – and I don't know the exact numbers off the top of my head, but many more file reviews around the GWS piece and it was being able to go back to

ASIC to explain our findings from a banker behaviour perspective at that point, as well.

1 I'm sorry. It may be me, but I don't understand that as a response to my question.
5 My question was what is the straw man that had been prepared. What is a straw man, Mr Waldron?---It's just supposed to mean – well, from memory of what we were talking about at the time, it was just supposed to be an outline of the issues that we were identifying, how they impacted GWS from a people perspective and the behaviour perspectives that were there, and that we were also seeing that into our
10 Project Beacon as well.

Well, that's not a straw man, is it Mr Waldron? What do understand that term to mean?---The straw man is – is - - -

15 Yes. What is a straw man?---Almost a situation of an example or a situation outlining a draft or hypothesis.

Well, it's a fallacious example, is it not?---I'm certainly not intending to be, I'm
20 sorry.

Well who had prepared this straw man? “A straw man has been prepared.” Is this NAB who has prepared the straw man?---It would have been a draft of documents that we prepared, yes.

25 So it's a document. It's a reference to a document?---Presumably, yes.

A document connected with your engagement with ASIC?---We would often draft documents that we would then review before being sent to anybody.

30 So was there an intent to keep from ASIC - - -?---No, there was no intent.

- - - some - - -?---There is no intent to keep - - -

- - - true understanding of this?---No. There was no intent to keep from ASIC any
35 truer fairer view of this. I think if you look at the chronology of events you will see that we have interacted with ASIC very often through this process and there has absolutely been – never been any intent to do that.

Well, I'm trying to understand, Mr Waldron, this reference in this Project Winnow
40 first meeting document, this project that you are responsible for. I want to understand – and I will give you one more go at explaining what you think this reference is to “a straw man has been prepared” with respect to the strategic engagement with ASIC about the GWS introducer fraud matter and the banker behaviour and introducer relationships?---I'm not sure I can explain it better than we
45 would have been preparing draft documents.

Draft documents for who?---That we would ultimately provide to ASIC.

Was there a straw man in those documents?---I would have to say, from the language that been used here, it looks like the use of loose language in the document that we've prepared here for ASIC, for our Project Winnow update.

5 It's loose language, you say Mr Waldron?---Well, I'm not sure how else to describe it.

All right. Let's move on to another of these Project Winnow documents that you have annexed to your statement, Mr Waldron. I want to go to the minutes of this meeting?---Sure.

10 The meeting on 27 October 2016. They are at tab 130 of your volume 3. And they are 005.043.0302. This relates to the same meeting. The other document was produced when, prior to the meeting?---Yes, that's right.

15 Yes?---So that would have been the papers for the meeting.

And this is the minutes of the meeting?---Yes, it is.

20 Is that right?---Yes.

Now, can I take you to the bottom of page 2 of that document, under the heading Customer Remediation. Do you see that part of the document?---Yes, I do.

25 Can I direct you to the final dot point:

30 *It was noted that despite the investigations and file reviews being active for 12 months, no customer remediation or compensation has been actioned and at some point the trigger will need to be pulled to – the trigger will need to be pulled to minimise any potential reputation impacts. We need to have a clear view of what we might do based on what we might find, as we won't be able to sit and work this out later, and this will need to be mapped out carefully.*

35 Do you see that reference to the minutes of the meeting, Mr Waldron?---Yes, I do.

40 Do you see that someone in the meeting – perhaps it was you, perhaps it was someone else – is expressing concerns about no remediation having occurred in October 2016, but the basis for that concern was not about consumers not receiving remediation, it was about minimising potential reputation impacts for NAB. Do you agree?---I don't agree that was the intent of the meeting. Absolutely, that is what's minuted, so - - -

45 Do you agree that was the view of someone in that meeting?---I presume the minutes are a fair view of the meeting, but certainly we were absolutely taking the view from a customer perspective – and I think what you read here is some impatience with this taking so long.

There is – I agree, Mr Waldron, it’s clear that there is impatience with it taking so long. I suspect there is more impatience on the part of the customers. But what I’m putting to you is that the impatience here is expressed not because of concern for the customers, but because of concern for NAB and its reputation?---As I said, I am
5 presuming this is a true and fair view of the meeting and someone must have had that view.

All right. Can I take you to another meeting that you have given us some documents for, that happens in November 2016, Mr Waldron, which is your tab 132, and it’s
10 NAB.005.045.0001. Now, can I direct to you page 3 of this document, Mr Waldron. There is a reference, I think to you, here in this document. There is a reference to AW. Do we interpret that to be you?---Yes, that’s me.

Yes. So again, in the customer response part of the document, we see a reference,
15 the second-last dot point:

*AW noted that it has taken a long time to take – to get to full remediation of customers and he is not keen to restrict time further due to resources. Can we
20 look to bring this forward and assess what would be required to do this? JT –*

another person in the meeting –

*responded that it is possible to – could go harder. There is an optimal level, eg, wouldn’t double due to right resources and consistency. AW confirmed that
25 he is comfortable to approve and get going.*

Now, this is you expressing frustration, I want to put to you Mr Waldron, at the time it’s taking to get remediation to customers?---This is certainly me expressing a desire to do it a lot quicker, yes.
30

And am I right in understanding this to mean that there seemed to be resource constraints in getting the remediation program up and running?---One of the things about the resources that are required for this is they have got to have specialist credit knowledge and have a high degree of experience that was there. My words here, and
35 frustration here, are around we should be able to continue to look for more people to assist in that process, which is an action that was taken out of the meeting.

Well, you were frustrated, weren’t you Mr Waldron, that NAB had not made a decision to resource this project so that remediation could be made in a timely and
40 fair fashion?---I – again, going from memory, I was actually more frustrated that people thought they had to wait for a steering committee to do it.

Right?---Yes.

So it’s a year later and customers haven’t been told anything yet about any problems with their loans, have they?---No, they haven’t.
45

And when Project Winnow started, in October 2016, what was the target date that was set for completion of remediation to customers?---From memory I – I don't know from memory, sorry. I would need to go to documents which - - -

5 Do you know what the current date is?---We expected it will take us through to November of this year to complete full process.

November 2018?---Yes.

10 In relation to loans that go back well before the conduct was detected in 2015?---That's correct.

Over the course of your work with Project Winnow you've expressed concerns not just about the speed of remediation, you also express concerns about the speed at
15 which NAB was trying to get to the root of what caused these problems, haven't you?---Yes, I have.

Can I show you another Project Winnow document. Excuse me. It's volume 3, tab 148. 005.043.0335. Now, this is a much more recent meeting?---Yes, it is.

20

So I don't want – to be fair to you, I'm taking you out of order now?---That's fine.

We were dealing with meetings in October and November of 2016 and this is a meeting from 31 October 2017?---Yes.

25

Do you see that?---Yes.

Now, at this point the steering committee has been meeting regularly for over a year?---Yes. For 12 month, yes.

30

Yes. And can I take you to item 3 in this document, which is on the second page under the heading Root Cause Action Plans. Do you see there:

35 *The agenda of the meeting was adjusted to focus on the next steps for the root cause work. AW reminded the steering committee that Winnow has now been running for 12 months with four out of seven streams completed. It has also been two years since the GWS and Beacon events. The key question for uses an organisation is how do we stop these types of events from happening again. The root cause work is critical for us to get right and is our chance to stop it with an improved control environment. AW expressed his growing concern regarding the level of progress on root cause action plans. The recommendations were provided in late August, however there is still no overall plan to address the recommendations that sit across the organisation. The current timeframe to complete a gap analysis in January 2018 is unacceptable and we need to ask ourselves why are we not there yet.*

40

45

Now, does this reflect the views that you were expressing in this meeting in October last year, Mr Waldron?---Yes, it does.

5 Yes. So you were frustrated throughout your work on the steering committee with the lack of speed to deal with customer remediation, but you were also frustrated about the lack of speed to deal with what had caused these problems in the first place?---So the root cause analysis work - - -

10 Would you mind just answering my question first and then elaborating as you want to. Do you agree that you were frustrated with both of those things?---Yes, I was.

15 Yes. Carry on?---So the root cause analysis work to me was – and remains incredibly critical to ensuring that you can stop this type of activity occurring. But also we had gone far more broad than our first remit around root cause analysis. One of the things that, as you have a look at this, is you start to realise that it’s part of an – my words again – end-to-end process - - -

20 Yes?--- - - - that we have there and much of the root cause work needed to go beyond just the work around introducer. And it needed to go to, ultimately, end-to-end process work that needed to be done there. And that is a large process in a large bank, but I was still stressing my frustration that we – how could we make sure that we could accelerate this work that was there?

25 Well, you hadn’t made much progress, had you, by October 2017. You had some recommendations, but none of them had been actioned?---No, that not – we had actually actioned a number of changes prior to that, and there were changes that were been dropped through. What we hadn’t done was mapped it back to the exact root cause work that had been done at that particular point in time. There were a number of changes that had been made at that point in time already, that ultimately went to root cause, and they fell right from the beginning from the KPMG reports, etcetera, that we were making changes right from that particular point. So I don’t think it’s fair to say we hadn’t made change at that point.

35 So what are you referring to, or what is this document referring to then in the line:

The recommendations were provided in late August, however there is still no overall plan to address the recommendations that sit across the organisation.

40 ?---Yes. So what had happened is, because of the – as I talked about it being end-to-end, some of the accountability for change sits in multiple teams that were there and that we hadn’t – there weren’t specific owners and specific people accountable for some of those actions. And that we – I wanted to ensure that they became – people were accountable very quickly for that, and that we moved to implementation of those that were there. So it wasn’t every action that was outstanding, and so on.

45 There were specific pieces that hadn’t been implemented and others that we were still waiting on funding for.

So which were the actions that didn't have a person accountable for them?---Again, I don't have them all in front of me, there were – there were a number that had accountable owners and there were a number that didn't. I don't have it in front of me and I couldn't give you an exact account of that.

5

THE COMMISSIONER: Did they all fall within the overall home lending segment of the bank?---Again, hard to answer that specifically, so – and if I answer by example, there were changes that needed to be made at the front of the process, so within the initial consultation with customers. So what we would call, for example, NAB Retail, they deal with much more than home loans with a customer. So it's – yes, it's through the end-to-end process but changes needed to be made right throughout the organisation.

MS ORR: Project Winnow also had responsibility for responsible lending issues arising from the conduct of these bankers and introducers, didn't it?---Yes. And that was particularly important for the root cause work that we were looking at there, to ensure that we didn't look at this as just a project looking at failures between introducer and banker. You looked at end to end fails that may occur or had occurred across responsible lending.

20

Can I take you to a document annexed to your statement in volume 3 at tab 129. I'm sorry, this is 005.046.2163. This is a document that you deal with in paragraph 160 of your statement, Mr Waldron. This is a – another memo, this time to a consumer banking and wealth risk management committee. Do you see that?---Yes, I do.

25

And it's a memo - - -

THE COMMISSIONER: Again, where in the organisation are we talking here? Are we talking high level executive or mid-level or what?---So this is the risk forum for the Consumer Banking and Wealth Leadership Team. We had had a restructure in terms of bringing our consumer bank – what we had called personal banking and wealth teams together and so a new division called Consumer Banking and Wealth. This is essentially coming to my level in the organisation, the executive general managers.

35

Right.

MS ORR: So this is a memo to that committee about responsible lending, risk oversight, current insights and next steps. Have you seen this document before? You must have, it's annexed to your statement?---Yes, I have.

40

Yes. Can I ask you to look at page 2. There's a heading Implications and Outstanding Questions on Current Oversight Activities. And then a subheading Customer Response. Can I take you down to the paragraph that starts "As part of the customer response". Do you see that?---Yes.

45

Continuing:

As part of the customer response, a series of files were randomly selected –
this is for Project Winnow; is this right?---Yes – yes.

5 Continuing:

...and the same review methodology applied.

10 That's the methodology dealt with in the paragraphs above; is that right?---Yes, I presume so. Yes.

Continuing:

15 *Appendix 4 outlines the file review results across two cohorts, the control group and GWS. The results to date indicate that responsible lending concerns are not pervasive and arise where there are control deficiencies and inappropriate banker behaviour, but when the concerns arise they are extremely important and need to be dealt with appropriately and expeditiously.*

20 We then see on the next page, under the heading Further Questions and Strategies:

25 *A question arises as to the nature and adequacy of controls monitoring and assurance activities in a systemic and comprehensive manner across our current mortgage portfolio.*

That's a very important question, is it not, Mr Waldron?---Yes, it is.

Continuing:

30 *The nature and adequacy of controls monitoring and assurance activities in a systemic and comprehensive manner across our current mortgage portfolio.*

Another question arises further down the page under the heading Fundamental Review of End-to-End Mortgage Process:

35 *A question arises as to whether the end-to-end mortgage origination fulfilment, ongoing management, and eventual repayment requires fundamental review from a controls effectiveness perspective.*

40 So these are questions that are being posed to the Consumer Banking and Wealth Risk Management Committee in this document, which is dated January last year?---That's correct.

45 So as of January last year there are serious concerns within NAB about systemic problems with controls and monitoring in connection with responsible lending?---Well, if you look at what we've talked about in terms of Greater Western

Sydney, in terms of Project Beacon, that was absolutely – you would absolutely reach that conclusion.

5 Can I ask you to look at appendix 2 to this document, Mr Waldron, which 2168, remembering this is a document from January 2017?---2017, Yes.

10 There is a diagrammatic depiction of the Project Winnow working group structure and work streams scope summary. We see the different work streams in the bottom line; is that right?---Yes.

15 Introducer scheme, banker conduct, sales incentive and banker capability, root cause analysis, response strategy and industry matters and customer response?---Yes.

20 Is customer response one of the actions that you were referring to before, Mr Waldron, when no one had been allocated as accountable for that work stream? Do you see there the person is missing and the person is to be confirmed?---Yes. No, that is not the case. There was someone accountable for that stream. What had happened at this particular point in time was the person accountable was a contractor to the organisation. They had previously been an employee of NAB, we had brought them back because they had experience in this type of work, but as they were a contract resource we hadn't locked in contracts, etcetera, for that individual at that point in time.

25 So as at the date of this document, in January 2017 - - -?---Yes.

- - - there was not a person accountable for the customer response work stream for Project Winnow?---No, that not what I said.

30 I'm sorry?---I said the person was a contract resource who, is an ex-NAB employee, who we had brought back in and at that stage contracts had not been signed by the individuals, etcetera, so they were still working in NAB, but we were going - - -

35 I don't understand. Why is their name not recorded in this document?---Because we didn't have a signed contract for them.

40 So they were working on this without a signed contract?---Well, they were rolling – they were a – contracted to us and they had to have an extension of contracts done at that particular point in time. Post this, we also rolled it into a business as usual team, a team that has a leader who is not a – not a contractor. Fair to say that the person who came in to do this work was brought in specifically, because they had significant experience around this, and that they were the type of person that we needed to do it and the type of experience we needed to do it, and also to assist others in making sure that we had the right people doing this on an ongoing basis as well.

45 THE COMMISSIONER: Ms Orr, how much longer do you expect to be with Mr Waldron, do you think?

MS ORR: I will certainly go until lunchtime.

5 THE COMMISSIONER: Right. I might just take a break for five minutes and we might then go through until 1, unless that particularly inconvenient. But adjourn now.

MS ORR: Thank you, Commissioner.

10 **ADJOURNED** [12.16 pm]

RESUMED [12.25 pm]

15 THE COMMISSIONER: Yes, Ms Orr.

MS ORR: Mr Waldron, I just want to take to you this root cause analysis work that you have been speaking about and the results of that root cause analysis?---Yes.

