



CORPORATE

SOCIAL RESPONSIBILITY REPORT 2006



**National
Australia
Bank**



Highlights

GOVERNANCE AND MANAGEMENT SYSTEMS

- Developed a CSR policy statement **PAGES 6 & 10**
- Developed and implemented a 'fit and proper' policy **PAGE 11**
- Implemented a new disclosure policy **PAGE 11**
- Reviewed our insider trading policy **PAGE 11**

STAKEHOLDER ENGAGEMENT

- Improved our stakeholder relationships **PAGE 17**
- Piloted the AA1000 stakeholder engagement standard **PAGE 16**
- Formed a new Community Advisory Committee **PAGE 14**

INVESTING IN OUR COMMUNITIES

- Invested a total of \$20.5 million in local communities **PAGE 20**
- Improved our reporting and monitoring systems **PAGES 18 & 20**

DEVELOPING OUR PEOPLE AND CULTURE

- Global union conference held in Glasgow **PAGE 33**
- New collective agreements signed in all regions **PAGES 32-33**
- Reduced Lost Time Injury Frequency Rate (LTIFR) across the Group **PAGE 32**
- Awarded 'Two Tick' disability user status in UK **PAGES 30-31**

HELPING CUSTOMERS TO MEET THEIR FINANCIAL NEEDS

- Expanded our micro-finance initiatives **PAGES 40-41**
- Launched a new multi-lingual website in Australia **PAGE 41**
- UK upgrades to offer point of sale transaction functionality to many customers **PAGES 36-37**

WORKING WITH OUR SUPPLIERS

- New CSR procurement policy adopted **PAGE 44**
- Offshoring pilot program completed **PAGE 44**
- New procurement supplier in UK **PAGE 46**
- Suppliers involved in our CSR reporting process **PAGES 46-47**

ENVIRONMENT

- Decreased energy consumption in Australia by 9.1% **PAGE 50**
- Purchased 100% climate change levy exempt power in the UK **PAGE 50**
- Made changes to Australian car fleet to reduce our transport-related greenhouse emissions **PAGE 50**
- Energy assessments completed in New Zealand **PAGE 50**

ECONOMIC PERFORMANCE

- Net profit increased 10% to \$4,392 million **PAGE 57**
- Asset quality remains sound **PAGE 58**
- 2006 dividends increased **PAGE 57**
- Diluted earnings per share increased **PAGE 57**

BENCHMARKING

- Continued inclusion in Dow Jones Sustainability and FTSE4Good Indexes **PAGE 60**
- Maintained our AA rating with RepuTex and improved our scores in the corporate governance and social impact areas **PAGE 60**
- Australian business nominated Bank of the Year by *Money Magazine* **PAGE 60**
- UK and New Zealand businesses win Customer Contact Centre Awards **PAGE 60**
- NabCapital improved its status as a trusted adviser **PAGE 60**

HOW TO READ THIS REPORT

References to NAB are to National Australia Bank Limited. The 'Group' refers to NAB and its controlled entities.

All currency amounts are expressed in Australian dollars unless otherwise stated.

References to 2005 and 2006 are references to the CSR reporting year for non-financial information ended 30 June 2005 and 30 June 2006 respectively, unless otherwise stated.

All references to the Group website – www.nabgroup.com are represented by the symbol  throughout the text. Other websites operated by Group entities include: www.cbonline.co.uk; www.ybonline.co.uk; www.nab.com.au; www.bnz.co.nz

This Report contains references to various websites. Other than the websites listed above, websites referred to in this Report are third-party websites and are not controlled or connected with the Group. NAB does not accept any responsibility for the information contained on third-party websites or for any consequences of accessing those websites.

We have included updates on the planned actions that we reported in our 2005 CSR Report. The highlight boxes have a status indicator to show how we have progressed these actions. The key for the status indicators are shown below:



In progress



Completed



Completed and on-going

14



24



44





18



34



48

OUR BRANDS

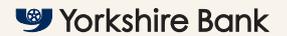
Retail, business and corporate banking in Australia



Retail, business and corporate banking, wealth management and institutional financial services in New Zealand



Retail, business and corporate banking in the UK



Retail, business and corporate banking in the UK



Global institutional financial services



Wealth management services in Australia and the UK



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Chairman's and Group Chief Executive Officer's statement

THIS IS OUR THIRD CSR REPORT AND WE ARE PLEASED TO REPORT AGAIN TO OUR STAKEHOLDERS AND THE BROADER COMMUNITY ON KEY ASPECTS OF OUR NON-FINANCIAL PERFORMANCE

Corporate Social Responsibility (CSR) includes the way we make business decisions, the products and services we offer, our efforts to achieve an open and honest culture, the way we manage the social, environmental and economic impacts of our business and our relationships with our employees, customers and other key stakeholders. We recognise that it is important to take a long-term view rather than simply focusing on short-term returns.

This Report continues our disclosure on the Group's non-financial performance in the key areas of governance, stakeholder engagement, environment, customer service, new products, community investment, and diversity and other workplace practices.

Our goal to deliver sustainable shareholder returns can only be achieved through an unwavering focus on our customers' needs, ethical behaviour at all levels and recognition in the community that we are behaving as a responsible corporate citizen.

In March 2006, our Board reviewed the Group's three-year CSR strategy and a CSR policy statement. In April 2006, the top 80 leaders from across our global operations attended a leadership summit looking at some of the key challenges and areas of focus to improve our business performance. The discussion and workshop on CSR attracted significant enthusiasm and interest from these senior leaders. In August 2006, our Board met with management representatives from across the Group to discuss the implementation of our CSR strategy by each business and their priorities moving forward.

We have continued to invest significant effort into our cultural change program, which was initiated in 2004 with the development of our Corporate Principles. This is progressing but requires continued focus and commitment. Further details are provided in the People section of this Report.

We have worked hard to improve customer satisfaction levels across the Group. In the Australian business, we have made progress in developing and launching a range of new products, including products to help address access to financial services for disadvantaged people. In New Zealand, we have undertaken significant work to improve security for personal on-line banking and to address growing customer concerns about banking security. In the UK, we saw the successful introduction of pension reform following consultation with the union Amicus, trustees and employees. In our nabCapital business, we extended the availability of our Resilience program, which provides practical health and wellbeing support for employees.

Highlights of our performance this year are provided on the inside front cover and at the front of each section in the Report, along with an update on targets we set ourselves in last year's Report. This year we have again outlined our planned actions at the close of each section in the Report and we will provide an update on our progress in the 2007 CSR Report.

In each section of the Report we talk about actions we have taken to respond to the expectations and interests of our various stakeholders. We believe that we are making steady progress in this respect. This is by no means an easy task and we face challenges as different stakeholders can often have conflicting views and expectations.

This Report has been prepared to meet the requirements of application level A+ of the Global Reporting Initiative's G3 Sustainability Reporting Guidelines and reflects stakeholder feedback on our 2005 Report.

We hope that as you read our 2006 CSR Report, you will be able to see the Group's performance in the wider context of the journey we are taking to build a truly sustainable business over the long term. We still have significant work to do to achieve our goals. We would value your feedback on the Report and encourage you to do so via our website [www.nab.com.au](#) or via email to corporate_social_responsibility@national.com.au.



Michael Chaney
Chairman



John Stewart
Group Chief
Executive Officer



Our goal to deliver sustainable shareholder returns can only be achieved through an unwavering focus on our customers' needs, ethical behaviour, and doing business as a responsible corporate citizen

John Stewart, Group Chief Executive Officer (left), and Michael Chaney, Chairman (right) in the August CSR workshop between Board and management.



Group profile

THE GROUP IS AN INTERNATIONAL FINANCIAL SERVICES GROUP THAT PROVIDES A COMPREHENSIVE AND INTEGRATED RANGE OF FINANCIAL PRODUCTS AND SERVICES

Globally, we have total assets of \$485 billion and serve around 8 million banking clients and 2.3 million wealth management customers and policy holders. From its inception in 1858, the National Australia Bank Limited (NAB) has become one of Australia's largest listed financial services institutions.

NAB is a public limited company, incorporated in Australia on June 23, 1893. It is the parent and main operating company of the Group. The Company's headquarters is in Melbourne, Australia. The Company operates under the requirements of the *Banking Act* 1959 (Cth) and the *Corporations Act* 2001 (Cth). Its fully paid ordinary shares are quoted on the Australian Stock Exchange, the London Stock Exchange, the New York Stock Exchange and the New Zealand Stock Exchange.

We have operated under a regional business model since 2004. Our three regional businesses are located in Australia, the United Kingdom (UK) and New Zealand. We also have a global business – nabCapital (formerly Institutional Markets & Services) – which has offices in Australia, the UK, New Zealand, the United States of America (USA) and Asia (see Figure 1). Each of our four businesses is structured to include customer service,

product development and support functions. Further detail is in our 2006 Annual Financial Report pages 9-13 on our Group website [www.nab.com.au](#).

We provide a broad range of financial products and services to institutions, corporates, business, agribusiness, small and medium-sized business and retail customers. These are listed in Figure 1.

Our Corporate Centre represents the interests of investors and works with our businesses to set performance targets and Group policies. Its activities include strategic development of the portfolio of businesses, financial and risk governance, developing and retaining talent, capital and balance sheet management. The Corporate Centre also helps us drive innovation and share best practice across the organisation.

REPORT PROFILE

This Report primarily covers the operations of the Group for the period 1 July 2005 to 30 June 2006, consistent with our reporting in 2005. However, this year we have aligned the reporting of our customer data to the reporting period used in the Governance and Management and Economic sections of this Report and in our Concise and Annual

Financial reports – namely, 1 October 2005 to 30 September 2006. We are gradually moving our annual non-financial reporting to match the same time period as our financial reporting – this will take a number of years. Occasionally, we refer to developments that occurred after the reporting period. These references are included if they are considered material and will be noted. This is our third CSR Report. Our previous Report was published in December 2005.

REPORT SCOPE AND BOUNDARIES

We are reporting on our CSR performance in the three key geographies in which the majority of our operations are located – Australia, the UK and New Zealand. This will continue to be the case in the next few years as we work to embed and further develop our non-financial reporting processes and systems.

The Group has operations in Asia associated with nabCapital and our Australian business. nabCapital also has operations in the USA. Data for our operations in Asia and the USA has been excluded from the scope of this Report, unless otherwise noted.



CAMERON CLYNE
Executive General Manager,
Group Development



MICHAEL ULLMER
Group Chief
Financial Officer



MICHAEL HAMAR
Group Chief
Risk Officer



JOHN STEWART
Group Chief
Executive Officer

FIGURE 1: OUR OPERATING STRUCTURE, GROUP EXECUTIVE COMMITTEE, PRODUCTS, SERVICES AND BRANDS

SIGNIFICANT CHANGES

During the year, the Group sold its New Zealand investment management business and its global Custom Fleet business. Data for these businesses is included in this report up to the date of sale (31/1/06 for New Zealand investment management and 31/07/06 for Custom Fleet). In 2005, the Group sold its two Irish banks. Consistent with our 2005 Report, data for these banks has been excluded where practicable from prior year comparisons. Exceptions to this have been footnoted. Further information on these sales is available in media releases on our Group website [ML](#).

Any significant changes to measurement methods from last year for social, economic or environmental information are noted where appropriate in the Report. There have been no significant changes in scope or boundary for the Report.

BASIS FOR REPORTING ON SUBSIDIARIES AND JOINT VENTURES

During 2006, the Company had four wholly-owned main operating subsidiaries: Bank of New Zealand, Clydesdale Bank PLC, MLC Limited and National Australia Financial Management Limited. The operations of these companies are covered by this Report. This Report does not report on the operations of any joint ventures.

RE-STATEMENTS OF INFORMATION

Re-statement of information is identified in the context of this Report and is accompanied by an explanation as to the reason for the nature and effect of the re-statement.

GRI PRINCIPLES AND PROTOCOLS

The Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines (2006) and the social (2002) and environmental (2005) financial services sector supplements have been used in preparing this Report. We applied the GRI reporting principles to the selection of content (refer to www.globalreporting.org) and we used the GRI protocols to guide our response to indicators.

ACCOUNTING CRITERIA/DEFINITIONS

Criteria and definitions used for any accounting for economic, social and environmental costs and benefits are explained or footnoted in the body of the Report or included in the glossary, as appropriate. See also our 2006 Annual Financial Report on our Group website [ML](#).

ASSURANCE

The financial and non-financial information included in this Report has been audited by independent external auditors. See audit reports, pages 61-63.

KEY GROUP FACTS

2006 (AS AT 30 SEPTEMBER 2006)

39,128	Employees (FTE), globally (as at 30 June 2006) ¹
8 million	Retail and business banking customers, globally
2.3 million	Wealth management customers, globally
884,056	Small business customers, globally
1,783	Branches & service centres, globally
2,642	ATMs, globally (including non-NAB branded ATMs)
654	Salaried financial advisers, globally
995 (not incl. Asia)	Aligned financial advisers, globally

¹ At 30 September 2006, our global FTE number was 38,433.

Australia



AHMED FAHOUR
Executive Director & CEO,
Australia

Retail banking
Business banking
Wealth management
Asset finance
Corporate banking
Transactional services
Custody services
Asia (excl. nabCapital)

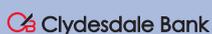
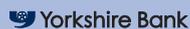


United Kingdom



LYNNE PEACOCK
CEO, United Kingdom

Retail banking
Business banking
Wealth management
Corporate banking



New Zealand



PETER THODEY
CEO, New Zealand

Retail banking
Business banking
Wealth management
Corporate banking
Transactional services
Custody services



nabCapital



JOHN HOOPER
CEO, nabCapital

Institutional banking
Corporate finance
Global markets
Structuring and investments



Our CSR strategy and agenda

PAYING ATTENTION TO BROADER ENVIRONMENTAL, SOCIAL AND ECONOMIC ISSUES HELPS MANAGE RISKS AND IDENTIFY OPPORTUNITIES THAT ADD VALUE TO OUR BUSINESS, SHAREHOLDERS AND THE COMMUNITIES IN WHICH WE OPERATE

In March 2006, our Board approved the Group's second three-year CSR strategy. This strategy provides a framework for the Corporate Centre and each of our businesses to develop their own priorities and action plans to respond to the risks and opportunities presented by sustainability trends and challenges.

The CSR strategy supports the Group's overall business strategy to:

- ▶ enhance performance improvement
- ▶ re-invigorate our franchise and brand
- ▶ improve core infrastructure
- ▶ improve regulatory and key stakeholder engagement
- ▶ accelerate cultural change around our Corporate Principles
- ▶ strengthen risk and capital management
- ▶ leverage our capabilities for growth.

The key elements of our CSR strategy are to improve business performance, build an open and honest culture and engage actively with stakeholders. This is illustrated in Figure 2. We aim to achieve this by focusing on six key areas:

- ▶ governance and accountability
- ▶ creating a great place to work
- ▶ working with our supply chain
- ▶ managing our environmental impacts – both direct and indirect
- ▶ caring for our customers and providing them with products and services to meet their evolving needs and expectations
- ▶ investing in the local communities in which we operate.

Our primary objectives supporting this strategy continue to be:

- ▶ making balanced decisions
- ▶ building trust amongst our employees, customers and other key stakeholders
- ▶ enhancing our reputation.

Our CSR strategy builds on the solid foundation provided by our Corporate Principles (see inside back cover), Code of Conduct and Compliance Standards.

To deliver on our strategy we need to understand the direct and indirect impacts, both positive and negative, that are created by our operations, products and services. We also need to be able to identify business opportunities to meet the needs of our employees, customers and other

stakeholders in the future.

With this in mind we are working to integrate environmental and social considerations into day-to-day business decision-making and operational practices. This will help build a customer-focused and ethical business where we openly engage in meaningful dialogue with our stakeholders and lead to better decisions and improved business performance.

We believe this will add value to our business by reducing risk, improving our operational efficiency, productivity, products and customer service, as well as creating a great place to work. Benchmarking of our CSR performance and stakeholders feedback show we are already making progress.

EXTERNAL COMMITMENTS

As part of our commitment to CSR we have become signatories to, or made public statements of commitment in support of, key finance sector, business and advocacy programs. The programs and initiatives we support are as follows:

- ▶ Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- ▶ the United Nations Environment Program Statement for Financial Institutions (UNEP-FI) (www.unepfi.org). Further information on our UNEP-FI activities is available on our Group website [□](#)
- ▶ the United Nations Declaration of Human Rights
- ▶ the Globally Responsible Leadership Initiative (see page 30).

We are also organisational stakeholders of the Global Reporting Initiative (GRI), whose G3 guidelines have been used in the preparation of this Report.

KEY CSR CHALLENGES AND ISSUES

Through engaging with stakeholders, tracking industry trends, monitoring risks and benchmarking our performance across the Group and externally, we regularly review the key CSR challenges and issues faced by our business and the financial services sector. This information is then used to identify key risks and opportunities.

Some of the key challenges and issues on our agenda are summarised right and are discussed in more detail throughout our Report.

BUSINESS ETHICS AND CONDUCT

Over the past three years we have worked very hard to change our culture so it is more constructive, open and honest (see pages 26-27). This has resulted in APRA closing the five cultural remediation requirements imposed as a consequence of its report into our foreign currency options losses that occurred in January 2004. While there is more to be done, our focus is firmly on the future.

Separately, during the year, criminal charges were brought against four traders who formerly worked on NAB's foreign currency options trading desk in relation to matters associated with the foreign currency options trading losses. Two of those traders pleaded guilty to the charges brought against them; the other two traders were found guilty by a jury after their trials; and all of them were sentenced to imprisonment.

HUMAN RIGHTS AND WORKPLACE PRACTICES

Offshoring (see page 44) and supply chain management (see pages 44-47) have become priority issues over the past couple of years as we look at the most efficient ways to manage our business. In this regard, we have made a commitment to fair international workforce standards (see our policy on our Group website [□](#)).

Fair, equitable and non-discriminatory work practices and good relationships with the unions in our work places are also key areas of focus (see pages 32-33). In our business, we are contributing to Indigenous and disability employment (page 31) and working to address diversity issues such as women in management and an ageing workforce.

We want to attract and retain talented individuals. In order to do this, we are focused on addressing issues such as leadership development and worklife balance.

FINANCIAL EXCLUSION, POVERTY AND CONSUMER DEBT

Financial exclusion occurs where people do not have access to financial products and services, and may not have the opportunity or ability to make informed decisions about financial matters. This is an area of shared interest with our community stakeholders, so we have continued to develop and expand

our micro-credit (see page 21), micro-enterprise (see pages 40-41) and financial literacy (see page 42) programs.

We are also aware of the growing level of consumer debt. We monitor debt levels amongst our customers and have been focused on educating our customers about money management. For example, our UK business has a call centre program to help credit card customers manage their level of debt.

FEES AND CHARGES

In both banking and wealth management, fees and charges continue to be an area of concern to customers and other stakeholders. In response to this concern, we continue to implement initiatives that simplify our wealth products and help financial advisers move to a simpler fee-for-service model (see pages 42-43). We have also reduced fees for community organisations and financially disadvantaged customers (see page 42).

CLIMATE CHANGE AND ENVIRONMENTAL PERFORMANCE

Reducing the resource intensity and waste produced by our business is a priority, both to reduce our environmental impact and to improve business efficiency. In Australia, we have been monitoring the development of new legislation focused on ensuring business concentrates effort on improvements in energy efficiency, both at the federal and state level. Implementation of this legislation will present some challenges to our Australian business due to the nature of energy use across our building portfolio. However, we have made some significant improvements in our energy management that will position us well in terms of meeting the requirements of this new legislation.

As our scientists, governments and communities all work to reach consensus, we are faced with the big issue of climate change. We are working to reduce our energy use (see page 50) and support the uptake of renewable energy through investment (see pages 55-56), but there is still a lot to learn about the best ways for a financial institution to respond to the risks and opportunities resulting from climate change.

At this time, the physical operations of the NAB have not been directly impacted by extreme weather events, changes in weather patterns or related climate change phenomena. However, some of our clients have been affected by natural events such as cyclones, floods, bushfires and droughts, the increasing incidence and severity of which may be linked to climate change. Therefore, we have begun work to help us better respond to climate change and to be able to assist our customers in this area (see page 54).



FIGURE 2: OUR CSR STRATEGY AT A GLANCE

INDIRECT IMPACTS OF LENDING

Stakeholders have expressed interest in better understanding how we manage the potential indirect social and environmental impacts of lending, both generally and more specifically for project finance. This is an area we continue to work on and on which we will continue to have dialogue with stakeholders.

COMPLIANCE

We are operating in a complex and constantly changing regulatory environment. This means we must be vigilant in understanding the implications of these changes for our business and invest in systems and processes to manage the changes. In 2006, we devoted considerable time to ensuring we comply with new

international regulatory frameworks and standards (see page 13).

SECURITY AND ANTI-FRAUD

Security and anti-fraud measures are an area of focus for the Group, particularly in light of the increasing incidence and sophistication of e-crime (see pages 13 and 43).

OUR CSR PRIORITIES

Each of our businesses has developed priorities and action plans to deliver on our CSR strategy. These priorities and action plans are tailored to reflect their regional operating environment, the expectations of local stakeholders and the progress each business has made to date in addressing issues that fall under the CSR 'umbrella'.



Developed a CSR policy statement

Developed and implemented a 'fit and proper' policy

Implemented new disclosure policy

Reviewed our insider trading policy

Governance and management systems

GOOD GOVERNANCE IS A FUNDAMENTAL PART OF OUR BUSINESS PRACTICE SUPPORTED BY OUR CULTURE AND OUR CORPORATE PRINCIPLES

In recent years, we have undertaken significant work to improve our governance and risk management systems, as strong governance is crucial for our success. You can read more about our governance practices in the Corporate Governance Statement in our 2006 Annual Financial Report, pages 57-65.

This section provides an overview of our governance approach and our management systems. It covers our Board and its practices; governance specific to CSR; important policies; and how we manage risk within the Group. The highlight box below updates some of the planned actions that we reported in our 2005 CSR Report. Information in this section of the Report is reported for the period corresponding to year end 30 September 2006.

CORPORATE GOVERNANCE – A BOARD MATTER

Our Board is responsible for corporate governance of the Company and the Group.

The skills and experience of our directors are set out in the Report of the Directors (see our 2006 Annual Financial Report, pages 82-92).

ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES

Under recommendation 7.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the Group Chief Executive Officer and Group Chief Financial Officer are required to state to the Board in writing that the certifications they give to the Board under Recommendation 4.1 (as to the integrity of the Company's financial statements) are founded on a sound system

of risk management and internal compliance and control, which implements the policies adopted by the Board, and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The statement given to the Board by the Group Chief Executive Officer and Group Chief Financial Officer with respect to the Company's financial statements for the six months ended 31 March 2006 was qualified



Directors and management engaged in CSR workshop, August 2006

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Streamline CSR governance processes to reflect our regional model	Each business reviewed its processes for overseeing our non-financial performance. Moving forward, each regional business and nabCapital will include a CSR update as part of the Board's meeting held annually in each regional location.	
Align the CSR Report with the annual financial reporting process	We reviewed options to align our CSR reporting period (1 July – 30 June) with the financial reporting period (1 October – 30 September). As a result, customer data included in this Report corresponds to the financial year ending 30 September. All other key data for environment, supply chain, people and community investment is reported to year ending 30 June. Over several years, as we are able to automate more of our data capture, we will move more of our reporting to a 30 September year end.	

FIGURE 3: BOARD OF DIRECTORS

Michael Chaney >
Chairman



< John Stewart
Group Chief
Executive Officer



< Michael Ullmer
Finance Director
& Group Chief
Financial Officer



Ahmed Fahour >
Executive Director
& CEO, Australia



Patricia Cross >



< Peter Duncan



< Daniel Gilbert



Kerry MacDonald >



Paul Rizzo >



< Jillian Segal



< John Thorn



Geoff Tomlinson >



Malcolm Williamson >



by reference to matters that had been previously reported (namely, the discovery in 2004 of unauthorised trading in foreign currency options and the extent of manual processes necessary in order to compensate for certain identified systems' deficiencies). Those matters, and the steps taken to address them, are described in more detail on page 56 of our 2006 Annual Financial Report.

Throughout 2006, the Company complied with the Recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations in all other respects.

BOARD OF DIRECTORS

A majority of our Board members are independent non-executive directors. At 30 September, our Board was composed of three executive directors (see Figure 3) and 10 independent non-executive directors. The role of Chairman and that of Group Chief Executive Officer are held by two individuals.

Two of our businesses, New Zealand and United Kingdom, are overseen by their own Regional Board (refer Figure 4, page 10), each with a majority of independent directors.

INDEPENDENCE OF DIRECTORS

Our directors are expected to bring independent views and judgement to Board deliberations. In judging whether a director is independent, the Board considers a number of standards. These standards reflect the independence requirements of applicable laws and regulations, including: the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations; the corporate governance standards of New York Stock Exchange, Inc; and the US Sarbanes-Oxley Act of 2002.

Information on disclosure of related party transactions is set out in note [51] in the 2006 Annual Financial Report, pages 221-224. Our director independence policy is available on our Group website [MLC](#).

RESPONSIBILITIES OF THE BOARD

Our Board has a charter that details its functions and responsibilities, see our Group website [MLC](#).

Our Board reviews and approves our Group-wide CSR strategy. In August 2006, the Board met with senior management from across the Group to discuss our CSR performance and our future priorities.



