



Geoff Babidge CEO, A2 Corp

We are committed to positive purchasing decisions

We are a global company. And with more than 18,000 businesses supplying us with over \$4.9 billion of goods and services annually, our sourcing decisions have the ability to positively affect the environment and communities in which we live and work. Using our own money wisely is a key part of our work to promote a healthy relationship with money.

We can also help our suppliers make environmental, social and governance improvements that contribute to the success of their businesses and reduce the risk to ours.

The purpose of our Dig Deeper

This is our fourth year producing an integrated Annual Review - a combination of our previously separate Shareholder Review and Corporate Responsibility Review.

To inform the content of our Annual Review we undertake an annual Corporate Responsibility (CR) materiality process to assess the most significant issues in each of our CR segments: Customer, People, Supply Chain, Environment and Community. This year we sought feedback from investors, analysts, our employees, government community partners, consumer advocacy groups and non government organisations on the most material CR issues to NAB.

We then focus on including details on these issues in our Annual Review.

We understand that we have a diverse range of stakeholders, with a wide range of interests in our business who we must keep informed. Our Dig Deeper papers have been developed to provide additional performance commentary and data around our CR segments ensuring that our Annual Review continues to provide a concise overview of performance against NAB's material CR issues.

The content of our Dig Deeper papers is informed by our materiality process and ongoing stakeholder engagement throughout the year. We also conduct an annual peer and media review to align our reporting with best practice. Additionally, the Global Reporting Initiative Sustainability Guidelines (G3) framework guides the disclosures in our Annual Review and Dig Deeper papers.

Further information on how we manage key issues, along with program details, case studies and news stories can be found at cr.nab.com.au.

If you have any feedback or would like more information please let us know by emailing corporate.responsibility@nab.com.au.

What were the supply chain issues this year?

This year, the supply chain issues we identified as relevant to NAB through our materiality process were:

- outsourcing
- sustainable sourcing
- responsible procurement practices.



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Corporate responsibility commitments

In our 2012 Annual Review, we set out a series of commitments for the coming year. The ‘Supply Chain’ commitment for 2013, and our performance against this target, is provided in the table below:

Commitment	Performance
Increase the percentage of strategic suppliers ¹ who are signatories to the Group Supplier Sustainability Principles to 70% by 30 September 2013 (NAB and BNZ). Work to influence strategic suppliers in other businesses to become signatories to the principles and improve their sustainability performance.	We have not achieved this target. See the ‘Targets’ section below for more detail.

▶ This year we redeveloped our Group Corporate Responsibility commitments – for further details, see page 25 of our 2013 Annual Review.

A global supply chain for a global company

About our supply chain

As a global company, we have more than 2,000 contracted suppliers providing us with over \$3.5 billion of goods and services on an annual basis, we know our sourcing decisions can have a positive impact on the environment and the communities in which we live and work.

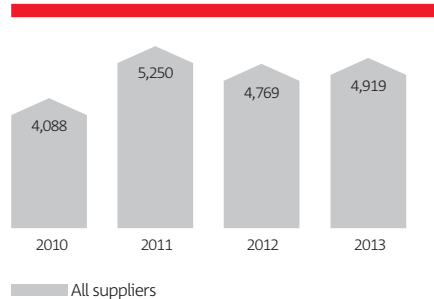
Globally, over 70 procurement professionals are responsible for our supply chain. They procure goods and services for the NAB Group within their region and category specialisation, while relationship managers across the business manage the day to day operational aspects. In Australia and the UK, our procurement professionals have control over specific categories such as Technology Services, Business Services and Professional Services and manage strategic projects. Meanwhile at Bank of New Zealand (‘BNZ’), we are piloting a system of aligning our procurement managers to specific business functions.

Our supply chain is varied in size and scale. For example, we have multinational companies providing us with technology services such as networks and computers and property management services such as facilities management. We also have smaller, local organisations that provide us with services such as recruitment, payroll, print management and catering.