20 You deal with this in your statement, and you list at 222 of your statement the key findings of the root cause analysis work stream of Project Winnow?---Yes.

25 Now, I would like to ask you some questions about some of those findings. So you've got 222 there in front of you?---Yes, I do.

And if we could try to pull that up onto the screen as well.

30 THE COMMISSIONER: This is 222 of Mr Waldron's statement.

MS ORR: Page 35 of Mr Waldron's statement.

THE COMMISSIONER: Yes.

35 MS ORR: Now, it's coming up on the screen, Mr Waldron, but you can see that the first finding you have listed there is that:

40 *The current approach to recruitment, training and accreditation is not fully effective in ensuring that all bankers understand consumer lending process compliance requirements.*

?---Yes.

45 Now, I want to try to translate that into lay terms. What that means, I think Mr Waldron, is that NAB bankers didn't understand what they had to do to comply both with NAB's internal policies and with the law?---So what – what we were trying to point out here is that our training and accreditation processes were not always

effective. So it's not saying all bankers, etcetera, it's saying they weren't always effective. And I think it goes back to the point I was making previously around the root cause going beyond just the Introducer Program, and that being a part of the process, and what we are attempting to do with this root cause analysis is go way
5 beyond that and get to end to end changes that immediate to be made in the process to ensure that we get the right process right through, no matter whether the customer has come through this program or not.

10 So again, because your recruitment training and accreditation was not fully effective, there were bankers in your organisation who did not understand what they had to do to comply with your policies and to comply with the law?---Not fully, yes. That's right.

15 Yes. Not fully, meaning not everyone, but there - - -?---There were incidents - - -
- - - were bankers in that situation?--- - - - of that, yes. That's correct.

Thank you. And the second finding that you list here is:

20 *The design, operation, and management of control across the end-to-end value chain is inadequate to prevent recurring conduct and fraud abuse because overall control effectiveness is currently reliant on banker behaviour. Controls are not designed to effectively and consistently identify instances of intentional misrepresentation of information, which was a key characteristic at the GWS and Beacon events.*
25

Now, again, I want to try and translate that into lay terms. Does that mean that a finding was that NABs processes were inadequate to detect fraud because bankers were relied on to do the right thing?---In these processes that we are talking about
30 here, I think that is fair to say.

Yes?---And that we needed to – remembering that someone trying to commit fraud is trying to find a hole in process, and is very aware of them. So that – we needed to enhance those processes to specifically deal, as well, with cases like GWS and
35 Beacon where there was fraud that had been committed as well.

And fraud not just by external parties, but by your own bankers as well?---That's correct, yes. As we established earlier.

40 Yes. And then a further finding, further down the page was that:

At banker level, current monitoring and reporting is not effective in feeding back where compliance improvements are required.

45 Again, can I have a go at translating that into lay terms?---Yes.

What I think that means is that bankers weren't being adequately monitored to ensure that they were doing the right thing and changes to processes weren't being made where they were doing the wrong thing?---And to – the management loop of feedback needed to also be down at banker level. At some times, it was not down to
5 the individual banker level, and we needed to ensure we got that down to the individual banker level as well, not just branches or local areas as well. Yes.

Is my translation of that into lay terms otherwise correct?---Yes. I think it's
10 reasonable, yes.

And the next finding was that at an enterprise level – this is at the bank level; is that what that means?---That's right.

Continuing:
15

At an enterprise level, monitoring and reporting including operational portfolio risk compliance process quality is not used to build a holistic view to enable the early identification of emerging issues, including conduct or fraud.

20 Again, what I understand that to mean – and you will correct me if I'm wrong – is that NAB's processes were not adequate to identify and get on top of issues such as this misconduct early in the piece?---So what we are alluding to here is that some of our processes and controls were business unit specific, rather than being enterprise specific, and so something might have been picked up in it a – say, for example –
25 consumer banking area, that the same issue might be arising somewhere else, but you needed – but that was not being necessarily foreseen right across the bank. It was being seen as divisional levels at times.

30 Yes. So they weren't – then action wasn't take to address it, because people weren't joining the dots?---Not right across – not right across the enterprise. It might be taken only in the areas it was found.

Yes, okay. Now, can I take you to a root cause analysis document that you have annexed to your statement, which is your tab 253 in volume 5.
35 005.037.0722?---Sorry, you said 253, didn't you?

Yes, I did?---Thank you. Thank you.

40 Can I take you to 0726 in that document. You see that it's a document dated 24 August 2017, and it's a root cause analysis work stream document?---Yes.

And at 0726 there's a whole lot of hypothesis advanced about root causes of this misconduct, and I want to direct you to one of those in particular, which is H3:

45 *The risk/reward equation for bankers is unbalanced in favour of sales over keeping customers and the bank safe.*

Do you see that?---Yes, I do.

And did that prove to be a case? Was that one of the findings of the root cause analysis, that this risk-reward equation for bankers was unbalanced in favour of sales?---I think we have established that there were situations where that was the case and that there were bankers who had – were using this system and trying to ensure that the outcome was better for them than the customer.

And they were using the system, as we have spoken about a number of times, in a way that generated greater bonuses - - -?---Income for them.

- - - for them?---Yes.

Yes. So can we now just come to look at those bonuses for incentives being paid to members of NAB? You have referred in your statement of four different types of incentive programs that were in place during 2013 to 2016. And this is at paragraph 8 of your statement. You referred to the group short term incentive plan. The Star Rewards Program, the Star Sales Incentives Program and the Broker Partnerships Sale Incentive Program. Now, we have established, I think, that the people involved in this misconduct were on the Star Sales Incentives Program?---That's correct.

Yes. And now it was reported in the media last year that NAB was moving its branch managers to the short term incentive plan rather than the Star Sales Incentives Program; is that right?---That's correct, yes.

Now, can I just show you a document which is a report of comments made by NABs chief customer officer in connection with that move. So this is RCD.0021.0001.0168. Do you see there that an article that was published on 1 August 2017 after NABs chief customer officer of Consumer Banking and Wealth made statements about this move from one incentive plan to another for branch managers?---Yes.

Now, in the – we see there NAB is reported as:

...changing the incentives program for its most senior contact centre managers to reward delivery of great customer outcomes, leadership and performance.

And we see in the next paragraph that the move will be from the existing incentive plan to NAB's group short term incentive plan and that this will take effect from 1 October 2017. And the next paragraph we see a quote from NABs chief customer officer of Consumer Banking and Wealth, Andrew Hagger:

The change will see greater emphasis placed on customer outcomes, actions and behaviours, not just product sales for staff incentives.

?---Yes.

Now that's accurate? That is the intention of this move across from the Star Sales Incentive Program to the group short term incentive program?---That's correct.

5 Okay. Now, the short term incentive program was also in place during the period of this misconduct, wasn't it?---Yes, it is.

It's just that the people involved, people who are selling mortgages, home lending people, weren't on that plan?---No. They were not.

10 Okay. And in the response that NAB gave to the Commissioner in January 2018, in response to the letter about misconduct, which had a page dealing with these events – do you remember that page that I took you to, much earlier in your evidence?---Yes, I do.

15 I can have it brought up again for you, if need be, but I will ask the question first in case you don't need it. There is a reference in there to branch managers transitioning across to this plan. So that's one of the steps that NAB explained was being taken to the Commissioner in January of this year?---Yes.

20 So it's August last year that we're told this is going to occur, from October last year. What I want to understand is whether this transition is now complete - - -?---Yes, it is.

25 - - - and branch managers are now all on the short term incentive program?---Yes, they are. So branch managers, our call centre team leaders who may be involved in any way in sales, they have already been transitioned to this.

30 And when did that happen?---It was effective – excuse me – 1 October of last year. We work off an end of September financial year.

So to the extent that the response to the Commissioner refers to “transitioning”, it should be read as a reference to “transitioned”. The transition has occurred?---Yes, it has.

35 Okay. Now, I want to ask you some questions about this short term incentive plan. It has a variable component to it; is that right?---Yes, it does. So it's – that exactly right. So there's a – people get a wage – a base pay, for example, and then there is a potential benefit of that through the sort short term incentive scheme. Usually based as a percentage of their income

40 So it's still a bonus scheme; is that right?---Yes.

45 Right. And the most recent version of the short term incentive plan that you annexed to your statement was from 2015 and 2016?---Yes, I believe so. Through the period of these investigations.

Through the misconduct period?---Yes.

But under a notice to produce NAB has produced to us the current version of the short term incentive plan, which I would like to show you?---Sure.

5 That's NAB.005.037.0766. Is that the current version of the plan - - -?---Yes, I believe so.

- - - Mr Waldron?---I don't have a copy here, but I believe so.

10 Well, I hope that we can get you a copy. There are copies of all of these documents.

THE COMMISSIONER: It's on the screen. Do we need more than what's on the screen?---Presumably, I can read it; that should be fine. Sorry, I'm struggling to read the screen. My eyesight is not the greatest.

15 I know the feeling. Is there anything we can do to help?---That's okay. I will – I'm just not sure where it is. I will read the screen. This is it? Okay. Yes, thank you.

Have you got one?---Yes, I do. Thank you. Yes. It is the correct one, yes.

20 MS ORR: Thank you. Okay. Now, has this plan changed in any material way since the 2015 or '16 one that was annexed to your statement?---In the way that individuals are remunerated, no. There has been some changes, from what I understand – and I'm not the expert on the plan – but from what I understand around how the total STI pool is calculated, but not for how individuals are then
25 remunerated off the back of it.

I see. So could we just start by turning to page 2 of this document. We see there – and we see this in all of the incentive documentation that has been provided. All of it is styled as confidential information, and plan participants are told that they are not to
30 discuss the plan with any person other than a person specifically authorised in a particular case by NAB. They are not permitted to copy the plan, and all of that extends beyond the time when they have ceased to be an employee with NAB. And I will judge go on to point out that unauthorised disclosure of the plan particulars could have significant reputational and/or financial repercussions for each plan
35 participant and for NAB and its businesses. So all of this is highly confidential material within NAB, is it?---For employees it's certainly not, it's – of course. all employees have access to this.

40 But outside of NAB, people - - -?---It's part of our remuneration policies, and generally we don't share remuneration policies.

And failure to abide by the specific confidentiality obligation could result in exclusion from the plan and/or dismissal?---Yes.

45 Yes. Okay. All right. So let's look at the content of the plan. Can I take you to page 7 and we see there the formula for calculating someone's incentive. I – so we need to go to 0773. Do you see 2.7, STI calculation?---Yes.

So this is how we work out, now, what bonus a NAB employee is paid under the current plan. We find out what their STI target is?---Yes.

5 We multiply it by the eligible number of days, we multiply it by a performance multiple, and we make a conduct gate reduction if any; is that right?---Yes.

And do you broadly understand how this process works?---Yes, I do.

10 Yes. And so one of the factors which we have already discussed is that you have to pass the conduct gate?---Yes, you do.

Otherwise, the amount will be reduced. Is the amount still reduced by an amber conduct gate in the amount of 25 per cent?---Yes, it is.

15 Yes. And if you get a red conduct gate, you don't get the bonus?---Correct.

But a green conduct gate, you have it in full?---That's correct.

20 Yes. Okay?---Of course, this is based on your score card and meeting your score card objectives, etcetera, within that.

I will take you to some score cards?---Okay.

25 So I want to understand the interaction between the score cards and this document?---Sure.

30 So we will do that. But can I just take you first to the part of the document that explains what constitutes a green amber or red conduct gate, which is at 0772. So we see there that a green conduct gate is given if you are adhering to the conduct requirements and no breaches are identified; is that right?---That's correct.

And the conduct requirements are assessed, we see, from the line above the table, against the NAB code of conduct; is that right?---That's right.

35 So this is all about adherence to an internal NAB policy, the code of conduct. Are the breaches breaches of the code of conduct or breaches of something else?---No, they are essentially breaches of the code of conduct.

40 Right?---So the code of conduct gives a lot more detail about – about this.

So the conduct gates are all referable to the code of conduct. So if you have adhered to it and not breached it, you get a green conduct gate?---That's correct.

45 And you're then, we see from the final column, eligible for your bonus?---That's right.

Second line down:

If your conduct requirements are not adhered to, or completed, you get an amber conduct gate and then you are eligible for your bonus but you have a reduction of 25 per cent.

5 ?---That's right.

And a red conduct gate is applied if there is a significant conduct breach or multiple minor breaches, or remedial actions are not completed satisfactorily?---That's right.

10 And, in that case, you're ineligible for your bonus?---Correct.

So do I understand from this that you can breach the NAB code of conduct in a way that is regarded within NAB as minor and you will end up with an amber conduct gate, and you will still get 75 per cent of your bonus?---Yes, there are situations
15 where that is the case.

And we have seen many of them in your examination so far, have we not, Mr Waldron?---Yes, we have.

20 We have seen many amber conduct gates?---Mmm.

And you only lose your bonus where it is a significant conduct breach, or multiple minor breaches or remedial action is not completed satisfactorily?---That's correct.

25 Okay. There is a deferral component to this program; is that right?---There is, which is different for different people and different percentages of bonus that you have.

And the calculation that I took you to earlier, to work out how much a particular employee gets, is linked to the short term incentive pool; is that correct?---That's
30 correct. Yes.

And the short term incentive pool is dependant on how well the group does financially?---It's more than financial. There are a number of measures that are there which are laid out on in the plan description that is there, and ultimately the board
35 retains final discretion regarding any pool.

But it's fair to say, isn't it, that if more sales are generated the pool will grow and there will be more available for bonuses for individual bankers?---Not necessarily.

40 Why not necessarily?---Well, there can be instances where the board would not deem that the full amount should be paid, and if you look at the way that it's measured, it's measured on return on equity or return on assets. So it's not necessarily a revenue, pure revenue measure or a sales measure at all. In fact, there are instances where you can sell more and have a lower return on assets.

45

So clause 2.1 refers to generating the STI pool at 770?---Yes, that's correct.

And we see there the return on equity, that you have referred to, and we see under the table on that page, second sentence:

5 *If business performance is lower a smaller or zero STI pool may be generated.*

?---Correct.

10 And before that, if business performance is higher than the target set, a larger system TI pool may be generated, and this is the pool from which all the bonuses must be paid?---Yes, that's correct.

15 Okay. All right. Now, where in the formula for calculating a banker's short-term incentive bonus does NAB input the banker's customer service record?---So that will come into the – the actual scorecard that a banker would have. And, if you like, you are given – it is outlined in here as well on page – sorry – 6 of the document where it talks about your performance plan outcome and that will be against your scorecard.

20 I see?---And the scorecard is different for different roles within the bank, but for the roles that you are talking about, that will have a customer service component, which is almost everybody in NAB, that you would have these outstanding down to not achieved applied.

So you are referring to 0772 of the document?---Yes, I am . Yes.

25 And this relates to the performance plan outcome?---That's right, the table at the bottom.

30 Yes. Now, I see no reference in here to scorecards, but what you're telling us is that the way a person is assessed as falling into one of the these categories - - -?---Yes.

- - - is done by reference to their scorecard; is that right?---Yes, so the way that it's described in the document is performance plan, which is in the – the sentence above that.

35 A performance plan is a scorecard?---Yes.

40 I see. I see. All right. So this goes into the multiplier in the formula, whether you have not achieved your performance plan, performance outcome or whether you've achieved it in one of the ways listed in this document?---That's correct.

And that is done by reference to your scorecard?---Yes.