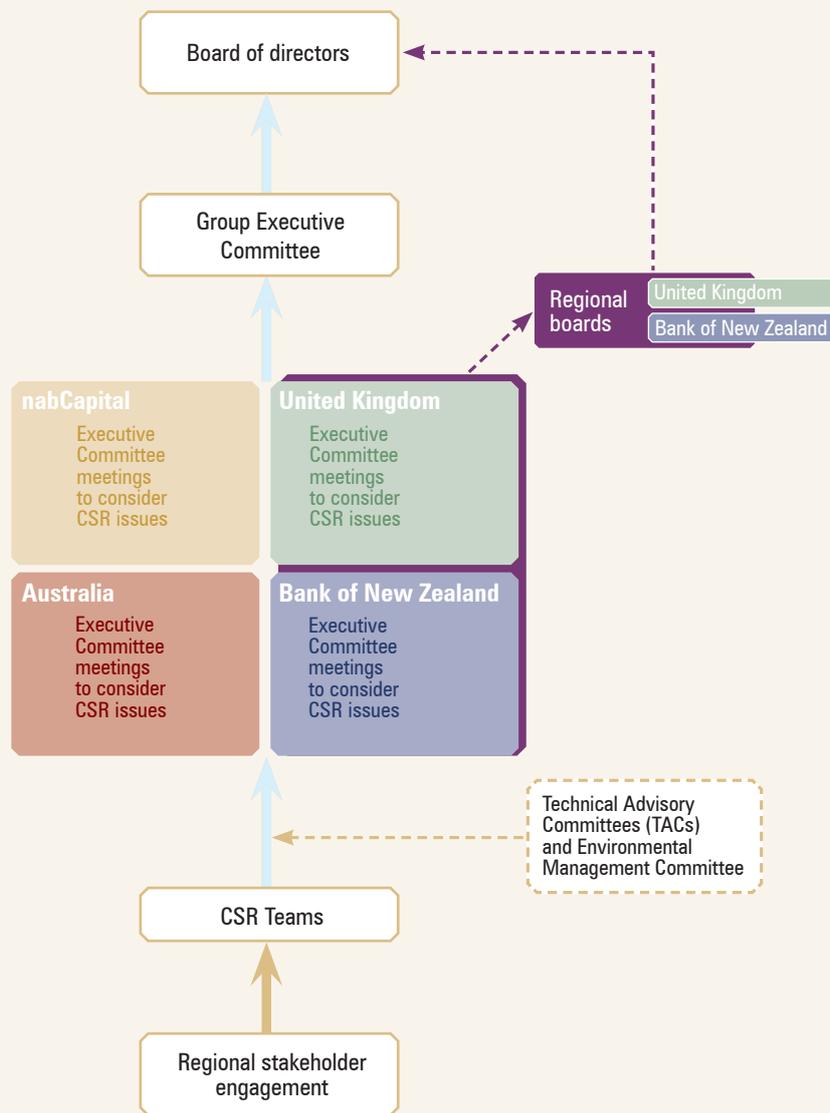


FIGURE 4: NAB'S CSR GOVERNANCE FRAMEWORK

The Board regularly reviews key elements of our non-financial performance such as progress of our cultural change program, occupational health and safety, diversity and community investment.

BOARD COMMITTEES

The Board has the following committees:

- ▶ Risk Committee
- ▶ Audit Committee
- ▶ Nomination Committee
- ▶ Remuneration Committee.

The Board also establishes ad hoc committees to consider other important issues that arise.

Further information of the roles and responsibilities, the composition, membership and attendance of Board committees and copies of committee charters is available in our 2006 Annual Financial Report pages 57-65 and 82-89.

CSR GOVERNANCE

Our CSR governance framework (see Figure 4) reflects our regional business model. Within this framework, each business sets the initiatives and priorities that are best suited to improve its CSR performance and to meet the needs of its business, the local operating environment and its key stakeholders. This framework ensures that the executive committee for each business has a clear line of sight and accountability for CSR strategy implementation.

Over the past year, our Group Executive Committee has considered our three-year CSR strategy and policy statement. Executive committees for each of our businesses and the Group have considered areas of our non-financial performance such as culture, workplace practices, leadership, diversity and the results of CSR benchmarking activities. They have also reviewed and approved their businesses'

CSR priorities, action plans and progress.

Throughout the Group, we have personnel specifically dedicated to coordinating and facilitating continuous improvement in CSR-related performance. Our CSR governance framework provides for Technical Advisory Committees (TACs). They review and develop policies and action plans in response to specific CSR issues, as required. This year, we had no new TACs. Our Environmental Management Committee is an ongoing TAC (see page 48).

Our Group Operational Risk and Compliance Committee (GORCC) oversees our CSR frameworks and policies. This year, GORCC reviewed the impacts of new Australian Commonwealth legislation on energy efficiency. It will continue to monitor our compliance in regard to this legislation. GORCC may bring CSR-related risk issues to the attention of the Group Risk Management Committee and the Board Risk Committee (see Figure 6, page 12).

OUR POLICIES AND MANAGEMENT SYSTEMS

Principles and behaviours

Our Corporate Principles are the basis for the Group's core beliefs, values and behaviours (see inside back cover). The Corporate Principles are reinforced by our Code of Conduct and Compliance Standards. Our Corporate Principles require directors, employees and temporary workers, among other things, to behave ethically.

Our Board has a policy to ensure it appropriately manages conflicts of interest. It supports the Australian Institute of Company Directors' code of conduct.

During 2006, the Group adopted a revised code of conduct for financial professionals. The code applies to John Stewart, Group Chief Executive Officer, Michael Ullmer, Group Chief Financial Officer, and all employees serving in finance, accounting, tax or investor relations roles. We also apply codes of banking practice in each region in which we operate.

Our reward strategy and performance management processes (see pages 28-29) reinforce our Corporate Principles and the various codes of conduct to which we adhere. All employees must complete mandatory compliance training on a range of topics, such as our Code of Conduct, banking and trade practices, discrimination and occupational health and safety.

Over the past two years, our Australian wealth management business (MLC) has been involved in an initiative of the Financial Planning Association (FPA), to develop and adopt a set of principles to manage conflicts of interest for financial advisers. A set of principles was adopted by the FPA in March 2006 and came into effect on 1 July 2006. As a FPA member, MLC has adopted these Principles, which include:

1. separation of advice, administration and product fees
2. financial planners will not advise on or recommend products that have the potential to bring the industry into disrepute
3. no preferential remuneration between the Australian Financial Services licensee and its representatives
4. separate corporate governance to be in place between a FPA principal member and all related financial services provider.

Whistleblower Protection Program

Our Group-wide Whistleblower Protection Program was implemented in 2003. It supports our commitment to developing and maintaining an ethical culture. If unethical behaviour occurs, then employees can disclose it to a protected disclosure officer through a confidential Alert Line. Employees can also choose to disclose directly to our Audit Committee. Employees are urged to report to more senior management any issues they believe could have a material impact on the wellbeing of our people, Group profitability, reputation, governance or compliance.

We do not tolerate unethical behaviour. Nor will we tolerate anyone who takes reprisals against whistleblowers.

Our internal audit function has reviewed our Whistleblower Protection Program and believes that it complies with the Australian Standard AS 8004:2003 Whistleblower Protection Program for Entities.

Our policies

Our Board and executive committees have approved a wide range of policies that guide our day-to-day business activities. Many of these policies have social and environmental dimensions, as well as economic. They are instrumental in enabling our business to operate in a socially responsible manner. Further information is available on our Group website [MLC](#).

In 2006, we reviewed a number of key policies and developed some new policies relevant to CSR. In particular, we:

- ▶ developed a CSR policy statement
- ▶ finalised our CSR procurement policy – which replaces our environmental procurement policy
- ▶ developed and implemented a new disclosure policy
- ▶ reviewed and tightened our insider-trading policy to formalise our long-standing informal practice of preventing directors or employees taking derivatives over unvested performance-related securities in the NAB
- ▶ developed a ‘fit and proper’ policy for our directors, senior managers and auditors – this policy addresses requirements of APRA’s Prudential Standard 520. It requires

our directors, senior managers, and auditors to be assessed for the appropriate skills, experience and knowledge to perform their role. They also need to establish that they have acted with honesty and integrity.

Political donations

The Group has a policy of not making donations to political parties. This policy was adhered to in 2006. We support bipartisan political debate as we believe it is important to take a balanced approach to stakeholders. Representatives of NAB may attend party events and functions for business reasons. Further information on this policy is available on our Group website [MLC](#).

MLC’s proxy voting policy

NAB, through MLC, our Australian wealth management business, has a ‘manager of managers’ approach to the provision of investment products. The outcome of MLC’s manager of managers’ investment process is an efficiently implemented portfolio, which is diversified across asset classes, within asset classes and across investment managers. This approach is based on a number of fundamental investment beliefs, one of which is diversification which leads to more consistent outcomes.

MLC’s proxy voting policy for Funds Under Management (FUM) is to access and vote all proxies for every resolution in respect of holdings beneficially owned by MLC entities in companies publicly listed in Australia (unless MLC has no discretion to vote). MLC, through its investment administration platform MasterKey Custom, also votes on all proxies for every resolution in respect to holdings beneficially owned

by members of the MasterKey Custom and HML Public Offer Superannuation Funds.

MLC exercises proxy voting rights for domestic FUM and votes on all resolutions. Responsibility for proxy voting on international holdings is delegated to fund managers selected by MLC.

MANAGEMENT SYSTEMS

The Group has a range of systems to help us manage our day-to-day business. Systems that are key to our CSR performance are risk management, customer service (see pages 34-43), people management (see pages 24-33) and environmental management (see pages 48-56).

RISK MANAGEMENT

Effective management of risk is a key capability for a successful financial services provider. A key component of our risk management strategy is a formal Risk Appetite Statement that is reviewed and set at least annually by the Board. The Risk Appetite Statement sets top-down cash earnings and return on equity (ROE) targets, and specifies the levels of risk (in terms of credit rating, target capital ratios and financial volatility limits) that will be tolerated in pursuing those returns.

During 2006, the Board’s Risk Committee focused on improving our risk reporting and management. This involved reviewing the risk identification and escalation processes of each risk committee. As part of a continuous improvement program, the charters and key processes of each management risk committee were updated. A copy of the Board Risk Committee Charter is available on our Group website [MLC](#).

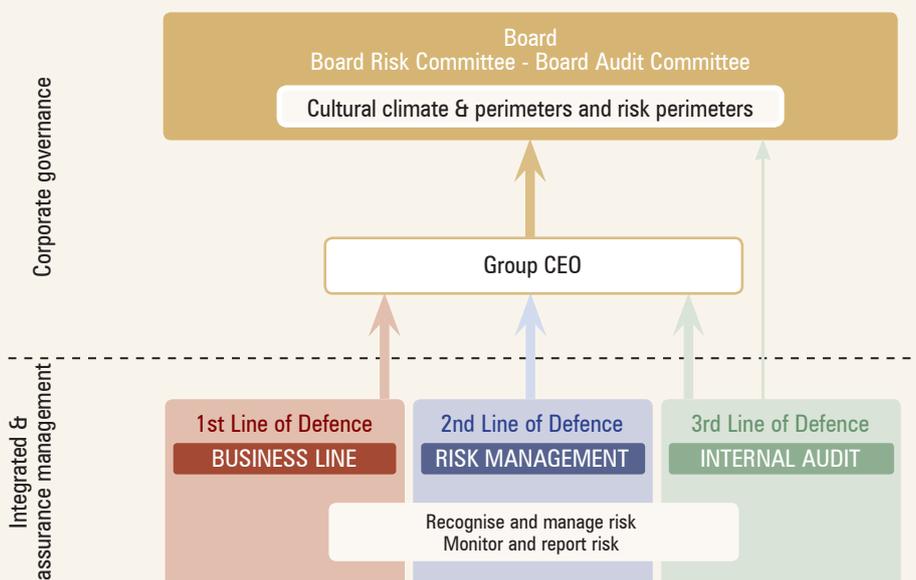


FIGURE 5: LINES OF DEFENCE



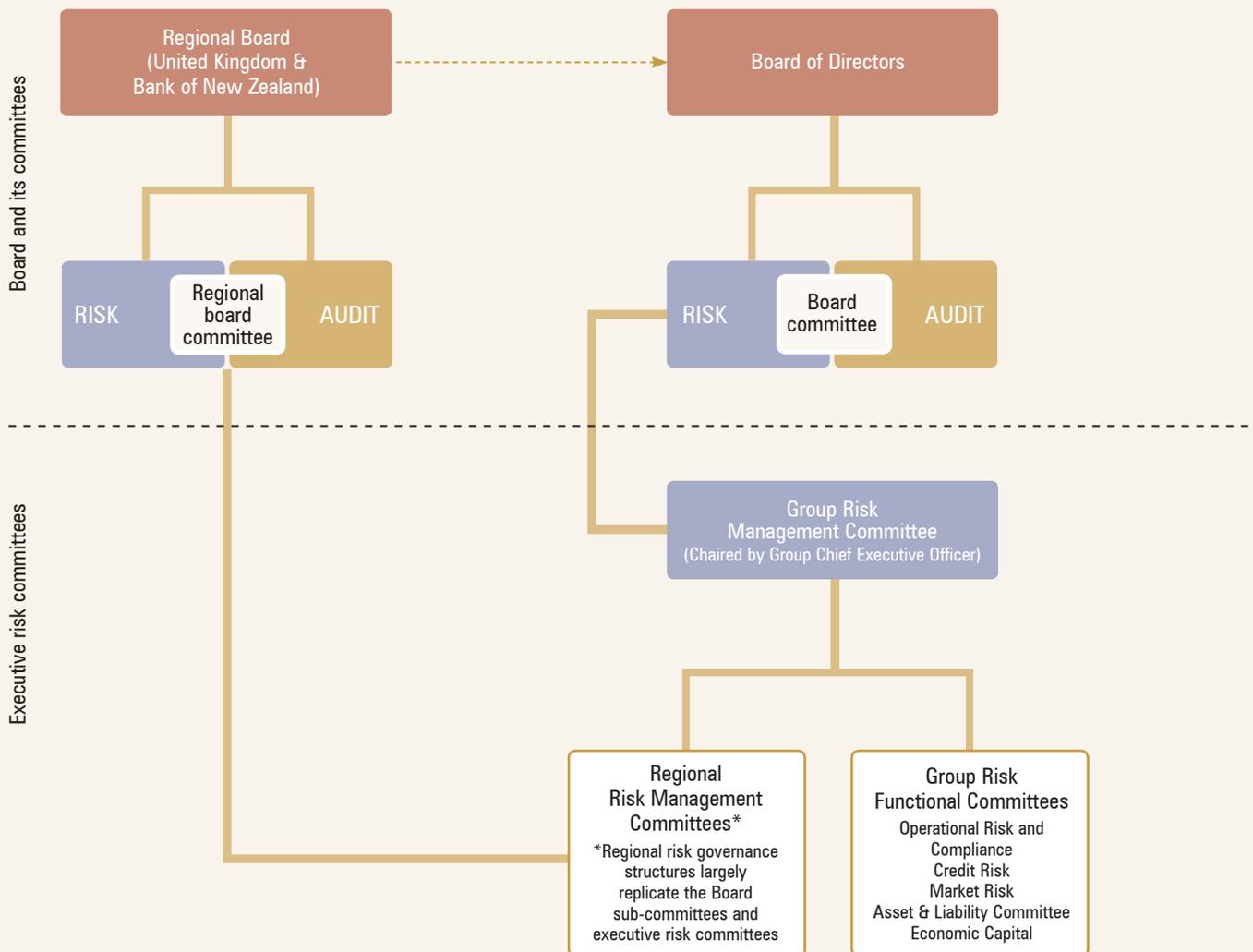


FIGURE 6: GROUP RISK GOVERNANCE FRAMEWORK

The Group's approach to risk management is based on an overriding principle that risk management capability must be embedded within the businesses' front-line teams to be effective. This overriding principle embodies the following concepts:

- ▶ all business decisions proactively consider risk
- ▶ business managers use the risk management framework which assists in the appropriate balancing of both risk and reward components
- ▶ all employees are responsible for risk management in their day-to-day activities
- ▶ risk management is a core competency for all employees.

The Group manages risk within a 'three lines of defence' framework (see Figure 5, page 11). Control is exercised through defined delegation of authority supported by communication and escalation channels. The first line of defence is the business units managing the risks associated with their

activities. The second line is the dedicated risk functions at both a Group and regional level. These risk functions are accountable for independent monitoring and oversight. The third line of defence is provided by internal audit, which independently reviews, monitors, and tests business unit compliance with risk policies and procedures, and which regularly assesses the overall effectiveness of the risk management framework.

The Group Risk Management Committee provides the Board with assurance on the performance of the overall risk management framework. This committee is comprised of key senior executives and serves as the principal risk strategy and policy decision-making body within the Group.

Five sub-committees support this committee, each with a specialised focus:

- ▶ Group Credit Risk Committee
- ▶ Group Market Risk Committee
- ▶ Group Operational Risk and Compliance Committee

- ▶ Group Asset and Liability Committee
 - ▶ Group Economic Capital Committee.
- See Figure 6 for an illustration of our Risk Management Framework, its delegations and reporting lines.

Each of our four businesses has a Risk Management Committee comprised of senior regional executives. These committees provide a leadership focus on key risk issues from a regional and business perspective. They are supported by teams, which independently monitor and systematically assess the risk profile and support 'front-line' business areas in risk management. Our Group-wide risk management functions support the evolution of our organisational culture and employee behaviours.

Major risk areas monitored across the Group include credit, interest rate, country, market, operational and life insurance risk. Operational risks include areas such as computer-systems fraud, legislative compliance, environment, business

TABLE 1: INTERNAL AND EXTERNAL AUDITS COMPLETED BETWEEN 1 OCTOBER 2005 AND 30 SEPTEMBER 2006

	Number	Time taken (days)
Internal audits	382	20,822
Internal credit risk audits	81	1,602
Internal CSR reporting audits	1	84
Internal occupational health and safety audits	52	60
External occupational health and safety audits*	115	70.5
External CSR reporting audits	1	67.5

* External occupational health and safety audits are for the period 1 July 2005 to 30 June 2006 aligned with the People section of this Report.

continuity and disaster recovery, e-commerce and people.

Detailed information on our risk management is contained in our 2006 Annual Financial Report, pages 15-23.

INTERNAL AUDIT

Internal audit is a global function, which is an integral part of our governance and risk management framework. The Board's Audit Committee annually reviews the scope of our internal audit plan with management and with our external auditor. Our internal audit function is guided by a Charter outlining its objectives, responsibilities and obligations. Internal audit reports directly to the Board's Audit Committee to ensure its independence from management and external auditors.

Our internal audit function plays an important role in reviewing this Report and the processes we use to prepare it. Table 1 shows the number of internal and CSR-related audits completed by internal and external auditors this year.

EXTERNAL AUDIT

The Group's external auditor, Ernst & Young, is responsible for the audit of our Annual Financial Report.

The Board's Audit Committee monitors the independence of our external auditor. In accordance with the Corporations Act, the Group has a rotation policy that ensures that our lead audit partner rotates off the Group's audit at least every five years and is not reassigned for another five years. The Board's Audit Committee receives assurances from our external auditor that they are independent.

Details of the audit and non-audit services provided by our external auditor are described in note [53] in our 2006 Annual Financial Report on pages 228-229.

Independent external audit is also conducted by specialist auditors in areas including occupational health and safety and assurance of this Report.

RESPONDING TO REGULATORS AND REGULATORY CHANGE

We are committed to proactive and ongoing engagement with our regulators.

In 2006, we continued to make significant progress improving market risk systems, governance processes and organisational culture in response to the March 2004 Australian Prudential Regulation Authority (APRA) report on unauthorised foreign currency options trading losses. Our foreign currency options trading desk reopened in May 2005. All governance and culture-related remedial actions were closed in April 2006. In early November, the Group also submitted an application to APRA to have its internal market risk model re-accredited.

APRA has commenced releasing draft prudential standards in conformity with the Basel II Capital Accord (see glossary) framework, which is expected to commence in Australia at the start of calendar year 2008. Consistent with APRA requirements, the Group has submitted its first parallel run report for Basel II accreditation. This forms part of an accreditation process that will continue throughout calendar year 2007.

We are also working on a number of other key regulatory change initiatives:

- ▶ The Reserve Bank of Australia has initiated payment system reforms. These reforms significantly reduce interchange fees for EFTPOS debit purchases and Visa debit, which came into force on 1 November 2006.
- ▶ The Reserve Bank of New Zealand (RBNZ) released its outsourcing policy in January 2006. Bank of New Zealand is currently engaging with RBNZ to ensure its outsourcing processes meet the requirements of the policy.

- ▶ We are monitoring progress on the expected implementation (1 November 2007) of the EU Markets in Financial Institutions Directive (MiFID).

ANTI-MONEY LAUNDERING

All of the countries in which the Group operates are members of the Financial Action Task Force (FATF) and are subject to the FATF 40 recommendations. This requires that each jurisdiction has robust measures in place to combat the use of the financial system for money laundering and terrorist financing. We have a Group Anti-money Laundering (AML) and Counter Terrorist Financing (CTF) function to coordinate compliance with these requirements across all regions. As requirements and good practices develop, both locally and internationally, the Group continues to develop and refine its activity in the area of AML and CTF.

The Group has been involved in developing the new Australian AML and CTF Bill and attendant Rules, which will implement the revised FATF 40 recommendations within Australia. Our Australian business launched a project to implement the change program necessary to comply with revised local requirements. The New Zealand Government is currently reviewing its AML and CTF law and regulation. Bank of New Zealand is engaging with New Zealand authorities as part of this process.

The UK Financial Services Authority has revised its approach to anti-money laundering, focusing on high-level provisions in the Senior Management Systems and Controls sourcebook (SYSC), placing more onus on the Joint Money Laundering Steering Group (JMLSG) guidance. The JMLSG, in turn, has issued revised guidance that enables the UK financial services industry to take a sharper risk-based approach to anti-money laundering activity.

The Group will continue to work and engage with external stakeholders on money laundering and terrorist financing. We aim to deter the use of our products and services by criminals to launder the proceeds of crime, or facilitate criminal or terrorist activity and to detect where our products and services are being used for criminal or terrorist purposes. If we discover such activity, we will report it to the appropriate authorities.



FIND OUT MORE

Our 2006 Annual Financial Report is available on our Group website at: www.nabgroup.com.



Improved our stakeholder relationships

Piloted the AA1000 Stakeholder Engagement Standard

Formed a new Community Advisory Committee

STAKEHOLDER ENGAGEMENT

Building diverse relationships

STAKEHOLDER ENGAGEMENT HELPS US UNDERSTAND WHAT OUR CUSTOMERS, REGULATORS, MEDIA, EMPLOYEES AND OTHERS, INCLUDING THE COMMUNITIES IN WHICH WE OPERATE, EXPECT OF US

Stakeholder engagement is increasingly recognised as creating value. It contributes to risk management, organisational resilience, learning and innovation, and helps identify opportunities to create products and improve performance. We recognise that many of the complex global and regional issues facing companies and communities cannot be addressed by one entity alone. Therefore, we value the opportunity to engage in dialogue, and sometimes to work, with key stakeholders.

As a large, global business, we interact with a diverse range of stakeholders. Understanding how our business impacts them and the dynamics of these relationships is important to our business. We aim to build relationships based on trust.

This section overviews our key stakeholders, their interests and some of our stakeholder engagement activities during 2006. The highlight box below updates on some of the planned actions that we reported in our 2005 CSR Report.

OUR APPROACH TO STAKEHOLDER ENGAGEMENT

This year, we piloted the AA1000 Stakeholder Engagement Standard as a framework for improving our engagement with stakeholders. We are using the draft standard and Accountability Stakeholder Engagement manuals to help us develop Bank of New Zealand's stakeholder engagement strategy and Group CSR stakeholder engagement.

In the UK, plans for engagement with key stakeholders are being developed. Our 2006 Relationship Index results will be a key input into future engagement strategies (see page 17).

Figure 7 (overleaf) overviews the key internal and external stakeholders we identified, our shared interests and the mechanisms we use for communication and engagement activities. Our stakeholder engagement includes monitoring the quality of relationships (see page 17).

ENGAGING WITH STAKEHOLDERS

Developing this Report

Each year, we seek stakeholder views about our CSR Report. A wide range of stakeholders are interested in our Report, including our employees, industry peers, CSR performance analysts, regulators, government, Non-Government Organisations (NGOs), unions, customers and shareholders. Feedback gives us useful information to improve the content, readability and usefulness of the Report. The diversity of our stakeholders' interests presents a challenge.

This year, we again held one-on-one feedback sessions with external stakeholders. In New Zealand and Australia we surveyed wider external stakeholders. We also surveyed around 170 employees from across the Group, who helped produce our 2005 Report.

Key feedback included:

- ▶ if possible, providing more detail on specific outcomes
- ▶ presenting a balanced view of achievements and difficulties
- ▶ using more diagrams, pictures, tables and graphs
- ▶ providing more coverage on issues such as offshoring/outsourcing, fees and commissions in wealth management, and performance targets.

We asked our external auditors to assess our responsiveness to this feedback.

Keeping our stakeholders informed

A key focus in 2006 was to improve the non-financial performance information provided to our stakeholders. Over the year, our Australian business developed three key pieces of communication: a community report, a report on our Australian community investment and a brochure on how to reduce fees (see www.nab.com.au). Our UK business released a summary of its CSR performance called 'Applying our principles'.