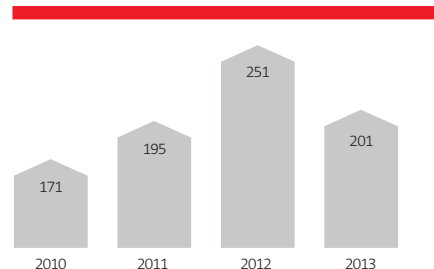
In 2013 we entered into 592 new or renewed contracts, representing 29% of our total contracted suppliers. Our average contract duration is three years.

To find out more about the initiatives outlined in this paper, please see cr.nab.com.au/what-we-do#supply-chain

TOTAL SPEND ON SUPPLIERS (GROUP) \$ millions



TOTAL NUMBER OF ‘SIGNIFICANT SUPPLIERS’



Note: ‘Significant supplier’ is a supplier in relation to whom the value of annual expenditure exceeds:
Australia: AUD\$5,000,000
United Kingdom: GBP1,000,000
New Zealand: NZD\$5,000,000

From a risk management perspective, we will look to further develop and enhance our monitoring of supplier compliance with our Group Supplier Sustainability Principles, including the development of sustainability action plans. We will also expand the environmental, social and governance (‘ESG’) assessment of our supplier base.

We are also looking to further develop our Supplier Diversity Program through increased introductions, supplier development opportunities, expansion of our corporate procurement forum to more regional areas within Australia and increasing engagement opportunities. Assessing the social return on investment for the Supplier Diversity Program will be a key feature in the latter part of our three year strategy. We will continue to recognise supply chain partners at our annual NAB Supplier Awards event.

Key to delivering our strategy is collaboration with our supply chain partners. It is not just about the goods or services they provide, but their willingness to work with us to achieve sustainable and economic outcomes.

See page 3 for more detail on our Group Supplier Sustainability Program.

Strategy and targets

Strategy

Our 2014 to 2016 strategy for our Australian Supplier Sustainability Program focuses on increasing engagement on sustainable procurement practices through education and awareness campaigns. It will also include increasing the number of suppliers we engage with directly on sustainability initiatives. We plan to include knowledge sharing and workshop opportunities for suppliers across relevant industries, including non-government organisations.

Targets

Back in 2009, we set a target to have 200 of our Australian contracted suppliers as signatories to our then Supplier Sustainability Principles by 30 September 2013 – a target we achieved.

We remain focused on expanding the program across the Group. The Group Supplier Sustainability Principles, (introduced in October 2012), now cover our businesses in Australia, New Zealand, Asia, the United Kingdom and the United States of America.

1. A ‘strategic supplier’ (BNZ) or ‘material supplier’ (Australia) is a supplier that performs an activity that has the potential, if disrupted, to have a significant impact on business operations or ability to manage risk effectively, or that their spend is so significant they require careful monitoring.

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We have also refined our program to focus on suppliers that are critical to our businesses.

In 2012, we set a target across our Australian and New Zealand businesses to have over 70% of our strategic suppliers¹ as signatories to our Group Supplier Sustainability Principles by 30 September 2013. Data integrity and reporting issues impacted our performance and we achieved 48% of our strategic suppliers as signatories.

Looking forward, we have set a target across the Group to have 90% of our core suppliers² – suppliers that are critical to our businesses – as signatories to our Group Supplier Sustainability Principles by 30 September 2016. To ensure we meet this target, we will proactively engage with our core suppliers and provide assistance, as required, for them to increase their sustainability performance.

This year in Australia, we have delivered on our 2012 supplier diversity target. This was to maintain and expand the number of diverse suppliers we engage with, and to continue to facilitate introductions between our Tier 1 suppliers³ and potential Tier 2 supply chain partners⁴.

We believe on-going relationships and supplier development opportunities are paramount, and these targets have been chosen with this in mind. As success is achieved, we will continue to facilitate relevant introductions across different categories and locations.

See page 4 for more information on our Supplier Diversity Program.