45 Okay. You've annexed some scorecards to your witness statement, could I take you to some of those to try and understand how this works. Tab 25 of volume 1 of witness statement at 005.061.0024 has a series of scorecards. I'm not sure what form you are going to have these in your hard copy form, Mr Waldron, because these are Excel spreadsheets, as I understand it, but you will have it in some form and you may

need to look at the screen as well. So – yes. So do you have – is your document in a similar form to this?---Yes, it is. I'm - - -

5 Is this the current form of a NAB scorecard for an employee?---They have changed slightly for – they have changed as we have gone to performance plans, etcetera, but this is the relevant type of scorecard for the periods that we were talking about.

10 And had – have the changes been of substance or are they just to the form in that they are now performance plans rather than scorecards?---They are – they are largely to the – to the form, but there is differences obviously in the percentages and so on for weightings for different people and so on, and different roles that are there.

15 So can I take you to one of these, which is – if we go to the tabs at the bottom of the spread sheet, could we go to the tab for the outbound home loan retention banker number one. Now, you will have this somewhere in your – it's probably the second document in your tab there - - -?---Yes, got it.

- - - Mr Waldron?---Thank you.

20 Now, is this a scorecard that was in place during the period of the misconduct from 2013 to 2016?---Yes, this appears to be a scorecard for a – a person who was – in the phone centre making outbound retention calls to a customer.

25 I see. So an outbound home loan retention banker is in the call centre?---Yes, that's correct.

30 Okay. So selling home loans in the call centre?---No, this is – typically, a customer has notified us that they are leaving NAB, they're removing their mortgage and going somewhere else with their mortgage, and this person would be making contact with the customer to try to understand why they were leaving and see if there is anything that we can do to keep them with NAB.

35 So can you see that you would be familiar with this, there is various categories on the left-hand side that attract various weightings in the scorecard?---Yes.

And the first category is financial or risk management?---That's right.

And that makes up 30 per cent of the scorecard?---For these bankers, yes.

40 Yes. For outbound home lone retention bankers?---Yes.

And if we move across the column, can you see of that 30 per cent, 25 per cent of the weighting goes to home lending drawdowns?---Yes, I can.

45 And that there is a target for this sort of employee of \$13 million of home lending drawdowns per quarter?---That's right.

And even better, if they exceed expectations, they brought in \$15 million of home loan drawdowns per quarter?---Yes.

Do you see that?---Yes.

5

So what I want to put to you is that this scorecard has a significant component which reflects sales – now, we will have to understand how this works given the role that you have just identified for this person – but 25 per cent, a quarter of the scorecard for this person is assessed on the volume of home lending drawdowns connected with that person?---That’s correct.

10

And they have a target to meet of 13 million per quarter?---Yes.

15

Now, does that remain the case that these sorts of weightings and targets are in place in NABs scorecards?---They are in place for some roles. Yes.

20

Okay. Well, can I take you to another role to try and understand what these people do. The next tab down is an MRU banker 2, mortgage retention banker 2. Now, what does that person do?---Very similar role to that above, but they will – they will be more experienced in their role.

I see. So a more senior person doing the same job?---Yes, more experienced.

25

And, again, we see that 35 per cent of their scorecard is directed to financial or risk management results, and a person in this job has 20 per cent of that directed to home loan footings retained and 15 per cent to home loan drawdowns. So we’ve got targets again, sales targets and 35 per cent of their scorecard directed to those sales targets?---Yes, that’s correct.

30

Now, can I take you to one that I think might be for someone who is not in a call centre at tab 29 of your volume, NAB 005.061.0028 . Now, this one is for a mortgage banker inbound. Now, what does this person do?---I’m presuming this is an inbound call centre role for a mortgage banker. So this is someone who is – a customer is calling in wanting a mortgage, they will go through to this team and these will be bankers who are able to assist them in writing a mortgage.

35

Right.

40

THE COMMISSIONER: New business not exist in business, the previous people were existing business were you trying to hang on to; is that right?---Essentially, yes.

Yes.

45

MS ORR: So these people have 45 per cent of their scorecard directed to financial matters, and then we see measures, moving across three or four columns, there is a list of products there: credit cards?---Yes.

NMP. What is NMP?---It's a mortgage protection product, it's an insurance product.

Another insurance product. I'm sorry, I'm getting a – could we pan out and have the entirety of that document, thank you. So these are products that a mortgage banker
5 inbound scorecard assigns targets to and 45 per cent, nearly half of their scorecard, is directed to assessing their sales of these products; is that right?---That's correct.

Thank you. All right. And just – we will go to one more in there, which is the consumer sales banker. What is the job of a consumer sales banker?---I'm sorry,
10 where is that tab, sorry - - -

It's another tab, I'm sorry, it has gone from the screen. So there is a tab at the bottom there, I think it's the next one across: Consumer Banker. If we could just go up to the title of this document. A Consumer Sales Banker. What does a consumer
15 sales banker do?---I'm just trying to read it. Sorry

Of course?---This appears to be a banker who is selling other products, not mortgages, so they wouldn't be accredited to write a mortgage at this point in time. And they are, again, in our inbound call centre area.
20

Can I direct you to one matter on this page. So again we see a 45 per cent weighting, we can't see the other column, but to financial matters. We seem to be missing the first column on the left. There we go. 45 per cent to financial matters. 20 per cent on this person's scorecard goes to operational or quality or risk. Can I just direct
25 your attention to the third matter – the third measure there, which is compliance with the NCCP. So that's legal compliance with the National Credit Act, isn't it?---Yes, what's being talked about in this particular example, though, is specifically the file quality and the quality of application, and so we do measures around – around the quality of the applications, which ultimately help us to ensure NCCP compliance.
30

But is it quality in terms of meeting - - -?---It's a quality - - -

- - - obligations under the National Credit Act?---It goes beyond that. It goes to the quality of the actual file that's being submitted by the particular banker. So it goes
35 beyond just those requirements to ensuring all data fields, etcetera, are captured and so on.

But within that, is the requirement - - -?---Within that there is - - -

- - - to comply with the Act?---Within that there is components that are required to ensure that you're NCCP compliant within that, but it is also a file quality measure.
40

Okay. And so five per cent of their scorecard goes to that and they have a target of 89 to 95 per cent error free file - - -?---Yes.
45

- - - for compliance under the Act?---That is for the compliance including our quality measures of the file.

All right. So you say that that's not reflective of - - -?---It - it's - - -

5 There can be some times when you don't comply with the Act?---No, that's not what I said. What I've said it's actually around additional measures that we have in place as well.

10 About the quality of the file from NABs perspective?---Quality of the files, which - and obviously the higher quality, the more capture, etcetera, then you've - you know, you can have greater comfort in your compliance.

15 Now, I see the time, can I wrap up this line of questioning, Commissioner, by putting to you - so these sorts of scorecards are still in play at NAB?---Yes, they are. At the moment they are. As you alluded to earlier, there has already been changes through our branch managers and team leaders within the call centres, largely off the back of the work that the APA has done under a six point plan and recommendations from Steven Sedgwick, which are under review and will have impacts on the scorecards going forward.

20 But at the moment - - -?---Yes.

- - - the scorecards still have these categories to them, financial categories?---Yes, they do have those categories.

25 Non-financial categories?---Yes, they do.

And do you accept that the financial category is often a significant component of an employee's score under these scorecards?---Yes.

30 And that there is within that a very significant component that relates to generating volume of sales of NAB products?---Yes, there is.

Thank you.

35 THE COMMISSIONER: Yes. If you could be back here in time to begin at 2 o'clock, Mr Waldron. Thank you very much?---Thank you.

We will adjourn until 2.

40 **ADJOURNED** **[1.01 pm]**

RESUMED **[2.01 pm]**

45 THE COMMISSIONER: Yes, Ms Orr.

MS ORR: Before I leave the topic of these incentive programs, Mr Waldron, can I show you one further document, which is not annexed to your statement. It's 040.001.0133. This is a memorandum for the personal bank risk management committee. And if we could turn to the fourth page of that document you will see that it was prepared in May 2016?---Yes. Sorry, does anyone – could someone direct me to where it is in the tabs? Okay. Thank you. Thank you.

10 So I think you have annexed to your statement other memorandums for the personal bank risk management committee; is that right?---Yes.

But not this one?---No, it was not.

15 And this one deals on the first page with a star and sales incentive review in April 2016. Are you able to tell us what that review involved and what resulted from that review?---From my understanding this was a review which was done by our second line risk team, just to assess the program and what was actually occurring in it and whether they were seeing any differences in the performance of that by different bankers. I was only aware of it through this particular document.

20 And we see a reference in this document to the misconduct that I've been asking you questions about, on the second page?---Yes.

25 So we see a reference there, towards the bottom of the second page, to the Greater Western Sydney fraud investigation?---Yes.

And various findings in connection with that investigation. Then if I could ask you to look at the top of the next page, there is a heading Other Oversight Activities, and if you could read through that paragraph you will see that there is a reference there to two other incidents not involving Greater Western Sydney, but two other recent fraudulent incidents that involve dismissal of bankers?---Yes.

30 One of which is connected to the Introducer Program?---Yes, I can.

35 And in the next paragraph down, whilst these are two acute incidents, there appears to be a widespread culture that permits circumventing the full verification process:

40 *This is supported by the number of policy waivers, processed by ESCT for verifying customer details on a loan application which make up 82 per cent of all policy waivers from October 2015, to February 2016. This is due in part to bankers not providing verification data required in line with minimum standards, or in some cases being unwilling to request missing data from loan applicants for fear of losing the deal.*

45 Do you see that?---Yes, I do see that paragraph.

So this committee is being told that there are breaches occurring in connection with home loan application processes and waivers of NAB requirements in connection

with NAB home loan applications. And that these are occurring for reasons that include the bankers fearing that they will lose the sale of that home loan product to the customer; is that right?---Yes. Fear that the customer will go to another bank.

5 Yes?---Yes.

And to ensure the customer doesn't go to another bank or to attempt to ensure that, shortcuts are occurring and verifications are not occurring as they should occur under the law?---No, they're asking for policy waivers to occur, which – and a decision is
10 made by someone that a policy waiver could occur in that instance, that does not mean it was outside the law, it means they were asking for a policy waiver of our policies.

The policies in relation to verification which links up with the law?---Ultimately it
15 does, but there's certain policies that NAB has over and above the law, and these are policy waivers that someone with a delegated credit authority would be able to provide.

Yes. Well the law requires NAB to take reasonable steps - - -?---Correct.
20

- - - to understand a consumer's financial situation?---Yes.

And to take reasonable steps to verify the - - -?---Correct.

- - - information provided about the financial situation. And do I read this as saying
25 that some NAB bankers are not doing the verification step as they should, because they are too afraid that the customer will then go to another bank with their home loan business?---They're asking those people who can make a decision on a file for a policy waiver so that they don't have to go back to the customer in fear of losing the
30 deal.

But just so I understand: what does that policy waiver mean? They are asking for a waiver - - -?---They're - - -

- - - of the part of NABs policy that requires verification details; is that right?---So
35 our requirements are not just legal requirements.

Yes?---We have policies above – above that to ensure quality levels, etcetera, that we
40 would want through files. So they've asked for policy waivers to occur in that instance.

Okay. Could I tend their document, Commissioner.

THE COMMISSIONER: Exhibit 1.13, memo from personal bank risk committee –
45 May '16, is it?

MS ORR: Yes, it is, Commissioner.

THE COMMISSIONER: NAB.040.001.0133.

EXHIBIT #1.12 MEMO FROM PERSONAL BANK RISK COMMITTEE
5 **DATED MAY 2016 (NAB.040.001.0133)**

MS ORR: Mr Waldron, before lunch you explained some of the key findings at the root cause analysis - - -?---Yes.

10

- - - conducted by NAB, could I now ask you to explain what steps NAB took in response to the findings that the root cause analysis connected with all of this misconduct?---Yes. So there is a summary that is outlined in here. If - - -

15 Could you explain in general terms?---Yes, sure. If I may refer to - - -

Of course?---To the document to do that. Sorry, I'm just finding the tab there. So that starts paragraph 225.

20 Yes?---In terms of that. And the root cause work goes to a number of different recommendations that were there. The first of those is around the capability of our people improving the capability there. A number of changes were made to the scorecards, as we've talked about already, for retail leaders and for retail bankers in terms of chaining the percentages that were there. Retail accreditation frameworks
25 were established to ensure that training was established to get consistency of the training that was occurring there, as well as ensuring that the leaders were able to have the right level of training so they could coach their people, as you would expect in a role such as a branch manager. Compulsory eLearn trainings around what the Introducer Program was and how it was to work. We have also instigated a process
30 where our – what is termed in this platinum banker program has been established, what that essentially is a realisation that we wanted to – and excuse the jargon – but we wanted to bring back the craft of consumer banking to our people. And that what we wanted to do in that instance was raise the levels of training well beyond that, which is just required as a minimum standard per se, but we want to raise the level of
35 education and training of our frontline bankers who are having these conversations with customers. We have called that a platinum banker program just off the realisation that we can't train them all at once, and so we are going through a process of uplift but, ultimately, it's a process to lift all of our bankers to that level but that will take time. As that – as well as that, we've refreshed what we call Inspire, which
40 is the way we have conversations with customers around the needs they have. It's our way of capturing that conversation. It's a mind-mapping process to ensure that we capture the initial conversation, understand the needs of the customers, and then we've also considerably changed the way that we on board customers in our business banking processes, we've put in dedicated roles, established what we call – or two
45 dedicated roles there, what we call business mortgage writer, who is someone to assist one of our business bankers specifically to write mortgages, or, in some cases, we put just mortgage specialists in to work with our business bankers where the

mortgage – the mortgage will be written by the mortgage specialists rather than the business banker in our business environment, which is really a recognition of the complexity that NCCP and the complexity of writing a mortgage versus some of the credit for businesses business lending, as well as other eLearning and secured
5 lending training that been put in. So those were specific things around the actual training that’s required for our people and uplifting capability of our people. We’ve also done a number of things around creating a model for predictive high-risk situations so that we can monitor our bankers in a way that alerts us to anything that might be higher risk. So for example higher percentages of loans going through
10 introducers, where we are seeing specific changes in the way that their lending is going for that particular customer and the banker. What I mean by that for example is high LVR lending etcetera from one particular banking area, etcetera, predictive banker model to do that, to allow us to then test and go back and do that loop back for those bankers. So if we’re seeing these predictive models, these key risk
15 indicators pop up for us particular bankers it allows us to then do tests behind the scenes to see if there is anything occurring within that. As well as – we talked early on around serviceability, so measuring reports to ensure that at banker level, measuring their – the level of depth that they’re going to in capturing expenses versus the household expenditure measure where the household expenditure measure
20 is actually ever being relied on or whether capturing the expenses adequately through that process as well and a loop back in that process to get back to the bankers to ensure that they are meeting the expected outcomes around that. We’ve also put in significant changes around our actual accessing and monitoring and reporting to ensure that the outcome expectations through strengthening those feedbacks, which
25 I’ve talked a little bit about already but I pick up a couple of other points from that, the first is something we term a triangulation report which is monitor the banker customer and introducer relationship. We talked earlier on about one case that talked about addresses that were similar for customers, so monitoring that, monitoring bank accounts, etcetera, to ensure that we see any triangulation, any relationship and any
30 change of the relationship between customer, banker and introducer. And, again, patterns are very, very important, to be able to see those. So being able to pull those out and compare those types of reports on a regular basis has been very important as well. As well as some central assurance technologies around the way that we look and report back through the bank, around what is going on to get to the point that you
35 made earlier on around looking at an enterprise level, not just divisional levels, the way that we do that. The other couple of key points that I would pick out are amongst these in terms of strengthening the control environment, we obviously have changed our banker monitoring and reporting that is coming through, as I’ve touched on already there, and really all the reporting is on our sales and incentive schemes
40 that are there. We have had a fraud technology proof of concept that has been put in place, which is now going through to full implementation, which is essentially review, pay slips, as I talked about patterns and other income verification. But I talked about patterns and patterns are important and generally a person only sees one file, it may look real but through the technology you can assess every payslip that’s
45 coming in to assess patterns again for anything that could seem to be fraudulent, and that tool is now being rolled out fully. Ultimately, we’ve also pushed down forward comprehensive credit reporting in the first bank to implement that and we’re moving

through on a number of our other frameworks around those things there. Most of the other actions, as I term it through, they overlap between the different areas that we have tried to look at, but those are the – some of the key components and, from a root cause, have been implemented between the process of first identification and that we are still implementing today.