Our Australian Community Advisory Council

In November 2005, our Australian business consulted with members of its External Stakeholder Forum about the Forum's make-up and objectives. It was restructured to form a new Community Advisory Council (CAC). The last meeting of the External Stakeholder Forum was held in November 2005. The new CAC, chaired by Rev. Tim Costello, CEO of World Vision Australia, first met in August 2006.

The CAC is to review the performance of, and help NAB develop, community activities in Australia.

Working together with stakeholders

Across the Group, we worked with stakeholders on a range of issues and will continue to do so. Examples include:

- ▶ surveying Australian community groups about the review and re-launch of our community group transaction account
- ▶ dialogue with NGOs on the indirect impacts of lending

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Finalise discussions with Amicus, our UK financial services union, on a revised Recognition Agreement	Revised recognition agreement negotiations ongoing.	
Repeat Relationship Index Survey in Australia, the UK and New Zealand	Survey completed in Australia and the UK. Bank of New Zealand did not conduct the survey in 2006, but will do so in 2007. See page 17.	

We value the opportunity to engage in dialogue, and sometimes to work, with key stakeholders



Speakers in the Total Environment Centre's Green Capital Debate on 'Fuelling the Future'. NAB economist, Jeff Oughton (far left) participated in the debate. NAB is a sponsor of the Green Capital debate series.



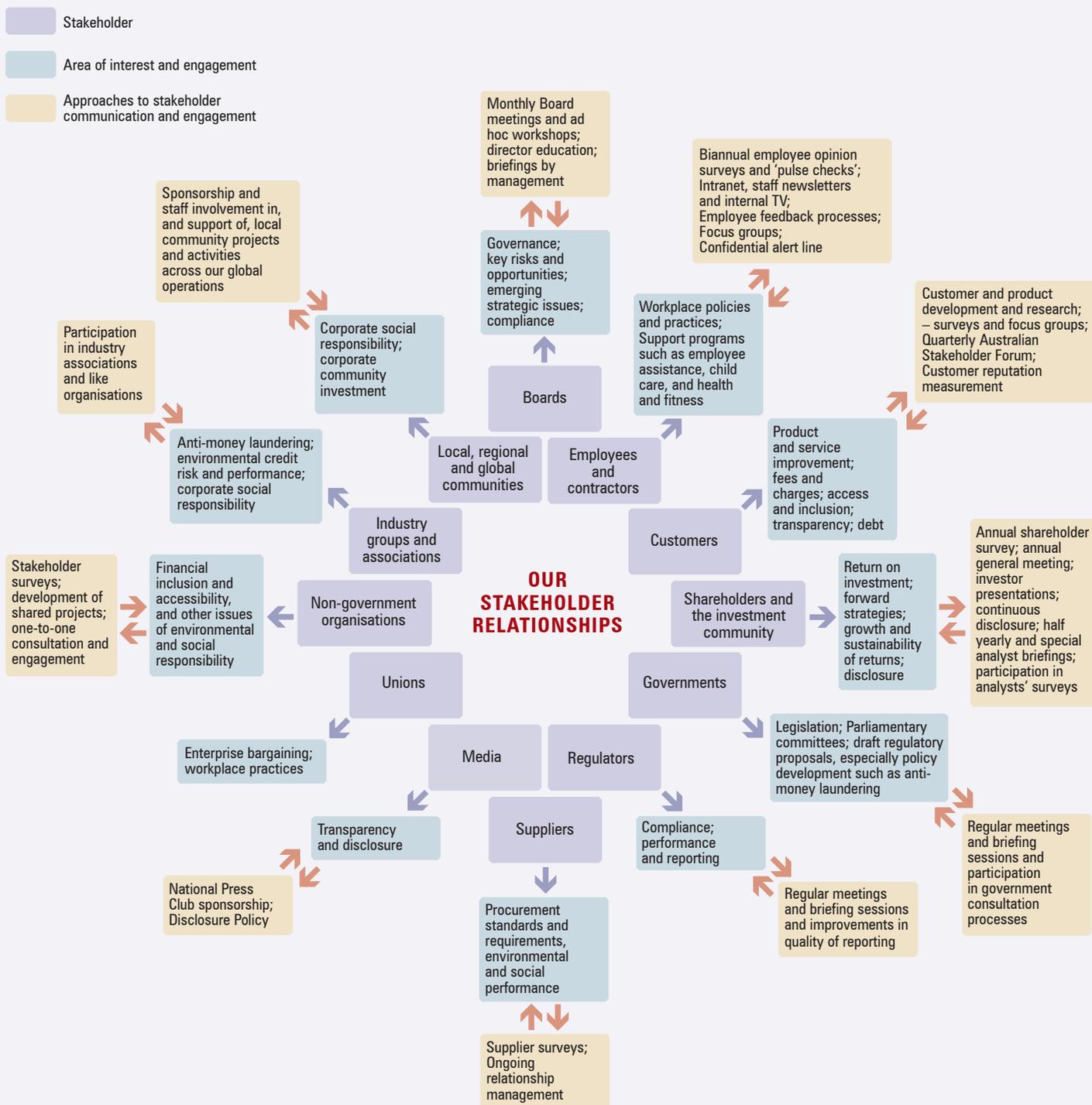


FIGURE 7: OUR INTERNAL AND EXTERNAL STAKEHOLDER RELATIONSHIPS

- ▶ consulting unions on developing new Enterprise Agreements and reviewing and updating our Global Union Agreement
- ▶ participating in the AA1000 Stakeholder Engagement Standard pilot process
- ▶ participating in the UNEP-FI/GRI pilot of the finance sector indicator supplements for sustainability reporting.

Supporting national debate on policy issues

Our sponsorship of the National Press Club luncheon address helps provide a national forum for discussing public issues and policies. It helps develop active, informed community discussion, which, in turn, creates a platform for policy-making. Good journalism is an essential element of good governance in politics and business.

INDUSTRY CONSULTATION, ENGAGEMENT AND ADVOCACY

Participating in industry and business forums, both at a global and regional level, is important to our business, so we can progress discussion and action on issues of common interest.

We are active members of a number of industry bodies and business forums. See our Group website [naabank.com.au](#).

In 2006, the Group made submissions and representations to government, regulators and advocacy organisations. These included:

- ▶ a submission and appearance before the Australian Parliamentary Joint Committee on Corporations and Financial Services *Inquiry into Corporate Responsibility: Managing risk and creating value*

- ▶ a submission to the Australian Treasury regarding the proposed Investment Protocol with New Zealand
 - ▶ comment on the draft Energy Efficiency Opportunities Act, regulations and industry guidelines to the Australian Federal Department of Industry, Tourism and Resources
 - ▶ a submission to the Corporations and Markets Advisory Committee review into CSR
 - ▶ comment on the Global Reporting Initiative's G3 Sustainability Reporting Guidelines.
- The Group contributed to Australian Bankers' Association (ABA) submissions on:
- ▶ Australian Government's draft Anti-Money Laundering legislation

- Australian Securities & Investments Commission discussion paper, *Managing Conflicts of Interest in the Financial Services Industry*
 - Corporations and Markets Advisory Committee reviews into corporate duties below board level; and personal liability for corporate fault
 - Consultation paper released by the Hon Chris Pearce MP, Parliamentary Secretary to the Treasurer: *Corporate and Financial Services Regulation Review*
 - Council of Financial Regulators *Proposed Compensation Scheme For Retail Bank Depositors*
 - Australian Government's *International Benchmarking Review of the Australian Tax System*
 - Australian Government's *Taskforce on Reducing the Regulatory Burdens on Business - Rethinking Regulation*.
- Further information on submissions and representations made by our business is available on our Group website [link](#).

COMMUNICATING WITH SHAREHOLDERS

Our shareholders are an important group of stakeholders. We have approximately 370,000 shareholders – consisting of retail and institutional investors, as well as custodians.

We provide information to shareholders through a range of publications including our Annual Reports and results presentations. We engage with shareholders through our Annual General Meeting (AGM). Shareholders are encouraged to attend the AGM and ask questions of the Chairman, Directors, senior management and the external auditor. For those who are unable to attend the meeting, we provide a webcast.

Our Investor Relations team and senior executives regularly meet with institutional investors globally. These meetings provide an opportunity to communicate and engage with the investment community. Feedback from institutional investors is sought in a biannual survey to measure and monitor investor confidence. This independent third-party survey tests the perception and opinions of analysts and other relevant opinion leaders. Results are reported to senior management and the Board.

In 2006, we also surveyed retail investors — around 40% of our shareholders. This research investigated shareholder perception of our company and ways we can improve shareholder communications. The results show that most shareholders want an easy-to-read, open and honest summary of our financial performance, giving them information on key areas of interest. Eighty-three per cent of survey respondents told us that it is important for them to know we are actively involved in CSR. In response, we are looking to simplify our Annual Reports over time.

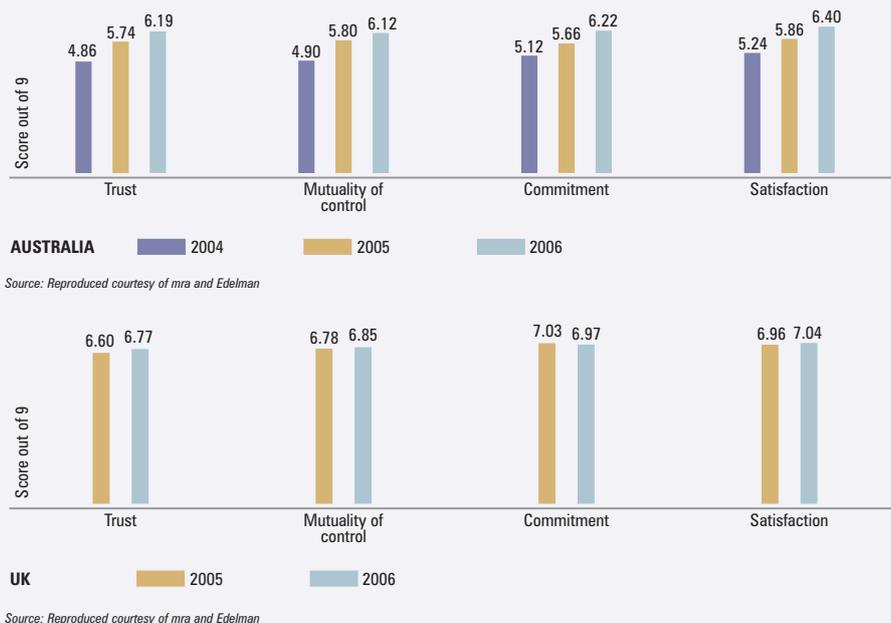


FIGURE 8: CHANGES IN STAKEHOLDER VIEWS OF THE QUALITY OF THEIR RELATIONSHIP WITH THE NAB IN AUSTRALIA AND THE UK

TABLE 2: HIGH-LEVEL FINDINGS FROM THE RELATIONSHIP INDEX SURVEY

AUSTRALIA	UNITED KINGDOM
NAB's relationship and reputation among its Australian stakeholders continued to improve in 2006.	Key stakeholders in the UK continue to view their relationship with the bank positively. Improvements were recorded among regulators and trade union representatives in 2006.
The largest overall improvement was recorded among media stakeholders, indicating that the initiatives since the 2005 survey to improve dialogue with the media succeeded.	Although the bank has undergone a number of recent organisational changes, the stakeholders surveyed felt that they had been engaged fully in an open manner, reinforcing their relationships.
Feedback indicates that there is some mismatch between actual and ideal frequency of contact with NAB across all stakeholder groups.	Feedback from media stakeholders suggests their confidence in the UK business may have been diminished by recent organisational changes.

MONITORING THE QUALITY OF OUR STAKEHOLDER RELATIONSHIPS

We measure the quality of our relationships with key external stakeholders through a survey known as the Relationship Index (RI). The RI, administered by consulting firm Edelman and its research partners mra, measures relationship quality on four key dimensions – trust, mutuality of control, commitment and satisfaction. It provides both quantitative and qualitative results. The survey feedback has helped us develop stakeholder engagement strategies and improve relationships. The survey seeks the views of five stakeholder categories – media, civil society, opinion leaders, regulators and government.

This year, we undertook the RI for the third consecutive year in Australia and for the second year in the UK. Bank of New Zealand did not undertake the RI survey in 2006. Instead, it has developed a stakeholder engagement strategy and implementation plan. It will undertake the RI survey again in 2007. Stakeholders from nabCapital were

included in the Australian RI survey.

Figure 8 shows the shift in stakeholder views of their relationship with NAB in Australia and the UK on the four key dimensions.

High-level findings of the RI in Australia and the UK are summarised in Table 2 above.

Further detail about our stakeholders, approach to stakeholder engagement and our RI results is on our Group website [link](#).

MOVING FORWARD

Planned actions for 2007 include:

- Bank of New Zealand continuing to engage with community groups to better understand accessibility issues and barriers facing customers as part of developing an accessibility action plan
- finalising Bank of New Zealand's new stakeholder engagement plan in late 2006.
- implementing an online survey for stakeholders reading this Report
- reporting back on the activities of the Community Advisory Committee in Australia.

Invested a total of \$20.5 million in local communities

Improved our reporting and monitoring systems

COMMUNITY

Investing in our communities

NAB IS A GLOBAL COMPANY BUT A LOCAL RESOURCE TO THE COMMUNITIES WHERE OUR CUSTOMERS AND EMPLOYEES LIVE AND WORK

Investing in communities is of great importance to NAB. We believe that both the company and the community benefit when we make targeted commitments to help solve local problems and issues. In this way, we contribute to improving the quality of people's lives and the environment.

This section of our Report overviews our approach to community investment, highlights community investment activities we are engaged in, and provides some case studies on our strategic Corporate Community Investment (CCI) initiatives. The highlight box below updates some of the planned actions that we reported in our 2005 CSR Report.

COMMUNITY INVESTMENT – OUR APPROACH

In 2005, we reviewed our approach to community investment. This review included a stocktake of our community investment activities including monetary donations, community partnerships and sponsorships, and volunteering policies. We found a number of internal best practices among our businesses. We benchmarked ourselves to other companies to identify examples of best practice.

In light of the review, our Board endorsed five key objectives to guide our CCI. These objectives are:

- ▶ build reputation – improve stakeholders' view of the organisation

- ▶ improve employee engagement
- ▶ increase market share – increase the attractiveness of doing business with us
- ▶ leverage resources – use our limited resources effectively to meet targeted community and business needs
- ▶ provide private resources for public good – this is based on a genuine desire to make a meaningful contribution to society.

At the same time, the Board approved a medium-term objective to increase our community investment to 1% of pre-tax profit. Further information on our community investment framework can be found on our Group website [link](#).

During 2006, each business and the Corporate Centre reviewed the initiatives and community associations that we were involved in or considering. For example, we looked at how our 'areas of focus' (art, health, financial literacy, environment etc.) for our investments fit our framework for CCI and how it supported our objectives. This analysis led us to end some initiatives, to continue or change others, and to identify some new collaboration opportunities.

As an example, nabCapital surveyed employees about their views on the type of activities we should support in the communities in which it operates. In 2007, nabCapital will identify community partnerships that mirror these priorities.

Our three regional businesses confirmed

the following primary areas of focus for their CCI efforts over the next one to three years:

- ▶ Australia – financial exclusion, with research to be completed to identify other priority areas
- ▶ New Zealand – environmental conservation with a focus on biodiversity and, new for 2007, domestic violence prevention and support
- ▶ United Kingdom – numeracy and financial literacy, and health.

Other areas of focus we support in strategic, but smaller ways are business enterprise, community-based sport, the arts and historic preservation.

MEASURING OUR COMMUNITY INVESTMENT

This year, we developed a manual on how we measure and report on our community investment. We held training sessions on the manual for key employees involved in delivering and reporting on our CCI programs and initiatives.

This standardised method for reporting on our community investment helps us benchmark our performance against our peers in the financial services sector and against leading companies in other fields. As reported in our 2005 CSR report, our CCI methodology is based on the Australian Benchmarking Group (ABG) methodology. ABG is recognised as a standard for CCI measurement and reporting.

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Complete our CCI review and confirm future themes, initiatives and partnerships	See 'Community investment – our approach' above.	
Improve our systems globally for collecting data, monitoring and reporting on our CCI activities	See 'Measuring our community investment' above and page 20.	
Raise our employees' awareness of Group-wide impact of CCI	Increased internal communications and intranet site updates helped get the message about CCI to staff.	
Extend customer communications to explain our CCI activities	A number of publications were produced to provide customers and stakeholders with information about our CCI activities. Refer to page 14, 'Keeping our stakeholders informed'.	

We believe that both the company and the community benefit when we make commitments to help solve local problems and issues



A team from Clydesdale Bank helping to clear and renovate a garden at Drumore School, a special needs school in Glasgow, Scotland.



TABLE 3: NAB'S 2006 TOTAL CORPORATE COMMUNITY INVESTMENT EXPENDITURE

	Total expenditure 2006 \$(000)	Total expenditure 2005 \$(000)	Total expenditure 2004 \$(000)
Charitable gifts	3,158	*2,754	1,241
In-kind: volunteering	1,862	1,816	1,739
In-kind: foregone revenue/fees	6,256	**5,423	**2,400
Community investments	2,942	2,253	2,879
Commercial initiatives in the community	4,675	4,319	3,253
Management costs and in-kind support	1,615	1,174	1,245
Total	20,508	17,739	12,757
% of pre-tax profit***	0.31	0.37	0.23

* The 2005 CCI investment figure includes \$1.2 million related to the Boxing Day Tsunami of 2004.

** This figure does not include foregone revenue in NZ and the UK in 2004, and in the UK only in 2005.

*** This is the percentage profit from ordinary activities before income tax expense using the available profit figures as at 30 June of the reporting period. 2003 pre-tax profit of \$5,628 million was used to calculate the 2004 figure. 2004 pre-tax profit of \$4,741 million was used to calculate the 2005 figure. 2005 pre-tax profit of \$6,539 million was used to calculate the 2006 figure. Please note that when excluding the gain on the sale of the Irish banks, the 2005 pre-tax profit figure is \$5,462 million and the CCI % of pre-tax profit rises to 0.38%.

However, in addition to reporting the standard ABG categories, we include foregone revenue as a CCI item when we waive fees or charges on products or services provided to a financially disadvantaged community segment or a charitable entity. The reason for this, is we believe that in waiving fees (or paying interest on accounts that would not otherwise receive it), we are donating product in a similar way to a manufacturer or retailer that supports the community through the donation of physical products it makes or sells.

OUR COMMUNITY INVESTMENT – THE NUMBERS

NAB's total CCI contribution in 2006 was \$20.5 million (see Table 3). The total figure represents 0.31% of the Group's pre-tax profit. However, if we exclude the impact of the gain on the sale of the Irish banks as a unique 2005 pre-tax profit item, the percentage rises to 0.38%. The breakdown of this investment by business is shown in Figure 9.

Figure 10 shows the distribution of cash-related CCI by key areas of focus. In 2006, the largest area of focus across the Group is health and medical research at 26.5%, followed by sport (23.8%) and education (12.8%).

OUR COMMUNITY PARTNERSHIPS

Our community partnerships are multi-year programs that meet the

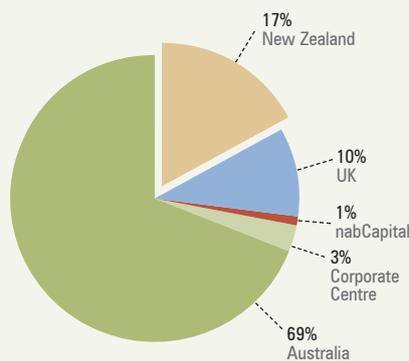


FIGURE 9: CORPORATE COMMUNITY INVESTMENT BY BUSINESS AREA

needs of the community and of select non-profit organisations in a meaningful and sustained way. In addition to funding, we often provide expertise and infrastructure for these programs. Through employee volunteering, we provide resources to non-profit organisations, and team building and development opportunities for employees.

In the UK, our Clydesdale and Yorkshire Banks are helping to address a community need to improve numeracy and financial literacy. The Office for National Statistics has studied the issue of literacy skills gap and the results show Britain is far behind the four other West European countries in the study² – Germany, Sweden, Switzerland and the

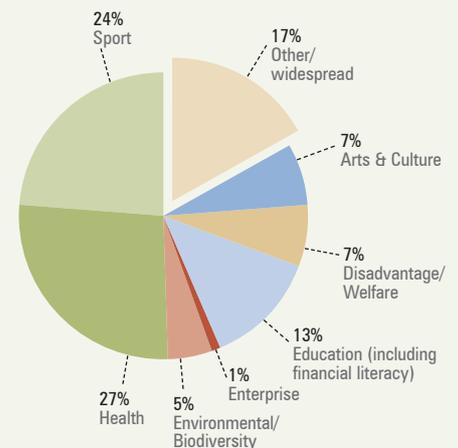


FIGURE 10: DISTRIBUTION OF CASH-RELATED CCI BY KEY AREAS OF FOCUS³

Netherlands. Across Europe, about 10% of the population fall into the low literacy skills category. In Britain, this figure is over 20%. This means that approximately eight million people in Britain are so limited in their reading, writing and numeracy skills that they cannot cope with the demands of modern life.

Both our UK banks are helping to minimise this limitation for younger generations through two dedicated programs:

- **Count Me In** – a childrens' numeracy program in 148 libraries across Scotland and England. More than 1,200 canvas bags of numeracy materials have been provided

² Data from the International Adult Literacy Survey, Office for National Statistics, March 1998.

³ Cash-related CCI includes cash spends of charitable gifts, community investments and commercial initiatives in the community, and does not include the value of volunteering and management costs.

to date – along with story time sessions – to teach children as young as one the value of learning to count. This program plans to double its reach next year.

- ▶ Count and Grow helps children 6-8 years old. Our UK banks fund this program in 305 primary schools across Scotland and England's West Midlands. Count and Grow aims to improve their mathematics skills by growing potatoes. Children measure, weigh and observe potatoes as a fun and practical means of learning.

More information on these programs can be found on the banks' websites at www.cbonline.co.uk and www.ybonline.co.uk

The Group's longest running community association is the Bank of New Zealand's 15-year partnership with the Department of Conservation – the Save the Kiwi Trust. The Trust provides funding and resources to save New Zealand's national icon, the kiwi.

Programs run by Save the Kiwi offer both staff and customers opportunities to donate and volunteer. Also, Bank of New Zealand provides a number of banking products that help raise funds. This year, 135 kiwi chicks were reared and released back into the environment via Operation Nest Egg. This brings the total number of birds released since 1994 to about 700.

In November 2005, the Trust produced 1500 'Kiwi Forever' kits. Approximately 700 have been distributed to date. The kit is an educational resource produced with the Ministry for Education that links to the national school curriculum. Further



Peter Thodey (right), CEO of Bank of New Zealand and Chairman of the Save the Kiwi Trust with Paul 'Scratch' Jensen (left) holding a kiwi.

information can be found on the Save the Kiwi website at www.savethekiwi.org.nz.

In April 2006, our Australian business announced a substantial increase to its micro-finance program, which supports those who are otherwise financially excluded in our community. This increase was made as part of our continuing involvement in the community-based No Interest Loan Schemes™ (NILS), as well as the NAB and Good Shepherd Youth and Family Service (Good Shepherd) low-interest loan program, called step UP.

The NILS is a 26-year community-based micro-credit scheme initially developed by Good Shepherd. Good Shepherd continues to co-ordinate the program which now has a network of over 230 community groups

around Australia. These loans allow people on low incomes to purchase essential household goods such as refrigerators and washing machines. The program's value was highlighted in May 2006, when the Victorian government invested \$4.7 million to expand the program. NAB will participate in the expanded program, providing loan capital to both existing and new NILS providers. We have allocated \$3.3 million as extra loan capital in Victoria. NAB has also committed to recapitalise all other Australian NILS programs with additional capital totalling \$6.7 million.

NAB and Good Shepherd continue to work together on the step UP loan program — a low interest credit product which bridges the gap between NILS and an unsecured personal loan. In April, NAB committed a further \$2 million to help expand the step UP loan program from its five current pilot locations to at least five more locations over the coming year. This expansion will involve new community associations including United Care Wesley Adelaide (SA) and Mercy Care (WA).

Additionally, NAB worked in partnership with Good Shepherd and our general insurance provider, Allianz, to develop a low cost insurance product for car and home contents for customers eligible for step UP loans. This product was announced in late 2006.

Further information on both the step UP loan program and the new insurance product can be found on our Australian

TAKING COMMUNITY PARTNERSHIP TO THE HEART

In the UK, our Clydesdale and Yorkshire Banks, joined forces with the British Heart Foundation (BHF) in January 2005. Healthy eating, heart disease and obesity are high profile issues for British communities. Heart and circulatory disease is the UK's biggest killer. Almost 2.7 million people in the UK have coronary heart disease. Obesity in adults has doubled in the last 20 years. In 2002, more than one in five adults in England were classified as obese.

Our UK employees have taken the challenge to get involved 'to heart'. Since the beginning of the program, our UK banks and their employees have raised more than £210,000.

