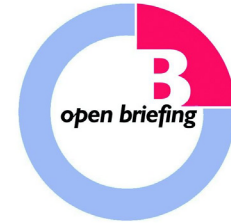


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Lodgement of Open Briefing**



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National Australia Bank  
500 Bourke Street  
Melbourne, Victoria 3000

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In an Open Briefing released on 13 August 2004, you indicated the objectives behind the National Australia Bank's "board rejuvenation" were to increase the financial services and risk management expertise and to ensure geographic diversity. Do you believe you have fulfilled your objectives?

**Chairman Graham Kraehe**

We're very pleased with the board composition and the shareholder response and feedback from the AGM on 31 January 2005 has been positive. Our board now comprises extensive international and Australian experience, with people such as Malcolm Williamson who brings international financial services experience, Jillian Segal who has financial services, legal and regulatory experience, and Robert Elstone who has risk management and derivatives trading, public policy, regulatory and financial management experience.

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The National experienced substantial change at the board level over the past year. How are you dealing with the risks associated with such change?

**Chairman Graham Kraehe**

Board renewal was one of the key actions within our four-point plan to address the National's issues, as announced in March last year. While carrying out the other key tasks of implementing the cultural change programme, continuing the risk

management upgrades and finalising extensive management changes, we've also managed the process of bringing on board six new non-executive directors and two new executive directors in what has been an unprecedented change to the board.

To ensure our new directors were comfortable with the change processes and the new direction of the bank, we developed a very extensive induction process which was finalised in December with a half-day workshop where we examined in detail the role of the board going forward and how effective it has been so far.

In between board meetings, I have spent time with our new directors, taking them through the issues raised in previous meetings and helping them prepare for future meetings. Background briefings on specific board agenda items were also given to the new directors. The induction phase took some time but the board renewal programme is now complete and we're pleased with the outcome as we continue to build the new National.

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Are any further board changes likely to occur?

**Chairman Graham Kraehe**

No more changes will be made to the board, except for Michael Chaney, who will take over as Chairman of the National in September this year, at which point I will resign as chairman and leave the board.

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What is your response to the Australian Shareholders' Association's (ASA) resolution to remove non-executive director Geoffrey Tomlinson from the board?

**Chairman Graham Kraehe**

We were disappointed with the resolution and pleased that it wasn't supported by the majority of our shareholders. The objective of ensuring that individual directors have time to commit to the National and make a valuable contribution is one we support. The board undertakes an extensive assessment of people standing for re-election to ensure the above objective is met.

The rigorous review includes asking questions such as: Does the person understand the business? Do they have extensive knowledge of the financial services industry? Do they attend all the meetings? Are they well prepared for the meetings and do they make a real contribution to the meetings? We find this an effective way to assess whether a person can commit the time and are able to perform for the shareholders. Mr. Tomlinson met these criteria.

We believe the ASA would better serve shareholders interests by encouraging boards to have robust performance review processes as it is impossible for them to objectively assess a directors contribution. We are happy to work with the ASA to help their policy formulation on this issue.

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What process was used to source the non-executive directors?

**Chairman Graham Kraehe**

We appointed search consultants to find the best possible applicants for the role of non-executive director in Australia and conducted a separate search in the UK in relation to the role of chairman of our UK banks.

A nominations sub-committee comprised of myself, Mr. Tomlinson and John Thorn interviewed a number of applicants and made recommendations to the nominations committee. There were many people who wanted to be considered for the role on the board and I was particularly pleased we had so many quality applicants.

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It's quite unusual to have three executive directors on a board. What were your reasons for this?

**Chairman Graham Kraehe**

The expansion of the board to include Group Chief Financial Officer Michael Ullmer and CEO Australia Ahmed Fahour in addition to John Stewart, reflects the quality of applicants for these two senior roles, will further enhance open dialogue between the board and management and provide added expertise in the areas of financial and risk management.

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How will the board's performance be measured and tracked in the future?

**Chairman Graham Kraehe**

We will use an external facilitator and implement a 360 degree review every second year. We have not done this yet because most of the board members are still new.

As part of our review process, each board member completes a detailed questionnaire about a range of issues, such as the effectiveness of the board, the interface between the board and management, openness and transparency and style of communication.

The external facilitator will then summarise the answers indicated in the questionnaire, after which the executive responses will be reviewed by the board and board responses will be reviewed by the executives. Any differing views arising between the board and management will be examined and explored. We'll also be able to identify different ratings in the assessment of individuals within the board and the management and examine reasons behind low ratings.

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What are the specific actions the board has taken to help transform the National's culture?

**Chairman Graham Kraehe**

The board has shown strong support in adopting and implementing the cultural change programme within the National. It participated in a workshop on the new corporate principals and identified the actions that were necessary for the board to demonstrate leadership, apply the new principles and correct behaviours in order to help lead cultural change. The board has held internal discussions on matters such as how best to apply the new corporate principles, how the board itself can monitor adherence to the new principles, and how the effectiveness of the cultural change programme can be assured. The HR committee will be reviewing and monitoring behaviour assessments as a requirement for participation in future bonus schemes.

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What are your thoughts on the management changes at the National?

