



National Australia Bank Group

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Corporate Governance

The main corporate governance practices that were in place during the year to September 30, 2001 are discussed in this section.

The Board of directors, (hereinafter referred to as the Board) is responsible for the corporate governance of the Company and its controlled entities. The directors of the Company and its controlled entities are required to act honestly, transparently, diligently, independently, and in the best interests of all shareholders in order to increase shareholder value. Directors of the Company and all its controlled entities are provided with corporate governance guidelines, which have been approved by the Board. The corporate governance policies have been specifically tailored for the different types of entities depending on the nature and degree of activities of those entities. One of the functions of the Board is to approve all appointments of directors to the boards of controlled entities.

The major processes by which the directors of the Company and its controlled entities meet their duties are described in this corporate governance statement.

Responsibilities and functions of the Board

The most significant responsibilities of the Board are:

- reporting to shareholders and the market;
- ensuring regulatory compliance;
- ensuring compliance with prudential regulations and standards;
- ensuring the maintenance of credit quality;
- ensuring adequate risk management processes;
- reviewing internal controls and internal and external audit reports;
- monitoring and influencing the culture, reputation and ethical standards of the Company and Group;
- monitoring the Board composition, director selection and Board processes and performance;
- approving key executive appointments and ensuring executive succession planning;
- reviewing the performance of the Managing Director and Chief Executive Officer and senior management;
- reviewing and approving executive remuneration;
- ensuring that the Board has an in-depth understanding of each

substantial segment of the business;

- validating and approving corporate strategy;
- reviewing the assumptions and rationale underlying the annual plans and approving such plans;
- reviewing business results, and monitoring budgetary control and corrective actions (if required); and
- authorising and monitoring major investment and strategic commitments.

Composition of the Board

The Board of directors of the Company comprises one executive director and eight independent non-executive directors. The Chairman is a non-executive director and the Managing Director is the executive director. The qualifications, experience and expertise of the directors are set out on page 37-39 of this annual review.

Appointment of Board members

The composition of the Board is based on the following factors:

- Company's constitution provides for the number of directors to be not less than five and not more than 14 as determined by the directors from time to time;
- Chairman of the Board should be an independent non-executive director;
- Board should comprise a majority of independent non-executive directors; and
- Board should comprise directors with a broad range of expertise and knowledge. In particular, current or previous experience as the chief executive of a significant enterprise with international operations is highly regarded.

The process for re-election of a director is in accordance with the constitution, which requires that, each year, at least one-third of the non-executive directors retire from office at the annual general meeting. The retiring directors may be eligible for re-election.

The process for appointing a director is that, when a vacancy exists, the Board identifies candidates with the appropriate expertise and experience, using external consultants as appropriate. The most suitable candidate is appointed but must stand for election at the next annual general meeting.

The retirement age for non-executive directors has been fixed by the shareholders at 70 years of age.

Board appraisal

The Board has a process to review and evaluate the performance of the Board. The process involves consideration of all of the Board's key areas of responsibility.

Remuneration of directors

The remuneration policy for directors, the remuneration of each director and the formula for calculation of retirement allowances of directors is set out in the report of the directors.

At the Company's last annual general meeting, shareholders approved a non-

executive directors' share arrangement under the National Australia Bank Staff Share Ownership Plan, which requires non-executive directors' remuneration to include a share acquisition component of up to 40 per cent of their remuneration. This arrangement was then established early in the 2001 year.

Independence of Board members

The constitution provides that a director may enter into an arrangement with the Company or with any controlled entity. Directors or their firms may act in a professional capacity for the Company or controlled entities, other than to act as an auditor of the Company. These arrangements are subject to the restrictions of the Corporations Act 2001. Financial services must be provided to directors under terms and conditions that would normally apply to the public or, in the case of an executive director, under terms and conditions that would normally apply to employees.

Disclosure of related party transactions is set out in note 52 in the annual financial report.

When a potential conflict of interest arises, the director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while such matters are considered. Accordingly, the director concerned takes no part in discussions nor exercises any influence over other members of the Board if a potential conflict of interest exists.

During the year, one non-executive director took leave of absence from the Board because of a potential conflict of interest and took no part in the affairs of the Company. The non-executive director has subsequently resigned as a director of the Company.

Board meetings

The frequency of Board meetings and directors' attendance at those meetings is set out on page 46 of the report of the directors. Directors are expected to adequately prepare for meetings and attend and participate at Board meetings. Some on-site inspections are conducted which directors are also expected to attend. Directors are assisted in gaining an understanding and knowledge of the Group through the provision of technical reading material, tutorials and workshops. The amount of work undertaken is considerable. The time requirement varies depending on the number of Board Committee meetings and subsidiary company board meetings a director attends.