Highlights from the past year include:

- ▶ pound (£1) for pound (£1) matching of funds raised by employees on a quarterly basis. These fundraising efforts range from raffles to rock climbs
- ▶ pound (£1) for pound (£1) matched funding to BHF through both banks 'Give as You Earn' payroll giving programs
- ▶ BHF branding added to Clydesdale and Yorkshire Banks' television commercials
- ▶ 123 UK-based employees have completed Emergency Lifeskills training in Leeds and Glasgow
- ▶ on 16 February, BHF opened its new Glasgow shop. Clydesdale Bank gave the remaining three years of the leased premises to BHF free of charge and donated £20,000 toward refurbishment costs
- ▶ Yorkshire and Clydesdale Banks were awarded the 'Special Achievement for a New Corporate Partner' accolade from the British Heart Foundation at a special 'Heart of Business' awards in June 2006.



A team from Yorkshire Bank supporting 'Help a heart week' for the British Heart Foundation.

business website at www.nab.com.au.

Finally, as part of our overall commitment to micro-finance in Australia, we allocated \$18 million in loan capital as part of developing a micro-enterprise loan program. This program will help provide credit to new businesses that for a variety of reasons may not be able to access mainstream banking products.

On behalf of NAB, Boston Consulting Group undertook a study on micro-enterprise. It surveyed local needs, possible delivery approaches, and enterprise

development programs around the world. In light of the study, the bank is developing a pilot loan program for 2007. Further information and a copy of the micro-enterprise study report can be found at www.nab.com.au.

AN UPDATE ON VOLUNTEERING

Through volunteering, our businesses look for innovative and flexible ways to support and encourage employees to 'roll up their sleeves' and get involved in local communities. During the year,

employees worldwide registered more than 7,511 days of volunteering.

In Australia, employees may take up to two days of paid volunteer leave a year. To facilitate volunteering, we have an on-line database of community programs that employees can use to find and register for volunteering opportunities. Employees who volunteer in other programs can suggest that those programs be added to the database. We also have a full time coordinator to liaise with community groups, to promote volunteering internally and to appropriately match employees with skill-specific opportunities. Employees are free to pursue their own volunteering passions within guidelines set by the business⁴.

At Bank of New Zealand, employee volunteering takes place on an ad hoc basis, with people-manager approval. Employees are passionate about helping in their local communities and supporting Bank of New Zealand community collaborations.

In the UK, team challenges allow groups of employees to accomplish particular community projects in a single day. Other volunteering opportunities are provided through financial literacy and numeracy programs including:

- Right to Read – a program to promote the importance of literacy to primary school children, aged 5 to 11 years old
- Numbers Partners – an initiative that aims to promote the enjoyment of mathematics among school children, aged 7 to 11.

Our nabCapital employees volunteer for activities made available by our regional businesses. For example, nabCapital employees worked with Melbourne City Mission to develop a sensory garden for people with severe disabilities. In the past year, New York City-based employees supported the Yorkville Common Pantry, which supplies emergency foodstuffs to disadvantaged neighbourhoods such as East Harlem.

COMMUNITY SPONSORSHIPS

Our community sponsorships go beyond the 'business of sponsorship'. We are interested in being a part of events that provide a local service and meet a need in the community.

One of the largest community sponsorships in the Group during 2006 was the Junior Games, which were held in Australia at the time of the Commonwealth Games. Junior Games activities occurred from March through to November 2005 and gave more than 20,000 children encouragement and opportunity to experience the thrill of participating in Commonwealth Games events.



NAB VOLUNTEER AWARDS

Our Australian business and Volunteering Australia have worked together since 1997 to deliver the NAB Volunteer Awards. This is an annual program that recognises, promotes and supports community organisations that manage volunteers in an exemplary and sustainable fashion. One winner is chosen in each state and the combined territories in each of seven categories: Art and Culture, Community Service and Development, Education and Youth Development, Emergency and Safety, Environment and Wildlife, Health and Wellbeing and Tourism, Sport and Recreation. An overall national winner is also selected in each category.

More than 400 community groups have shared in \$2.3 million in awards through the program. This year, winning organisations were chosen from 1,108 community groups. They shared \$350,000 in prize money. State winners each received \$7,000 and the seven national winners received an additional \$3,000.

The seven national winners in 2005 were:

- National Folk Festival, ACT (Art and Culture)
- Asylum Seeker Resource Centre, VIC (Community Service and Development)
- Caloundra City Libraries – Adult Literacy Program, QLD (Education and Youth Development)
- Benalla Unit – State Emergency Service, VIC (Emergency and Safety)
- Kanyana Wildlife Rehabilitation Service, VIC (Environment and Wildlife)
- Southern Adelaide Palliative Services, SA (Health and Wellbeing)
- Sport SA, SA (Sport and Recreation).



Mr Kon Karapanagiotodis (right), CEO of the Asylum Seeker Resource Centre receiving a 2005 NAB Volunteer Award from the NAB's Sharyn Gordon (centre), and Sha Cordingley (left), CEO of Volunteering.

"The 2006 NAB Volunteer Awards show the community that big business is willing to put back into community organisations, and recognises the level of support that volunteers give to the community."

Michael Linke, CEO of the RSPCA (ACT)

⁴ Some limitations exist due to occupational, health and safety and public liability constraints.

Another community sponsorship that we are proud of is "Opera1", a joint effort with our business sponsorship of Opera North in the UK. Running alongside an Opera North production, Opera1 allows students in Years 8 to 13 to attend a 1-day workshop aimed at introducing them to the music and drama of opera. Working with a professional singer, a director and répétiteur, students gain familiarity with the plot of the current opera production and the main characters. Post the workshop, each participant then receives a ticket to the performance. Workshops, usually attract 25-30 students and have visited schools in the Nottingham and Northern England regions.

In New Zealand, we also support the arts. Bank of New Zealand has had a long-standing sponsorship arrangement with four of the country's well-known theatres. Again, these sponsorships go beyond the business of advertising and branding for the bank and help keep the performing arts alive and flourishing. Bank of New Zealand supports the Centrepoint Theatre in Palmerston North, the Downstage Theatre in Wellington, the Court Theatre in Christchurch and the Fortune Theatre in Dunedin.

CHARITABLE GIVING

We help address community and environmental issues through dedicated and leveraged relationships with non-profits. However, there are times when a stand-alone or one time charitable gift can make a big difference. In March 2006, a northern part of coastal Queensland was significantly impacted by Cyclone Larry. Our Australian business donated \$250,000 to the cyclone appeal and a further \$174,000⁵ to local organisations who lost vital community resources. Over \$1.1 million in public donations were taken through our branch network for the appeal.

In 2006, the Yorkshire Bank's Yorkshire Charitable Trust (www.ybonline.co.uk) gave more than £160,000 to the community in small grants. The policy of the Trustees has been to focus these grants in areas including youth work, support for the mentally and physically challenged, counselling and community work in disadvantaged areas and some support for the arts and education.

The People and Community Trust operated by our Australian wealth management business (MLC), continues to provide grants to charities that are supported by employees through their individual volunteering.



Sabrina Schur from Avondale Primary School participates in a relay at the National Junior Games in Homebush, Sydney.

MOVING FORWARD

Planned actions for 2007 include:

- further dedicating resources and improving our systems for collecting data, monitoring and reporting our CCI activities
- enhancing communications about our CCI efforts to both employees and the wider stakeholder community
- continuing to move toward our goal of spending 1% of pre-tax profit on CCI
- research to identify further priority areas for CCI in Australia.

⁵ This donation of \$174,000 was made in September 2006, which is outside the 2006 reporting period for CCI, year end 30 June 2006. Therefore, this figure is not included in our CCI expenditure total.



Global union conference held in Glasgow

New collective agreements signed in all regions

Reduced Lost Time Injury Frequency Rate (LTIFR) across the Group

Awarded 'Two Tick' disability user status in UK

OUR PEOPLE

Developing our people and culture

DEVELOPING OUR PEOPLE AND TRANSFORMING OUR CULTURE REMAIN KEY PRIORITIES INTEGRAL TO OUR STRATEGY FOR GROWTH

Happy, talented and skilled people enable us to develop great relationships with our customers and other stakeholders. They are the foundation of our business success.

Cultural change remains an ongoing high priority – driven by our Corporate Principles, which we aim to place at the heart of everything we do. In 2006, a major focus of our ongoing cultural transformation was to foster an environment where our people can succeed. We also made considerable progress in building our people’s understanding of the link between culture and business strategy.

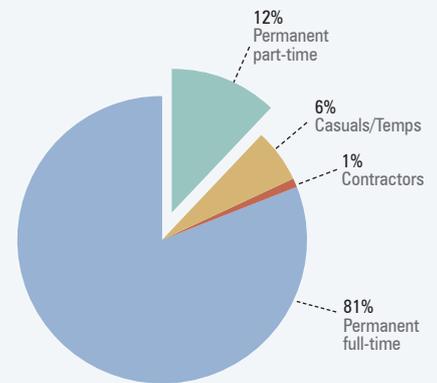
The following section profiles our people for 2006 and overviews our people management approach. The highlight box below updates on some of the planned actions that we reported in our 2005 CSR Report.

OUR PEOPLE – THE FACTS

Our workforce reflects the size and global nature of our business, in being both large and diverse.

Figures 11 (right), 12, 13 and 14 (page 26), along with Table 4 (page 26) represent our workforce profile. At 30 June 2006, we employed 39,128 full-time equivalent employees (FTEs) across the Group. This is a 0.4% decrease in FTEs since 30 June 2005 and is primarily due to restructuring activities, particularly in Australia and the UK and the sale of the Group’s MLC Asia business. For further information refer to page 13 in our 2006 Annual Financial Report. In 2006, there were 1,747 redundancies across the Group from 1 July 2005 to 30 June 2006.

Of our total workforce, 62% is female. Figure 12 (see page 26) shows percentage of women in middle management, senior management and executive roles. The number of women in senior management positions has decreased slightly from 21% in 2005 to 20% in 2006. However, the number of women on the Board has increased from one in 2005 to two in 2006. The percentage of FTEs who are permanent employees remained the same in 2006, compared to 2005, constituting



⁶ These figures cover our entire global operations, including the US and Asia.

FIGURE 11: THE NAB'S WORKFORCE BY EMPLOYMENT TYPE (AS AT 30 JUNE 2006)⁶

93% of our workforce. The percentage of casual or temporary employees and contractors has also remained constant from 2005 to 2006 at 7% of our workforce.

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Place greater emphasis on improving organisational leadership capability	Leadership capability has been a focus across our business. See pages 29-30.	
Continue our program of cultural transformation and report on the work of the Cultural Transformation Program Office	Made further developments in our cultural transformation activities across the Group. See pages 27-28.	
Continue our focus on improving health and safety outcomes through increased awareness and prevention strategies	Lost Time Injury Frequency Rate (LTIFR) decreased across the Group. See page 32.	
Implement a global learning management system (UK, NZ)	System has been implemented in NZ and is scheduled for completion in UK by April 2007. See page 29.	
Further implementation of our diversity strategy	Diversity initiatives implemented. See pages 30-31.	
Hold annual meeting of senior representatives of all relevant global unions and the Group.	Global Union conference held in June. See page 33.	

We are working to create a workplace that supports and fosters diversity, excellence, honesty and integrity

Close the Gap
The Glass Ceiling

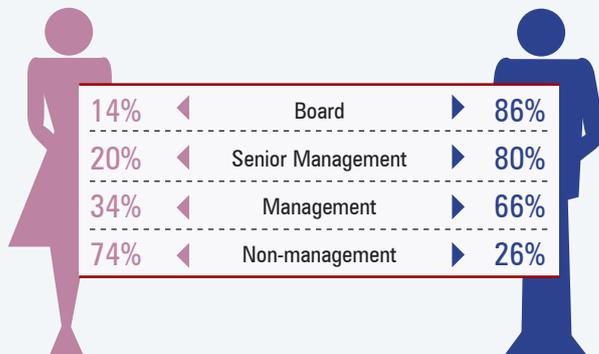


'Closing the gap' focus groups held in our UK business in 2006, as part of the 'glass ceiling' initiative to identify potential barriers and solutions to women's advancement in the workplace.

TABLE 4: GENERAL WORKFORCE STATISTICS (AS AT 30 JUNE 2006)

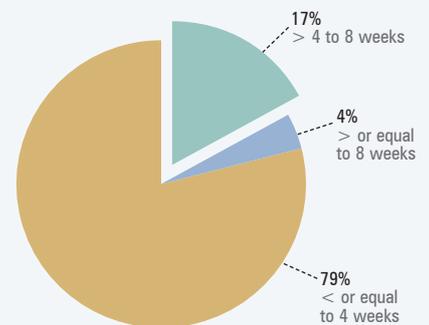
Global indicator	Australia		UK		New Zealand	
	2006	2005	2006	2005	2006	2005
New hires*	##3,145	3,612	1,624	1,754	1,466	763
No. of graduate recruits**	191	92	11	28	3	11
Career breaks taken (exc. NZ)	##660	223	126	34	***NA	***NA
Maternity and paternity leave (weeks taken) (paid and unpaid)^^	32,947	^^^NA	11,448	9,452	4,171	***NA
Annual leave (days taken)	375,697	295,905	***NA	***NA	63,210	79,524
Sick leave (days taken)	123,759	170,252	119,379	146,134	22,987	22,427
Percentage of eligible employees doing overtime	47%	52%	NA***	***NA	72%	#28.6%
Overtime worked as a % of standard hours	1%	1%	NA***	***NA	3%	3.1%
Average employee turnover	23%	18%	###24.5%	***NA	24.8%	^28.8%
Number of full time/part time transitions	##954	886	424	707	60	291

* New Hires into the Group. This figure does not include those employees that were previously with the Group and that were re-hired, promoted or changed status eg. casual to permanent.
 ** Graduate recruits figure does not include graduates who may have applied for job vacancies not classified specifically as graduate roles or roles not part of a graduate program.
 *** NA: system constraints – information not gathered or recorded centrally, therefore not currently available.
 ^ The Bank of New Zealand turnover figure for 2005 has been re-stated to match the turnover definition used for Australia and the UK. Turnover includes resignations, retrenchments, retirements and dismissals.
 ^^ This indicator reports unpaid and paid maternity and paternity leave in New Zealand; unpaid and paid maternity leave in Australia; and unpaid and paid maternity leave in the UK.
 ^^ Data not reported for 2005 as not comparable to 2006 due to change in definitions.
 # The percentage of overtime worked in New Zealand in 2005 was calculated as percentage of total New Zealand workforce. In 2006, it was calculated as a percentage of eligible employees who did overtime.
 ## Not including wealth management employees in Australia due to system constraints.
 ### Not including nabCapital UK due to system constraints.



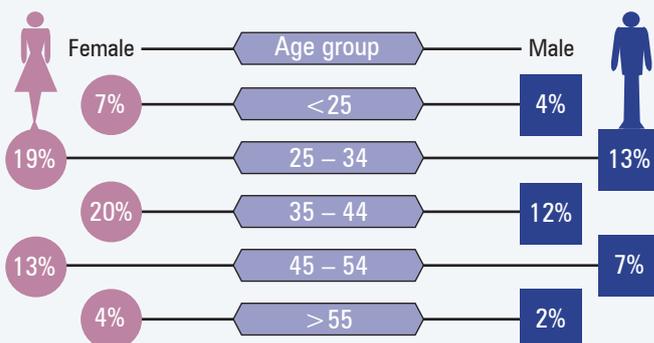
⁷ These figures cover our entire global operations, including the US and Asia.

FIGURE 12: WORKFORCE BREAKDOWN BY GENDER AND MANAGEMENT LEVEL (AS AT 30 JUNE 2006)⁷



⁹ These figures include our operations in Australia, New Zealand, US and Asia and exclude UK.

FIGURE 14: ANNUAL LEAVE ACCUMULATED (EXCL. UK) AS AT 30 JUNE 2006⁹



⁸ These figures cover our entire global operations, including the US and Asia.

FIGURE 13: PERCENTAGE OF TOTAL WORKFORCE BY AGE & GENDER (AS AT 30 JUNE 2006)⁸

CULTURAL CHANGE AND PEOPLE MANAGEMENT

Transforming our culture remains a key priority, with our Corporate Principles at the heart of how we do business. All parts of the business see cultural transformation as integral to delivering on our strategy, to reducing risk and as a top business priority. Involving our people in building the right type of culture for the organisation has been pivotal to this process from the outset. A major driver for our strategy is to have a compelling vision that our people can commit to and believe in.

In 2006, we continued to focus on organisational culture development. We simplified our policies and practices to help ensure that change is both embedded and effective.

In line with our new regional business model, this year each business has full responsibility for developing and implementing its cultural strategies. Our Cultural Transformation Office (CTO) supports this, sets the standards, and provides an integrated view of cultural progress at a Group level. Through governance and advice, the CTO works with each business to build and maintain a healthy and high performing culture. This enables our businesses to deliver on the business strategy and to sustain performance. A significant part of the CTO's role is to set robust cultural goals and to monitor and report back to the Group Executive Committee. The CTO also provides feedback on cultural progress to the Board and regulatory bodies.

All our businesses are striving to build a 'constructive culture' – one in which people work together to achieve performance growth and work quality, with honest and open communication. While there is more to be done, our focus is now firmly on the future.

CULTURAL TRANSFORMATION IN PROGRESS

In 2006, we made considerable progress in building an understanding of the link between culture and good business performance. This year, all of the cultural remediation requirements imposed by APRA in 2004 were closed.

To reinforce a healthy NAB culture, people leaders have been provided with practical training, frameworks and tools to diagnose and remove cultural barriers. This is an important step towards making our culture more constructive.

New programs have been specifically developed to target capability needs in areas such as coaching and personal awareness linked to organisational effectiveness.

These include:

- an 'At Peak' program for building skills and enabling personal transformation in Australia and the Corporate Centre
- coaching programs for frontline banking employees and mentoring programs for junior people leaders in the UK
- a motivational leadership program and a coaching program in Bank of New Zealand.

Historically, we have not appreciated the

important role our middle managers play. This has held people back from achieving their full potential. Therefore, we are now clarifying roles and responsibilities for middle managers across the Group and focusing on developing their capability.

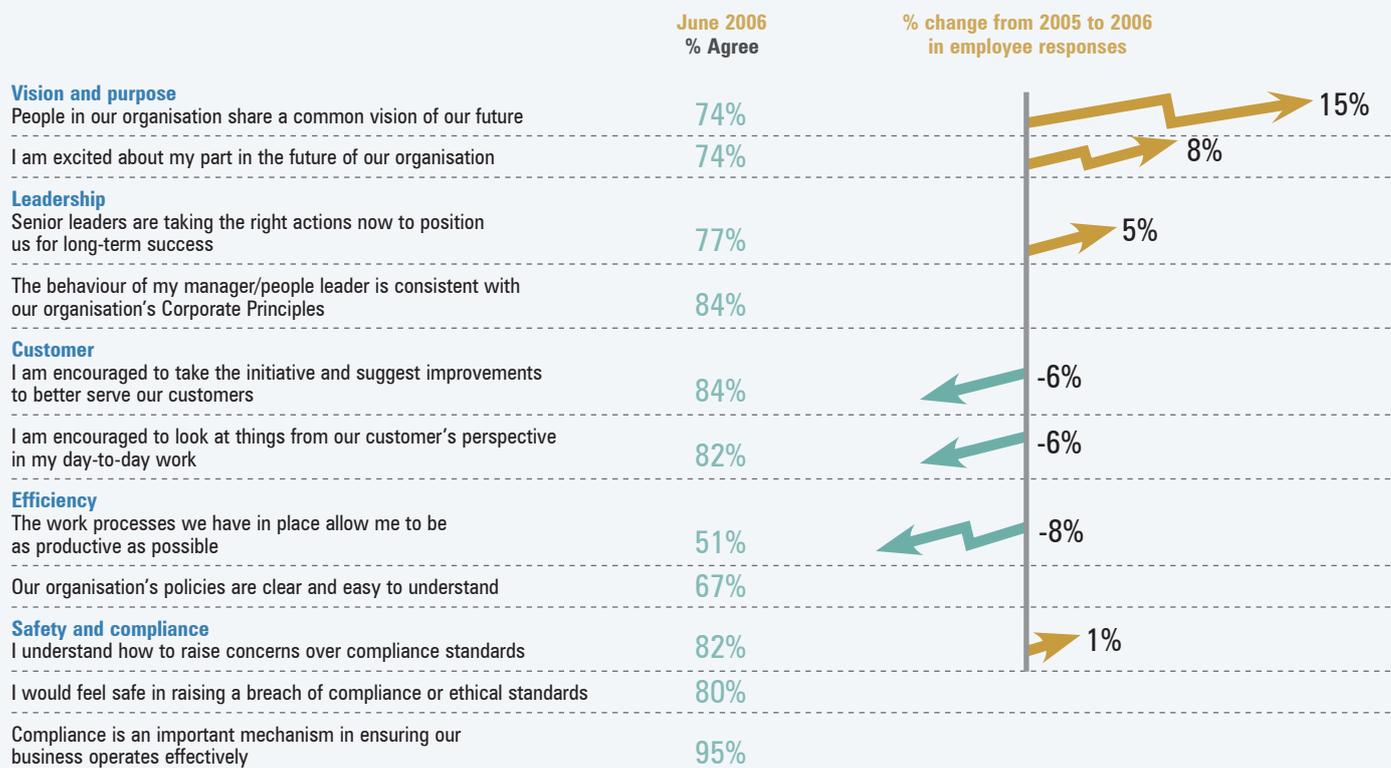
Table 5 shows the number of middle managers who took part in capability building programs between March and July 2006.

MONITORING AND MEASURING OUR PROGRESS

Every year we survey our people about what it is like to work at NAB. This year, we took a much deeper look at our culture with more than 13,000 people participating in a Group-wide survey. This feedback has provided us with a clearer sense of how close we are to where we want to be. Surveys are important tools for tracking our cultural progress, with

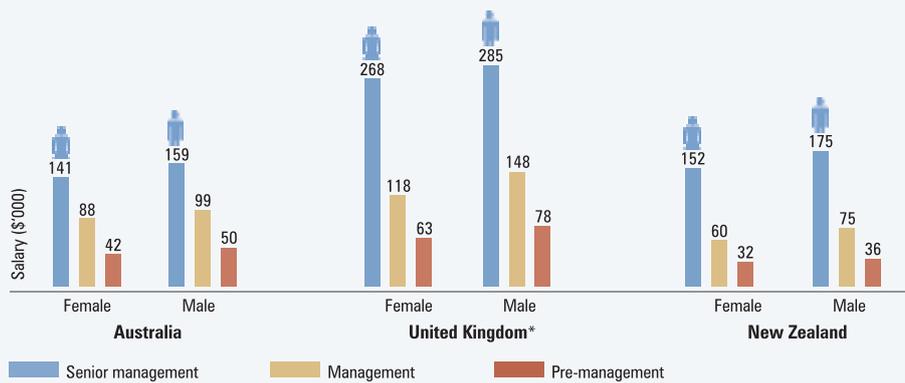
TABLE 5: MIDDLE MANAGEMENT CAPABILITY PROGRAMS

Type of initiative	Participants March – July 2006
Inventory and realigning existing learning programs	456
Pilots of new leadership and personal transformation programs	415
Building culture and change capability, including:	
➤ Management capability workshops	430
➤ Cultural change upskilling workshops	1,069
➤ Development of regional leadership models	167
Total participants	2,537



¹⁰ The EOS results show we are making progress. In particular, there has been a significant improvement in creating and communicating a common vision, and employees tell us they are excited about their part in it. Scores relating to the customer, however, while still comparatively high, have fallen, and our work processes are increasingly perceived as unhelpful (see Figure 15, page 27). Both these outcomes may reflect heightened employee expectations given the extent of leadership attention directed to identifying issues hampering the provision of better customer service.

FIGURE 15: EMPLOYEE OPINION SURVEY GROUP-WIDE TRENDS¹⁰



* UK figures reflect UK market conditions and exchange rate conversion to Australian dollars.

FIGURE 16: MALE: FEMALE SALARY COMPARISONS (AVERAGE) (AS AT 30 JUNE 2006)

the results informing the cultural strategies each business is developing.

Monitoring employee satisfaction and cultural change provides valuable feedback and gives our people an active voice in the organisation's progress. It also allows us to measure the relative success of our people management approaches.

For some years we have conducted Employee Opinion Surveys (EOS). In 2004, we also introduced the Organisational Culture Inventory (OCI) to better understand the reasons underlying employee opinions. We found the OCI provided valuable insights, so we decided to use it more broadly in 2006.

The OCI is now well integrated with our EOS. By combining the two surveys we have found that there has been a greater level of participation.

In 2006, we surveyed a representative sample of people and the results are shown in Figure 15, page 27.

For this year's Report, we focused on EOS results relating to cultural transformation monitoring across the Group. The EOS questions are those identified as critical to the business context and ensuring a culture of integrity.

The OCI measures how people believe they need to behave in order to belong and succeed at NAB. The 2006 OCI results indicate that our senior leaders now have constructive expectations of behaviour, however, these expectations are less positive for the rest of the organisation. These results are consistent with coming out of a turnaround situation where we reinforced a 'command and control' style of leadership. We are now focusing on bringing our people along with us to build a sustainable culture supporting our business strategy.

In the same way that cultural change has supported our business turnaround, becoming a 'truly competitive' organisation will require achieving further changes in culture. Our focus on embedding the Corporate Principles, developing our people and improving customer satisfaction will ensure we continue heading in the right direction.

PERFORMANCE MANAGEMENT

In 2005 our Performance Management Framework (PMF) was reviewed and led to the introduction of performance scorecards and quality gates. Our performance scorecards aim to align employee performance with business strategy and to provide employees with greater clarity on performance outcomes. In 2006, performance scorecards were rolled out for all our employees.