Is there a degree of automation in your monitoring systems for fraud that you are implementing and have implemented that was not in place at the time?---Yes, there is a greater degree of automation and a greater degree of enterprise-wide reporting. Probably the best example of the automation pieces is what I talked about with the income verification components and putting in software that can look at ultimately all payslips that come through into our systems, so that you're to, for fear of repeating myself, see the patterns that are occurring.

And is that software in place now or not?---It is in place for our main record keeping systems and we're working through the roll out – of the – across the entire bank.

When will that roll out be complete?---I'm sorry, I can't give you an exact date on that at the moment.

You mentioned some changes in your statement that you've made to the Introducer Program as well?---Yes.

And have you spoken of some of those already. Early on in your evidence you talked about the number of introducers peaking in the - - -?---Yes.

- - - period of the misconduct at about, I think you said 8000 people?---Yes.

And I think your evidence was that it's now down to - - -?---Around 1400.

Yes. I think you mentioned 1398 in your statement?---Right.

So that means that you've terminated a very large number of arrangements with introducers?---Yes, we have.

Why did that happen?---There were a number of key reasons for it. The first of those is they had been dormant, meaning they hadn't introduced a loan for a period, and, again, therefore, you don't want to continue those relationships, they are of high risk. The second is that the only loan they had ever introduced was their own and so we hadn't received other referrals from them. So we removed those. The third key component for it was they didn't fit our go-forward model of industries that we wanted introducers to be from, or they couldn't prove that they were from those industries and may not have held the accreditation for those industries that was there, and so they were removed as well. As well as obviously the introducers that we have already covered in the preceding conversations that were removed because we had concerns about fraud.

Why is a dormant introducer a high risk introducer?---Our belief is that a dormant introducer is high risk because they – they won't necessarily be au fait with what is expected of them, and again we talked yesterday around what is expected of them, which is purely to be a spot and refer component. We do think that when someone
5 hasn't been doing this for some time, they may have a higher probability of overstepping the requirements that we have there. So doing more that we would actually have them do as a pure spot and refer model. So the easiest way for us to deal with that and get to that – to stop that occurring was to remove them.

10 Why isn't it the case that they are completely familiar with the requirements of the model but have chosen not to refer people to NAB over a period of time?---Either way, the safest thing for us to do was to remove them.

I want to put to you that the reason so many introducers were removed from the
15 program was that you selected introducers that were not profitable for NAB and you removed dormant introducers that weren't bringing business into NAB and they are the ones that were cut?---No, that wouldn't be consistent with the introducers that were also removed. If you look at the total introducer portfolio that we have, eight of our top 10 were removed.

20 So what about your – your first reason for removing introducers that you gave was dormancy?---Yes.

25 So the dormant introducers have been removed in circumstances where they are not generating business for NAB; do you agree with that?---Yes, that – that would make them dormant, yes.

30 Yes. So you may have removed others who were not dormant, the eight of the 10 that you mentioned, but those that you removed that were dormant, which I want to put to you was the vast majority of the introducers you removed, were not profitable in their relationship with NAB?---Well, they weren't – they certainly weren't introducing business, so - - -

35 That's right. All right. So can we just deal with the remediation program in a little bit more detail?---Sure.

You've already given some evidence about that and there is considerable detail about it in your statement. In your statement you make clear that as a result of this
40 conduct, the conduct that sits behind the Greater Western Sydney events and the Project Beacon events, NAB has identified 1132 customers who may have been affected by the misconduct?---Mmm.

45 That correct?---That was – that was right at the point of the submission. Obviously, we continue to do file reviews and on those numbers.

Do you have a different number today?---It is around about 1300 – I think the last report was 1360.

So the number has gone up, has it?---Yes, because we continue to do the second file reviews that are there.

I see. So you haven't yet - - -?---Completed - - -

5

- - - identified how many customers have been affected by this conduct?---We are still working through the second file review process and then to conduct the customers, yes.

10 So as today it's up to 1360?---That is potentially impacted, yes, that we have to have a direct conversation with the customer, yes.

And those customers might be affected by the conduct of one or more of 60 different bankers; is that right?---That's right.

15

And, as at the date of your statement, NAB had contacted 616 of those customers. So around 50 per cent - - -?---Yes.

- - - of the customers?---Yes.

20

Has that improved?---As at Friday it was 71 per cent.

71 per cent. So there has been on pretty hard work in the last week or – some pretty hard work in the last week or so prior to you giving evidence Mr Waldron?---Well, it's always a approach of – we have to try and – we are attempting to contact these customers on multiple occasions as well, but, as of Friday, we've attempted to contact 71 per cent and we will continue to round that out until we finish.

25

Has NAB paid out any remediation to any customer yet?---No, we have not.

30

Why not?---Because we – as I said, this process of talking to the customer, we need to go back and verify with the customer, documentation, what actually occurred during those conversations, etcetera. We were right at the back end of that process, we are in the midst of about to – part of the remediation process is essentially offering remediation to the customer, and we are in the midst of about to offer remediation to customers. As at, again, last Friday, we had identified there would be about 26 those that we would be making offers to over the next little while, and as is also in a remediation process, it requires a sign-off process both internal and through our external experts to get to that point and we are literally about to move into making those offers.

35

40

So when did NAB start talking to these customers?---So from the process of our remediation we would have started talking to them – or trying to contact them November last year.

45

November last year. But in March no one yet has received an offer of remediation?---No, not yet.

And you say some will over the next little while?---As in next – next week or two, yes.

5 Week or two. And that will be a fraction of the number of customers that NAB regards as potentially affected by this misconduct. It will be 26 of them?---That is where we are at, at the moment, but it does require individual conversations, as I've said, with the customers, to get to that point.

10 The work that has been done in the file review process seems to have gone into overdrive since the end of last year. Do you accept that there has been many more files reviewed since December last year than there were in the 18 months prior to December last year?---So I think the definition of file review is probably important there. So up until about November last year we had done a little over 11,000 file reviews to ascertain whether we moved into the remediation process with them. So it 15 certainly has sped up around the second file review process and to remediation, but we had done 11,000 reviews to that point and to get to the point of making that decision to do those file reviews, there was a lot of work also done which would have included other file reviews that we haven't counted in there to get to that point.

20 I want to put to you that as at 20 December last year, for the GWS project, a second review of 229 files had been done and 82 customers had been contacted. So 43 per cent?---Yes.

25 And that was over the course of a lengthy period leading up to that date and that for Project Beacon there had been no second file reviews done as at 20 December 2017?---I don't have the data in front of me, but that sounds correct.

30 Well, that's a reference to the Winnow steering committee meeting, number 14, on 20 December 2017?---Yes.

35 And then as at 22 February this year, the second review of GWS files was up to 736 with 504 customers contacted, 81 per cent, and for Beacon, 594 files had been reviewed and 111 people had been contacted. So up from zero per cent to 23 per cent in that couple of month period, does the fact that this Royal Commission was coming and you were providing a statement on these matters have anything to do with the speed with which the file review process has moved over the last couple of months?---We haven't – certainly haven't added additional people or anything to do it. We've absolutely kept to our team of experts there to do it. Obviously, it gives a greater – it certainly top of mind, but it's not exactly – it's not sped up the process 40 per se, but we haven't added lots more people or anything in the process.

45 Can I just show you one more document in closing the submissions – I'm sorry, the questions that I'm asking you, Mr Waldron, which is the media release that NAB issued in relation to this misconduct, which is not in your witness statement, it's 032.001.2591. Have you seen - - -?---Yes, I have.

- - - this media release before?---Yes.

So NAB decided to make a media release – to do a media release on 16 November last year?---That’s correct.

5 And the trigger for releasing a media release was that the remediation program had commenced; is that correct?---That’s correct.

Right. So prior to that point, prior to the point of commencing the remediation, NAB had not spoken publicly about these events at all?---No, we had not.

10 And this media release records that as a result of NABs review 20 bankers in New South Wales and Victoria had their employments terminated or are no longer employed by NAB, and an additional 32 bankers had consequences applied, including the reduction of remuneration. I just want to be clear about the figures here: how many people were dismissed by NAB in total?---10.

15 And how many had their – how many are no longer employed by NAB?---Another 10.

20 Another 10. So it wasn’t the case that 20 were dismissed, 10 were dismissed and 10 will no longer with NAB and 32 had consequences applied, including the reduction of remuneration. That figure remains correct?---I believe so, yes.

Yes. Thank you, Mr Waldron, those are the questions that I have. I need to tender some documents before I sit down, if the Commissioner pleases

25 THE COMMISSIONER: Well, before you do that, I can’t count. The last exhibit should have been exhibit 1.12. So exhibit 1.1 was the memorandum from – memorandum for personal banking risk committee of May 2016. This is NAB.004.001.0133.

30 MS ORR: There are five additional documents I need to tender, Commissioner, to which I’ve referred in questioning to Mr Waldron.

THE COMMISSIONER: Yes.

35 MS ORR: The first is page 5 of the NAB Group response dated 29 January 2008 – 2018. RCD.0001.0034.0007.

40 THE COMMISSIONER: Yes. That will be exhibit 1.13, page 5 of the NAB Group response of 29 January ’18 RCD.001.0034.0007.

**EXHIBIT #1.13 PAGE 5 OF THE NAB GROUP RESPONSE DATED
29/01/2018 (RCD.001.0034.0007)**

45

MS ORR: The second is an email from Alex Milliss, M-i-l-l-i-s-s, to Fiona Lynch dated 16 October 2015, NAB.005.074.0550.

5 THE COMMISSIONER: That will be exhibit 1.14, having the description you have given it.

EXHIBIT #1.14 EMAIL FROM ALEX MILLISS TO FIONA LYNCH DATED 16/10/2015 (NAB.005.074.0550)

10

MS ORR: The second – I’m just wanting to make sure that the description I give to you is correct. While we are checking that, I will deal with the document that I just referred to, Commissioner, which is the NAB, media release, dated 16 November 15 2017.

THE COMMISSIONER: NAB.032.001.2591, NAB media release 16 November '17 is exhibit 1.15.

20

EXHIBIT #1.15 NAB MEDIA RELEASE DATED 16/11/2017 (NAB.032.001.2591)

25 MS ORR: The next is the NAB Group short term incentive plan for 2017 to 2018.

THE COMMISSIONER: Are you tendering the whole plan or only those parts that you refer to? I am conscious of the fact that the foreword to the document spoke about sensitivities.

30

MS ORR: I did refer to multiple pages in that document, Commissioner. I can identify each of those pages, but I think I probably referred to most of the pages in the document.

35 THE COMMISSIONER: Very well. So what’s the document number?

MS ORR: The document number for that is NAB.005.037.0766.

THE COMMISSIONER: That document will be exhibit 1.16.

40

EXHIBIT #1.16 NAB GROUP SHORT TERM INCENTIVE PLAN FOR 2017 TO 2018 (NAB.005.037.0766)

45

MS ORR: And the next document is a media article entitled NAB Retail and Call Centre Staff to be Rewarded for Great Customer Outcomes, dated 1 August 2017. RCD.0021.0001.0168.

5 THE COMMISSIONER: That document will be exhibit 1.17, having the description have you given.

10 **EXHIBIT #1.17 MEDIA ARTICLE ENTITLED NAB RETAIL AND CALL CENTRE STAFF TO BE REWARDED FOR GREAT CUSTOMER OUTCOMES DATED 01/08/2017 (RCD.0021.0001.0168)**

15 MS ORR: And finally, Commissioner, I tender the exhibits to Mr Waldron's statement which you may recall I was in the process of tendering when an application was made about certain of those documents.

20 THE COMMISSIONER: That will be exhibit 1.18, exhibits to Mr Waldron's statement dated – what date?

MS ORR: Dated 2 March 2018.

THE COMMISSIONER: Bearing that date. Yes.

25 **EXHIBIT #1.18 EXHIBITS TO MR WALDRON'S STATEMENT DATED 02/03/2018**

30 MS ORR: Thank you, Commissioner.

THE COMMISSIONER: Yes. Now, does any party having leave seek leave to cross-examine Mr Waldron? No application? Very well. Yes, Ms Harris.

35 **<RE-EXAMINATION BY MS HARRIS** **[2.32 pm]**

40 MS HARRIS: Thank you Commissioner.

Mr Waldron I just want to ask you a couple of questions in re-examination arising what my learned friend has dealt with you. Do you recall that Ms Orr asked you some questions about the current short term incentive - - -

45 THE COMMISSIONER: Sorry, Ms Harris, you are going to have to move the mics one way or the other, or you, or both. Make some allowance for my age. Sorry, start again?

MS HARRIS: Is that better, Commissioner?

THE COMMISSIONER: Yes, thank you.

5 MS HARRIS: I beg your pardon.

So Ms Orr asked you some questions earlier today about the current short term incentive plan, which is NAB.005.037.0766. If we could have that document brought up?---Yes.

10

And at page 0772 - - -

THE COMMISSIONER: Just a moment. What's going on with the witness with your instructing solicitor, Ms Harris? Enough.

15

MS HARRIS: I'm sorry, your Honour.

THE WITNESS: Thank you.

20 THE COMMISSIONER: If the witness needs help, let him ask Ms Harris.

MS HARRIS: Indeed, Commissioner. I beg your pardon.

THE COMMISSIONER: Yes.

25

MS HARRIS: Mr Waldron, at 0772, do you recall having a look at that table under 2.4?---Yes.

And that table – sorry, we will need to scroll down. It's the table under 2.4, please. That table refers to three conduct gates: green, amber and red?---Yes.

30

And Ms Orr asked you a question at transcript 151, line 4:

35 *If your conduct requirements are not adhered to or completed you get an amber conduct gate.*

And you agreed with that proposition. Do you recall that?---Yes, I do.

What kind of conduct might lead to an employee being given an amber gateway?

40

Can you give the Commissioner some examples?---So a couple of examples may be where you have training that you must complete on an annual basis, and you have completed that training late, so you know you have to complete it by a particular date and you don't complete it in time. That will be considered an amber gate. That is one example. In the cases that we talked to here, there was examples of amber gates being given for people using personal email addresses rather than work email addresses for – for the transmission of documents. At the particular point in time there was issues with being able to receive all documents through some of our own

45

email services, because of size of documents and so on, that potentially had encouraged people not to use work emails. But they – they still received amber gates.

5 Thank you. And those – you said in answer to your – to Ms Orr that an amber gateway might be attracted for breaches of the NAB code of conduct. Are the things that you have just referred to examples of the breach of the NAB code of conduct?---Without looking right through the code of conduct it is my general awareness that those are things that we would apply an amber gate for, purely
10 because I have had to do it to members of my own team.

I see. Can I now take you to another - - -

15 THE COMMISSIONER: Are you departing from that subject, Ms Harris?

MS HARRIS: I'm going to a different document, but the same subject, Commissioner.

