1 Purpose of Charter

This Charter sets out the authority, responsibilities, membership and terms of operation of the Board Audit Committee (Committee) of National Australia Bank Limited (Company).

2 Authority

2.1 The Committee is appointed and authorised by the Board of Directors of the Company (Board) to assist the Board in fulfilling certain of its statutory, fiduciary and regulatory responsibilities and to provide an objective, non-executive review of the effectiveness of the Company’s financial reporting, regulatory reporting and tax risk management frameworks. The authority of the Committee is sourced from:

(a) the Company’s Constitution;
(b) this Charter; and
(c) separate Board delegations, resolutions and approvals granted to it from time to time.

2.2 The Committee has the authority to conduct or direct any investigation required to fulfil its responsibilities and may directly engage and retain, at the Company’s expense, such legal, accounting, financial, corporate governance or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

2.3 The Committee may form and delegate authority to sub-committees comprised of one or more members. Any such sub-committee will have the full power and authority of the Committee, subject to the terms of its delegated authority, and must report to the Committee in relation to material developments arising in the exercise of that authority.

2.4 In this Charter, a reference to ‘regulatory reporting’ means reporting in Australia to the Australian Prudential Regulation Authority (APRA), the Reserve Bank of Australia and the Australian Bureau of Statistics, in accordance with APRA Reporting Standards, including statistical reports and survey submissions.

3 Duties and Responsibilities

3.1 The Committee is responsible for the oversight of:

(a) the integrity of the accounting and financial statements and the adequacy of the financial and regulatory reporting processes of the Company and its controlled entities (Group);
(b) the Group’s external audit processes, including the appointment, evaluation, management and removal of the Group’s external auditor;
(c) the Group’s internal audit processes, including appointment and removal of the Executive, Internal Audit;
(d) compliance with applicable accounting standards and policies and statutory and regulatory accounting requirements to give a true and fair view of the financial position and performance of the Group; and
3.2 In performing the oversight responsibilities referred to in Clause 3.1, the Committee may make recommendations to the Board, as it sees fit.

3.3 Accounting Practices and External Reporting

Financial Statements

(a) Review the audited annual and half-yearly financial statements and any reports that accompany published financial statements and, following discussion with management and the external auditor, recommend their approval by the Board.

(b) Review and consider, with management, significant accounting and financial reporting matters raised by internal and external audit.

(c) Review material Group accounting policies and changes proposed by management in relation to the application of those policies or principles, and advise, make recommendations to the Board or approve (as required) any significant new policies or significant changes in policy, principles or practices.

(d) Review and consider material judgments made by management in relation to the quality and appropriateness of the Group’s accounting principles and their application.

(e) Assess the adequacy of the review processes relating to loan loss provisioning.

(f) Review the controls and processes supporting the financial reporting certifications of the Group Chief Executive Officer (Group CEO) and Group Chief Financial Officer (Group CFO) and the disclosures made in those certifications.

Corporate Reporting

(g) Review reports on how management satisfies itself that periodic corporate reports are materially accurate, balanced and provide investors with appropriate information to make informed investment decisions.

Regulatory Reporting

(h) Review reports on how management satisfies itself that regulatory reports are materially accurate.

3.4 Whistleblower Disclosures

(a) Review, and approve the Company’s Group Whistleblower Protection Policy (Policy) and any related procedures for the receipt of confidential information regarding accounting, internal control, compliance, audit and other matters.

(b) Oversee the Group’s ongoing compliance with the Policy, including reviewing processes for ensuring employee awareness of the Policy and for dealing with matters raised under the Policy by disclosing persons.

3.5 External Audit

Financial Statements

(a) In consultation with management, review the integrity and effectiveness of the Group’s financial reporting systems and controls with the external auditor.