Our PMF includes:

1. Scorecards: supported by scorecard development workshops
2. Mandatory Individual Development Plans (IDPs): assist us to develop employees' full potential
3. Quality gates: to ensure that behavioural and compliance requirements are met. These take into account how the results were achieved, not just the achievement itself. Completing compliance training is essential and is monitored centrally through a network of Compliance Coordinators. Mandatory compliance learning is also in place for all employees.
4. Performance conversations: regular conversations between employees and their people leader to assess each employee's performance. Outcome conversations are undertaken each half-year and employees are advised of their performance and quality gate rating, and how these are reflected in their total reward review.

We also measure the effectiveness of our people's leadership capabilities through the Leadership Behavioural Survey (LBS). LBS is a 360 degree tool used across the Group to measure people leaders' behaviours for the purpose of performance scorecards and quality gates.

REWARD AND RECOGNITION

We treat our people equitably and with fairness. This is reflected in how we reward and recognise achievements. Our reward and recognition policy acknowledges that recognising achievements is essential to our ongoing success.

Our remuneration philosophy is based on the concept of a total reward package. Our remuneration comprises both fixed pay and variable short-term and long-term incentives. In terms of variable pay, our incentive program is structured to reward employees' achievements against key individual and business performance outcomes. If compliance and behavioural requirements have been achieved, then an individual's performance determines their share of the available incentive pool. We appoint and promote people based on merit and we demonstrate the principle of equal pay for equal work and responsibility.

In 2006, in Australia we commenced work on a pay equity project with the Finance Sector Union. This initiative is reviewing gender-based differences on aspects such as total remuneration package, overtime, variable incentives/bonuses, length of service and benefits. Our UK business also completed a pay equity study in 2004 and will be completing a further study in 2007.

Figure 16 shows a comparison between current male and female salaries across the Group.

We have a variety of recognition programs throughout the Group.

For example:

- Achievement Plus – a key recognition and celebration program in Australia, which is designed to acknowledge and encourage 'significant achievement'. It recognises individuals and teams who contribute to the performance through their extra effort.
- NAB Order of Excellence – recognises and rewards employees for consistently displaying behaviours that align to our Corporate Principles. Any employee can nominate someone for this merit-based award.
- 'Living the Corporate Principles' – a quarterly peer nomination award program operated by our Corporate Centre. It recognises employees who strongly demonstrate application of the Corporate Principles.
- Bank of New Zealand's Chevron Award – these awards celebrate top sales, service



John Stewart, Group Chief Executive Officer (second from right) presenting 'Living the Corporate Principles' awards to recipients (from left to right) Mary Isherwood, Paula Leone and Brian Delecoe.

and leadership people who demonstrate service behaviours and consistently live the brand values.

REMUNERATION OF SENIOR EXECUTIVES

The Group's remuneration philosophy for senior executives is to reward high levels of sustained performance and contribution through pay-for-performance. Performance is managed on the same basis as for other employees (see performance management description opposite on page 28) with individual scorecards and quality gates. Senior executive remuneration comprises fixed components and variable, at risk short-term and long-term incentive components.

Short-term incentive payments are based on achievement of agreed performance-based criteria, which include non-financial and financial objectives. Non-financial objectives typically involve implementation of new initiatives and the monitoring and development of key projects. Many are related to CSR, such as the development of new disability and health and safety programs, the success of cultural change initiatives, results from Employee Opinion Surveys, and leadership development programs.

Long-term incentive components are designed to ensure that senior managers maintain a long-term focus when setting our strategic direction, by linking executive reward outcomes to those experienced by other shareholders. Long-term incentives do not deliver any financial benefits to employees unless performance hurdles are achieved.

The Board reviews performance and sets the remuneration packages for our executive directors after recommendations from the Board's Remuneration Committee. This includes consideration of the role and structure of the different reward components in helping to drive appropriate management behaviours and embedding cultural change. The Group Chief Executive Officer reviews the performance of the senior executive team with the Board's Remuneration Committee. More information is in the Remuneration Report in our 2006 Annual Financial Report on pages 66-81 on our Group website [www.welcometocountry.com.au](#).

LEARNING AND DEVELOPMENT

Investing in our people is critical to the success of our business. Developing our people's skills and knowledge enables us to deliver superior services to our customers. We continue to support the learning and development needs of our people. Over the last 12 months we have spent considerable time re-assessing training strategies and priorities aimed at ensuring that learning provided reflects the needs of both employees and the business.

LEARNING CAMPUS

Since introducing our central online learning management system, Learning Campus, in March 2005, it has become an integral part of our learning and development architecture.

To date Learning Campus has served the compliance and role-based learning needs of more than 32,000 people in Australia and New Zealand. Learning Campus will meet the on-line training needs of all our staff following roll out in the UK which commenced in September 2006.

Since its deployment the number of registrations on Learning Campus has reached almost one million. Learning campus offers our people over 1300 different courses.

With ongoing improvements, including interactive e-learning content, simplified navigation and reporting and analysis tools, the Learning Campus is enabling us to transform the learning experience for our employees.

The system enables us to report on compliance learning on an individual, team, state and regional basis.



* The Group average figure covers our global operations, including US and Asia.

FIGURE 17: AVERAGE TRAINING AND DEVELOPMENT SPEND PER FTE

Our combined training and development spend across the Group and by region is shown in Figure 17.

Overall, training and development spend has decreased as a result of changes to learning delivery in the UK and New Zealand. In New Zealand, savings were made as a result of the introduction of the online learning campus. In the UK, our decreased spend is a result of more focused training expenditure on priority and business goals.

As previously mentioned, all employees have IDPs which are integrated with learning and development programs into our online learning environment – Learning Campus – which will be available globally in September 2006¹¹.

LEADERSHIP DEVELOPMENT

Leadership development is a priority focus for our business. To sustain and grow our business, we are investing in the development

BRINGING LEADERSHIP DEVELOPMENT AND DIVERSITY TOGETHER – “WELCOME TO COUNTRY”

Welcome to Country is a personal awareness and social education program primarily aimed at our people leaders. It can help our people gain insights into how the experiences and history of different groups of people can lead to different perspectives, values and capabilities. It does this by exposing the participants to leaders and members of Indigenous communities in rural Australia, allowing them to hear their stories, ask questions and gain a deeper understanding that could not be obtained from reading or participation in more conventional training. Twenty-one people completed the program in 2006, with an increased participation target set for 2007.

While the insights gained are specific to Indigenous populations, and help participants in dealing with Indigenous colleagues and customers, the program also offers the ability to see the world through another's eyes. The experience has a positive impact in building both empathy and awareness of others and self – attributes which are required for successful management and service excellence.

For more information see: www.welcometocountry.com.au



Kelley McLendon (centre), NAB, with Brett Clarke (left) and Robbie Bundle (right), from the Tarerer-Gunditj people, during the Welcome to Country Program in May 2006.

¹¹ Roll-out in the UK commenced in September 2006 and will be fully completed in April 2007.

of our current and future leaders. Our leadership development philosophy is built on the understanding that successful organisations do not wait for leaders to appear, but they identify leadership potential early and develop these individuals. Commitment to fostering leadership capabilities was reinforced at our Group leadership summit in Hong Kong in April 2006. Senior management identified leadership development as a top business imperative.

Our approach to leadership is consistent across the Group, with our businesses offering broadly similar leadership initiatives based on two key programs: Leadership Essentials and Leadership Journey. Our businesses offer a range of additional tailored leadership development programs. For example:

- ▶ Australia provides an Enhanced Leadership Program and executive coaching
- ▶ Bank of New Zealand is piloting a 360-degree feedback tool – Management Effectiveness Profiling System, which measures leadership effectiveness below executive level
- ▶ UK offers a Manager Basics and Branch Development Program.

Also, we were one of the principal sponsors of the Australian Future Directions Forum (AFDF), held in February 2006. AFDF is a not-for-profit organisation established to facilitate constructive discussion about Australia's future challenges and to build relationships between the next generation of Australian leaders. The Prime Minister of Australia is the Forum's patron. The AFDF held its first meeting of Australia's next generation of leaders in February 2006 – see the AFDF website: www.afdf.net.au

In 2006, we became members of the Globally Responsible Leadership Initiative (GRLI) in recognition of the need to proactively engage NAB people leaders at various stages of their development in the issues of global social responsibility. GRLI is a collaboration between business and business schools committed to developing the next generation of globally responsible leaders — see www.efmd.org

DIVERSITY

Our diversity strategies reflect the needs of our geographically diverse businesses and are designed to address multiple diversity issues. In 2006, our regional analysis and research identified key diversity issues that are common across our businesses.

For example, gender imbalance in management, and loss of both young and mature employees.

In Australia, we are focusing on coaching and mentoring pre-management women to move into management and senior management, improving flexible working



DIVERSITY AND EQUALITY IN THE WORKPLACE



Chris Baillie recently joined the NAB's graduate trainee program as a graduate programmer in technology banking in the head office of our Australian business. Chris is vision impaired. Usability Services provides him with specialist 'JAWS' technology software (Job Access With Speech), which scans his computer screen and reads to him through headphones.

His employment was assured through his qualifications, enthusiasm, commitment and performance throughout the recruitment process. This reflects our merit-based recruitment and promotion policy and our Corporate Principles.

"Working in a field of my choice for a company that not only accepts my disability but goes out of its way to integrate me – as well as Flint, my guide dog – is just great".

Chris Baillie, Graduate Programmer, Technology Banking, NAB Australia.

policies, diversity awareness and capability training. nabCapital is helping those on career or parental leave breaks to stay in contact and facilitate their re-entry into the workforce.

nabCapital has identified health and well-being and gender issues as priorities. The Bank of New Zealand implemented the first stage of its diversity strategy and is focusing on next steps.

Our UK business is focusing on family friendly workplace initiatives, removing the 'glass ceiling' (which restricts women in management), and attracting and supporting employees with disabilities. They have also introduced diversity training and an action plan to further improve the uptake of flexible working practices, numbers of women

and ethnic minorities in management, and multicultural marketing initiatives. Diversity initiatives in 2007 for the UK will include the introduction of childcare vouchers for employees with children up to the age of 15 and a review of current maternity, paternity and adoption leave policies. Flexible working task forces will be created to encourage and facilitate the concept of flexible working across the business.

Further information about specific initiatives is on our Group website [\[link\]](#).

INDIGENOUS EMPLOYMENT

As part of our commitment to improving the employment prospects of Aboriginal and Torres Strait Islander people, we have



UK BUSINESS BECOMES 'TWO TICK' DISABILITY USER



Following an initial suggestion by the UK union Amicus, Jobcentre Plus recently invited our UK business to become a 'Two Tick' disability symbol user. The disability symbol is recognition given by Jobcentre Plus to employers who have agreed to take action to meet five commitments regarding the employment, retention, training and career development of employees with a disability. Use of the symbol, demonstrates our commitment to the employment of people with disabilities. It also shows existing employees that we value their contribution and will treat them fairly should they become disabled.

The five commitments are to:

- ▶ interview all disabled applicants who meet the minimum criteria for a job vacancy and consider them on their abilities
- ▶ ensure there is a mechanism in place to discuss, at any time but at least once a year with disabled employees what they can do to make sure they can develop and use their abilities
- ▶ make every effort when employees become disabled to make sure they stay in employment
- ▶ take action to ensure that all employees develop the appropriate level of disability awareness needed to make the commitments work
- ▶ review the five commitments annually and to plan ways to improve on them.

Before the symbol can be awarded, the first commitment must be met in full.

The remaining commitments can be met throughout the year and all five are then reviewed annually by Jobcentre Plus. The symbol is displayed on all job advertisements (internal and external), application forms and recruitment literature.

Achieving 'Two Tick' disability user status was one of the main milestones in the diversity strategy of our UK business.

and Torres Strait Islander people, we have agreed with the Commonwealth Department of Employment and Workplace Relations and Mandala (a specialist Indigenous career broker) to provide employment and training opportunities for Indigenous Australians.

During 2006, we ran an Indigenous recruitment and retention program, which set a target of 10 Indigenous recruits across businesses in the Melbourne central business district. Six Indigenous Australians were recruited and trained in four businesses – and four remained with the NAB in varying roles. The program increased awareness among Indigenous communities about opportunities for employment with the NAB.

In April 2006, NAB launched an Indigenous Career Pathways Program for 2006-2008, with a target of 35 recruitments in Australia. These recruitments are targeted across our Australian business including direct financial services and regional retail banking. Our MBA scholarship program for Indigenous students continued during 2006.

DISABILITY EMPLOYMENT

In 1997, we became the first public listed company to lodge a Disability Action Plan with the Australian Human Rights and Equal Opportunity Commission under the *Disability Discrimination Act 1992* (Cth). We seek to provide equal opportunity in employment and a diverse working environment throughout the Group.

In Australia, we have a collaborative relationship with Disability Works Australia to help us attract, select and retain employees with a disability. This relationship is the foundation of our Disability Employment Program (DEP). A recruitment team and a diversity specialist continually examine existing policies, programs and practices to support the DEP.

During 2006, our UK business became an accredited member of the 'Two Tick' disability symbol user scheme. By using the symbol, we demonstrate to potential applicants that we recognise their abilities not their disabilities. Achieving 'Two Tick' disability user status was one of the milestones in the UK's diversity strategy.

SAFETY IN THE WORKPLACE

Across the Group, we focus on a preventative approach to Health and Safety (H&S), aiming to provide a safe, secure and fulfilling workplace. We are focused on moving beyond compliance to looking after the well-being of our employees.

Our health and safety management systems

Group-wide, we focus on a number of areas

for action and continuous improvement:

- leadership commitment
- effective risk and hazard management and compliance
- connecting with our people - consultation, communication and engagement of employees
- increased knowledge, skills and capacity to act in accordance with policies and procedures
- employee well-being initiatives.

The requirements for occupational health and safety vary slightly in each country in which we operate. Each regional business has a H&S strategy and systems to ensure we continue to meet regulatory requirements and our H&S objectives.

In Australia, NAB is a workers compensation self-insurer in all states and territories. In the last year, after successful regulatory audits, our self-insurer status was approved for the maximum period in each state and territory. In New Zealand, we continue to have full self-cover status in the Accident Compensation Corporation (ACC) Partnership Program. In the UK, we continue to ensure our H&S system complies with HSE Guidance Note Document HSG(65) 'Successful Health and Safety Management'.

Each of our businesses operates at least one H&S committee that meets regularly to consider H&S matters and to provide a consultation forum for discussion and resolution of workplace, H&S and well-being issues. The committees represent all of our employees on H&S matters. In Australia and New Zealand, collective agreements specifically refer to occupational health and safety. In Australia, the EA commits both NAB and the FSU to the development and maintenance of a safe and healthy work environment and to the wellbeing of employees. In New Zealand, in addition to the provisions in the collective agreement, H&S requirements are set out in the *Health and Safety in Employment Act 1992*. In the UK, there is a H&S Agreement with the union and the H&S Committee meets regularly with the union.

H&S reports are provided to the Board, Group Executive Committee and our regional business executive committees on at least a quarterly basis. H&S reports provide information on six key areas:

- Governance and regulation – update on significant legislative changes that may impact the relevant business and actions to address them
- H&S audit outcomes, exceptions and corrective actions – update on health and safety management system audit results, improvement areas and corrective action plans

- Notifiable, reportable and serious harm incidents – update on workplace incidents or injuries that we must report to regulators
- Prosecution, prohibition or improvement notices – update on any notices issued for alleged breaches of H&S legislation
- Strategy and initiatives — update on any H&S and well-being strategies implemented, or proposed to be implemented, to improve the health, safety and well-being of employees
- Performance measures and claims data – update on H&S performance measures and claims.

H&S management systems are audited annually to ensure compliance with relevant legislation and standards. Audits are conducted by our internal audit function and independent external auditors. Also, in Australia, our H&S system is regularly audited by state and territory regulatory authorities.

In New Zealand each year, the ACC audits three random sites. In the UK, external audits occur examining policy, knowledge, risk assessment and physical environment in the workplace.

The total number of H&S system audits across the Group is shown in Table 1, page 13.

OUR HEALTH AND SAFETY PERFORMANCE

H&S performance is monitored through our H&S incident and injury reporting and management system. A key performance indicator is Lost-Time Injury Frequency Rate (LTIFR)¹². LTIFR varies between regions and is in part due to differing legislative reporting requirements for injuries. In Australia, lost-time injuries (LTIs) are recorded as soon as an employee misses one whole day of work. In New Zealand, an employee must be away from work for a period of five days before one LTI is recorded. In the UK, an LTI is recorded for each day away from work. However, because of the different compensation system in the UK, which requires employees to use common law litigation to make a claim for compensation, employees tend to use their sick leave rather than make a claim. This means that the number of recorded LTIs is much lower than actual. In the UK, certain injury types, such as stress, are not reportable under legislation.

The most common injuries across the Group relate to our workplace environment. They are sprains and strains (caused mainly by manual handling activities and ergonomic factors) and injuries caused by slips, trips and falls due to uneven floor surfaces, stairs and worn carpets. Programs are in place

¹² Lost-Time Injury Frequency Rate is lost-time injuries resulting in one day/shift or more off work per 1,000,000 hours worked.

to identify and correct these hazards. For example, in Australia external consultants have conducted Job Safety Analyses (JSA's) for identified job roles. The JSA's are aimed at identifying the risk factors involved in roles and assisting employees to implement programs to reduce these hazards.

Workplace stress also accounts for some reported injuries. We take the issue of workplace stress seriously and have implemented a number of well-being and resilience initiatives across the Group to reduce stress related injuries.

In the Corporate Centre (Australia), we launched a new health and well-being program. This program is aimed at increasing an individual's self-awareness of health and wellness issues. It does this through personal consultation and 'Mastering Life' workshops covering major areas of health. The aim is to build awareness around creating and managing ongoing worklife balance.

nabCapital has a resilience program comprising of a series of workshops about enhancing lifestyle and maximising health and personal well-being. The program recognises that our people are committed to the organisation and work hard to deliver our objectives. It provides people with tools to help them optimise their lifestyle, personal health, well-being and work performance. The nabCapital resilience program is a

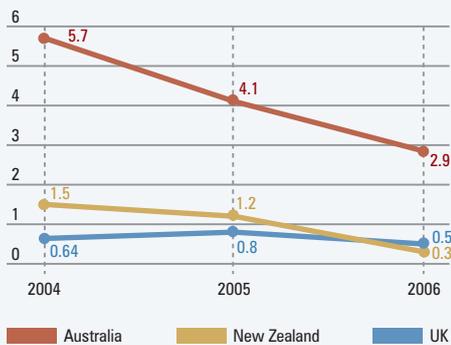


FIGURE 18: LTIFR – COMPARISONS OVER TIME

people support mechanism that helps our employees to understand their worklife choices and encourages personal growth and well-being.

In New Zealand, a wellness strategy has been implemented to address the issues of stress management and worklife balance. In our UK business, a stress management policy has been developed jointly with our union Amicus.

In 2006, we reduced LTIFRs in all regions. In Australia, our LTIFR reduced by 29% to 2.9 (4.1 in 2005). In New Zealand, our LTIFR reduced by 75% to 0.3 (1.2 in 2005) and in the UK LTIFR reduced by 37.5% to 0.5 (0.8 in 2005). See Figure 18.

EMPLOYEE ASSISTANCE PROGRAMS

Each of our businesses provides a private and confidential counselling service. This service – the Employee Assistance Program – is available to all employees and their families. The counselling is provided by external qualified psychologists and covers a variety of issues such as stress management, health issues, relationships, grief and career advice.

Critical incidence trauma counselling is available in the workplace, as required, for all employees and customers who experience a traumatic event.

SUPPORTING EMPLOYEES FACING HARDSHIP

In Australia, the Dibbs and Massie Foundation provides financial assistance to permanent Australian-based employees in financial hardship. Current and retired employees, widows, widowers or dependant children of deceased employees may also be eligible. In this reporting period, the Foundation gave grants totalling \$84,000 to Australian-based employees.

In New Zealand, the W.H.Hargreaves Trust provides assistance to employees past and present who find themselves in financial hardship. For the year April 2005 to March 2006, \$51,000 was granted.

In the UK, we are working with the Bankers Benevolent Fund to provide assistance to employees (past and present) who find themselves in situations of hardship and need.

PROTECTING OUR EMPLOYEES' RIGHTS

NAB is committed to ensuring a workplace free from discrimination and providing equality of opportunity in employment for everyone. We have a range of equal opportunity and anti-discrimination policies, practices and initiatives across the Group — see our Group-wide policies on our Group website [www.nab.com.au](#). These policies are monitored and enforced through compliance training and compliance gates in performance scorecards. Highlights of some of our initiatives are below.

In Australia, we have updated our discrimination and harassment policies to provide more relevant and easy to understand information. These changes have been reflected and implemented in revised compliance training programs. Our recently negotiated Enterprise Agreement (2006-2009) in Australia introduced new equal opportunity initiatives such as a pay equity audit. This collaborative project between the FSU and NAB has been ratified in the Enterprise Agreement (EA) and is aimed at identifying any gender-based pay inequities and their causes. The project will be completed in the first two years of the EA with findings available within 6 months after completion.



ENTERPRISE AGREEMENT AUSTRALIA

NAB's Australian Enterprise Agreement (EA) 2006-2009 was voted on by NAB and MLC employees, and was certified on 27 February 2006. The negotiations involved direct discussions with key internal stakeholders and the FSU. Feedback from all employees was encouraged through the negotiation process. Key communication channels were used such as regular discussion forums, intranet and NABtv updates and an ongoing EA email mailbox. The new EA saw two previously distinct agreements (banking and wealth management) merge to support consistency. As well as remuneration and superannuation increases, the EA 2006-2009 also introduced additional benefits to all Australian employees such as salary (formerly pay) averaging*, support when sick, the ability to take extended long service leave, and a range of additional paid pre-natal and parental leave options. Further, it increased our focus on worklife balance and provided employees with greater options to work flexible hours. Some of these initiatives will be phased in over the calendar years 2006 and 2007.

* Salary averaging is a new benefit included in the EA following a pilot in 2005. It is a flexible working arrangement which helps employees better manage work and personal commitments. Under a salary averaging arrangement (sometimes referred to as "48/52"), employees can apply for up to four weeks unpaid leave in one calendar year, in addition to the standard four weeks annual leave. Employees total remuneration package is reduced by the number of unpaid weeks elected and averaged across the calendar year to enable a consistent income across the 52-week period.

This year in New Zealand, we produced a booklet 'A Matter of Respect – Guidelines for Appropriate Behaviour at Work'. This booklet aims to raise employee awareness of what behaviours are required at work, and what behaviour may be considered unacceptable due to being discriminatory, or involving harassment and bullying. Key people within New Zealand have been trained in dealing with harassment and discrimination cases.

In the UK, we signed the 'Dignity at work' Charter, which addresses bullying in the workplace. The Charter is a joint initiative between Amicus and the UK Department of Trade and Industry. We will work together to implement the Charter. Age discrimination legislation will come into force in the UK on 1 October 2006. We have already reviewed all of our People and Culture policies and practices in light of these requirements.

FREEDOM OF ASSOCIATION & UNION ENGAGEMENT

Our people can join and be represented by a union without suffering any form of discrimination or prejudice. We comply with all relevant freedom of association legislation. We also comply with the ILO Conventions, 87 and 98, regarding freedom

of association and protection of the Right to Organise and Collective Bargaining Convention and relevant local regulatory requirements. The unions that represent our employees are important stakeholders to our business.

This year, we negotiated employment agreements with each of the key regional unions. In Australia, we finalised a new Enterprise Agreement (2006-2009) with the FSU, which includes leave and other entitlements for employees who are also union representatives.

In New Zealand, during the year, we renegotiated the Bank of New Zealand's Collective Employment Agreement with Finsec (the union). A new agreement is now in place for the period (1 November 2005 to 31 October 2007).

In the UK, the union Amicus has representational rights for all our employees, except executives and those working in nabCapital. In 2006, consolidated salary negotiations were successfully concluded with Amicus for the first time. Previously separate negotiations were made for the three different parts of the UK business.

GLOBAL UNION ENGAGEMENT CONFERENCE – JUNE 2006

A global union conference with all relevant unions was held in Glasgow, Scotland in June 2006. The aim of this conference was to create a greater understanding between the participants and to provide an opportunity to build on the existing relationships. Representatives were present from each region (Australia, UK and NZ), and from both NAB and the unions. The conference included presentations by John Stewart, Group Chief Executive Officer and Lynne Peacock, Chief Executive Officer UK. The key outcome of the conference saw all parties commit to sign a Global Union Engagement Agreement. This Agreement will contain the principles and framework for constructive global relationships. In addition,



Neil Leitch, Head of Workplace Solutions – People and Culture – UK talking with conference delegates.

FSU STATEMENT

The Finance Sector Union has been a key stakeholder in NAB and its predecessors since 1919. As the representative of Australian staff, we are supportive of NAB's continuing work on socially responsible business management.

CSR must be seen to be much more than a public relations opportunity to promote an organisation. It means being prepared to challenge the organisation to rigorously apply the values and standards it espouses to all business decisions and stakeholder relationships.

Recognising the importance of maintaining genuine dialogue and consultation with stakeholders at all times is an important test of CSR commitment. We do not agree with NAB on all matters, but we recognise NAB's commitment to the rights of employees and maintaining dialogue with their union.

Paul Schroder
National Secretary

the launch of the Workplace Representatives Scheme was agreed between the UK region and Amicus.