We believe in...

Sustainable supply chain management

Our Group Supplier Sustainability Program enables us to assist in the continuous improvement of the sustainability of our supply chain. It also allows us to monitor and manage sustainability risks and opportunities within our supply chain.

Key to this program is our Group Supplier Sustainability Principles which from 1 October 2012 are a consolidation of our previous regional approaches. They provide a consistent approach to managing the sustainability of our

supply chain across the Group, while providing consistency in implementation, reporting and supplier engagement.

Across the Group, we have increased our attention on strengthening our supplier sustainability controls and compliance monitoring. In Australia, we have developed and piloted a supplier sustainability assessment process. We have worked hard to create a streamlined process by incorporating feedback from the pilot. Before embedding it across the group as part of our supplier selection process, we will pilot the process again to make sure it is robust and as efficient as possible. We are also working across industry to develop accepted standards to avoid duplication.

Our Environmental, Social and Governance ('ESG') Risk Principles broaden the scope of risk assessment required under the Group's risk management framework and processes. To further understand ESG risks in our supply chain, we conducted desktop assessments for 71 of our material suppliers and/or suppliers with significant spend in Australia. No suppliers were rated as having a high ESG risk rating, and only five were rated as medium risk.

We conducted similar desktop assessments for 22 of our core suppliers in the UK and New Zealand and found that suppliers' business operations generally adhered to the Group Supplier Sustainability Principles. There were however, a small number of amber and red-rated suppliers. Some of the suppliers identified needed to improve or develop systems and processes for environmental and supply chain management. We are now using a risk-based approach to work with our suppliers to establish action plans and rectify these issues.

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desktop assessments were conducted in the UK, New Zealand and Australia.

For our core suppliers in Australia, New Zealand and the UK, we continue to incorporate a supplier attestation of compliance to our Group Supplier Sustainability Principles in our annual supplier due diligence reviews.

Collaborating with our partners

We have been working to reduce the waste produced from our operations since 2010. This year, we worked with our office products supplier (Staples) to develop and prototype a re-useable and recyclable plastic delivery box. This is being used during stationery deliveries instead of single-use cardboard boxes.

The re-useable delivery box has been implemented across our commercial portfolio and is conservatively expected to result in the saving of 3.7 tonnes of recyclable waste per annum.

Staples intends to apply this initiative across other customers, with an expected saving of an additional 30 tonnes of recyclable waste per annum.

How we select suppliers

We believe that the business conduct and performance of our suppliers has a significant impact on our sustainability performance and our reputation. Suppliers are selected based on criteria such as capability to deliver, customer service, strategic alignment, financial stability, sustainability and other relevant criteria.

In 2014 supplier selection criteria in Australia will be expanded to include the results of our third party assessments against our Group Supplier Sustainability Principles and a weighting for sustainability in our evaluation matrix. For suppliers in Australia we will continue to include the Group Supplier Sustainability Principles in the contracts. BNZ already considers the suppliers' alignment to our Group Supplier Sustainability Principles when selecting strategic and managed suppliers.

1. A "strategic supplier" (BNZ) or "material supplier" (Australia) is a supplier that performs an activity that has the potential, if disrupted, to have a significant impact on business operations or ability to manage risk effectively, or that their spend is so significant they require careful monitoring.

2. A "core supplier" is one who is "critical" in the UK, "strategic" in New Zealand and "material" in Australia.

3. Tier 1 suppliers refers to suppliers that contract directly with NAB.

4. Tier 2 suppliers refers to suppliers that contracts via a Tier 1 supplier to provide goods or services to NAB.

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Ensuring we select suppliers whose business objectives are aligned to our own is of the highest importance to us.