20 THE COMMISSIONER: Go on.

MS HARRIS: You were taken to a different document which referred to these gateways –in fact a number of documents. Can I take you first to exhibit – perhaps tab 1.126 of your statement, which is NAB.005.074.0526. And do you recognise that as a document on which my learned friend cross-examined you at some length
25 regarding the whistleblower report and the investigation which ensued?---Yes.

Can you go to page 0540, please?---That was tab 126, was that right?

30 That's right. And you see there the email from Fiona Lynch dated 1 December 2015?---Yes, I do.

Whistleblower Update. And you were asked some questions about this email, which records a number of bankers who were dismissed, and then three other bankers who were not dismissed as a consequence of the investigation; do you see that?---Yes, I
35 do.

And then if we bring up exhibit – what I hope is exhibit 1.10, which is NAB.032.001.0123. Perhaps – can you see that, Mr Waldron?---Sorry, I'm just finding that number again. 110.
40

It is behind, I think, tab 4 of the tender bundle that you might have?---I can see it on screen anyway.

45 So do you recall being asked some questions about this?---Yes, I do.

Now, you see in the outcomes column that a number of bankers are recorded as having been dismissed or - - -?---Yes.

- - - subject to potential dismissal?---Yes, I do.

And then a number of bankers who have been subject to different outcomes involving either amber non-reversible or amber reversible?---Yes.

5

And I'm afraid we've had the other document taken down rather quickly, but having a look at the names of the individuals who have not been dismissed, but have had some kind of amber outcome, can you see the correlation between the two documents to which I've just taken you?---So I know there was a correlation, but I can't see it on the screen.

10

But you recall that that was the case?---Yes, do I recall. Yes.

And then similarly at tab 166 of your statement – we might just bear in mind that the names of those people – and then turn to 166 of your statement, which is NAB.032.011.2605?---Yes.

15

Do you recall looking at this document with my learned friend?---Yes, I do.

20 And if we go to 2607, that document?---Yes, I do.

We see a similar list. And do you see any correlation between the names in the various lists?---Yes, we do.

25 So my learned friend asked you some questions about the reasons for the disciplinary outcome of dismissal. What was the reason each of the employees who were not dismissed received the other outcomes that are there recorded?---So in the case of the amber non-reversibles, they were – and again to-ing and fro-ing between them, but they were generally for situations where there was impacts with forms not attached, lack of adequate assessment, etcetera, but there's no specific issues with the actual lending that we're looking at.

30

So we see in – at the bottom of the second table, banker has identified LSR breaches. What are LSR breaches?---So lending standards review panel. So it's our own internal panel to see whether any of our lending standards have been breached, or we haven't met expectations for those.

35

I see?---And they will review cases like this and they will determine outcome.

40 And were any of the bankers who are identified in the second table, were any of those identified as having been engaged in dishonesty?---No. There was no situation that highlighted that, no.

Commissioner, I'm moving to a different topic.

45

THE COMMISSIONER: I think you finish your re-examination and then, before you sit down, I might take up one set of subjects.

MS HARRIS: If you please.

At transcript 119 to 120 this morning, the Commissioner asked you some questions about paragraph 29 of your witness statement. Do you have your witness statement
5 there?---Yes, I do.

Now, at – and you see at paragraph 29 was the example chronological account that you gave in respect of a particular customer who had been the subject of the investigation?---Yes.
10

And you go through the steps, as it were, from woe to go – go to woe, in terms of her loan. Now, the Commissioner asked you at line 27 of page 120:

*Now, recognising that that last safety net, before approval leading to
15 drawdown, what do you say about the quality of that safety net?*

And you gave an answer which I won't repeat, but which you answered by reference to the controls and verifications which existed at the time that this lady's loan was taken out. Have those controls and verification processes that were the subject of
20 your answer changed since that time?---So are you asking whether – if this was to be a loan that was put in today, would our controls have picked this up? Yes, I believe so, for a few reasons that are there. First of those is that there is no way that the introducer would have been doing the talking. We would have had – it's quite clear that the training that is there, that people understand the introducer responsibility and
25 we would have had a situation where that conversation with the customer would have had to have been had with the – with the banker per se. The introducer would have to attest that they understand that they can't be doing what they did in this particular case. Excuse me. That we would have had, from an income verification process, a different way that this would work, that if funds had been handed over to the
30 introducer rather than the banker that would not – you know – be something that would be acceptable. So there are a number of items here that would have led to a different outcome for this particular case.

So - - -
35

THE COMMISSIONER: Just so I understand that answer, Mr Waldron. The rules were not followed then; isn't that the position?---That's correct, the rules were not followed then.

40 Do you say then – but today's rules would be followed today?---So there are verification steps and controls that are put in place to ensure that those rules are being followed, and so I believe that, yes, we would have those rules followed today, because they have a different level of control sitting over the top of them.

45 The difficulty you encountered, you attribute to the fact that the bankers concerned did not perform their job; is that right?---That is largely the case, yes.

Are you saying that the controls are now such, what, that bankers will follow or that bankers will be detected if they do not follow the rules as they now exist; is that what you say?---I think there is two aspects to it. The first of those two, to answer, is if someone is trying to commit fraud it can be difficult to pick up. But the second
5 component of your question there is that we have reporting which is done to – would pick up the relationship that is there, that we would have processes to pick up the way that cash is actually handed over to the banker and it would not be accepted in that way. We have processes to differentiate the introducer to the banker and if we were on-boarding an introducer that is doing that we would have attested to that in a
10 different fashion, including different people being involved in that process to ensure that there wasn't necessarily that direct link between the banker and the introducer. We also would have had processes to scan any of the income documents that – the verification documents for this particular case so that we would have been seeing the actual payslips, etcetera, that were there. So there is significant change that was
15 occurred that would have resulted in a different outcome.

MS HARRIS: And so one of the last topics that my learned friend addressed with you was what you've recorded in paragraphs 225 through to 227 of your witness
20 statement, and asked you to elaborate on those. So are any of the controls and enhancements that you have referred to there ones of a kind which you say would have assisted in preventing this conduct?---Yes. There are a number of them that would have been there. As I started to touch on a moment ago, from the training as a preventative measure from the – for detection tools which were instilled there.

25 Just to ask you to pause for a minute, for the Commissioner's assistance, if – can you just go through the table and perhaps highlight the entries - - -

THE COMMISSIONER: Well, I can read it Ms Harris, but rather than have him
30 read it to me, what exactly is it you want to get from him. Lead it from him if you must, but can we get to the point?

MS HARRIS: It's simply an identification of the various controls that he has
35 identified which would have done what was possible to prevent a recurrence of the fraud that was the subject of this case study.

THE COMMISSIONER: You go ahead Mr Waldron?---So there are numerous
40 components of that. I think in the training pieces the eLearn training, the levels of around inspire and the way that would be captured in terms of the needs analysis discussion that was captured, that would have to be captured and then caught up our systems. For that discussion, it would need to show that was a conversation with the
45 customer and they could be audited. In terms of other components that would be there, the eLearn training around introducers and what their role has been, so around some of the preventative measures that are there. In terms of the – then assessing whether there is something going on between the introducer, customer and so on, our predictive bank banker conduct model would have picked up this particular banker, as would our retain triangulation reporting pick up this particular banker. In addition to that – excuse me – any income verification that the documents that were there

would have had to go through this tool, which I mentioned previously as well. And I think they are the key ones that I would point to.

MS HARRIS: Thank you. Just one more topic, if you don't mind, Mr Waldron.
5 And circling back to some questions that you were asked about the customer who was the subject of the example in paragraph 29 of your witness statement. Now, you were asked some questions about her specifically and then customers affected by banker misconduct more generally, regarding the financial hardship that some such customers had suffered through loans taken out by these – got these bankers. Do you recall that?---Yes, I do.
10

And at one – transcript 119 lines 13 to 17, my learned friend asked you a question to the effect, with respect to the lady the subject of paragraph 29:

15 *What's happening with the fact she's in arrears on her loan?*

And you responded:

20 *We are just managing that with her so that she has been working with our – now the transcript records NAB S, but I heard NAB Assist - - -?---That's correct. - - - at that point –*

25 *team, which is our group that deals with people in financial hardship and from memory she's had her payments reduced significantly.*

Do you recall that?---Yes, I do.

30 Could you tell the Commissioner a little bit more about the NAB Assist program, please?---So NAB Assist is our team that customers are encouraged to contact if they are seeking – if they believe they are in financial hardship. and financial hardship being not just a component of falling into arrears, but if they still are wanting to pay it but they feel that is going to put them into a difficult financial situation, to continue
35 to do that. This is a team that has works with customers to help them get into a position where they can meet their – still meet their debt requirements and absolutely hold on to their – their property. It is a team that is specifically focused on finding ways to do that. They would look at things like payment holidays, for example if someone is out of work for a period of time they will look at reducing the amount of
40 someone's payment because – they may, again, have a reduction in income which means that they can no longer meet those repayments for a period of time. It has a lot to do with particular life events that people go through, that causes them serve of serviceability issues on their loan, and will work with them to try to rectify that
45 situation and ensure they can stay in their houses.

And just to be clear, is eligibility for that program dependent upon having been the subject of potential banker misconduct?---Not at all. No, no, not at all. No, this team – it’s there for any customer at any time.

5 Can I finally then show you NAB.032.001.2341, which was a letter and attachments which we were provided by the Commission but which my learned friend didn’t take you to. It does deal with the subject matter that I’ve just been – I’ve just asked you some questions about. If you go to page 2. Just to orient you in the document - - -?---Can I just check, do I have this in one of the - - -

10 It will be behind tab 12, I believe, of your tender bundle?---Thank you.

And – so you see that this letter was written by you?---Yes.

15 And can you explain to the Commissioner the reasons for this correspondence?---This was post discussions with ASIC around the Project Winnow, our remediation program, ensuring they understood the numbers of customers, etcetera, that we were going to be talking to and it was around ensuring they understood our process and including anything around hardship.

20 When you say “including anything around hardship”, were you asked by ASIC to answer the particular question that appears towards the bottom of page 1; was that correct?---Yes, that’s correct.

25 And in terms of the remediation program, was the information you provided ASIC set out in appendix 1?---That’s right, yes.

And at appendix 1 you set out at paragraph C the expected amount or range of total remediation likely to be offered to consumers on a best case and worst case scenario?---That’s correct.

30 And has that estimate, such as it is and with all – whatever caveats might be applied to it, has that estimate changed?---So we – as you know, we are still in the process of talking to customer and reviewing with customers the outcomes of that. So we had a range in this letter of between 9 and \$23 million as in paragraph C of appendix 1. We haven’t formally changed that at this point in time, but our early indications are that it is more likely to be at the lower end of those numbers.

40 Thank you. And was your answer to ASICs second question set out in appendix 2?---Yes, it is.

No more questions, Commissioner.

45 THE COMMISSIONER: Yes, thank you. Just before you sit down, though, Ms Harris.

Mr Waldron, we talked a lot about amber gates. What's the qualification for a red gate?---So a red gate we would consider to be a significant breach of our code of conduct.

5 Does it include breaches that are dishonest breaches?---Yes, it does.

So a banker can do something dishonest, and lose a bonus for that year, but remain employed?---It would depend on the actual breach that was there. So there are some breaches which could be done – which would mean that they were breaches that
10 would be not acceptable, that might be done accidentally or not with malice or not on purpose, but that may mean they retain their employment. But there are obviously a level which then they would – they would be removed from the organisation as well.

I was directing your attention to dishonest breaches. Are there dishonest breaches
15 which can merit a red conduct gateway but not dismissal?---Not that I'm aware.

We will go back and read the transcript, Mr Waldron, but I think that those are two different answers. So what's the position: can you get a red conduct gateway for doing something that is dishonest?---So the way that the process would work, if
20 someone was to be removed they would also receive a red conduct gate. So, yes.

If they are removed, they are removed, aren't they, Mr Waldron? You just fire them?---We would – that would be the normal process.

25 Yes. So my question is: can you remain employed with a red conduct gateway, having done something dishonest?---If it's deceitful and that you are – that you know you are doing that, the general answer to that would be no.

Yes. On a separate topic, we looked at some scorecards - - -?---Yes, we did.

30 - - - in the course of examination. Do you mind going back and looking at them, please. They are behind tab 29. Do you have tab 29. Do you mind going to the second of those, which is mortgage broker inbound. I think it is reasonably typical?---The mortgage broker inbound, yes.

35 Yes. These are mortgage bankers dealing with those whom that banker hopes will become new customers of the bank, as distinct from the retention people who are dealing with those who are looking to - - -?---Yes, that's correct.

40 - - - sever their connection, or sever their mortgage connection with the bank. Is that right?---That's right, yes.

The retention people have as an element, I think, don't they, something about customer service. My question is: do these inbound people have anything about
45 customer service?---There's nothing specifically there. If you look at the bottom section there it talks about core quality for the mortgage banker inbound. So the core quality being either customer or business, depending on the type of customer that

they're talking to, and so 20 per cent of their scorecard would be based on the quality of those calls. Which is a proxy for customer satisfaction.

I see. Anything arising out of that, Ms Harris.

5

MS HARRIS: No, Commissioner.

THE COMMISSIONER: Yes. Thank you very much Mr Waldron. It's been a long time in the box?---Thank you.

10

Thank you for your attendance.

<THE WITNESS WITHDREW

[3.01 pm]

15

THE COMMISSIONER: Ms Orr?

MS ORR: Commissioner, the next witness is Mr Angus Gilfillan.

20

THE COMMISSIONER: Yes. Mr Gilfillan. Have you got a witness, Ms Harris?

MS HARRIS: I dearly hope so, Commissioner.

25

THE COMMISSIONER: So do I. Mr Gilfillan, do come in and if you wouldn't mind just standing in the witness box a moment.

<ANGUS GILFILLAN, SWORN

[3.02 pm]

30

<EXAMINATION-IN-CHIEF BY MS HARRIS

35 MS HARRIS: Mr Gilfillan, your full name is - - -

THE COMMISSIONER: Ms Harris, how long do you expect to examine-in-chief for?

40

MS HARRIS: Less than a minute, I just want to tender his statement, Commissioner.

THE COMMISSIONER: You have a minute, Ms Harris. Maybe.

45

MS HARRIS: Your name is Angus Struan Christopher Gilfillan; is that correct?---That's correct.

And your business address is 700 Burke Street, Melbourne, Victoria?---Yes.

5 And you are currently the executive general manager, consumer lending in the customer products and services division at the National Australia Bank?---Yes, that's right.

And have you received a summons to attend and give evidence today?---I have.

10 Do have you that summons with you. Perhaps only momentarily. Might I tender the summons, Commissioner

THE COMMISSIONER: Exhibit 1.19, summons to Mr Gilfillan. Yes.

15 **EXHIBIT #1.19 SUMMONS TO MR GILFILLAN**

MS HARRIS: And were you asked by solicitors assisting the Commission to prepare a witness statement on a number of given topics?---Yes.

20 And have you done so?---Yes, I have.

Do you have that statement with you?---Yes, I do.

25 And is that the statement dated 5 March and signed by you?---Yes, it is.

I tender that statement.

30 THE COMMISSIONER: Exhibit 1.20, statement of Angus Gilfillan of 5 March 2018. Statement or statement and exhibits?

MS HARRIS: I was going to proceed to the exhibits, Commissioner, but we can tender them together if it suits.

35 THE COMMISSIONER: A matter of supreme indifference, sorry.

MS HARRIS: Can we tender the 36 exhibits which are referred to in that statement?

40 THE COMMISSIONER: That can become part of the exhibit 1.20.

EXHIBIT #1.20 STATEMENT OF ANGUS GILFILLAN WITH 36 ATTACHMENTS DATED 05/03/2018

45 MS HARRIS: Thank you.

THE COMMISSIONER: Yes.