EMPLOYEE CONSULTATION AND FEEDBACK PROCESSES

Providing feedback opportunities for our employees to have their say is very important to the Board, senior management and people leaders at NAB. Our people are a source of valuable and innovative ideas, which help us to improve the way we do business, our customer experience, our products and services and our working environment.

We encourage our people to look for and suggest ways to improve all aspects of their working life at NAB. We are committed to continuous improvement. Across the Group, our people have a number of channels through which they can provide ideas and feedback.

In Australia, myVoice, is used to facilitate employee feedback and ideas. It is an intranet-based feedback tool that enables employees to share opinions, propose new ideas, suggest solutions and raise issues. In 2006, 5,647 comments, ideas opinions and feedback comments were recorded – up from 4,996 in 2005. This year, 1,663 of the responses were ideas, of which 176 were implemented.

Through a series of 'Let's Talk' employee briefings in 2006, John Stewart, Group Chief Executive Officer, visited NAB people across Australia. He highlighted how the organisation was performing, including: share price, winning Bank of the Year, giving back to the community through community partnerships, and cultural transformation. These sessions encouraged a two-way conversation on how NAB is doing and provided an opportunity for employees to

give their views on our performance.

NAB has a policy in place with respect to consultation on significant organisational change. In each region, as part of our collective agreements, there are commitments to consult employees regarding significant organisational change prior to the implementation of that change.

In Australia, as part of the EA, the provisions relate to consultation of both employees and the union. This arrangement is similar in the UK. UK employment law stipulates minimum consultation periods for redundancy and outsource situations. In New Zealand, good faith provisions of the *Employment Relations Act 2000* are reflected in the collective agreement under the consultation policy.

EMPLOYEE GRIEVANCE PROCESSES

There are several channels for employees to raise grievances, and we recognise the benefit of providing both formal and informal mechanisms for our people to raise issues and complaints. The processes are consistent throughout the Group.

Across the Group, we offer a confidential helpline. This is part of our Whistleblower Protection Program, see page 11.

In Australia and the UK, our people can also contact the People Advisory Centre to raise their concerns whether it is a policy-related question, or a matter of personal concern in the workplace. If the concern is more complex, or sensitive in nature, the matter can be escalated to a dedicated case management team within the Workplace Relations Unit. In Australia, our dispute resolution procedure is also included in the recently negotiated Enterprise Agreement 2006-2009, which recognises the right for employees to seek representation from their union.

In New Zealand, in addition to the confidential helpline, the employment agreement directs employees with a grievance to independent legal advisers, union representatives, the Department of Labour, Human Rights Commission and the Employment Relations Authority.

MOVING FORWARD

Planned actions for 2007 include:

- continuation of culture change implementation
- taking actions to further our diversity strategies and delivering on our diversity action plan
- introduction of childcare vouchers for employees with children up to the age of 15 and a review of current maternity, paternity and adoption policies in the UK
- continuous improvement of our health and safety performance
- continuation of learning campus roll-out as part of our ongoing training and development program in the UK.

Expanded our micro-finance initiatives

Launched a new multi-lingual web-site in Australia

UK upgrades to offer point-of-sale transaction functionality to many customers

CUSTOMERS

Helping more people to meet their financial needs

WE ARE COMMITTED TO IMPROVING THE CUSTOMER EXPERIENCE THROUGH INCREASED ACCESS TO FINANCIAL SERVICES, SERVICE IMPROVEMENTS AND PRODUCT INNOVATION

We take responsibility for how customers experience our organisation. Listening and engaging with customers helps us meet their needs and understand their concerns. We do this through customer feedback processes, research and by involving a range of stakeholders in product development.

This section of the report overviews our customer base, our customer engagement processes and some specific customer initiatives we implemented during the year. It demonstrates how we are taking steps to:

- ▶ improve our customer service (see page 37) – through learning from our customers and responding via our distribution network and product portfolio
- ▶ increase accessibility to financial services – from physical location of our services to financial inclusion for the disadvantaged and the isolated (see pages 40-42)
- ▶ address industry issues in wealth management – from the debate around ‘fees versus commissions’ to addressing the issues of under-insurance and short-termism (see pages 42-43)
- ▶ address the issue of financial literacy – improve customer communication

and help develop financial skills (see page 42)

- ▶ improve equity – in our fees and charges (see page 42)
- ▶ deal with fraud and security – protecting customers that use our banking services (see page 43).

The highlight box below updates some of the planned customer-related actions that we reported in our 2005 CSR Report. Information in this section of the Report is reported for the year ending 30 September 2006.

OUR CUSTOMERS

The Group has a large and diverse customer base of around 8 million banking customers globally. We also service over 2.3 million wealth management customers and policy holders. In our Group profile (see page 5) and the glossary (see page 68), we describe the range of products and services we provide to our customers. This extends from personal and corporate banking to wealth management and project finance. Figure 19 illustrates the distribution of our banking customer base by region.

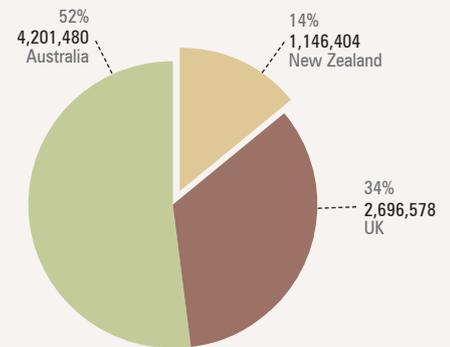


FIGURE 19: DISTRIBUTION OF BANKING CUSTOMERS BY REGION.

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Continue to implement the plain English program and extend it to the UK and New Zealand	Refer to ‘Financial literacy and plain English communication’ page 42.	
Monitor customer service and report on performance against our regional customer charters	In 2005, each of our businesses introduced customer charters. Our performance against these charters is reported on page 40.	
Report on process improvements resulting from our customer quality program	We now have active customer quality programs, using Six Sigma methodology in all our businesses (see page 40).	

Listening and engaging with customers helps us meet their needs and understand their concerns



Over the last year NAB has extended the reach of its Step UP loans program. Step UP allows low income individuals and families access to affordable credit. The program is delivered by NAB in participation with a variety of community organisations.



TABLE 6: BUSINESS CUSTOMER NUMBERS BY INDUSTRY GROUP

Industry segment	% of business customers*
Property, renting and business services	33.4
Wholesale and retail, trade and repairs	13.1
Health and community services, social work	8.9
Finance and insurance	8.4
Agriculture, hunting, forestry and fishing	8.3
Construction	7.3
Manufacturing	5.6
Recreational, personal and community service activity	5.1
Transport, storage and communications	3.8
Accommodation, cafes, pubs and restaurants	3.7
Education	1.3
Mining	0.5
Government administration and defence	0.4
Electricity, gas and water supply	0.4

TABLE 7: BUSINESS CUSTOMER FOOTINGS BY INDUSTRY GROUP

Industry segment	% of business footings
Property, renting and business services	30.5
Finance and insurance	26.4
Agriculture, hunting, forestry and fishing	7.6
Wholesale and retail, trade and repairs	7.3
Manufacturing	7.3
Construction	4.6
Transport, storage and communications	3.1
Accommodation, cafes, pubs and restaurants	2.7
Health and community services, social work	2.6
Recreational, personal and community service activity	2.4
Government administration and defence	1.7
Mining	1.5
Education	1.2
Electricity, gas and water supply	1.1

* These percentages sum to 100.2% due to rounding off.

To meet the needs of our business customers, we need to understand the wide range of sectors in which they operate. Tables 6 and 7 show the distribution of our business customers across these industry sectors by customer numbers and footings (see glossary).

Globally, how our customers use our services is changing. The trend for increased e-channel activity is solid. However, access to a physical branch continues to be a key consideration for customers. The case study below illustrates how we are responding in Australia.

In New Zealand, we last closed a branch in November 2003. No closures are currently planned. New branches are opened to serve areas of growth. In 2006, we opened two new branches, relocated five and refurbished one.

In the UK, we continued to review our distribution strategy and branch network. We continued to build our network of Financial Solutions Centres (FSC) providing services for small to medium enterprise and private banking customers. We opened six FSCs this year, two of which were completed and ready for opening by the end of the 2005 year. We refurbished 56 flagship branches that include business managers in key locations. We also implemented a new Internet banking platform to better serve the increasing number of customers who now use the Internet for their banking. In addition, we have given access to point-of-sale transactions to a large proportion of our customers, including low income customers

CUSTOMER FIRST IN AUSTRALIA

Our customers have told us they value a clear understanding of their needs, responsiveness and fast decisions. Our people told us that they want greater decision-making power at the local level, simpler processes and the tools and technology to help them improve customer service.

Helping customers to get what they want means having the right people with the right skills available at the right time. To deliver a new level of service we piloted a new kind of banking in late 2005. Key sales and service capability now exists in the branch — so we can give customers on-the-spot solutions for basic transactions, for building their nest egg, for getting the home they want, or for growing their business. Our business banking services are also now more focused on complete business solutions.

The pilot intended to bring our people closer to our customers and to make it easier to do business with NAB. We wanted to empower our people and give local teams the accountability and responsibility to make things happen. As a result of the pilot's success, we will rollout this new model across Australia by mid 2007.

Improving the experience of our customers also means creating a more comfortable and welcoming environment. A new, open-plan store design has been developed and is being piloted. The primary aim is to provide the right information and spaces to have conversations with customers. The open plan environment — which has neither desk-bound staff nor traditional counters — reflects our desire to be transparent in all our customer dealings. Due to the new design's success, we plan to introduce another four open-plan stores this year.

The new NAB outlets will offer 24-hour access to business deposit facilities and access to small change for small businesses.



Our team of customer advisors in our first new store at Victoria Point, Brisbane sit with our customers in a comfortable open plan environment to have conversations about what the customer wants to achieve and how NAB can provide the right financial solution to help the customer achieve their aspirations.

that previously could only withdraw funds via ATMs.

Since announcing the review of our branch network in May 2005, we have closed 104 branches. The majority of Yorkshire Bank closures took place in urban areas. A number of Clydesdale Bank closures took place in rural locations, where there was not always an easy alternative to branch banking. To mitigate the impact, Clydesdale Bank enables all of its customers to conduct transactional banking at any of the 14,000 Post Offices in the UK.

RESPONDING TO CUSTOMER NEEDS AND STAKEHOLDER FEEDBACK

Customer feedback helps us provide services and develop products. We use a number of channels, including customer research and formal complaints handling processes, to better understand the views and needs of our customers. A number of our key initiatives are a direct result of listening to our customers and stakeholders. Some of the initiatives are highlighted in the following paragraphs and in the Customer First (page 36) and Financial Freedom (see above) case studies.

MLC has responded to feedback and challenged the investment industry's focus on the short-term by launching a multi-manager, multi-asset class portfolio specifically designed to deliver net real returns to investors over 20 year periods. The MLC Long-Term Absolute Return (LTAR) portfolio is for investors who want to take a long-term investment approach, focus on real after tax returns, and diversify across a wider range of asset classes. LTAR differs in two key ways from other funds. It has a significantly longer investment time horizon – 20 years, compared to five years for most balanced funds. It also pays no attention to what other funds are doing. As a result of LTAR being different, we expect it will perform differently to other funds in different market cycles. This long-term approach to investing has largely been missing from the range of investment products available in Australia.



FINANCIAL FREEDOM

In 2006, in the UK and Australia, we piloted the Financial Freedom project for customers with complex needs. It included advice on financial strategies, sales and servicing of the financial products to implement those strategies, one view of the customer's whole relationship with us and one point of contact with the bank.

The offer was designed using research and comment from customers. It aimed to simplify the process of dealing with the bank and to address full service provision from the customer's perspective rather than our organisational structure. For example, you can call one number to discuss your business and personal needs, your day-to-day banking and your long-term financial planning — and you will have to tell us about the issue only once.

Customers in the UK and Australia responded very positively and in both countries we decided to extend the offer beyond the pilot customers. In the UK, the product is known as the Clydesdale Private Offer. In Australia, it is being implemented in stages within our National Portfolio facility, an integrated lending product and advice process.

Our Australian business launched a Protected Loan package, combining home lending with insurance. This new package helps customers who take out a home loan protect their loan repayments and home and contents. This package is a response to the fact that a large proportion of Australians do not have enough income and life insurance — even though one in three will become disabled for more than three months before turning 65¹³ and 60% of Australian families with dependents would run out of money within a year if the breadwinner died.¹⁴

We want to help our customers have the right protection when they buy their home. To ensure our personal bankers are having the right conversations with their customers, we ran a detailed training program this year. Protected Loan has three key components:

- ▶ Securing loan repayments – Subject to policy terms and conditions, National LoanCover helps protect a customer's loan repayments if the customer becomes disabled or suffers a specified critical illness up to a maximum monthly amount of \$5,000 or if the customer becomes involuntarily unemployed up to a maximum monthly amount of \$5,000 for a maximum period of four months
- ▶ Paying off the balance – National LoanCover pays the customer's outstanding loan balance up to \$400,000 (subject to age at commencement date) in the case of death of the life insured¹⁵

- ▶ Safeguarding the home and its valuables¹⁶ – NAB can arrange home and contents cover for a range of events including fire, burglary and storm damage¹⁷. This cover is available under a choice of policies, allowing the customer to select the cover that best suits their needs.

Personal bankers can also refer a customer to a financial planner to address their broader financial situation and needs.

CUSTOMER RESEARCH

In 2006, we conducted more than 110,000 interviews globally with customers about service: 38,000 were about branch and customer service and 60,000 were about service from personal or business relationship managers.

In Australia, we use an ongoing Service Experience Program (SEP) to monitor personal and business customers' satisfaction. In 2006, we interviewed more than 70,000 customers. SEP identifies aspects of service that are key drivers of customer satisfaction. Customer satisfaction levels are used in coaching and performance reviews for front line and management employees.

nabCapital benchmarks and monitors the quality of its performance through a regular industry survey of corporate and institutional banking clients. The Large Corporate and

¹³ Institute of Actuaries of Australia (2000) 'Interim report of the Disability Committee'.

¹⁴ The Investment and Financial Services Association (IFSA) Research 'A Nation Exposed'. Conducted for IFSA by Rice Walker Actuaries and TNS Australia.

¹⁵ National LoanCover is issued and administered by MLC Limited ABN 90 000 000 402 AFSL 230694 of 105-153 Miller St, North Sydney NSW 2060, a registered life insurer and a wholly owned subsidiary of National Australia Bank Limited ABN 12 004 044 937 AFSL 230686. National LoanCover is not compulsory and insurance for a customer's loan can be arranged with another insurer of their choice. A National LoanCover policy does not represent a deposit with or a liability of National Australia Bank Limited or any other member of the National Australia Bank Group of companies (other than a liability of MLC Limited as insurer). Neither National Australia Bank Limited, nor any other member of the National Australia Bank Group (other than MLC Limited as insurer), guarantees or accepts liability in respect of National LoanCover. Information about National LoanCover is contained in the current Product Disclosure Statement which is available by phoning 13 22 95.

¹⁶ Terms, conditions and exclusions apply to all these insurances. Refer to the relevant Product Disclosure Statement for details of the cover provided for each product.

¹⁷ Allianz Australia Insurance Limited ABN 15 000 122 850 (Allianz), 2 Market St, Sydney NSW 2000, AFSL 234708 is the issuer of National Home Insurance, National Home Insurance Essentials, National Car Insurance and National Residential Investor Insurance. These insurances are arranged by National Australia Financial Management Limited ABN 56 000 176 116 (NAFM), AFSL 230699 of 800 Bourke St, Docklands Vic 3008, a member of the NAB Group of companies. Neither National Australia Bank Limited ABN 12 004 066 937 (NAB) nor any other member of the National Australia Bank Group of companies (including NAFM) guarantees or accepts liability in respect of these insurances.



Institutional Relationship Banking Report, produced by Peter Lee Associates, measures a range of variables including nabCapital's status as a trusted adviser, the number of lead bank positions it holds, and the extent to which clients value its industry knowledge and expertise. The 2006 results showed continued improvement for nabCapital across these areas.

In New Zealand, customer satisfaction is monitored via third parties. ACNielsen surveys 10,000 consumers a year using door-to-door, face-to-face surveys. Results are published quarterly, and have been tracked for over 10 years. Bank of New Zealand ranks fourth in the New Zealand market, behind ASB, National Bank and Kiwibank. There has been a general upward trend for all major banks over the last four years. Satisfaction with branch service is monitored by Taylor Nelson Sofre (TNS). The survey involves nearly 14,000 interviews per year, with 80 interviews per branch. Another research channel is an online research panel. About

4,000 customers have registered for the panel and are sent various online surveys. There have been 19 surveys since January 2006. In addition, we operate bulletin boards to get more qualitative feedback from customers.

In the UK, we use monthly, quantitative surveys of customer satisfaction, loyalty and advocacy. For any negative feedback, further detail is requested so the issue can be addressed. Mystery shopping is used in the branch network to monitor our performance and to help us to improve customer service. Our Customer Value Analysis research helps us regularly assess issues of importance to our customers and how they experience our performance.

Also, we consult with stakeholder groups such as peak consumer bodies and community-based organisations, see Stakeholders section pages 14 and 16. This helps us develop and provide a range of products and services that are inclusive and able to meet the needs of all customers.

COMPLAINTS MANAGEMENT

We work hard to continue to improve how we manage customer complaints – they give us valuable information about how to improve the customer experience. Each of our retail businesses has a specialised team focused on managing customer feedback and complaints.

BANKING COMPLAINTS

In 2006, our UK banks improved their complaints management processes – merging nine central areas to five. This consolidation, and a centralised reporting system, will help address inconsistencies and drive further improvements for customers.

To address service issues during the year, our UK banks:

- streamlined and simplified processes for standing orders, direct debits and account openings
- dedicated weekly branch training to focus on key complaint areas



RESPONDING TO COMPLAINTS

In December 2005, a direct mail campaign offered a pre-approved credit card to a large number of people in New Zealand including some that had poor credit ratings. The result was that while the campaign was a financial success, there were a small number of complaints from offer recipients which were escalated to the media. There were issues with the pre-Christmas timing, the use of third-party databases and pre-campaign credit checks. At no time was there a breach of the New Zealand banking code.

As a result of the campaign, specific policies and procedures were significantly altered to ensure future initiatives would take into account our learning. Changes we have implemented included:

- confirmation that data will be from high quality and approved databases
- more rigorous testing of data quality prior to use
- strengthening of all credit scoring processes before scoping any initiatives in the future.

In addition pre-Christmas timing for extended credit and card offerings will not be used again in the future.

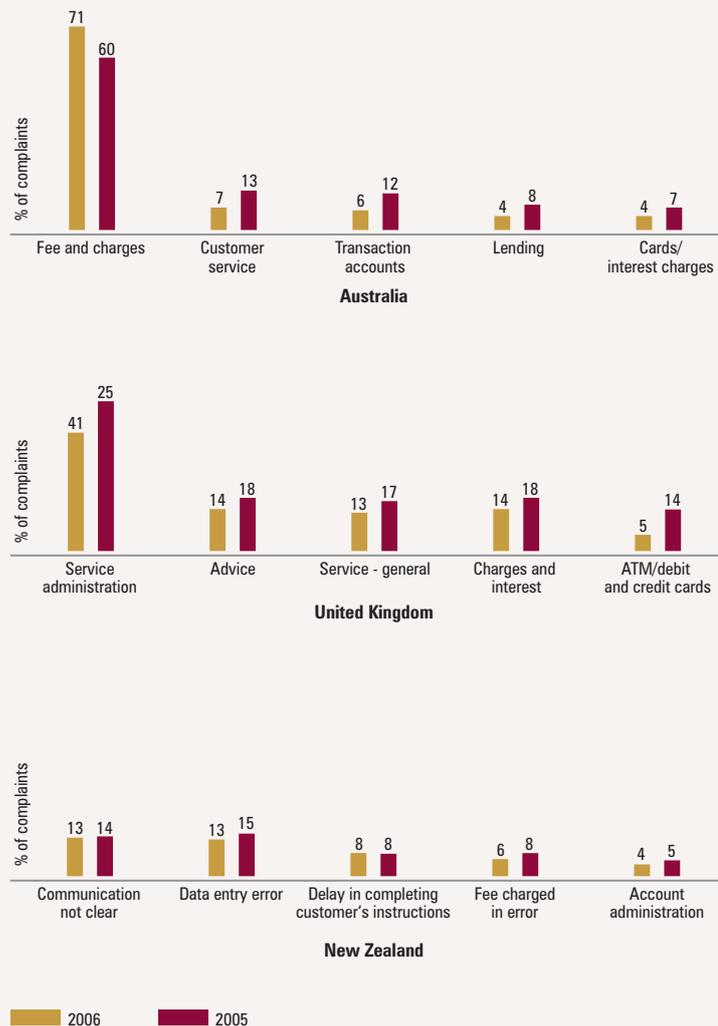


FIGURE 20: TOP FIVE BANKING COMPLAINTS THEMES

- ▶ introduced 'Customer Connect' and 'Teller' systems in Yorkshire Bank – which improved branch customer delivery capabilities
- ▶ increased security processes for debit cards mailed to customers in high risk areas
- ▶ simplified how customers report lost and stolen credit cards.

Complaints about charges and interest increased in the UK in 2005. We set up a team to review current complaints, court claims and to develop a consistent and fair approach. Overall, total complaints received by us have decreased — though complaints reported to the Financial Services Authority (FSA) increased, see page 39.

In New Zealand, we are reviewing our complaints databases: an upgrade is planned for late 2006. We implemented a new front line sales tool to help improve complaints record keeping and resolution.

WEALTH MANAGEMENT COMPLAINTS

In Australia, our wealth management business, MLC, investigates and seeks to resolve all service-related complaints. Errors, trends and systemic issues are highlighted in reporting to aid rectification.

Key complaint areas in 2006 included:

- ▶ the sales and marketing of specific products
- ▶ our decisions about disability claims or the distribution of death benefits on superannuation accounts
- ▶ fees and charges and their impact on account values
- ▶ service delays and the impact on account balances – these complaints were high for a significant portion of the year.

All complaints are investigated to see if an error has been made and, if so, to fix it. If there is no error, our response reviews account fees and charges. Also our product, underwriting and actuarial areas regularly review products for cost-effectiveness and appropriate disclosure.

In 2006, a new MLC policy responded to an issue raised through complaints. For redemption requests processed in the five-day service standard, the unit price used is that on the date that all requirements were received. For requests processed outside standard, the best unit price will be used — and any additional costs will be at our expense. This policy ensures that customers whose requests are delayed receive the appropriate treatment.

Total complaints in the UK reduced in 2006 — largely due to improved processes and stronger stock market performance reducing complaints relating to fund performance and service. In addition, endowment shortfall complaints previously recorded under the wealth management category last year are now recorded under



FIGURE 21: TOP FIVE WEALTH MANAGEMENT COMPLAINTS THEMES (AUSTRALIA AND UNITED KINGDOM)

banking complaints. This has impacted the volume of complaints recorded under wealth by creating a lower base figure resulting in a perceived increase in other complaint categories. A major focus of our response to complaints in 2006 was increased business interaction to simplify and speed up processes – for example, for death claims, we improved turnaround time so much that complaints almost disappeared.

Figure 21 highlights the top five wealth management complaints themes for our Australian and UK businesses.

COMPLAINTS TO THE OMBUDSMAN

Another measure of our customer service performance is the number of complaints reported to the relevant industry ombudsmen (in the UK the industry ombudsman is referred to as the Financial Services Authority (FSA)).

In our UK businesses, reportable complaints increased in 2006 due to:

- ▶ greater focus on complaint management and accuracy of reporting
- ▶ improved and more thorough investigation by the bank in adopting the FSA's 'Treating Customers Fairly Directive'
- ▶ branch closures
- ▶ Yorkshire Bank calls being transferred to our European Customer Contact Centre
- ▶ redesign of customer statements – this was mainly due to unfamiliarity. Using feedback from customers further enhancements have been made to address the initial concerns. The new statement is much simpler
- ▶ increased lobbying by external companies over bank charges.

In all, 275 complaints were referred to the Ombudsman in the UK. Of those, 145 were resolved – with 68% in our favour.



RESPONDING TO COMPLAINTS TO THE OMBUDSMAN

In New Zealand, we improved our credit card authorisation process after two complaints were referred to the Banking Ombudsman. Now, when a merchant calls to get a card transaction authorised, our team asks: "Is the card holder present?" If the merchant says "no", then the call centre operator reminds the merchant that authorising the transaction does not guarantee the validity of the cardholder. Instead, it simply confirms that the card has enough funds to meet the transaction – but the transaction may still be charged back. This change avoids claims and investigation costs.

In the UK, we aim to reduce complaints and to avoid customers needing to go to the Ombudsman. An example is a change that increased security for replacement cards sent to customers with high-risk postcodes – this materially reduced the number of missing cards and complaints.

TABLE 8: CUSTOMER COMPLAINTS REFERRED TO THE OMBUDSMEN¹⁸

	2006	2005	2004
Banking complaints referred to the Ombudsman			
Australia	592	642	736
United Kingdom	266	183	265
New Zealand	36	116	108
Wealth management complaints referred to dispute resolution bodies			
Australia	122	193	163
United Kingdom	9	67	168
New Zealand	NA	116	108

¹⁸ A change from the year 2005 in the UK business included 2,262 mortgage endowment policies being transferred from being reportable under wealth to banking for regulatory reporting purposes.