(b) Review, with management, and make recommendations to the Board in relation to the scope of the external audit plan and oversee the scope of work of the external auditor performed for the purpose of preparing or issuing an audit report. This includes annually reviewing the external audit plan so that relevant material risks and financial
reporting requirements are covered and that the external auditor is present at the annual general meeting to answer questions from shareholders.

(c) Regularly review the external audit findings with management, and monitor that matters are being managed and addressed in an appropriate and timely manner by management.

(d) Meet privately, on at least an annual basis, with the external auditor.

Prudential Standards

(e) Consider, with management, the scope of the external audit to meet the requirements of APRA Prudential Standards APS 310 and 3PS 310 Audit and Related Matters, in connection with the audit of APRA data collections, internal controls relating to prudential requirements and compliance with prudential standards and reporting standards during the year.

(f) Review reports provided by the external auditor to APRA in accordance with APS and 3PS 310 and any associated assessments and other material provided by the external auditor to the Company as an Authorised Deposit-taking Institution (ADI) or as head of the conglomerate group on request.

(g) Review commentary or responses provided by APRA to the Company as an ADI or as head of the conglomerate group on reports provided by the external auditor and any associated assessments and other material.

(h) Review any commentary or response on the reports, associated assessments and other material provided by the external auditor that are given to APRA by the Company as an ADI or as head of the conglomerate group.

Adequacy and Independence

(i) Review the adequacy, independence and effectiveness of the external audit function. Obtain, at least annually, from the external auditor a formal written statement delineating all relationships (including both audit and other services) between the external auditor and the Group to assess the auditor’s independence.

(j) Maintain oversight of and approve all auditing services and all permitted other services (including fees and terms thereof) to be performed for the Group by the external auditor, to the extent required by law, according to established Committee procedures.

(k) The Committee may delegate to one or more of its members, or to management as it sees fit, the authority to grant pre-approvals for audit and permitted other services to be performed for the Group by the external auditor. A summary of all pre-approvals is to be presented to the Committee at least every six months.

(l) Review the external auditor’s engagement, at least annually, including making an assessment of whether the external auditor meets the Audit Independence tests set out in APES Code of Ethics for Professional Accountants, as well as the additional auditor independence requirements set out in regulatory standards or guidelines.

(m) Approve the external auditor’s annual fees.

(n) Review and approve the Group External Auditor Independence Policy and review reports from management and the External Auditor on compliance with that Policy.

Relationship/Term

(o) Select, evaluate, approve compensation of and, where appropriate, replace the external auditor, subject to shareholder approval where required.
Review the external audit service at least every three years from execution of the audit tender. The criteria for this evaluation of the external auditor’s performance will include value delivered to shareholders and the Group under the audit plan, its cost effectiveness, fee benchmarking, independence and performance against key performance indicators.

Ensure that controls are in place regarding the term of appointment of the external audit engagement partner and lead review partner, including in relation to the audit engagement partner and lead review partner, approving (where applicable) the rotation or extension of the appointment in compliance with the Corporations Act 2001 (Cth).

3.6 Financial Risk Management and Compliance

Taking into account the Board’s allocation of responsibility for review of risk to the Board Risk & Compliance Committee, review the internal financial control systems and processes for assessing the effectiveness of those systems for accounting, external financial and regulatory reporting, and tax.

Review findings of identification of significant internal financial control deficiencies identified by management, the Internal Auditor or the External Auditor and monitor that such matters are being resolved in an appropriate and timely manner.

Review the major reports of financial sector regulators that relate to accounting and external financial reporting of the Group and management’s response.

3.7 Internal Audit

Risk Management

Annually review and approve the scope of the Internal Audit Plan with management and the external auditors so that it covers relevant material risks and financial reporting requirements and regularly review the progress of work performed in relation to the audit plan.

In conjunction with the Board and Board Risk & Compliance Committee, review Internal Audit reports on the effectiveness of the risk management framework for the purpose of the Board’s Risk Management Declaration under CPS 220 Risk Management.