MS HARRIS: Mr Gilfillan, before I sit down, are there any amendments, corrections, additions that you wish to make to your statement?---No.

5

If the Commission pleases.

THE COMMISSIONER: Thank you, very much, Ms Harris. Yes, Ms Orr.

10

<CROSS-EXAMINATION BY MS ORR

[3.04 pm]

MS ORR: Mr Gilfillan, you've been the executive general manager in consumer lending for the customer products and services division at NAB since October 2014?---That's correct.

15

And you tell us in your statement that you have approximately 20 years experience as a banker?---Yes, that's right.

20

And you have been put forward by NAB, together with Mr Waldron, to give evidence in response to a series of questions asked by the Commission about the misconduct identified by NAB in connection with its Introducer Program?---Yes, that's right.

25

But the evidence that you give in your witness statement is not about the details of that misconduct, which Mr Waldron dealt with, your evidence is about the details of home lending processes at NAB during the time that the misconduct occurred; is that right?---That's right.

30

Within your statement at paragraph 8, you give evidence about the various home loans that are offered by NAB?---Yes.

35

Some are NAB branded and some are branded with another brand's name?---Yes.

And these NAB products that are branded with another brand, they are known as white label products; is that right?---Yes, it is.

40

And which brands does NAB use to sell its white label products?---So generally it will be the name of an aggregator or a broker.

Can you give us some examples?---So Fast Lend for the fast aggregator, Choice Lend for our choice aggregator and we also use white label capability to sell U Bank home loans.

45

So a customer who acquires one of those home loans doesn't know that it's a NAB home loan; is that right?---I think they generally would know, because it's in the letter of offer, that stipulates that NAB is the lender.

5 I see. So at some point in the letter of offer there is something in there that tells them that it's a NAB loan; is that right?---Yes.

But the credit guide and the paperwork that comes with the loan is not badged NAB, is it?---It's not my area of expertise, I probably won't answer that question.

10

Well, why does NAB have white label products?---I think there are different segments of the market, of the home loan market, and having white label capability helps to serve different customer segments that may not be as attracted to the NAB brand. Have slightly different customer propositions, such as the U Bank proposition.

15

But the loan is the same, is the badging of the loan important in NABs eyes? Is it important that the badging not be NAB badging?---I think it's important to customers and it's important to some of the aggregators as well.

20

Important to the customer how, that it not be badged a NAB loan?---I think sometimes they are just – it's a slightly different proposition, it's – it is a slightly different product to the NAB product suite, has slightly different features and sometimes there is a different pricing as well.

25

So even with those different features and different pricing, it could still be called a NAB loan, which it is?---It could be.

30

Yes. Okay. You tell the Commission in your statement that the white label home loans are subject to manual credit decision-making, whereas the great majority of NAB branded home loans are processed through NABs automated decision tool process; is that right?---Yes, that's correct.

35

And why is that? Why are your white label home loans processed through a manual credit decision-making process?---The reason is because it's – it runs on different origination platforms. So the platform through which the loan is applied for is different and the white label platform doesn't have automated credit decisioning capability.

40

I see. You also mention interest only home loans in your statement, in what circumstances would an interest only home loan be appropriate for a customer?---So if, during the customer conversation, looking at the needs and objectives of the customer, that there was a need for an interest only home loan, that might be because they are an investor home loan, for example, then the interest only home loan would be sold. The vast majority of interest only home loans are sold to investors.

45

And do you know what proportion of the home loans on your books are interest only home loans?---Approximately – it will be in the 30s per cent. So I would estimate 33 to 34 per cent.

5 Approximately a third of your home loans?---Yes.

At page 6 of your witness statement, in paragraph 19, which we will have brought up, you set out a flow chart for the home loan lending process, and there are three stages in that chart; is that right?---Yes, there are.

10

The first stage being understanding customer needs and ensure product is not unsuitable, the second is credit assessment and verification, and the third is fulfilment and settlement?---Yes.

15 So when the loan application is submitted by a broker, which parts of the process does the broker do and which parts does the bank do?---So the broker completes the first section. So understanding customer needs and ensuring product is not unsuitable.

20 And NAB relies on brokers assessment of those matters in the first stage?---It relies on much of that, but it also verifies a lot of the information as well.

And does it verify based on the information provided by the broker?---Yes, it does.

25 Yes. Can I ask you some questions about the second stage, the credit assessment and verification stage, that occurs after the customer has conditional approval; is that right?---That's where conditional approval would be made.

30 And there's verification there by NAB, is there, of the customer's financial position?---Yes.

35 And how does that verification work? You've told us that it is reliant on the information provided by the broker, and in your statement you mention both automated and manual processes. Can you explain what happens within NAB at that stage?---Certainly. So if conditional approval is provided through the NAB decision tool, then the loan would then be subject to verification of the information that has been put into the decision tool . So it would be making sure we have a record of the customer's needs and objectives and financial situation, making sure we have documentation that supports that financial position and ensuring, basically, that the file is in order to move from conditional approval through to unconditional approval.

40

So what part of that is automated and what part is manual?---So the example I just gave then was the conditional approval scenario - - -

45 Yes?--- - - - so that's after the decision tool has done the automated piece of the decision.

I see?---The decision tool automates a number of serviceability calculations, as well as getting information from NAB systems and credit bureaus, around the customer to feed into that credit decision. If it's a manual decision then those actions are manual.

5 You refer in your statement at paragraph 26 to controls that NAB had, and I assume still has, in relation to the validation and verification of a potential customer's financial position?---Yes.

10 So you list some controls and the second of those is ensuring that reasonable inquiries had been made into the customer's financial situation and that relevant incomes such as income and property valuations was verified reasonably and independently from the originating banker. Is the verification done by a separate team called the fulfilment team?---It's done by a separate team called the verification team.

15 The verification team?---In – in that second phase.

20 Were they once the fulfil many team or is that a separate team all together?---It's a separate team, yes.

And does someone in that team – are they required to document the process that they use to verify the information?---Yes, they are. Yes.

25 And where do they document that?---There's generally a verification work book that would be followed to ensure that we've documented what verification steps have been taken.

30 And how long has that been the process at NAB, that that information goes into the verification work book?---It – look it varies by different channels. So I'm aware that it is in place for all channels now, but we did have to do some work for the white label business over the last six months to make sure we had that work book there. But I'm not sure how long it's been in place for the other parts.

35 Can I show you a document, Mr Gilfillan, which is NAB.005.122.0001. This is not part of your statement. Now, this is a document, Mr Gilfillan, that is a report produced for NAB by EY, Ernst & Young, in April 2017. Have you seen this document before?---Yes, I have.

40 And this document was produced as part of the 2016 targeted review into home lending that was initiated by APRA?---Yes.

45 Yes. Could I ask you to turn 0032, within that document, do you see there on the right-hand side under the heading Verification Completion Sign-off – now, before I go to that, do you understand the process that led to this report being created?---Yes, I do. Yes.

You understand that there was a file review?---Yes.

Conducted by Ernst & Young and this document records various findings that resulted from that file review?---Yes.

5 Now, can I ask you to look under Verification Completion Sign-off. Now, there's a reference here to the fulfilment team, hence my reference to that in an earlier question:

10 *When the fulfilment team or banker completes the verification activities, the details of the staff member and date of verification is captured in the system. For loans processed through Siebel, this also includes a checkbox within the system checklist. There is, however, no requirement for the banker or the verification team to document the process they have undertaken in verifying the financial position of the borrower. For example, a staff member does not need to document whether they have used a payslip, a bank statement, or tax return to support salary income. Instead, the means of identifying the source*
15 *documentation used is to review the documents that are saved within the application system and to compare these with the data included in the decision tool.*

20 Now, do you accept that there was, at the time of this report, no requirement for documentation of this verification process?---So I – I accept that there was a need to have the verification documents included in the file but, yes, you are correct there, was not the same document – verification checklist on the file.

25 Has that been fixed?---It – the approach we are taking for business bank files is that we are – we have agreed with APRA the remediation of this and it is to ensure that all verification activities are done by the separate fulfilment team rather than by the banker. So we have agreed by the end of March 94 per cent of files will be done centrally and by September it will be 100 per cent, and we're on track to meet those
30 requirements.

That related to business, did you say?---Yes. Yes.

35 And what about verification for non-business customers?---So that – this was an issue for the business customers.

I see?---Yes.

40 I see. Do you say, then, that the entirety of the files that were reviewed by Ernst & Young for this review were business files?---No, no. This particular issue is for self-fulfilled loans, which it says at the top, and that is within our relationship channels and that could be in the business bank, or I think there was some in the Agri channel as well. And that was the activity we had agreed with APRA was that they would all be – we will have the segregation of duties for verification in place 100 per cent by
45 September this year and 94 per cent by March.

I see. I will tender that document.

THE COMMISSIONER: Exhibit 1.21, NAB.005.022.0001 Ernst & Young report April 2017.

5 **EXHIBIT #1.21 ERNST & YOUNG REPORT DATED APRIL 2017
(NAB.005.022.0001)**

10 MS ORR: Can I take you back to the part of your statement that talks about the controls that are in place for the verification processes, which is paragraph 26 of your statement. We've had a look at one of those, in particular, which was listed in subparagraph (b). Now, in subparagraph (c) you refer to another type of control that is built into the credit assessment tools and processes. There are two here, each application was submitted for a credit reference check and when a customer's
15 expenses were lower than NABs stipulated benchmark, the banker or broker would be notified to have a further discussion with the customer to ensure their expenses were truly reflective of their situation. Now, is NABs stipulated benchmark the household expenditure measurement known as the HEM?---Yes.

20 And can you explain the role that the HEM benchmark has in processing home loan applications at NAB?---So HEM is the floor by which expenses are assessed for customers when determining customer serviceability to repay a home loan. That during the relevant period, HEM was also the relevant benchmark, but it was possible to sign off a serviceability waiver by a appropriately qualified credit
25 manager for serviceability where HEM was – where expenses were slightly below HEM.

30 So the HEM benchmark was used in the serviceability assessment during the period of the misconduct from 2013 to 2016?---I wasn't at NAB for the whole period. My understanding is that – I believe it was, certainly since I've been at the bank since October 2014.

It's used now? It's still used now?---And it's used now.

35 Yes?---Yes.

Yes. And perhaps just to show you by reference to one of your documents how that works, could I just ask you to look at your tab 8, which is 042.002.5939, which is a NAB standard operating procedure in relation to verification of customer details in a
40 loan application. And if we turn to 5944, we see a section headed Expenses, what must be verified:

45 *When applications are assessed in an automated way by the decision tool, we see there that all applications assessed by a decision tool will use the household expenditure measurement to validate that expenses provided by the customer are realistic. Decision tool will use the higher of customer advised expenses, or HEM in serviceability assessment. When the decision tool alerts*

5 *that the customer advised expenses are less than HEM, bankers must make further inquiry to ensure customers declared living expenses are consistent with the customer's circumstances and representative of their actual living expenses. Bankers must record customers' response, and there are similar obligations that we see that arise where applications are not assessed by the decision tool.*

10 Now, is this still the situation. Is this still the internal NAB process that is required to be followed when the household expenditure measurement is used?---So the expenses can't be lower than HEM in the decision tool today.

15 Yes. And is it still the case that NAB processes tell a banker that when a customer has declared expenses that are less than the HEM, this further inquiry needs to be made and the results of that inquiry need to be recorded?---Yes. Yes.

 You seem hesitant to say that?---Sorry, I was getting a little bit confused between the credit decision versus the process.

20 Right. So you think that is still the process?---Yes.

 And you would know that the HEM reflects a modest level of expenditure for various types of households?---Yes.

25 Yes. It's a measure that determined on a quarterly basis by the Melbourne Institute of Applied Economic and Social Research, based on ABC surveys; is that right?---Yes.

30 And you would be aware that on ASICs report on mortgage broker remuneration, ASIC characterised the HEM as being a conservative measure of expenditure rather than a typical or average figure, which means that many customers will have higher expenses than HEM?---Yes.

 Are you familiar with that view - - -?---Yes.

35 - - - expressed by ASIC in that report?---Yes.

 Are you aware of concerns about how brokers are using the HEM benchmark?---Yes.

40 What concerns are you aware of?---The – across the industry there is a greater proportion of loans originated by brokers at or around the HEM measure, in terms of declared expenses.

45 And it's not just across the industry, that has been found to be the case with brokers who submit loans to NAB, has it not?---Yes.

 Can I take you back to the document I referred to earlier, the Ernst & Young report?---Yes.

005.122.0001. And ask you to look at page 34 within that document. Do you see there, under the heading Non-Key Controls Expense Versus HEM Monitoring, that Ernst & Young reported that:

5 *During our analysis of the portfolio data, it was noted that a significant volume of customers had reported general living and entertainment expenses within their loan applications that were effectively equal to HEM or within .5 per cent of this proportion. 48 per cent of those loans were originated through the NAB broker channel.*

10

Do you see that?---Yes.

15 And do you see that Ernst & Young described that as an area of concern, and the reason for that concern is that NABs serviceability calculator defaults to the higher of HEM and the customer's GLEE, which is the general living and entertainment with general living and entertainment expenses. So as a result where brokers substitute a customer's expenses with HEM, they are bypassing one of NABs primary serviceability controls; do you agree that that is the effect of this conduct?---Yes.

20 And the report records, in the next paragraph, that Ernst & Young's discussions with NAB identified that management was aware of this issue, with monitoring occurring on a monthly basis by CNW. I'm sorry, I don't know what CNW is?---That's the consumer and wealth division - - -

25 Thank you?--- - - - that's the for the customer management part of the business.

And then in the next paragraph:

30 *Currently this data is not being used as part of the oversight of individual brokers albeit we understand management intend to develop this functionality in the near future. Given this alignment of GLEE and HEM is potentially indicative of poor broker behaviour, we would encourage this oversight to be implemented in the short term.*

35 Now, has that happened, Mr Gilfillan?---Yes.

When did that happen?---I'm not aware of the precise date, but over the last three to six months it has happened.

40 I see?---And there is now reporting to a broker business development managers on the proportion of loans originated at or close to HEM so they can have the right conversation with their broking partners.

45 NAB wrote a letter to APRA after it received this report about the findings in this report; are you aware of that?---Yes.

And could I show you that letter, which is NAB.005.122.0063. I will just ask that you be shown on the screen at the same time pages 1 and 4 - - -?---Yes.

5 - - - of that document you will – I think you may have a hard copy there as well, Mr Gilfillan, but I just want to show you the start and the end of the letter so that you can see that this letter was written by David Gall, NABs group chief risk officer, and dated 15 September 2007 directed to APRA. Do you see there a portion of the letter which deals with NABs approach to experiences on the first page?---Mmm.

10 And we see that NAB has told APRA that:

15 *Its serviceability assessment of customer experiences continues to be based on the higher value of the HEM, and the bottom-up detailed view of the customer’s general living and entertainment expenses, and that NAB acknowledged APRA’s observations regarding bottom-up customer self disclosed expenses and the industry’s overuse of the HEM top-down benchmark when assessing customer serviceability. NAB told APRA that it agrees that the industry should continue to improve its approach to expenses, and is engaging with relevant experts, advisors and other industry participants to identify improvement options. This work is underway and an update will be provided to APRA by 31 October.*

20

Now, we don’t have the update provided by NAB to APRA by 31 October, was there one, to your knowledge?---I believe there was, yes

25 And what work had been done by NAB in response to these issues?---I recall, at a high level, that there is continued training for our bankers to have the expense conversation with our customers to, make sure we are doing the right bottom-up analysis and we have implemented a – an expense capture tool, which is designed to help bankers have that expense conversation with customers. We do find that the expense conversation is not always the most straightforward one for customers, because they are not always aware of what they are spending. So that why it’s important to have that tool to support conversation. And other measures are some of the reporting measures I mentioned before, to identify where different channels are having expenses at or close to HEM in a higher proportion that we can then ensure we are having follow up training.