Table 8 highlights the number of complaints referred to the banking Ombudsmen and financial services (wealth management) dispute resolution bodies.

PRIVACY COMMISSIONER

Customer privacy is very important to us — this is reflected in our customer charters and privacy policies (see our websites). In 2006, three cases were referred to privacy commissioners. In Australia, two privacy investigations occurred due to customer complaints. The investigation of one complaint by the Commissioner resulted in a finding that we had not breached the customer's privacy and an outcome to the second complaint investigation is pending. In New Zealand, one complaint is currently awaiting a preliminary decision from the Commissioner. This complaint was forwarded on from the Banking Ombudsmen.

In Australia, the Privacy Commissioner conducted an investigation during December 2005 into the practice of recording full credit card numbers on printed receipts of electronic transactions conducted on merchant EFTPOS terminals. This investigation was industry wide and we were asked to respond. Following this

investigation, the Commissioner advised it to be best privacy practice to ensure that receipts only include a truncated card number. Based on this advice and our desire to ensure our customers and other individuals have the highest possible level of personal information security, we have committed to upgrading the 1% of EFTPOS terminals currently unable to truncate credit card numbers. This upgrade is due to be completed by January 2007.

CUSTOMER SERVICE

In 2006, we continued to implement programs to respond to customers' needs and improve our services. Our businesses released customer charters in 2005. We have commenced monitoring our service levels against these, see Table 9.

Copies of our customer charters are available on our businesses' websites (see inside back cover).

CUSTOMER QUALITY PROGRAM

In all our businesses, we have active customer quality programs using Six Sigma methodology to improve our business processes, products and customer service. These programs are

designed to increase customer and employee satisfaction, fuel business growth and enhance our reputation.

In New Zealand, Six Sigma has been implemented in all areas of the business. Bank of New Zealand completed more than 15 Six Sigma projects this year. We believe that this has increased both customer and staff satisfaction and substantially reduced waste. Completed projects include:

- reducing the number of forms used and transported
- modifying home valuation processes, which now depend on the loan-to-value ratio — this has delivered faster service and reduced costs.

nabCapital commenced its Six Sigma program in late 2005. Dedicated personnel work on Six Sigma projects in each of its locations globally. Until June 2006, nabCapital focused on deploying the program and building related capability. Now, the focus is on delivery of projects.

INCLUSION AND ACCESSIBILITY

We understand that some people find it difficult to access financial services because of one or a combination of financial, physical, geographic and cultural factors. We recognise that our customers come from diverse communities and backgrounds. Therefore, we want to make our products and services accessible to all customers — and we strive to treat them all with fairness and respect. This includes customers that may have traditionally been 'excluded' from financial services, perhaps due to remote locations or uncertain incomes, such as those who receive government benefits.

FINANCIAL INCLUSION

This year, our Australian businesses has focused on providing inclusive financial products and services. This included:

- introducing an account that offers transactional banking to meet community groups' banking needs at a discount
- expanding the Step UP Loan program jointly delivered by NAB and the community agency Good Shepherd Youth

TABLE 9: BANKING PERFORMANCE AGAINST OUR CUSTOMER CHARTERS

Australia	New Zealand	United Kingdom*
% Banking complaints acknowledged and resolved within 5 days — 88% (83% resolved within 24 hours)	% Banking complaints acknowledged and resolved within 5 days — 90% (82% resolved within 1 day)	% of regulated Banking complaints acknowledged and resolved within 28 days — 70%
% Banking complaints resolved within 10 days — 91%	% Banking complaints resolved within 10 days — 92%	% of regulated Banking complaints resolved within 56 days — 18%
The remaining 9% of complaints are complex. These complaints may involve referral to an Ombudsman.	The remaining 8% of complaints are complex.	The remaining 12% of complaints are complex. These are resolved in greater than 56 calendar days.

* This report for our UK business refers to regulated complaints only and not complaints that are resolved within 24 hours. A regulated complaint is any complaint that must be reported to the Financial Service Authority.

and Family Service – the pilot of five regions is planned to double in the next year (see page 21)

- ▶ developing a low cost insurance product for car, house, and contents insurance for Step UP customers – NAB and its general insurance provider Allianz launched this in November 2006
- ▶ expanding the community-based No Interest Loan Schemes™ to provide \$10 million as loan capital, as well as advocacy with state governments, to encourage support for the program. In May 2006, the Victorian government committed to investing an additional \$4.7 million. NAB has allocated \$3.3 million as loan capital for this purpose in Victoria.

Bank of New Zealand provides special products for a number of different demographic segments. This includes:

- ▶ retirees – through its Silver Service Package
- ▶ youth – through a range of products: Dynamic Money for people under 19, Smart Money for 19 to 30 year-olds and Student and Graduate Products
- ▶ a special transaction account for not-for-profit organisations.

PHYSICAL INCLUSION

We assist customers with physical disabilities and our buildings and facilities meet or exceed local disability access requirements. In Australia in 2006, we updated our Disability Action Plan (available on www.nab.com.au). It was lodged it with the Human Rights and Equal Opportunity Commission in early October.

AUDIO ENABLED ATMS

In Australia and the UK, we are continuing to audio-enable our ATM networks to assist vision-impaired, dyslexic and elderly customers. In Australia, 100% of the ATM fleet will be audio-enabled by February 2007. We were the first bank in the UK to deliver audio-enabled ATMs. This year, we introduced the audio-enabled ATMs to 15 more sites, to give a total of 17.



Clydesdale Bank audio enabled ATM for the visually impaired.

DISABILITY ACCESS

In Australia, we continue to improve access to our branches and facilities as we refurbish old, and open new, branches. Our UK business has an ongoing program of upgrading branches to improve disabled access. For more information about the disability action plans and facilities provided by our Australian and UK businesses, see our Group website.

In New Zealand, all our new branch locations have automatic entrance doors. We are introducing wheelchair accessible counters and a new standard has been adopted for ATM's to provide improved usability for wheelchair customers. In 2006, we developed and began implementing an accessibility action plan. In July 2006, we researched accessibility and in September 2006 we held a community accessibility workshop. This will enable us to better understand the issues before identifying priorities for improving accessibility.

SERVICING RURAL AND REGIONAL AREAS

Rural and regional communities have specific needs — often due to their remoteness and dependency on primary industry. To ensure our customers in these communities can access banking and wealth management products and services, we have a number of programs in place.

In Australia, we reduce fees and charges for branch banking services if our customers are more than 25km from an ATM. Similarly in the UK, we do not charge ATM fees for customers and we provide access to banking via Post Office-based services.

In New Zealand, customers are able to meet a high percentage of their banking needs through the capability and services provided by our Customer Contact Centre and telephone and Internet banking channels. Reviews of our branch network consider the needs of rural and remote customers with ATMs in these areas being equipped with deposit capabilities.

See the highlight box for statistics on our services in rural and remote locations.

NAB is a major provider of agribusiness financial services in Australia — our nationwide team has over 500 people dedicated to providing individual financial solutions to primary producers, processors and service providers in rural and regional Australia.

Bank of New Zealand also focuses on providing banking services for agribusiness. We offer growth programs to farmers that include information on wealth management, succession planning, strategic planning and leadership.

CULTURAL INCLUSION

The cultural diversity of our communities enriches us all. Diversity of our customer base provides us with both a responsibility and an opportunity. In Australia, we have just launched a Chinese and Korean website (<http://vgnlive.national.com.au/foreignIndex.html>) with a Vietnamese site to be ready soon. We also actively recruit bankers with language skills for selected

THE CHALLENGES OF LOCATIONS

Number of Agribusiness customers globally	135,191
Number of rural branches charging reduced fees in Australia	164
Rural and regional branches as a percentage of total branches	52%
Number of customers who use rural and regional branches with reduced transaction fees in Australia	58,500
Fees forfeited across branches in rural areas	\$1.5m
Number of giroPost outlets in Australia	3,235
Number of postal banking outlets in UK	14,240

areas and we create brochures, banners and posters to help bankers servicing different ethnic communities.

FINANCIAL LITERACY AND PLAIN ENGLISH COMMUNICATION

The large range and complexity of financial products and services can make choosing the right product confusing and difficult. This means it is very important for us to provide product and service information that is simple, accurate and easy to understand.

Across the Group, we are working to ensure all promotional material is easy to understand and has minimal bank jargon. We provide definitions, glossaries and financial tools to help customers understand our products. In Australia, we have online tools including a budget planner and loan calculator (**visit www.nab.com.au** to use the loan calculator).

Bank of New Zealand now puts its Internet content through formal customer usability testing. Loan documents were recently reviewed before the introduction of the *Credit Contracts and Consumer Finance Act 2003* in New Zealand.

Our UK business has focused on marketing communications. Plain English is now incorporated in all marketing material and agencies assisting us are contractually committed to providing material in plain English.

In Australia this year, we provided customers with simple information on different ways to pay bills and use banking services to help customers minimise banking fees. In the UK, our banks have produced simple product fact sheets to clearly outline our products and services. We also produce Life Events Guides to help customers better understand how to get the right banking products to meet their financial needs. These are available for free online and in branches.

In New Zealand, we conduct customer usability studies for all new products and services to ensure that they are easy for customers to use. We have enhanced our online offering and are now providing a number of new services such as text and email alerts about account balances.

TAKE CONTROL OF YOUR FINANCES

To try to reduce the likelihood of our customers experiencing financial hardship, our Australian business ran a campaign – ‘Take control of your finances’ for the 2005 Christmas season.

Customers were encouraged to take five steps to get their finances back on track in 2006. These were:

1. Understand your financial situation – list all your debts and monthly repayments
2. Shop around to find the best financial solution to help you control debt
3. Be honest with yourself – if you consolidate debt in a personal loan, then make sure you close down your old credit or store cards so you don't have additional temptation
4. Take the time to understand the terms and conditions of potential products – for a personal loan make sure it allows you to pay off your debt early without incurring penalties
5. Stick to your repayment plan and write a budget using the NAB's online budget planner to keep yourself on track.



A FEE SAVER ACCOUNT

Fee saver account for concession cardholders

During 2006, we developed a new account that cuts fees for our most financially vulnerable customers. Feedback from the community and our own analysis showed that fees, particularly for overdrawn accounts or dishonoured transactions, have the greatest impact on concession cardholders. From September 2006, people who hold a NAB Concession Card Account will benefit from:

- no monthly account service fees
- no NAB transaction fees
- no reference fees
- no fees for dishonoured transactions
- no fees for failed periodical payments.

The new account also reduces the risk of customers overdrawing. It does not have an overdraft or chequebook facility – but personal cheques can be issued free over the counter.

Fee saver account for community groups

In Australia, we launched a new bank account in May 2006 to meet the day-to-day banking needs of community groups and not-for-profit organisations. Our Community Fee Saver Account is a fully functional transaction account with no account service or transaction fees. It does have some ATM fees. The account has been introduced after detailed research on the banking needs of community groups.

Our research showed that for small not-for-profit community groups, bank fees were a major issue – given the effort required to raise funds. Account and transaction fees were seen to be taking away from the community. The new account is part of our overall commitment to the community sector.

This year, we wrote to all our existing community group customers offering them the opportunity to switch to a fee saving account. These customers were previously paying a monthly account service fee and transactions fees, some of which may have been rebated.

FINANCIAL HARDSHIP

We aim to make sure that the information we provide, our credit policies and our employee training all combine to help customers avoid financial hardship. Even so, this outcome is sometimes difficult to avoid. So we have a comprehensive process to help customers manage through financial hardship. Bankers and collections teams are specially trained to discuss the needs and issues of customers with difficulties. We are committed to working with customers experiencing hardship to help them with a repayment program to suit their circumstances.

FEES AND CHARGES

Fees and charges continue to be a matter of concern for our customers and other stakeholders. This is an area where we are endeavouring to be more responsive and transparent.

BANKING FEES AND CHARGES

The issues around retail banking fees and charges concern the level and fairness of fees – particularly for people or communities that are vulnerable or isolated. In Australia, we introduced a number of new initiatives to address this concern, see highlight box above. We also developed a ‘ten tips’ brochure to help our customers avoid fees and charges on personal transaction accounts (see www.nab.com.au). We removed fees on our Australian concession card and community saver accounts.

WEALTH MANAGEMENT FEE DISCLOSURE AND CONFLICT OF INTEREST

Fee disclosure and conflicts of interest are important issues to customers using financial planning and wealth management services. There are two main differences between a fee for service and a commission:

- ‘fee for service’ means that a fee is agreed between the adviser and the client – rather than between the adviser and the organisation that issues the investment product
 - clients can decide to stop paying the fee if they do not want further advice.
- These qualities reflect the Financial Planning Association of Australia's Conflict of Interest Principles that we were involved in developing last year.

Fee for service ensures that the client has control of adviser remuneration and ensures that advisers have a much simpler conversation about how they will be remunerated. When a client pays for service with an explicit fee, there can be no

confusion about: how much they are paying, who they are paying the money to, or the services they are receiving for their money. By separating the adviser's fee from the investment product, the risk of a conflict of interest is significantly reduced – because the adviser will generally receive the same fee regardless of the investments they recommend.

During the past few years, our Australian wealth management subsidiary MLC has worked to remove potential for bias and conflicts from our wealth management services.

The actions that have been taken include:

Changes at a product level:

- ▶ launched fee for service versions of MasterKey (MasterKey Fundamentals) – with no commissions built into the platforms (see Case Study right)
- ▶ separated product and advice fees in Product Disclosure Statements and promotional material for MasterKey and MasterKey Custom
- ▶ passed rebates received from fund managers on the MasterKey and MasterKey Custom platforms straight back to investors so as to reduce their costs
- ▶ removed exit fee products from sale in 2005.

Changes at a licensee level:

- ▶ removed bias in licensee splits for Godfrey Pembroke, Garvan, Apogee and MLC Financial Planning – which removes incentive to sell MLC product over other products on the recommended lists
- ▶ removed preferential pricing for the sale of in-house products or platforms in National Australia Financial Planning
- ▶ established a separate governance board for our Australian financial services licensees
- ▶ introduced Advice Pay – a custom online fee collection system which enables both direct debit and credit card transactions online – further supporting advisers in their transition to a fee-for-service pricing model
- ▶ one of our wholly owned financial planning subsidiaries Godfrey Pembroke Limited (GPL) moved to a fee for service only model on investment advice for all new clients from 1 October 2006.

FRAUD PREVENTION

Fraud and basic criminal intent are ever present. The only changes are the mechanisms and the manner and sophistication. A significant issue currently facing the banking industry is Internet fraud. We are introducing electronic solutions to prevent and detect this activity. These are proving successful – but fraud continues to be a 'moving target'. It is time-consuming

CUSTOMER CHOICE ON FEE FOR SERVICE

An increasing number of customers want to pay for financial advice via a separate advice fee – rather than through commissions. We are responding to help customers and advisers.

In March this year, MLC announced the launch of MasterKey Fundamentals – a fee-for-service version of the MLC MasterKey platform. Instead of paying commissions, the new product allows the adviser to charge a fee agreed with the customer.

This option makes charging a fee for service a simpler and more transparent process for customers. It unbundles advice, product and administration fees and clearly discloses these fees on clients' statements.

During 2006, more than 3,000 advisers charged a fee for service and more than 30% of MLC's business came from advisers using a fee for service model. In the current environment, where the virtues of commission versus fee-for-service remuneration models are being hotly debated, it is important to give financial planners the flexibility to charge their customers in the way the customer chooses.

There will always be some clients who want to pay for advice via commissions and others who would prefer to pay a separate fee. What matters is that we give advisers the tools to offer customers choice and flexibility.

and requires considerable computer and personnel resource.

During 2006, Bank of New Zealand experienced some skimming of credit and debit cards at certain ATMs. As a precaution, all cards used at these machines were deactivated. Customers were contacted and replacement cards issued. Any customer suffering financial loss as a result of the skimming was reimbursed. Later, we fitted all ATM machines with additional security devices – including an internal monitoring system looking for suspect activity. During this period, we worked closely with the police and other banks to deal with this industry-wide issue.

We have policies that govern all our



Bank of New Zealand became the first bank in the Asia Pacific to install a 'green sleeve' security device on its nationwide network of more than 400 ATM machines.

businesses including our Group Fraud and Corruption Policy. This requires all business units to conduct a fraud and corruption risk assessment as part of business risk management and to design and implement an appropriate risk management strategy. We also have a Group Operational Risk Event Management Policy that specifies fraud loss events and control failure must be recorded. As part of our Group Risk Assessment and Approval Policy, new initiatives are subject to a risk assessment and approval process and fraud risks must be identified

and appropriate risk reducing features accepted by stakeholders. Another important internal aspect of our fraud control is our Code of Conduct with which all employees must comply. A copy is available on our Group website [MLC](#). Probity checking is also compulsory for new staff and staff moving into specific internal roles.

In our UK businesses, we annually review fraud risks to assess the adequacy of controls. These reviews include considering adequacy of current fraud procedures, segregation of duties and access control to systems.

An annual fraud threat assessment is undertaken to identify risks in the industry and to gauge the banks' possible exposure. Due to our UK business' risk and operational profile, our losses are considerably less than the published industry averages. We continue to invest in systems and controls to reduce loss. Last year, we implemented a debit card fraud detection system.

nabCapital has operational controls for front, middle and back office and management. These procedures support policy statements on segregation of duties. They also cover the limited circumstances in which third-party payments may be made, the requirement for voice recording, access to client/counterparty information, and suspicious transaction reporting. nabCapital also has Compliance and Adherence, and Segregation of Duties Policies.

MOVING FORWARD

Planned actions for 2007 include:

- ▶ reviewing our Australian accommodation standards with the help of external consultants with reference to strategies designed to enhance usage of all sites by people with disabilities
- ▶ developing a service in the UK that allows customers to apply for a mortgage or current account through a channel of their choice.



New CSR procurement policy adopted

Offshoring pilot program completed

New procurement supplier in UK

Suppliers involved in our CSR reporting process

SUPPLY CHAIN

Working with our suppliers

OUR SUPPLY CHAIN CONTRIBUTES TO OUR CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE AND OUR SUPPLY RELATIONSHIPS CAN ADD TO OR DETRACT FROM OUR REPUTATION

By working with our suppliers to manage our direct and indirect social and environmental impacts, we believe we can reduce risks from our supply chain and make a positive difference to the communities in which we operate.

During 2006, challenges we addressed included offshoring a small part of our Australian operations and outsourcing elements of our UK procurement function (see page 46). We also introduced a new CSR procurement policy. These and other elements of our supply chain management are discussed in the following section. The highlight box below updates on some of the planned actions we reported in our 2005 CSR Report.

OUR SUPPLY CHAIN – THE FACTS

In 2006, NAB’s supply chain involved over 51,000 suppliers globally. Our regional¹⁹ procurement teams were involved in more than \$2,356 million of the Group’s external spend — about 52% of our estimated total

spend for goods, materials and services. This gives our procurement processes significant potential to influence suppliers. Our total global spend on suppliers was around \$4,491 million.

Although we have no formal policy, NAB sources many products and services from local suppliers. For example, in the UK we generally use local suppliers unless the relevant goods or services provision is negotiated as part of a master contract negotiated for the Group.

OFFSHORING – PILOT PROGRAM

In October 2005, NAB ran a pilot program to offshore 24 accounts payable roles to third party supplier Accenture, in Bangalore, India. The pilot aimed to build our understanding of the potential benefits of offshoring. A team of seven accounts payable employees were retained in Australia. While it is still early days, initial benefits include: reduced error rates; increased visibility and tracking of invoices; fewer duplicate payments; and the

remaining onshore team having more time to work on value-added analysis and business engagement.

Based on the initial results, the program will be extended to include an additional 81 finance roles by April 2007. The roles involve validating and converting data into reports, data entry, and procurement administration. The plans do not involve customer-contact roles.

Selecting the right vendor was critical. We selected Accenture for the quality of its people, its recruitment processes, low staff turnover, work environment, service offering, quality standards and data security. As part of the selection, our team visited India several times to check that Accenture upheld our policies on Fair International Workplace Standards and other issues.

In addition, we have also entered into an agreement with third party supplier, Genpact to transition about 70 roles in the credit cards processing area. These roles will be performed in Jaipur, India.

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Release a new Group-wide CSR procurement policy and implement it in our regions	Policy adopted in New Zealand and Australia by 30 June 2006. Adoption to take place in the UK in October 2006, in conjunction with new outsourcing arrangements with Xchanging Procurement Services.	
Train our procurement specialists in CSR	Briefings were provided for key suppliers assisting with monitoring and managing our environmental performance in Australia and New Zealand.	
Educate our suppliers about the new policy	Done in Australia and New Zealand through the tender and supplier questionnaire processes. Our facilities managers were informed during the development process through our Environmental Management Committee. Now wider communication will occur.	
Continue our participation in the Australian Research Institute in Education for Sustainability (ARIES) project	Completed June 2006, see page 47.	
Improve our systems for monitoring CSR performance metrics for our supply chain management.	We made Group-wide improvements to reporting on supply chain metrics for our CSR Report. In Australia and New Zealand, we improved our contract management database to track CSR related clauses in supply contracts. A monthly reporting regime has also been established in the UK. Xchanging Procurement Services will assist the UK business in compilation of data for future CSR reports.	

¹⁹ Total procurement spend is defined in the UK as total procurement spend after deduction of staff expenses, intra-company and non-trade transactions. In Australia, total procurement spend includes intra-company transactions, but excludes staff expenses. Total spend is estimated from the total cost recorded for the supply of goods and services in our financial and management systems across the Group.

We are working with our suppliers to manage our direct and indirect environmental and social impacts



Bank of New Zealand works closely with its key suppliers to find ways to reduce energy usage. Ken Syme, energy management consultant from Smart Power and Elizabeth Collins, Bank of New Zealand's Manager Operations and Business Performance – Properties, discuss the audit result from a data logger installed to monitor energy usage outside office hours.



TABLE 10: SUPPLY CHAIN STATISTICS

Region	Suppliers – Total (Number estimated)	Suppliers with spend within procurement areas direct influence* – Total (Number)	Suppliers representing 80% of total spend (Number)	Top 10 suppliers – contribution to total spend (%)
Australia**	42,950	488	312	35
New Zealand	3,367	150	48	50
United Kingdom	***5,352	556	145	35

* Suppliers with spend within procurement area direct influence means suppliers managed by the procurement function. Many small suppliers have no direct oversight by our procurement functions.

** The 2006 Australian procurement figures include our technology procurement spend. This makes the data set comparable across the three key regions in which we operate.

*** In the UK, the numbers of suppliers has decreased from 8,841 in 2005 to 5,352 in 2006 as a consequence of finalisation of transitional arrangements following the sale of the Group's Irish banks to Danske Bank. A component of the reduction is also due to efforts to consolidate our supply base.

OUTSOURCING — NEW PROCUREMENT SUPPLIER IN THE UK

Outsourcing enables our businesses to focus on what they do best while leveraging the diverse and specialist skills of our external providers.

This year in the UK, we selected Xchanging Procurement Services (Xchanging) as our sourcing provider. From 1 July 2006, Xchanging will help us manage defined categories of procurement spend and the transactional procurement processing for Clydesdale and Yorkshire Banks.

Xchanging's responsibilities include procurement activities for sourcing categories including marketing, ATMs, travel, recruitment, facilities/utilities management and non-core technology. Xchanging will also manage our UK business' transactional procurement activity — for example, order raising, invoice processing, and delivering a fully managed procure-to-pay service.

SUPPLY CHAIN — FIRST ENVIRONMENTAL CONCERNS, NOW FAIR WORKPLACES

Over the past three years we have been introducing CSR considerations into our supply chain management. In 2004, we developed an environmental procurement policy, which has helped us to select suppliers who have better environmental practices, procedures and policies. This in turn has helped us to improve our environmental performance over time.

In 2005, we developed our Commitment to Fair International Workplace Practices policy (see our Group website [link](#)). Following this, in 2006, we have developed our CSR procurement policy. This introduces broader human rights and ethical considerations into our supply chain management practices (see our Group website [link](#)). Both our New Zealand and Australian businesses adopted the policy prior to 30 June 2006. Our UK business adopted the policy in October 2006. The delay in the UK was due to the need to have the policy supported by our new procurement supplier. The UK business

has now written to key suppliers to advise them of the new policy and updated their supplier selection documentation with details of the Group's Corporate Principles and CSR policies and requirements.

GOVERNANCE FOR OUR PROCUREMENT ACTIVITIES

To enable our procurement teams to play an active role in CSR, a procurement representative from each of our regional businesses (and from some key suppliers) participate in our Environmental Management Committee (EMC).

Each regional business regularly reports on supply chain performance to its senior management:

- Supply chain management is one of six CSR priorities for Bank of New Zealand. Therefore, supply chain performance and CSR are reported to Bank of New Zealand's Executive Committee, on a regular basis.
- In Australia, an Outsourcing Governance Committee oversees all outsourcing (including offshoring) projects. Senior management of the Australian business is regularly asked to endorse procurement policies and to review other supply chain matters on an as required basis at least every quarter.

➤ In the UK, a procurement and supply chain management Service Review Board has been developed and implemented as part of our arrangements with Xchanging, providing operational and executive level oversight.

During 2006, our UK Strategic Sourcing and Vendor Management team held Certification from the Chartered Institute of Purchasing and Supply (CIPS). This recognises 'Achievement of CIPS Certification Standards of Excellence in Purchasing Policies and Procedures', and is recognised as equivalent to ISO9000.