Meet privately, on at least an annual basis, with Internal Audit and with the Internal Audit strategic partner.

Adequacy and Independence

Review the adequacy, independence and effectiveness of the Internal Audit function.

Assess whether the Internal Audit function is independent of management and the external auditor and whether there is the appropriate level of access to management and rights to seek information.

At least annually, evaluate activities that are outsourced by the Internal Audit function.

Relationship

Review and approve the responsibilities, budget and staffing of Internal Audit and, if appropriate, recommend changes to management.

Review, approve and monitor the Internal Audit process with particular attention to auditing compliance with the Group’s internal policies and procedures, as well as with regulatory requirements and the validation of self-assessment of business risk by management.
(i) Following consultation with management, recommend to the Board the appointment (and monitor subsequent performance) and, if relevant, dismissal of the Executive, Internal Audit.

(j) Review and assess the objectives and policies of Internal Audit as documented in its charter.

(k) Resolve any disputes escalated by Internal Audit to the Committee Chairman.

3.8 Tax

(a) In consultation with management, review the effectiveness of the tax risk management framework and governance arrangements.

(b) Endorse tax risk settings to the Board for approval, having regard to management recommendations.

(c) Oversee and monitor tax risks.

3.9 Other Responsibilities

(a) Maintain and encourage open lines of communication with subsidiary audit committees.

(b) Monitor that post-acquisition reviews of all new significant businesses acquired are conducted no later than 12 months after settlement of each acquisition. A summary of the review will be provided to Board.

(c) Examine any other matters referred to it by the Board.

(d) Members will be available to meet with regulators on request.

(e) Refer to the Board and any other Board committee (as appropriate) any matters that have come to the attention of the Committee that are relevant for the Board or the respective committee.

Limitation

3.10 The Committee’s principal function is one of supervision, oversight and monitoring. The Committee performs its principal function based on information provided to it by management. Management is responsible for the preparation, presentation and integrity of information provided to the Committee.

3.11 The Committee does not have the duty to:

(a) conduct audits (it is the external auditor’s responsibility, in consultation with management, to plan and conduct the audit, although the Committee does review audit plans); or

(b) determine that the Group’s financial statements and disclosures are complete and accurate and in accordance with general accepted accounting principles and applicable rules and regulations (it is the Board’s responsibility, in consultation with management and the external auditor, to do this).

3.12 The Board Risk & Compliance Committee has primary responsibility for oversight of risk matters. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee in accordance with 3.9(e).

3.13 The Board People & Remuneration Committee has primary responsibility for assisting the Board on people and remuneration-related matters. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee in accordance with 3.9(e).
3.14 The Board Customer Committee has primary responsibility to require, and oversee, a significant lift in the importance given to the voice of the customer and a more intense focus on customer outcomes. The Committee will refer to that Committee any matters that come to its attention that are relevant to that Committee in accordance with 3.9(e).

**Operational Procedures**

3.15 A separate detailed checklist of operational matters and agenda items to be considered by the Committee over a full year is used as a means to fulfil the Committee’s responsibilities. This checklist is maintained by the Committee Secretary and is regularly updated to reflect relevant accounting, legal and regulatory matters.

**4 Reporting and Evaluation**

4.1 Minutes must be kept of all Committee meetings and circulated to the Board. All Committee papers will be made available to Directors who are not members of the Committee.

4.2 The Committee, through its Chairman, will report to the Board at the earliest possible Board meeting after each Committee meeting, any matters that should be brought to the attention of the Board and any recommendations requiring Board approval and/or action.

4.3 The Committee will make recommendations to the Board regarding acceptance of annual and half-yearly financial statements.

4.4 The Committee will provide the Board with an assessment of:

(a) the performance and independence of the external auditor;
(b) the performance and independence of the Internal Audit function; and
(c) the management controls and internal compliance systems that support external financial and regulatory reporting.