30

35

So when was the expense capture tool that have you referred to introduced?---I can’t recall the precise date. During 2016.

40 2016?---’17, sorry. I believe it was 2017.

And I assume after the date of this letter, 15 September 2017?---I’m not sure.

45 There is a reference on page 2 of the letter to NABs proposed actions regarding the approach to expenses. There is a table that I will show you. Do you see there that NABs proposed actions regarding approach to expenses are, (1):

Work with experts advisors and industry participants to develop options for APRA's consideration regarding standardisation of HEM methodology and uplift of HEM benchmark.

5 Let's just pause there, and you can tell me what work has been done in relation to that proposal?---So we have been participating in something called an industry working group, which has been also attended by the other major banks, in terms of the use of HEM and how across the industry we can uplift the capability in terms of the customer conversation with regard to expenses. We are also in – the Melbourne
10 Institute are bringing out a new HEM measure in September, so we are working with the regulator, APRA to also consider what might be the most appropriate HEM measure that will be used going forward.

15 THE COMMISSIONER: Well, there would be a first mover penalty, wouldn't there, Mr Gilfillan? If one bank moves away from HEM and the others remain with HEM there will be competition consequences, won't there?---I think it's a – it's certainly something we need to consider, is - - -

20 Well, need to or not, is a point I don't want to stay and look at?---Yes.

Does the fact that there is an industry panel trying to deal with this motivate it, in part, by the avoidance of first mover penalty?---No. Well, that certainly wasn't the motivation to set up the working group. It is something that has been discussed though, is with a number of changes coming this year in terms of uplifting
25 serviceability standards, such as comprehensive credit, changes to HEM and new measures such as debt to income ratios, it has been something discussed around the first mover disadvantage.

30 The use of HEM is a widely known fact out in the market, isn't it?---Yes.

That nice Mr Google will tell you all about it if you look for it; is that right?---Yes.

35 Yes. And borrowers are astute to become aware of such things, at least in some cases, aren't they? Yes?---Yes.

Yes. Yes, Ms Orr.

40 MS ORR: What is the reference to "uplift" of HEM benchmark? Uplift is a word you have used a number of times, Mr Gilfillan. What does that mean, the uplift of the benchmark?---So I think you mentioned before, just the level of HEM is a – a probably conservative number, in terms of total expenses. So there is some consideration to that minimum floor being increased.

45 I see. So I should read that as increase the HEM benchmark. And the second action item here that NAB proposed to APRA was continual uplift of expense capture tools, eg, more granular expense categories relating to customers' investments. I raised that because you mentioned an expense capture tool. Do I read this as – continual

uplift should be read as improvement, perhaps, of expense capture tools. Is that what's intended here?---Yes.

5 And that is listed as ongoing. Has there been work done to improve expense capture tools?---I know there has, but I'm not in a position to outline all those improvements at the moment.

All right. I tender that letter to APRA, Commissioner.

10 THE COMMISSIONER: Exhibit 1.22, NAB.001.122.0063 letter to APRA, 15 September '17.

15 **EXHIBIT #1.22 LETTER TO APRA DATED 15/09/2017 (NAB.001.122.0063)**

MS ORR: Mr Gilfillan, you would be familiar with the responsible lending processes in the NCCPA, the Act I have been referring to as the National Credit Act?---Yes.

20 And you would understand that those provisions prohibit a credit provider from entering into a loan without first assessing that the loan is not unsuitable for the consumer?---Yes.

25 And that there are obligations to make reasonable inquiries to understand the customer's financial situation and to verify the information about the financial situation?---Yes.

30 Could I just take you to one of the documents annexed to your witness statement, which is behind tab 2. It's NAB.042.002.5533. It's a document called Processing a Home Loan Application. I would like to ask you about a section of this document on the second page. We have that page on the screen at the moment. Do you see at the bottom:

35 *For all segments applications with a debt servicing deficit require minimum DCA level 3 approval. Approval can only be considered on an exceptional basis and must be recorded in the credit risk exceptions data base if approved.*

40 So a debt servicing deficit refers, does it not, to a calculation by NAB that there is an inability on the part of the customer to repay the loan based on the assessment of their financial situation; is that right?---Yes, that is correct. It is – it may be due to particular circumstances, it may be temporary though.

45 So what are the bases on which a bank would lend money to someone who the bank has assessed cannot service the loan?---It may be a – something like a construction loan or a particular circumstance where there are extra expenses where, over time,

the very experienced credit manager has made the determination that the customer can service the loan.

5 And complied with the legal requirement to assess that the loan is not unsuitable for the customer?---Yes.

10 Now, can I take you to another document in your witness statement, which is behind your tab 8. We had a look at this document before. It was the standard operating procedure for full verification of customer details, 042.002.5939. Could I just ask you about page 5946 of this document. Do you see that towards the bottom of the page this document records that there are additional requirements when the loan to valuation ratio exceeds 80 per cent, or the application was declined by the decision tool, and the decision was overridden to approved, or at decision the decision tool provides a risk rating of high risk, very high risk or critical risk. Now, in those 15 circumstances – and they are problematic circumstances, do agree, where the loan to valuation ratio exceeds 80 per cent or any of these other factors are present? These are red flags for NAB, are they not?---Yes. They are high risk loans.

20 And what this document tells the banker they are to do, when considering those high risk loans, is to verify firstly the assets of the customer. So verify ownership and value of the customer’s contribution to any purchase as shown in the ECL funds table, including deposits paid, sale of assets cash, deposits using acceptable document. So the banker is in that instance, in the instance where this is a high risk loan, being asked to verify the ownership of the security for the loan; is that 25 right?---They are being asked to - - -

That’s one of the assets that they are being asked to verify; is that right?---It says sale of assets. I’m not sure it says “verify assets”.

30 Do you think that, in this direction to verify assets for a high risk loan, the document is directing a banker to verify the ownership of the asset that secures the property? That, I’m sorry, secures the loan?---I – no, that not what I read from that.

35 Can you explain to us what you read that to mean. What is the banker meant to verify for these high risk loans?---So I’m not a credit expert, but the way I would read this is to verify ownership of the customer’s contribution to the deposit of purchasing the loan – of purchasing the home. So any assets they have sold, the cash that they have got that they are using in order to meet the deposit requirements.

40 That relates to the value, verifying the value of the customer’s contribution to any purchase. What do you say “ownership” means?---I think they are saying verify owner – I’m not sure. Sorry.

45 Well, is it to ensure that the bank can sell the security in the event of default of this high risk loan?---So absolutely the bank makes sure it does have security for all of our home loans, yes.

But you know that it would be a breach of the responsible lending provisions to approve a home loan to a customer in circumstances where the only way they could repay that loan was by selling their property?---Yes.

5 Yes. Now, can I - - -

THE COMMISSIONER: Just before you leave that paragraph – or is it saying,
“Make sure it’s not the bank of mum and dad that put up the deposit. Make sure the
10 customer has supplied the 10 per cent or 20 per cent.” Whatever the contribution
is?---Yes.

Is this any more than that?---That was my reading - - -

MS ORR: Can I ask you about another topic that you deal with in your statement,
15 Mr Gilfillan, which is policy waivers. Can you explain to the commission were what
a policy waiver is at NAB?---So a policy waiver is where an aspect of credit policy
can – a banker can request a policy waiver, which can then be approved by a duly
authorised and experienced credit manager.

20 So at paragraph 31 of your statement you set out three broad areas in which policy
waivers can be requested. We will just have that brought up. The first of those is a
valuation policy waiver. And that’s a request to waive NABs valuation policy, and
you give an example there as being where a valuation is slightly older than the policy
requires?---Yes.

25 Then there is a serviceability policy waiver that’s requested in order to waive the
serviceability policy, such as where you say a customer needs a short term bridging
facility. And there’s a verification policy waiver, which is requested in order to
waive NABs verification policy. The example that you give is where income
30 verification documents are slightly out of date?---Yes.

Are these still the three broad areas in which a policy waiver can be
requested?---Yes.

35 And would agree that NABs policies are in part intended to ensure that NAB and its
employees comply with the law, including the responsible lending rules?---Yes.

And lawyers, I assume, have settled those processes to try and ensure that they are
compliant with the legislative requirements?---Yes.

40 And during the period of the misconduct that we have heard about from 2013 to
2016, NABs guidance to its bankers on the circumstances in which policy waivers
could be given was found in the document behind your tab 17, which is
NAB.005.0069.0046. Do you have EXC501. Exceptions to credit policy and
45 standards?---Yes.

Now, does the same sort of documents still exist to govern policy waivers?---Yes, it does.

And the document explains that its purpose – do you see right up the top:

5

The purpose of this stand art is to advise bankers on the requirements for waving the bank's credit policies and standards. The bank's credit policy and standards form the basis for all lending where a banker is unable to comply with policies or standards, but considers a loan proposal worth pursuing, they must submit a request to the appropriate authority. This authority must only be exercised in respect to specific loan proposals on a case-by-case basis.

10

Now, what do you interpret this reference to mean if they are unable to comply with the policy or standards, but they consider the loan proposal worth pursuing? In what circumstances would they reach that conclusion?---So I think that would be where – as to the examples we discussed before, they are – the verification documents may be slightly out of date, the – and the banker has a good relationship with the customer and requests that they – the credit manager approves a waiver for the policy verification.

20

There is no guidance in this document on the sort of circumstances in which a loan proposal is worth pursuing, despite the banker being unable to comply with policy or standards, is there?---There is not on this page, no.

25

It just tells us that the authority must be exercised, as I read out, in respect of specific loan proposals on a case by case basis?---Yes.

30

So this is the full extent of the guidance to bankers on circumstances in which your policies, that are designed to ensure compliance, can be departed from?---I – I'm not sure.

35

But you think there is still a document in this form. That was your evidence earlier?---Well, I wouldn't like to say I assume anything, but I'm not sure I – training materials would be something that I think you should check.

That you should check?---Yes.

40

So you are unable to say whether this is covered in training materials. Is that what you are saying?---I don't look after bankers and their training materials, but that would be something that I would like to check to see if it's included.

45

I assume in your position, Mr Gilfillan, you would be able to tell the Commission how often policy waivers occur in connection with home loans. Do they occur daily, weekly, monthly?---They would occur daily, yes.

And NAB has had a significant volume of policy waivers in recent years, hasn't it?---I guess it depending on your definition of "significant".

Well, in the eyes of Ernst & Young. Can I take you back to the report provided to NAB by Ernst & Young, which is NAB.005.122.0001. And can I just ask you to look first at page 36 of this document, Mr Gilfillan. I just want to direct your attention to the first sentence there, which shows us the period of 1 October 2015 to 30 September 2016. The period covered by the files that were the subject of Ernst & Young's review. And then if we turn to page 38 you will see, again up the top, a reference to the number of loan files that were reviewed. There were 465 loan files reviewed for that period. Now, can I take you then to page 10 of the document and the findings that Ernst & Young made. Do you see there on the right-hand side Policy Waivers:

A significant volume of policy waivers including verification and other policies were evident in the files tested, 20 to 55 per cent by channel. In the absence of a set appetite for verification and serviceability policy waivers it is challenging to determine whether this represents an appropriate level or if lending is occurring outside of appetite. Policy is not reflective of the actual practice. Bankers are being overly cautious and seeking waivers when not required. Please note this observation includes the risk base sample and is not necessarily reflective of the total population.

So that was the finding of Ernst & Young with the review that they did. In some channels there were policy waivers evident in up to 55 per cent of those files. Are they still the sorts of numbers that we would see today for the numbers of policy waivers at NAB in relation to home lending?---No.

And what has happened to change that?---So we have introduced a risk setting specific to policy waivers since this report, and it is tracked on a monthly basis.

And what sort of numbers do we see now? You said that they still occur on a daily basis, are you able to say anything about the percentage by channel?---Not by channel. I could give you an estimate across the business, which would be around about 15 per cent.

15 per cent of home loan files still include a policy waiver?---A policy waiver, yes.

Right. I have no further questions for Mr Gilfillan, Commissioner.

THE COMMISSIONER: Yes. Thank you.

Before I ask whether any other party seeks leave to cross-examine, Mr Gilfillan, you may not be the right person in NAB to ask this, but does the bank package and sell residential mortgage loans as securities to investors?---Yes, it does.

And does it do that for a number of purposes, including funding and liquidity purposes?---Yes.

If a bank packages and sells residential mortgage loans as securities to investors, the transaction can be undertaken in a way which yields an asset that can be taken to account in prudential capital requirements; can it not?---You are right, this is not my area of expertise, but - - -

5

I'm not – don't – let's get off on the right footing. I am not suggesting there is something untoward; I am not suggesting there is something contrary to the rules?---Yes.

10 On the contrary. But I just need to understand whether it happens and that the sale or packaging and sale of residential mortgage loans as securities to investors can, I think – and this will be a matter for debate later – contribute to the bank's prudential capital requirements?---Yes.

15 And transactions of that kind can be made on various kinds of terms, I assume, but a term that may or may not be available is how much of the risk associated with the assets being sold remains with the bank. First, am I right to assume that that may be a matter for negotiation in connection with the sale of the package?---I'm not sure.

20 I see. In particular, are you able to say whether – I think we have agreed, haven't we, that NAB does package and sell residential mortgage loans as securities. Do I take it from your answer that you would not be comfortable offering some opinion about how much of the underlying risk stayed on NABs balance sheet and how much went off through the securitisation vehicle?---Yes. I'm not comfortable.

25

Not your territory?---No.

Then I can ask the question and you can politely decline to answer it. Thank you very much, Mr Gilfillan. Does any party having leave to appear desire leave to
30 cross-examine Mr Gilfillan. No. Ms Harris.

<RE-EXAMINATION BY MS HARRIS

[3.54 pm]

35

MS HARRIS: Thank you, Commissioner.

Mr Gilfillan, just a couple of questions about some things that arose during cross-examine by counsel assisting. Could I ask for NAB005.122.0063 to be brought up.
40 Which is exhibit 1.22, I believe

Do you remember being asked some questions about this letter?---Yes.

And at transcript 187, line 32, you were being asked some questions about the
45 expense capture tool; do you recall?---Yes.

And at the line that I have referred to, my learned friend said:

When was the expense capture tool that you have referred to introduced.

And you said:

5 *I can't recall the precise date.*

?---Yes.

10 Can I direct your attention to what appears below the heading Bottom-Up GLEE Capture. At – in the bottom quarter of that page, you will see reference there to an expense capture tool?---Yes.

Is that the capture - - -?---Yes, it - - -

15 Expense capture tool that you were referring to?---Yes, it is. Yes.

And does that enable you to give a more precise answer to - - -?---September 2016, I believe.

20 Thank you. Now, just one more question arising out of NAB.005.069.0446, which is tab 17 to your witness statement, and do you see that this is the document – perhaps the – one of the last documents that my learned friend took you to in her cross-examination, at about halfway down the page, there is a sentence – there is a sentence that commences:

25

All exception exceptions to credit policy and standards must be approved by minimum delegated commitment authority DCA level 3.

?---Yes.

30

Do you see that?---Yes.

35 Now, you referred – I might lead you for a moment in paragraph 32 of your statement to DCA holders. Can you explain to the Commissioner what kind of experience, qualifications and/or accreditation someone holding a delegated commitment authority level 3 would be expected to have?---So it would be a very experienced credit professional, someone who has many years experience in making credit decisions and has been given the appropriate DCA from a higher DCA holder who would assess that they have got the required skills and capability to make credit
40 decisions on behalf of NAB.