Access to independent professional advice

Written guidelines are in place providing for each director to have the right to seek independent professional advice at the Company's expense subject to the prior approval of the Chairman.

Restrictions on share dealings by directors

Directors are subject to the Corporations Act 2001 restrictions on buying, selling or subscribing for securities in the Company if they are in possession of inside information, ie, information which is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities in the Company.

Further, directors may only trade in the Company's securities (subject to the insider trading restrictions above) during each of the eight weeks commencing the day following each half yearly profit announcement or the date of issue of a prospectus. Directors are further required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. During the year, the Company's Insider Trading Policy was revised and re-issued.

In addition, directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

Shareholding requirements

Directors are required to hold at least 2000 shares in the Company. Directors receive at least 10 per cent and up to 40 per cent of their remuneration in the form of shares in the Company through the newly introduced non-executive Directors share arrangement under the National Australia Bank Staff Share Ownership Plan which was approved by shareholders at the Company's last annual general meeting. The executive director receives share options and, as a staff member, also receives shares in the Company. Details of all holdings by directors in the Company are set out in the report of the directors.

Confidential information

The Company, through its operations, possesses confidential information about a number of customers and organisations and, quite apart from its legal obligations, the Company has systems and processes to ensure that this information is not released to its related entities, such as the funds management and development capital business units. This ensures that such information is not exploited for the benefit of the Company.

Internal control systems are monitored and employee integrity within the Company is fostered to ensure that confidential customer information is not disclosed outside the Company, or used for individual personal gain or for the gain of any entity within the Group.

Board Committees

The Board delegates a number of functions to Committees. Formal Committees comprise an Audit Committee, Compensation and Nomination Committee and Board Committees established to consider both large credit facilities and large borrowing programs. Other Board Committees are established from time to time and as required to consider matters of special importance including capital strategies, major investments and commitments, capital expenditure, delegation of authorities to act, and the allocation of resources.

Board and Committee agendas

Board and Committee agendas are structured throughout the year in order to ensure that each of the significant responsibilities of the Board is addressed. This includes the Board receiving a detailed overview of the performance and significant issues confronting each business unit and the Corporate Centre and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

Directors receive detailed financial, operational and strategy reports from senior management during the year and management is available to discuss the reports with the Board.

Audit Committee

The Audit Committee's role is documented in a Charter, which has been approved by the Board. The Charter defines the purpose, authority and responsibility of the Committee. The Charter has been recently reviewed and enhanced. The review was conducted with reference to authoritative pronouncements on audit committees in Australia, the US and United Kingdom. The Audit Committee has regard to world best practice in auditing standards and relevant guidance notes, including the Ramsay Report on Audit Independence in Australia.

In accordance with this Charter, all members of the Committee must be independent non-executive directors. The members of the Audit Committee at the date of this annual review are:

Mrs Catherine M Walter (Chairman);

Mr Peter JB Duncan;

Mr Graham J Kraehe; and

Dr Kenneth J Moss.

Members are appointed for an initial term of three years. Membership is reviewed every three years and periodic rotation is encouraged, but no more than one member each year can resign as a result of periodic rotation.

The internal and external auditors, the Managing Director and Chief Executive Officer, the Chief Financial Officer and other members of management are invited to attend Audit Committee meetings at the discretion of the Committee.

The responsibilities of the Audit Committee are to:

- present formal reports to the Board on its activities and to formally table the minutes of the intervening Audit Committee meetings;
- communicate with the Board, the external auditors, Internal Audit and management to exchange information and views;
- oversee and appraise the independence, quality, cost effectiveness and extent of the total audit effort;
- perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- review and authorise the release of financial information to shareholders and prospective shareholders where empowered by the Board;
- evaluate the adequacy and effectiveness of the Group's management and financial control systems and other internal control systems and evaluate the operation thereof; and
- review and endorse the Chief Executive Officer's annual attestation statement in accordance with regulatory requirements.

The Audit Committee meets with the external auditors during the year to review the adequacy of existing external audit arrangements with particular emphasis on the scope and quality of the audit. The Committee then reports to the Board on the external auditor's continuance and achievement of their terms of engagement. At least annually the Audit Committee is to meet with Internal Audit, the external auditors and Consulting Actuary separately, without the presence of management.

The Audit Committee is supported by regional audit committees and Management Committees in the regions in which the Group conducts its business activities. Regional audit committees are comprised of independent non-executive directors of the relevant operating companies within the Group.