Supplier diversity

Supporting sustainable enterprises and communities through our purchasing is important to us. This is shown through our commitment to our Supplier Diversity Program in Australia. Diverse suppliers include Indigenous businesses (certified by Supply Nation, see supplynation.org.au), disability businesses (managed by Australian Disability Enterprises, see australiandisabilityenterprises.com.au), women-owned businesses and social enterprises. Our Supplier Diversity Program provides exposure to corporate procurement, creates employment and training opportunities, and encourages sustainable growth and social and financial inclusion. It also helps us diversify our supply chain, increases competition and provides greater flexibility in delivery.

In 2013 we continued with our approach to maintain national level contracts, while encouraging our large supply chain partners to include diverse suppliers in their supply chains. Over the period, we increased the number of facilitated introductions with our Tier 1 suppliers and continued to include diverse suppliers in our photography, print and design work, as well as in our catering and event management.

As a large organisation we have also focused on advocating to key stakeholder groups the benefits and opportunities that exist from developing a diverse supply chain. Some of the activities we've participated in include:

- developing and delivering two workshops on corporate procurement – one geared to Supply Nation employees and the other to Supply Nation certified Indigenous businesses to increase the capability
- sponsoring the Supply Nation Connect 2013 gala dinner event in Melbourne
- supporting Supply Nation by sending a delegate to speak at their Connect 2013 event on procurement trends in Australia and globally
- publishing a feature article on Sustainable Brands¹ outlining our commitment to supplier diversity.

Influencing and recognising our suppliers

We rely heavily on our supply chain partners. And because of this, we recognise the important role our supply chain partners play in delivering quality products and services to our customers.

In recognition of this, three years ago, we developed the NAB Supplier Awards in Australia to acknowledge suppliers that have delivered outstanding value, exceptional performance or have provided genuine leadership over the previous year. Suppliers have the potential to be recognised in one of four areas: environmental sustainability, innovation, product or service excellence and supplier diversity. All 2012 winners and a brief description of their initiatives can be found at cr.nab.com.au.

The NAB Supplier Awards presents an ideal opportunity for us to acknowledge the contributions of our supply chain partners. It also allows us to share our organisational strategy and important initiatives with these partners. Given the NAB Supplier Awards success, we will continue hosting it on an annual basis.

Sustainable sourcing

Our purchasing decisions can have a significant impact on communities, individuals and the environment in which we operate. For this reason, our Group Supplier Sustainability Program is focused on ensuring we do business with suppliers that share our values.

Our property portfolio represents a large proportion of our annual procurement spend and provides us with a real opportunity to influence our suppliers. We recently finished constructing and fitting out our new office at 700 Bourke St in Melbourne, Australia. The sustainability features incorporated into the building were achieved in collaboration with our suppliers and helped the building gain its 6 star Green Star Office Design.

Components within the building which contributed to the 6 star Green Star Office Design rating included using 30% recycled steel and concrete material in the building structure, 90% recycled content in the carpet tiles, new lighting sensors which gauge occupancy and external natural light to ensure electricity is used only when needed.

The building is now being occupied and employees are provided with sustainable office products including 100% recycled, Forestry Stewardship Council certified, National Carbon Offset Scheme certified carbon neutral office paper, recycled Post-It notes, white boards and permanent markers.

Third party certification for buildings (e.g. Green Building Council of Australia) and products (e.g. FSC certified, Good Environmental Choice Australia (GECA) certified or recycled) is important to us. Not only does it provide assurance and credibility that the product has been independently assessed, but it also represents best practice.

Improving our property portfolio

In Hong Kong, approximately 100 employees were relocated to a new office in late July 2013.

The office at Hysan Place is the first Hong Kong building to achieve pre-certification of the highest Platinum level under Leadership in Energy and Environmental Design (LEED) of the U.S. Green Building Council (USGBC). It is anticipated to deliver a 20% reduction in energy and water use, increase space efficiencies and provide a healthier and more productive working environment.

Governance of supplier outsourcing

To better understand and capitalise on opportunities for efficiencies and risk mitigation in our supply chain, we believe in managing our suppliers through a supplier governance process.