Thank you. No further questions, Commissioner.

45 THE COMMISSIONER: Yes, thank you, Ms Harris. Anything, Ms Orr? Thank you very much Mr Gilfillan. You are excused from attendance.

<THE WITNESS WITHDREW

[3.58 pm]

5 THE COMMISSIONER: Now, Ms Orr.

MS ORR: Commissioner, It is 4 o'clock but we have a further witness for today who has come from interstate and who we would like to sit on to hear.

10 THE COMMISSIONER: Yes.

MS ORR: That is a witness who is the first witness in the next case study, which relates to CBA. It may be useful if the Commission is minded to sit on for us to have a short adjournment to allow the NAB representatives to leave and the CBA representatives to - - -

15 THE COMMISSIONER: Sure. Are we going to be able to finish this witness tonight, do you think?

20 MS ORR: Yes. Yes, we are.

THE COMMISSIONER: Yes. Well, I will adjourn until very shortly after 4 to let counsel reorder themselves at the bar table.

25 MS ORR: Thank you, Commissioner.

ADJOURNED

[3.58 pm]

30 **RESUMED**

[4.01 pm]

MS ORR: If the Commission pleases, I call Mark Harris.

35 THE COMMISSIONER: Mr Harris, would you come forward. Would you mind stepping into the witness box.

40 **<MARK ANDREW HARRIS, AFFIRMED**

[4.02 pm]

<EXAMINATION-IN-CHIEF BY MS ORR

45 THE COMMISSIONER: Thank you, Mr Harris, do sit down. Yes, Ms Orr.

MS ORR: Mr Harris, could you please state your full name?---Mark Andrew Harris.

Your address?---23 Lockerby Street, Kangaroo Point.

5

And your occupation?---Mortgage broker.

Thank you. Have you received a response to attend and give evidence to this Royal Commission?---I have.

10

I tender that summons, Commissioner.

THE COMMISSIONER: Exhibit 1.23. Summons to Mark Andrew Harris.

15

EXHIBIT #1.23 SUMMONS TO MARK ANDREW HARRIS

MS ORR: And Mr Harris have you made two statements to the Royal Commission; the first dated 7 March 2018, and the second dated 12 March 2018?---I have.

20

Are the contents of those statements true correct?---They are.-

Thank you I tender those statements.

25

THE COMMISSIONER: Exhibit 1.24 will be statement of Mr Harris dated 7 March '18.

30 **EXHIBIT #1.24 STATEMENT OF MARK ANDREW HARRIS DATED 07/03/2018**

THE COMMISSIONER: Exhibit 1.25 statement of Mr Harris dated 12 March 2018.

35

EXHIBIT #1.25 STATEMENT OF MARK ANDREW HARRIS DATED 12/03/2018

40

MS ORR: And I should have made clear, Commissioner, that there are exhibits to the first of those statements, the statement dated 7 March 2018.

THE COMMISSIONER: The exhibit will include those exhibits. Yes.

45

MS ORR: Thank you, Commissioner.

Now, Mr Harris, how long have you worked as a mortgage broker?---For approximately 18 years.

5 And what did you do prior to working as a mortgage broker?---Prior to that I worked as a mobile lender of Aussie Home Loans and prior to that about 12 years working in the Commonwealth Bank predominantly in lending.

10 And do you have any qualifications, Mr Harris?---Yes, I have a diploma of mortgage broking and a bachelor of business.

Thank you. And do you have a business that offers mortgage brokering services?---I do.

15 And when did you set that business up?---2013.

And are there other mortgage brokers that work with you in that business?---There are. There's six of us all together.

20 Six mortgage brokers? And does that business have its own Australian credit licence?---It does.

And do you also have your own Australian credit licence, Mr Harris?---I operate under the business's credit licence.

25 Thank you?---As a director.

And do you and the other five brokers within your business use an aggregator for the - - -?---We do.

30 - - - loan submissions that you make?---Yes.

And who is the aggregator you use?---AFG.

35 Thank you. And since you set up your business in 2013, how many loan applications have you tended to submit a year yourself?---I probably only submit about five or six loans per annum.

40 And why only five or six loans per annum, Mr Harris?---My main role is a mentor to the other mortgage brokers.

But you say you have nonetheless continued to submit loans - - -?---Correct.

45 - - - after setting the business up and I understood you to say five to six loans a year; is that right?---Yes.

Is there a requirement that lenders – is there a requirement by lenders that mortgage brokers be accredited before they can submit loans to that lender?---Yes.

And how many lenders have accredited you to submit loans to them?---I currently have 23 accreditations.

5 And could you give us some examples of the lenders who have provided accreditations to you?---Westpac, National Australia Bank, Suncorp, Bank of Queensland, Liberty Blue Stone.

Did you previously hold an accreditation from CBA?---I did.

10 When were you accredited by CBA?---It was late 2013, early 2014.

And in February 2017 did you receive a letter from CBA about your accreditation?---I did. It was an email.

15 An email. Thank you. And have you exhibited that email to your statement?---I have.

That email is exhibit MAH1 to your statement?---Yes .

20 If we could have that brought up.

Now, is this a copy of the letter sent by email to you from CBA on 20 February last year?---It is.

25 Could I just ask you to read the contents of this letter out, please, Mr Harris

THE COMMISSIONER: Well, I think we can all read it. It's not a – not give him a literacy test, I think, Ms Orr.

30 MS ORR: Well, can I take you then, Mr Harris, to some of the parts of this email. We see in – we see two paragraphs at the start that deal with CBAs commitments to customer outcomes and monitoring of mortgage brokers. And then we see a third paragraph:

35 *As part of this ongoing monitoring, we have identified that you have not been active with Commonwealth Bank for some time. Accordingly, we have made the decision to resign your accreditation with the Commonwealth Bank in accordance with our agreement with your head group and have advised your head group of this decision.*

40

I will just pause there. The head group is the aggregator, is that right?---Correct.

Continuing:

45 *The purpose of this letter is to provide you 14 days notice commencing from the date of this notice that the bank will exercise its right to revoke your authority to act. This means you will no longer be able to submit home loan applications*

to the Commonwealth Bank. Please be advised that effective immediately we will not accept any new home loan applications from you.

5 What was your reaction to receiving this communication from CBA?---Disappointment, a little bit shocked.

Had you received any advance notice from CBA that consideration was being given to revoking your accreditation?---None at all.

10 Had CBA raised any concerns with you about your performance as a mortgage broker?---No.

15 What were the consequences for you of this accreditation being revoked?---Well, as of that email, I was unable to lodge any loans with the Commonwealth Bank.

Had CBA raised with you it had received any customer complaints about you?---It had not.

20 Had it raised with you any concerns about any inappropriate activity that you had engaged in, in connection with the home loans that you had submitted?---No.

Had there been any contact from the CBA about any loans for your customers going into arrears?---No.

25 Was there any suggestion at all from CBA or any of your customers that they were unhappy with the services you had provided?---No.

30 What did you do after you received this email, Mr Harris?---I contacted AFG, my aggregator, and – to see what their thoughts were. They advised that Commonwealth Bank had given them notice that this might be happening. They weren't aware it was going to proceed, but they were aware it was a possibility, and that – yes, that that was pretty of much it, my accreditation was cut as at that moment.

35 What is the impact on you of being unable to submit loan applications to CBA?---Well, if I have a client who I feel for whatever reason is suited to the Commonwealth Bank, I would not be able to help that client.

40 Now, you've annexed to your first statement, Mr Harris, an email chain which I would just like to take you through. Starting with the first email in the chain at CBA.0001.0100.5734

THE COMMISSIONER: Is it exhibited to the statement?

45 MS ORR: It's part of MAH2.

THE COMMISSIONER: Thanks.

MS ORR: No. I don't think – so if we have MAH2, it's page 5734 within that exhibit.

THE COMMISSIONER: Thank you.

5

MS ORR: All right. Could we move – that's partway through the email chain, that's – the email – I'm sorry, we seem to have two different doc IDs, which is the cause of the confusion there. Now, Mr Harris, the letter that was sent to you about the resignation or revocation of your accreditation was dated 20 February 2017. This is an email from you dated 8 February 2017 before the revocation of the accreditation. That has been sent to a person whose details have been blocked out, but I want to suggest to you, and you've seen this document before, that the person you sent it to was a person at CBA?---Correct.

15 Yes. And you've also copied a person there had who was part of the aggregator; is that right?---Correct. Yes.

And another person from CBA as well?---That's right.

20 And can you explain what you were saying to the CBA person in this email that predated the revocation of your accreditation?---Okay. The four major banks require mortgage brokers to it be a member of either one of two organisations: either the MFAA or FBAA, both broker organisations. That requirement has been in place for quite a long time, and in fact it was there prior to ASIC regulating the industry. And so the industry essentially used those two organisations to regulate the industry. The MFAA and FBAA required that we have certain education requirements, professional indemnity cover, be members of external resolution organisations. So the organisation used those two organisations to do that. Now, since ASIC has regulated it, those requirements have been adopted and are required by ASIC. So my belief is because we are regulated now by ASIC and in fairness the requirements of ASIC are more stringent than those two organisations, that the majors requiring us to be still members of those organisations is an obsolete requirement. It is just left over and nothing has been addressed. It's just another piece of paper, another loophole that a broker has to do and I just don't believe it's necessary.

35

And I see from your email that you told CBA that you were raising these issues with ANZ, NAB and Westpac as well?---Correct.

40 Yes. Now, so that email is the first in the chain from 8 February 2017. If we could go to the next email in the chain. We will have to go the other direction in the document. We will see that there is a response to your email from the – on the same date, 8 February. No. Not quite at the document yet, there we are, down the bottom of the page. Now this is from a person who was with AFG, the aggregator; is that right?---Correct.

45

And the aggregator appears in this email to express support for your position about this; is that right?---Yes, it is.

Then further up in the chain we see a response from one of the CBA people that you sent the email to, on the same page. This is some days later, 14 February 2017, and in that email the person from CBA advises you that that requirement is going to remain as part of - - -?---Correct,

5

- - - the accreditation requirements for CBA?---Yes.

Is that an accurate description of that communication?---It is.

10 Then the next email in the chain, which starts on the preceding page, is your email on the day you received the letter revoking or resigning your accreditation on 20 February; is that right?---Yes.

15 And we can see that you have directed this email to the same individuals at CBA and within the aggregator?---Yes.

20 And if we move to the next page, we will see the text of your email – no, I’m sorry, we have to move in the other direction. Yes. No, not quite there, need to go another page, there we go. Okay. So the email that you sent is at the bottom of – I think it’s best to keep both of those pages on the screen, otherwise this will get confusing. Your email on 20 February, the text of it appears at the top of the next page:

25 *Hi all, I just had my accreditation cancelled by CBA. Interesting timing. By the way, it was apparently due to not being active for some time. However, I settled a \$900,000 loan in October, so that’s a bit odd.*

Was that a reference to a loan that you had settled for CBA?---Correct.

30 Yes. I see. There is a response to that email from CBA, on the same date, assuring you that:

35 *There is no ulterior motive at play here. Yes, your accreditation has been called into review by our refugee team, along with many others. This is as a result of low volumes over recent years. I engaged with Becky on this last week*

Becky is from the aggregator?---Correct.

40 Continuing:

45 *Becky is helping me put together an appeal to reinstate, given the changes and growth in your business. Normally we would ask that you appeal this via your relationship manager, however I have attempted to jump in early on your behalf. Not quick enough it seems. I will come back to you as soon as I can with an outcome.*

What did you interpret these references to an appeal to mean here?---Well, I had – I’ve had two mortgage broking companies and between myself and my brokers we have written literally hundreds of millions of dollars worth of business for the Commonwealth Bank. So because of that I have had a quite connection with
5 Commonwealth Bank and, indeed, I used to work there. So I just – it was my understanding that the Commonwealth Bank representative was going to, as a special matter, see if the decision could be reversed.

10 But you told him not to worry about doing that, it seems, in the email that’s - - -?---Yes.

- - - at the top of this page and perhaps we can now move to having that page and the page prior to it on the screen so we can see when you wrote this email and who you wrote it to. The following day, 21 February, to the same group of people, and in this
15 email you expressed disappointment that CBA has cancelled your accreditation, given your very strong support over the years. Is that strong support what you were just referring to then?---Correct.

20 Continuing:

*As you know, while I do not write many loan, my brokers have, both in my prior firm of Home Loan Connection and my current business. My larger concern is that you might do this to one of my brokers. To cancel the accreditation without notice is, in my opinion, very poor customer service and could put a
25 broker in a very difficult position.*

What were you referring to there? What were your concerns about the position that this would put brokers in?---Well, my concerns were my brokers specifically, but you know, it could apply to any broker, that they are out one Wednesday night,
30 writing a home loan for a client and Commonwealth Bank was going to be, in their opinion, the best fit, and then when they go to submit it on the Thursday morning, they find an email waiting for them cancelling their accreditation so they wouldn’t be able to proceed with that loan.

35 You go on to say in your email:

*Apparently this is of no concern to your organisation. While I appreciate you working with Becky to have accreditations reinstated, I think it speaks volumes that CBA have done this to start with. Don’t worry about looking to reinstate
40 my accreditation, I will of course not welcome your BDMs –*

Could you tell us what a BDM is?---Business development manager.

45 Continuing:

...to any of my team meetings and will add advocate against considering CBA given your policy of not giving any notice to the accreditation cancellations. I'm sure you will agree this is a sensible business decision.

5 And do we see then that there is some subsequent engagement between you and the CBA representative about potentially meeting to discuss this?---Yes.

Did that ever occur?---It didn't.

10 Did you take any other steps as a result of the revocation or resignation of your accreditation, Mr Harris?---No.

Did you speak publicly about the revocation of your accreditation?---I did. I made a statement to one of the mortgage broker industry magazines. It's online publication
15 and that was then picked up by a couple of the national newspapers.

And do you recall what sort of statement you made to that publication?---Yes, it was essentially that the – there is a number of concerns here, but the biggest concern, I guess, is that if there are minimum performance standards that a lender,
20 Commonwealth Bank, are putting in place, that seems to override any liability we've got in respect of putting a client into the best loan for them. So that if I believe over the last couple of years I haven't had a client that is the best fit for the Commonwealth Bank, well, it doesn't really matter to the Commonwealth Bank, they require a minimum performance standard. So the concern is that that will push
25 brokers into using Commonwealth Bank where they should not have done.

Thank you, Mr Harris. I have no further questions.

30 THE COMMISSIONER: Yes. Yes, Mr Scerri.

MR SCERRI: Your Honour, I was – I did say I wasn't going to ask any questions but if I could ask two, if you don't mind, based on what has happened.

35 <CROSS-EXAMINATION BY MR SCERRI [4.22 pm]

MR SCERRI: Mr Harris, how many loans did you write in 2016 for the Commonwealth Bank?---2016?

40 Yes?---Would have been none.

And what about 2015?---None.

45 Thank you.

THE COMMISSIONER: Yes. Any other person having leave to appear seek leave to cross-examine? No. Ms Orr.

MS ORR: No. No further questions, thank you.

5

THE COMMISSIONER: Mr Harris, thank you for coming from interstate. You're excused further attendance.

10 <THE WITNESS WITHDREW

THE COMMISSIONER: We will resume sitting at 9.45 tomorrow.

15 MS ORR: If the Commissioner pleases.

MATTER ADJOURNED at 4.23 pm UNTIL THURSDAY, 15 MARCH 2018

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