Compensation and Nomination Committee

The Compensation and Nomination Committee's members at the date of this annual review are:

Dr Edward D Tweddell (Chairman);

Dr Kenneth J Moss; and

Mr D Charles K Allen.

The responsibilities of the Compensation and Nomination Committee are to:

- monitor, review and make recommendations to the Board as necessary

and appropriate regarding:

- the objectives for and assessment of the performance of the Managing Director and Chief Executive Officer;
 - the compensation arrangements for the Managing Director and Chief Executive Officer and other senior executives, including incentive plans, other benefits and service contracts;
 - the remuneration policies and practices of the Company generally;
 - option and share plans or other incentive plans for executives or other employees; and
 - the remuneration arrangements for non-executive members of the Board
- make grants of share options pursuant to the Company's executive option plans from time to time on such conditions (not inconsistent with the provisions of the plan) as the Committee may, in its absolute discretion, think fit, where prior in-principle approval had been given by the Board to grants contemplated on each occasion. Undertake all acts, matters, resolutions or things necessary or desirable in connection with the making those grants;
 - review and make recommendations to the Board as appropriate regarding
 - the size and composition of the Board;
 - the criteria for Board membership and desirable specifications of qualifications, experience and domicile for individual new appointees to the Board; and
 - identification of potential candidates for appointment to the Board; and
 - review these terms of reference and composition of the Committee annually

Appointment of senior executives and review of performance

The Board reviews the succession planning for senior executives and makes the executive appointments.

The Board also reviews performance and sets the remuneration packages applicable to the Managing Director and Chief Executive Officer and senior executives. Performance reviews involve meeting established performance-based criteria structured on increasing shareholder value.

The remuneration policy for senior executives is set out in the report of the directors on page 42 and 43 of this annual review.

Communication with shareholders

The Board's policy is that shareholders are informed of all major developments that impact on the Company consistent with continuous disclosure obligations of the Company pursuant to the Australian Stock Exchange Listing Rules and the Listing Rules of the other exchanges on which the Company's securities are listed, the Australian Corporations Act 2001, and equivalent legislation in relevant jurisdictions. The Company has had in operation during 2001, a continuous disclosure process to ensure compliance with the Company's continuous disclosure and reporting obligations.

The main practices and procedures of the continuous disclosure process are:

- documents provided to the Board containing an outline of obligations and requirements under the continuous disclosure regime and the consequences of non-compliance;
- guidance to management on identifying significant events from on-going reviews of business and financial reports and minutes of board meetings of affiliate entities; and
- regular reviews of global procedures to ensure timely identification of disclosure material and materiality thresholds.

Information is communicated to shareholders through:

- the annual review (unless a shareholder has requested not to receive the document);
- the annual financial report (for those shareholders who have requested a copy);
- disclosures to the stock exchanges in Australia, London, Luxembourg, New York, New Zealand and Tokyo, the Australian Securities and Investments Commission and US Securities and Exchange Commission;
- notices and explanatory memoranda of annual general meetings;
- the National Shareholders' Bulletin which provides shareholders with details of profit performance and other matters of interest;
- occasional letters from the Managing Director and Chief Executive Officer and Chairman to specifically inform shareholders of key matters of interest; and
- the Company's web-site on the internet: www.national.com.au.

Risk management

The Board is committed to the identification and quantification of risk throughout the Company's business units and controlled entities. Directors receive regular reports from Risk Management on areas where significant business risk or exposure concentrations may exist and on the management of those risks. The Board Committee structures, including the Committees established to consider large credit facilities, form an important part of the risk management process.

More comprehensive details on risk management appear on pages 41 to 45 of the annual financial report 2001.

Ethical standards

The operations of the Company and the Group are driven by the Group Mission Statement and Values. All the Values are important and cover every aspect of daily banking and financial service practices.

The Values include the requirement that the business be conducted ethically and with professionalism to achieve the highest standards of behaviour. These Values are reinforced by the Company's internal Code of Conduct which is provided to all staff and which requires observance of strict ethical guidelines. The Code of Conduct is issued to all staff and covers:

- personal conduct;
- honesty;
- relations with customers;
- prevention of fraud;
- financial advice to customers;
- conflict of interest; and
- disclosure.

During the year ended September 30, 2001, a revised Code of Conduct was issued to all staff. Changes to the Code included two new case studies on

personal conduct and a new section on electronic communications usage.

The Group regularly reviews its relationships with the external suppliers of goods and services. Organisations with high ethical standards are favourably considered. Where there is transition of executives between the Group and major suppliers or customers, appropriate confidentiality and independence issues are addressed in both principle and process.

In addition, the directors of the Company support the Code of Conduct issued by the Australian Institute of Company Directors.

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