**Chairman Graham Kraehe**

John Stewart has now put in place an excellent management team comprising a good mix of people from within the organisation, both long-serving experienced people and bright young stars who've been promoted as well as some quality people who've come from other organisations.

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Disclosure of the remuneration packages of key executives within the National has received much public attention. How do you justify the remuneration offered to the key executives, notably CEO and MD for the Group, John Stewart, and CEO for Australia, Ahmed Fahour?

**Chairman Graham Kraehe**

As part of our approach in being open and honest, we were determined to make a detailed disclosure of the remuneration packages in our annual report and in announcements at the time the appointments were made. We actually disclosed more than was required. In addition, during the recent AGM, the chairperson of the HR committee discussed in some detail the background and the rationale behind the remuneration packages for key executives, particularly those of Mr. Stewart and Mr. Fahour.

The board believed that it was absolutely critical that we find the best quality people from a worldwide search. Mr. Fahour emerged from this worldwide search as a highly experienced, highly qualified candidate who has had a similar role in the largest financial services institution in the world (Citigroup). As is often the case, and certainly in the US, executives have a range of options, bonuses and equity schemes that they must forgo if they decide to leave an organisation. It's quite common practice to match those payments on a one-off basis and that was what we decided to do in the case of Mr. Fahour.

What's important to note is that we put in place a number of time and performance hurdles in relation to those payments which were not part of Mr. Fahour's package

in the US, making them more rigorous at the National than they were at his previous organisation. In terms of his ongoing payment, that was really set as a percentage of the CEO's remuneration package and with advice from an external remuneration consultant. It reflects the fact that the Australian operation is a very large business, which in its own right could be ranked among the top ten companies in Australia.

In the case of Mr. Stewart, the remuneration package was based on advice from our remunerations consultant and benchmarked against Australian and international peers.

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While the market anticipates the National's update on its European operations on 7 February 2005, could you comment on the strategy behind the sale of the National's Irish banks, and briefly outline why the National remains committed to its UK banks and its plans for growing the European franchise?

**Chairman Graham Kraehe**

The sale of Northern Bank Limited and National Irish Bank Limited, which is proceeding as expected, simplified the task of consolidating our European assets. After an extensive review of our European operations, we realised we had to make these businesses more simple. We have reduced four banking licences to one. We now feel much more confident about developing our business in the UK and especially developing the business in the southeast of England

Management can now focus on consolidating Yorkshire Bank and Clydesdale Bank and concentrate on the UK market, which is important to us.

On Monday, 7 February 2005, Lynne Peacock and key members of her leadership team will provide the market with an update on our European business. It will commence at 9.30 a.m. and will be webcast on our website ([www.nabgroup.com](http://www.nabgroup.com)).

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What is the National's progress to date in implementing the 81 remedial actions required by APRA?

**Chairman Graham Kraehe**

We continue to work very closely with APRA in addressing the 81 actions and have submitted over 70 items, 25 of which have been fully resolved and 11 partially resolved. We are taking great care to ensure each is dealt with comprehensively and that sustainable change is effected.

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When will you no longer be required to use the standard model for market risk imposed by APRA and what impact will this have?

**Chairman Graham Kraehe**

We are currently working with APRA to reinstate the use of our internal risk model as soon as practical. Ultimately that's an APRA decision.

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How are you dealing with the bank's risk issues?

**Chairman Graham Kraehe**

We've spent a lot of time upgrading our risk management systems, resources and operational risk reporting procedures. As a result of our review into our internal processes, the board and the board committee are more exposed to operational risk issues than in the past.

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There has been some concern around the National's ability to maintain the dividend. Can you provide any clarity on this?

**Chairman Graham Kraehe**

The board recognises that the dividend is important to our shareholders. We have said we will maintain a dividend of 83 cents for the first half of 2005. We still have a number of issues that need to be resolved over the next six months, including the impact of the International Financial Reporting Standards (IFRS) on our capital, how quickly we'll be able to fulfill the APRA requirements and consequently come out of the APRA constraints, and any further restructuring that may take place this year. All of these issues will have some impact on our capital position.

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The National is said to have \$1,945 million in National Income Securities (NIS) outstanding. What's the strategy behind the buy-back of these securities?

**Chairman Graham Kraehe**

At the AGM, we received shareholder approval for the buy-back in order to give us some flexibility in the future. We believe there are maybe some opportunities for more cost effective sources of funding than the NIS and at it may be appropriate to cancel and buy-back these securities. However, I'd like to reiterate that we've made no decision to buy back these securities at this point in time.

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What's your general outlook for 2005?

**Chairman Graham Kraehe**

For 2005, the broad outlook is strong economies in Australia, in New Zealand and in the UK, comprising the regions where the bulk of our assets are located. It is anticipated that those three economies will continue to perform somewhat stronger than the rest of the industrialised world, driven by household spending and business investment. Despite a slight weakening of each of those economies expected over the next 12 months, I believe that with the distractions of 2004 now

behind us, we now have the opportunity to improve our business performance. We do however expect our earnings decline to bottom in the first half of 2005 and return to an acceptable growth profile over the second half and into 2006.

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Thank you Graham.

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For more information on the National Australia Bank Limited, please visit [www.nabgroup.com](http://www.nabgroup.com) or call Callum Davidson on (03) 8641 4964.

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