We continue to maintain a robust governance structure to manage our outsourced suppliers², including those notified to our regulators. We manage these suppliers via our Outsourcing Control Framework (OCF) which is designed to monitor and report on

1. Supplier Diversity article posted at Sustainable Brands can be located at http://www.sustainablebrands.com/news_and_views/supplychain/supplier-diversity-national-australia-bank

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regulatory and key business risks. It also provides a common risk based framework through which all outsourced suppliers are managed. We are working to better integrate the monitoring of Environmental, Social and Governance risks into the OCF.

Included in the OCF are minimum performance standards for our outsourced suppliers and a governance forum (Supplier Council) for the Australian Region. The OCF also provides clear accountability across the organisation regarding the importance of proactive supplier management.

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suppliers across the Group are managed under our Outsourcing Control Framework.

Suppliers provide commentary on a number of metrics on a monthly and annual basis. This includes an annual attestation of adherence to the Group's Supplier Sustainability Principles.

How we're managing material issues

Responsible procurement practices

We believe in the fair treatment of our supply chain partners throughout the entire procurement process.

This includes everything from robust governance and fair and ethical supplier selection, to the management and on time payment of invoices.

Our Group Procurement Policy and Group Outsourcing Standard act as global reference points for our procurement practices. The Group Procurement Policy covers our approach to procurement. It also includes our commitment to suppliers that NAB and its subsidiaries will treat them in a fair and ethical manner and manage contracts responsibly – and do it all sustainably.

Throughout the entire procurement process, we ensure we behave in a responsible manner. For example, where relevant, we issue Requests for Proposal (RFPs) to market to ensure fairness, integrity and transparency for all responding suppliers. We also develop an evaluation matrix relevant to the goods or services being provided and provide constructive feedback to unsuccessful bidders. Finally, we develop contracts that we believe are fair and reasonable, and ensure that we recompense suppliers fairly and within contractual terms and conditions.

Our Procurement function continues to evolve and mature. Recently, we established a specialist procurement governance and engagement area to ensure we actively manage all aspects of the procurement process.

Outsourcing

Outsourcing allows us to focus on our core business while capitalising on the specific expertise of our supply chain partners.

Our Group Outsourcing Policy and Standard requires that we appropriately manage all risks arising from outsourcing arrangements. We must only outsource to suppliers with sound social and environmental performance, proven capability and a demonstrable track record in the relevant services. Due diligence, supplier monitoring and ongoing risk management are incorporated into any outsourcing decision we make. Outsourced arrangements must also have an appropriate contingency plan and a business continuity management plan, allowing them to recover the service within a timely manner in the event of a critical event. This ensures we can meet the expectations of internal and external stakeholders.

All outsourcing arrangements must be assessed against the Group's outsourcing and off shoring risk appetite statement. This is done to ensure each outsourcing arrangement is in accordance with Group risk tolerance.

Resource efficiency

In Australia, we worked with Converg, our accounts payable supplier, to migrate from paper to electronic invoices. Our operations receive approximately 90% of our invoices electronically on a monthly basis.

Notes

- Supply chain data in Australia is based on 11-months of data with one month estimated due to timing requirements of reporting.
- Data is limited from the USA and Asia operations due to restricted reporting capabilities in these regions.

Definitions

- **Material supplier (AUS)** – a supplier that performs an outsourcing activity that has the potential, if disrupted, to have a significant impact on Group's business operations or its ability to manage risks effectively.
- **Critical supplier (UK)** – a supplier that is a significant in the UK, either due to spend or due to the fact that the supplier provides a product or service directly to UK customers. These critical suppliers also participate in the UK's Supplier Sustainability Programme.
- **Strategic supplier (BNZ)** – a supplier that performs an outsourcing activity that has the potential, if disrupted, to have a significant impact on business operations or ability to manage risks effectively or that their spend is so significant that they require careful monitoring.
- **Managed Supplier (BNZ)** – a supplier who provides a product or service that has some inherent degree of risk to BNZ's operations (eg. direct interaction with customers) which necessitates regular and ongoing due diligence and management.