4.5 A review of this Charter and its continuing adequacy will be performed on a regular basis, as required.

4.6 An evaluation of the Committee’s performance as it relates to the requirements of this Charter will be performed annually.

4.7 The Committee Chairman will submit an annual report to the Board on the Committee’s activities during the year.

4.8 The Committee must refer any matter of significant importance to the Board for its consideration and attention.

**5 Composition**

5.1 The Committee must consist of a minimum of three members (including the Committee Chairman), at least one of whom will also be a member of the Board Risk & Compliance Committee. All members must be independent, non-executive directors of the Company. ‘Independence’ for these purposes will be assessed by reference to the Standards adopted by the Board from time to time consistent with the law and current governance guidelines issued by the Australian Securities Exchange and other regulatory bodies.

5.2 Members are appointed by the Board. The Chairman of the Board will make a recommendation to the Board on the appointment or reappointment of each member of the Committee.
5.3 Having regard to the operational, financial and strategic risk profile of the Group, it is appropriate that members have a diverse range of backgrounds, skills and experiences. All members of the Committee must be financially literate.

5.4 The Committee is required to have at least one member with accounting or financial expertise (ie such a member must be a qualified accountant or other financial professional with appropriate experience of financial and accounting matters), as required by applicable laws, corporate governance guidelines and listing standards.

5.5 The Chairman of the Board cannot be a member of the Committee.

6 Term

6.1 Each member will be appointed for an initial term of three years, or shorter if circumstances dictate. The performance of each member will be reviewed by the Committee Chairman in conjunction with the Chairman of the Board.

6.2 Periodic rotation of members’ appointments is encouraged. No more than one member should leave the Committee pursuant to rotation in any one year.

7 Chairman

7.1 The Committee Chairman will be appointed by the Board and must be an independent non-executive director of the Company.

7.2 The Committee Chairman must not be the Chairman of the Board but may also be the Chairman of the Board Risk & Compliance Committee.

7.3 Should the Committee Chairman be absent for all or part of a meeting, a designated member of the Committee will deputise in accordance with the Company’s Constitution.

8 Meetings

8.1 Members may attend meetings in person or by electronic means.

8.2 The Committee should meet often enough to undertake its role effectively, but not less than quarterly.

8.3 In addition, the Committee Chairman may call a meeting at any time and will call a meeting of the Committee if so requested by any member of the Committee, by the external auditors or Executive, Internal Audit, or by the Chairman of the Board.

8.4 A quorum will be two members.

8.5 Directors who are not members of the Committee, the Group CEO and other executives may attend meetings at the invitation of the Committee Chairman, except where matters being considered relate to them personally.

8.6 The Group CFO and Deputy Group CFO are expected to attend each scheduled meeting of the Committee.

8.7 Senior representatives of the External Auditor and Internal Audit are expected to attend each scheduled meeting of the Committee.

8.8 Any other persons and/or parties external to the Company may be invited to attend all or part of any Committee meeting.

8.9 The Group Company Secretary or a designate will be appointed Secretary of the Committee.
9 Direct Access

9.1 To draw appropriate matters to the attention of the Committee and foster open communication, the following individuals have direct and unfettered access to the Committee: Group CEO; Group CFO; Deputy Group CFO; Group Chief Risk Officer; Group Executive, Legal & Commercial Services; General Counsel, Corporate Legal; Executive, Internal Audit (or the equivalent roles) and the external auditor.

9.2 The Committee will at all times have free and unfettered access to senior management, risk and financial control personnel and other relevant internal and external parties, including Internal Audit and the External Auditor. When appropriate, the Committee Chairman will keep the Group CFO fully informed of relevant dialogue between the Committee and those parties.

9.3 The Executive, Internal Audit has a direct reporting line to the Committee Chairman, while maintaining an administrative reporting line to the Group CFO.

10 Fees

Members are entitled to receive remuneration as determined from time to time by the Board.

This Charter supersedes any terms of reference previously in force.