MANAGING SUPPLY CHAIN RELATIONSHIPS

Working with our suppliers to create mutual value and to meet shared performance goals is an important part of our procurement process. This starts with the selection process and is regular and ongoing. We look to do business with like-minded organisations with high ethical standards.

CSR IN THE SUPPLIER SELECTION PROCESS

NAB operates a fair and equitable procurement selection process. Our process aims to clearly inform potential suppliers of our expectations, policies and requirements,



CSR IN BANK OF NEW ZEALAND'S SUPPLY CHAIN

In 2006, Bank of New Zealand commenced a survey of its top 50 suppliers²⁰ to develop a better understanding of suppliers' CSR performance. This will be completed in 2007.

Bank of New Zealand commissioned SmartPower to help us better manage and monitor energy use. Over time, this has developed into a mutually valuable relationship. In 2006, SmartPower performed energy audits and assessments on a variety of sites throughout New Zealand. This process identified potential savings of 1,021,225 kWh of energy per year and greenhouse emission reduction of 637 tonnes CO₂-e per year.

As a result, Bank of New Zealand is developing an energy efficiency plan for its building portfolio. Options for action include: changing desktop power save features, switching off unnecessary lights and changes to the heating, ventilation and air conditioning systems — so they only operate when required.

SmartPower has been involved in Bank of New Zealand's internal CSR training sessions and together we are building each other's ability to reduce our impact on the environment.

²⁰ This is the top 50 by spend, materiality or criticality of supply to our business's operations.

which includes doing business with suppliers that have sound environmental, workplace and human rights practices. If a supply contract has been put out for tender, then supplier proposals are evaluated against a pre-determined evaluation matrix, which includes any relevant CSR criteria and commercial requirements.

Across the Group, we include environmental criteria in the tender evaluation process. In Australia and New Zealand (after last year's pilot), our tender process includes a CSR checklist asking suppliers about their workplace, human rights and environment practices. In the UK, a CSR checklist will be implemented next year as part of our new outsourced procurement arrangements.

MONITORING SUPPLIER PERFORMANCE

Monitoring our suppliers' performance is an important aspect of the ongoing relationship. Each regional business monitors supplier performance through their day-to-day relationships with suppliers. Our policy is first to ensure our suppliers are aware of important environmental, social and ethical risks and opportunities and then to work with them to address any issues. We have begun this supplier education process with key suppliers that help us to manage our environmental and social performance, or that have gone through recent tender processes.

A number of our suppliers, including our facilities managers, help us to monitor and to improve our own CSR performance. We value their assistance.

TERMS OF BUSINESS

NAB normally awards contracts using standard conditions and templates.



WORKING WITH OUR UK SUPPLIERS

In September 2005, our UK business selected Becogent Limited to provide operational management of an outsourced call centre for Clydesdale and Yorkshire Banks. Becogent took over call centre operations in March 2006. Agreed objectives for this new arrangement included working towards high customer satisfaction, low staff attrition and absenteeism, and becoming a local employer of choice. Our UK business and Becogent have worked together to monitor progress toward achieving these objectives. Actions undertaken to date include: developing an agreed recruitment approach, transfer of Clydesdale and Yorkshire Banks' training materials to Becogent, and developing an agreed development and training process for employees, with links to a local training college.

Contract terms require suppliers to meet minimum regulatory requirements and conditions relevant to the purchase. New contracts contain clauses reflecting our CSR requirements. Our current policy and practices concerning payment of suppliers is to agree to terms of payment during contract negotiation.

INFORMING OUR SUPPLIERS ABOUT CSR

There are various ways we help our suppliers understand our CSR procurement practices and requirements. For example:

- ▶ our facilities managers globally receive updates and briefings as part of our Environmental Management Committee
- ▶ our Australian facilities manager, United Group Services, has attended training with us on the new *Energy Efficiency Opportunities Act 2006* (Cth)
- ▶ Bank of New Zealand held a workshop in May 2006 to help suppliers and internal contributors understand the CSR reporting process. Approximately 10 significant supplier representatives attended the session and built shared understanding of what the Bank required in terms of monitoring and measurement of environmental impact.

MAKING CHANGE FOR SUSTAINABILITY

This year we completed an industry project with the Australian Research Institute in Education for Sustainability (ARIES) (refer to www.aries.mq.edu.au/project.htm). In the project, participants from ten major organisations, including NAB, acquired skills and tools to plan, motivate and manage organisational change towards sustainability. We focused on developing our CSR procurement policy.

MOVING FORWARD

Planned actions for 2007 include:

- ▶ improve our supply chain management systems for monitoring CSR performance metrics
- ▶ report back on offshoring undertaken from Australia
- ▶ progress implementation of the CSR procurement policy, including further engagement with suppliers
- ▶ introduce a supplier assessment checklist for tender processes in the UK covering workplace, human rights and environmental practices.

TABLE 11: IMPLEMENTATION OF CSR IN OUR PROCUREMENT PROCESS 1 JULY 2005 TO 30 JUNE 2006

	Australia	New Zealand	UK**
Number of tenders undertaken in period	63	6	5
Number of tenders requiring an environmental checklist to be completed by supplier in the reporting period	19	6	0
Number of tenders requiring a social screening checklist to be completed by supplier in the reporting period	6	6	0
Number of tenders requiring an Occupational Health and Safety checklist to be completed by supplier in the reporting period	18	6	0
Number of new supply contracts entered in the reporting period with specific clauses related to corporate social responsibility performance (social and/or environmental performance)	38	13	0
Value of contracts* containing either environmental or social reporting and performance requirements or both (\$ million)	130	112	0
Percentage of top 50 major suppliers and contractors that have undergone screening on human rights (core)	0%	16%	0%

* Value of contracts means the estimated annualised spend for contracts containing clauses with CSR requirements (environmental and/or social).

** A change freeze on certain procurement activity was agreed in February 2006 to ensure the Xchanging were able to undertake a fair due diligence process for the UK business' indirect procurement needs.

- Decreased energy consumption in Australia by 9.1%
- Purchased 100% climate change levy exempt power in the UK
- Changes made to Australian car fleet will result in reduced greenhouse emissions
- Energy assessments completed in New Zealand
- Financing of renewable energy development continues

ENVIRONMENT

Helping to protect the world we live in

WE ARE COMMITTED TO MAKING A CONTRIBUTION TO THE SUSTAINABILITY OF OUR PLANET BY REDUCING BOTH OUR DIRECT AND INDIRECT ENVIRONMENTAL IMPACTS

Climate change, water scarcity and biodiversity loss, are a few of the many environmental issues that threaten the long-term success of business and the economic and social sustainability of our communities and the planet.

Reducing the direct impact our operations have on the environment is the first step we can take towards sustainability of our planet. So we are working to use resources more efficiently and to reduce the waste and greenhouse pollution we produce. This can add value to our financial bottom line as well.

The second step is reducing our indirect environmental impact by managing our products and services (see pages 53-56) and our supply chain (see pages 44-47).

Also, we are actively involved in global finance sector and industry-led initiatives such as:

- ▶ the Carbon Disclosure Project
- ▶ the United Nations Environment Program Statement for Financial Institutions (UNEP-FI) (www.unepfi.org). Further information on our UNEP-FI activities is available on our Group website [link](#)

In this section of our Report, we outline our environmental performance for the 2006 year (1 July 2005 to 30 June 2006) and discuss how we manage our indirect impacts through our products and services. The highlight box below updates on some of the planned actions that we reported in our 2005 CSR Report. Information in this section of the Report is reported for the period corresponding to year end 30 June 2006.

ENVIRONMENTAL GOVERNANCE AND MANAGEMENT

Our Environmental Policy has six key elements to guide how we manage our direct and indirect impacts on the environment (see our Group website [link](#)).

Our policy and management system covers: compliance with legislation; reducing our environmental footprint, considering environmental risk in our products and services, building the environmental awareness of our employees and stakeholders, and measuring and reporting publicly on our performance.

Key environmental risks and issues, along with other CSR related issues, are

reported through our Group Operational Risk and Compliance Committee (refer also Figure 6, page 12).

In the last year, Bank of New Zealand's leadership team nominated a member with responsibility for environmental performance. This representative sits on the Bank's CSR Council. Bank of New Zealand also has a person with responsibility for environmental performance on its CSR Working Group. A quarterly report on environmental performance is submitted to Bank of New Zealand Executive Committee.

Group-wide environmental policy development and oversight is provided through a Group-wide Environment Management Committee (EMC) which meets bimonthly (see Figure 4, page 10). Day-to-day environmental management is carried out by relevant business units in consultation with CSR personnel. For more information, see page 50 and the supply chain section, pages 44-47.

This year our EMC included representatives from our facilities managers in the three key geographies in which we operate (see our Group website [link](#)) and has overseen:

PROGRESS ON PLANNED ACTIONS FROM 2005

Actions	Comments	Status
Further improving our ability to measure and monitor our environmental performance	We have improved and standardised our environmental reporting templates during the year. Our Australian business has worked with our facilities manager to improve the robustness of our energy and greenhouse reporting. See page 50.	
Implement initiatives to reduce energy use, paper use and waste	A number of initiatives have been implemented across the Group to reduce energy use, paper use and waste. See page 50-51 & 53.	
Investigate opportunities to increase use of green energy	Our UK business is now purchasing 100% climate change levy exempt power. Our Australian business asked energy retailers to provide information on renewable energy options. See page 50.	
Investigating the viability of extending environmental and social assessment to an increased proportion of our lending and consulting with stakeholders to develop a shared understanding of how these impacts can be better reported	We held a workshop with stakeholders to discuss the issue of indirect social and environmental impacts of lending and how they can be better reported. See page 54	



We provide access to capital to facilitate economic and infrastructure development including renewable technologies, which contribute to reduced environmental impact and greenhouse emissions



Woolnorth Bluff Point Wind Farm in North West Tasmania, project financed by nabCapital, is the first transaction of its kind in Australia where a wind farm has been funded on a project finance basis without the electricity being sold under a long-term fixed price contract. Woolnorth is one of the largest wind farms in Australia, generating 2.5% of Tasmania's electricity supply and supplying power for more than 28,000 homes.

- ▶ continued improvement in how we manage and report environmental data
- ▶ development of a CSR procurement policy (see Group website [\[link\]](#)), which replaces our environmental procurement policy and covers broader human rights and workplace considerations such as health and safety
- ▶ a review of the environmental legislation in New Zealand, Australia and the UK – including the *Energy Efficiency Opportunities Act 2006* (Cth) which came into effect on 1 July 2006. Under the Act, we must report on our Australian energy efficiency assessments and energy use.

MANAGING OUR DIRECT IMPACTS – OUR ENVIRONMENTAL FOOTPRINT

Our major direct environmental impacts arise from our building use, from equipment we use and our day-to-day activities. Our key activities that lead to direct environmental aspects and impacts include:

- ▶ selecting, fitting-out and operating buildings (including using back-up generators, heating, cooling and ventilation)
- ▶ office activities generating waste requiring disposal or recycling including paper, toner cartridges, packaging and general waste
- ▶ maintenance and cleaning
- ▶ selecting, operating and maintaining electrical equipment — in particular the data centres and computers
- ▶ travel (by land and air).

Our Environmental Management System (EMS) records these activities and our key environmental aspects and impacts (see our Group website [\[link\]](#)). Our major direct environmental impacts include generating greenhouse emissions through energy use and waste disposal to landfill.

OUR ENVIRONMENTAL PERFORMANCE IN 2006

This year we continued to improve how we monitor and manage our environmental performance. Key suppliers are working with us to provide data on our environmental performance. This will help us better monitor trends and track progress of our resource reduction and recycling.

We also progressed programs to reduce our environmental footprint. This included:

- ▶ continued assistance to our staff for travel by public transport in Australia and the UK
- ▶ options for shareholders and customers to help us reduce our environmental impact through electing to receive electronic copies of bank statements and annual reports (see information on eTree, page 52).

Table 12, page 51 summarises our environmental performance results.

Energy use and greenhouse emissions

In 2006, we improved our ability to report on energy use in Australia. Our facilities manager developed a tool to query our energy-use data and helped us to transfer to electronic billing for some of our energy use. This will improve the timeliness of our data receipt and reduce potential for errors. We also developed a plan to facilitate continuous improvement in the environmental performance of our Australian business head office.

Bank of New Zealand's energy management contractor helped us verify our energy invoices and to audit our energy use at representative sites. In the next year, we will begin phased implementation of energy efficiency initiatives throughout our building portfolio based on these audits. We have identified ways to reduce energy and greenhouse emissions by 1021 GJ and 637 tCO₂-e per year – with an average payback of one year. This will include optimising heating, ventilation and cooling (HVAC) and delamping throughout our New Zealand building portfolio. Our Australian business is planning similar audits in 2007.

Our energy use in Australia has decreased by 9.1% – primarily due to a consolidation of our property portfolio. This also contributed to a 10.5% decrease in stationary energy greenhouse emissions and an improvement in energy intensity.

In Australia this year, we began a lighting relamping program in our most energy intensive site. We expect this will save 47 kW per hour. Further opportunities to relamp other sites will be identified in 2007. During the reporting period, we asked our energy retailers to provide options for green energy purchase. These are being evaluated.

In 2006, Bank of New Zealand had a small increase in energy use due to an increase in its property portfolio. Energy efficiency initiatives have helped to minimise this increase and to improve the energy intensity per m² of property in New Zealand. The initiatives include the roll-out of a new computer desktop environment which enables employees to turn off their personal computers at night and to use the power save function.

In New Zealand, around 71% of the energy supply mix is from renewable energy sources — including hydro, wind and geothermal generation. Therefore, there is no specific 'green energy' product available for purchase. Bank of New Zealand has decreased its stationary energy-related greenhouse emissions by 10.3%. This is largely due to an increase in renewable energy in the grid-supplied energy mix.

During 2006, our UK business increased energy use by 0.82%. This remained relatively constant through continued implementation of energy efficiency initiatives including:

- ▶ installing new boilers at 14 sites – this is expected to reduce boiler gas use by 10% at these sites
- ▶ installing new air conditioning heat pumps at 20 sites – this will reduce the volume of ozone depleting substances stored in air conditioning equipment and decrease electricity use by 75% compared to the old equipment at these sites
- ▶ installing 1,735 LCD monitors to replace CRT monitors used by staff in commercial office locations – this is expected to decrease computer screen energy use by around 30%.

Our UK business renegotiated its energy supply contracts for the whole of its operations. 100% of the energy we purchase in the UK is now from Climate Change Levy exempt sources. 54.7% is from new renewable energy and 42.6% is from combined heat and power sources. This has helped reduce our greenhouse intensity (by 46%) and greenhouse emissions from stationary energy use in 2006.

Figure 22 shows the change in our purchase of renewable energy over the past three years in New Zealand and the UK. As previously mentioned, we do not currently purchase green energy in Australia.



FIGURE 22: TOTAL RENEWABLE ENERGY PURCHASED IN NEW ZEALAND AND THE UK (AS AT 30 JUNE 2006)

Transport and travel

Air and land travel is a source of our direct and indirect energy use and greenhouse emissions. Across the Group, our businesses have travel policies that require staff to consider using tele and video conferencing as a first option. This means the majority of our meetings across the Group use technology.

In Australia, during 2006, we decided to restructure our job-required car fleet so that 50% of the fleet will move from six-cylinder vehicles to four-cylinder vehicles over the next three years. This will give us environmental as well as economic returns. We expect this to reduce our job-required car fleet greenhouse emissions by at least 5% over next three years.



TABLE 12: OUR ENVIRONMENTAL PERFORMANCE SUMMARY (AS AT 30 JUNE 2006)

Environmental Aspect	Australia			New Zealand			United Kingdom		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
FTE	24,632	23,803	24,524	4,764	4,755	4,719	9,764	9,988	10,351
Property space occupied (m ²)	*714,375	*765,006	699,225	160,998	141,218	143,194	259,722	259,184	270,140
Energy									
Total stationary energy consumption (GJ)	650,088	##699,558	736,085	96,109	93,902	86,854	323,163	320,544	356,047
Stationary energy consumption GJ/m ² property occupied	0.91	0.91	1.05	0.60	0.66	0.61	1.24	1.24	1.32
Work-related transport									
No. of job-required vehicles	840	819	799	503	465	496	232	283	293
Total travel – job-required vehicles (kms)	19,570,300	20,017,650	24,231,338	12,489,824	10,986,978	10,262,151	4,480,546	5,507,369	5,700,517
Total air travel (km)	93,270,378	**76,013,904	NA	12,233,928	12,354,327	13,367,095	20,984,397	24,433,674	29,601,726
Greenhouse emissions									
Stationary energy-related greenhouse emissions (tCO ₂ -e)	214,479	239,733	242,341	4,262	4,755	3,592	8,851	16,303	24,045
Fuel-related greenhouse emissions (land travel) (tCO ₂ -e)	5,644	5,732	5,545	3,189	2,720	2,728	1,321	1,556	1,610
Greenhouse emissions due to air travel (tCO ₂ -e) – estimate***	9,500	6953	NA	1,228	NA	NA	2,789	NA	NA
Greenhouse intensity measures									
Stationary energy greenhouse emissions (tCO ₂ -e)/m ²	0.30	0.31	0.35	0.03	0.03	0.03	0.03	0.06	0.09
Greenhouse emissions per tool of trade vehicle (tCO ₂ -e)	7.28	7.00	6.94	4.01	5.85	5.50	5.69	5.50	5.49
Paper									
Total A4 copy paper purchased (tonnes)#	1,282	1,254	1,309	273	266	238	516	522	Not reported****
% A4 paper used with ECF or ETF bleached pulp fibre	100%	100%	NA	100%	100%	NA	100%	100%	NA
A4 paper use per FTE (kg/FTE)	52.0	52.7	53.4	61.9	55.9	50.4	54.6	52.3	49.0
Waste and recycling									
Paper collected and recycled (tonnes) – estimated###	5,517	5,938	1,189	1,019	1,051	1,060	1,276	1,932	2,030

* The 2005 Australian building portfolio area has been updated to allow comparison to 2006 portfolio area as we have now included area for offsite ATMs for which we pay electricity bills. This has resulted in an increase in 2005 area from 764,881m² to 765,006m². 2004 portfolio area has not been restated.

** The Australian total air travel figure for 2005 has been re-stated due to an error in data provided by a third party supplier. This has resulted in an increase in air travel from 39,205,781 kms to 76,013,904 kms.

*** The estimated greenhouse emissions due to air travel (tCO₂-e) have been calculated for this first time this year using an air miles calculator provided by the Australian Greenhouse Office. We were also able to estimate the Australian greenhouse emissions for air travel in 2005.

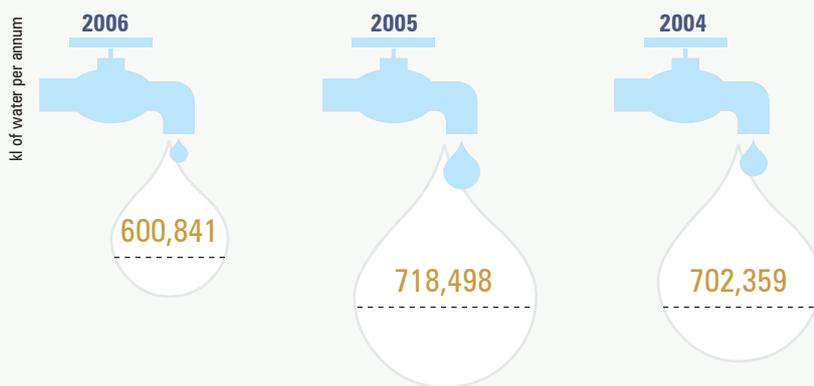
**** Not reported – data for United Kingdom has not been reported for 2004 where the figures included Irish bank data.

NA Means not available

A4 paper stock used in the UK has a minimum 20% de-inked post consumer waste content. In Australia, the A4 paper stock used from 1 July 2005 to 31 December 2005 had a 50% recycled content of which a minimum was 65% post consumer waste. From January 2006, A4 paper stock used in Australia no longer contained recycled content.

Due to improvements in data management, involving property and meter identification, we identified some double-counting in the Australian 2005 energy data. The 2005 figure has therefore been reviewed, recalculated and restated, resulting in a reduction of 736,085 GJ to 699,558 GJ.

The recycling of our office-based paper waste means this waste is diverted from landfill.



²¹ The sample used to estimate total water use in 2005 consisted of 31 properties representing 13.3% of the portfolio by area. The 2006 sample consisted of 39 properties representing over 32% of the portfolio by area. The 2006 sample is comprised of network and non-network high, medium and low-rise properties in both rural and metro areas of all States and Territories for which data is available. It is considered to be more representative of total water use than the previous sample.

FIGURE 23: TREND IN AUSTRALIAN WATER USAGE DATA 2004 TO 2006 (AS AT 30 JUNE)²¹

Bank of New Zealand's car fleet is 51%, job-required four-cylinder vehicles. This is a deliberate choice to downsize cars in the fleet and reduce costs, improve fuel efficiency and subsequently benefit from reduced greenhouse emissions. Our UK fleet is mainly four-cylinder vehicles.

In both Australia and the UK, we continue to support our employees who use public transport by offering them a no-interest loan for annual public transport tickets. This year, at June 30 2006, 1,433 employees in Australia had used this no-interest loan.

Water use

Water use continues to be the most difficult area of resource use for us to monitor and manage. Our water-usage data is largely inaccessible as it is part of generic rental outgoings in tenancy agreements.

In New Zealand, this access is also inhibited because much of New Zealand does not charge for water on a user-pays basis. This means we cannot gain access to water-use data in New Zealand, to report on it.

In Australia, we have increased our access to water-use data, and now have a representative sample of 32% of our building portfolio by floor area. Our Australian water use appears to have decreased (see Figure 23), but we believe this is largely due to the improved sample size. During the year, we implemented further water efficiency initiatives in our Docklands building. This included installing flow restrictors in all showers, hand basins and kitchen taps.

In the UK, we have been unable to report our water use this year. We have outsourced the provision of this data to a third-party supplier and have not yet been satisfied that the systems in place provide reliable reporting on this data. We are working with our supplier to remedy this situation and aim to report both 2006 and 2007 UK water-use data in our 2007 CSR Report. During the year,

infra-red taps and urinal and toilet flushing devices were installed in head office sites in Leeds and Glasgow. These initiatives are expected to reduce water use at these sites by around 10%.

Paper use

Paper continues to be the most significant single material input to our business. We use paper in the office and in the production of customer information documents. Reducing paper use and then recycling it provides both an environmental and economic benefit. It reduces energy and materials use in our supply chain and space taken up, and greenhouse emissions generated, when it is disposed of to landfill.

A4 paper use is a major component of our office-based paper use. Across the Group, we are implementing requirements for printers and photocopiers to print double-sided. A4 paper use statistics are shown in Table 12.

The paper our businesses buy contains virgin pulp produced from sustainably managed forests. In the UK, the A4 paper stock we use contains 20% de-inked post consumer waste content. Until the end of December 2005, the majority of A4 paper stock used in Australia contained 50% recycled content. However, in late 2005, our Australian business reviewed the business case for using A4 with recycled content due to significant changes in pricing of available Australian-made A4 paper stock. Following this review, the business decided to discontinue use of this product.

During 2006, we have implemented a number of initiatives to reduce paper use including introducing:

- ▶ e-invoicing for services supplied by two key Australian suppliers
- ▶ an option for Bank of New Zealand's customers to receive bank statements electronically via Internet banking in April

2006 — 20,000 customers had chosen this option at 30 June 2006

- ▶ digital archiving of Bank of New Zealand statement records in January 2006.

We continue to print our Annual Report suite on 55% recycled paper stock. At 30 June 2006, 3.13% of our shareholders²² had registered to receive their annual reports electronically. For every registration, NAB donates up to \$2 to support revegetation and reforestation projects in Australia.

A total of \$8,823 had been donated for the year ending 30 June 2006, which has paid for the planting of approximately 17,700 trees.



Waste management and recycling

In Australia this year, we moved to a consolidated waste management and reporting service model. This will allow us to better meet our environmental objectives. This process led to the appointment of two waste recycling contractors, that will commence providing our waste services by August 2006. These two contractors replaced over 30 waste contractors and will enable us to develop an improved management framework for waste management and reduction programs across our Australian building portfolio. In Australia, we currently recycle office paper including security waste paper, co-mingled recyclables and toner cartridges, corks, building construction waste and furniture that is no longer required. In 2006, our Australian business diverted 6,536 tonnes of waste from landfill to recycling, including 5,517 tonnes of office paper (see Table 12)

In the UK, we have selected a single supplier for confidential paper waste destruction and recycling. This becomes effective in November 2006. In 2006, we collected and recycled 1,276 tonnes of confidential waste paper. In 2007, we will look at opportunities to expand the services provided by our new waste contractor to cover recycling of other office waste such as general office paper, cardboard, bottles and cans.

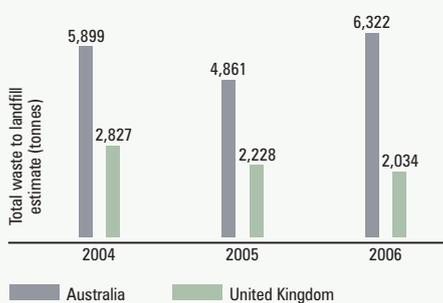
In New Zealand, we are unable to access waste data for waste sent to landfill. We are working with our facilities manager to be able to collect this information and to introduce a waste management strategy. During the year, a number of business units within Bank of New Zealand trialed recycling of co-mingled waste with a local recycling company. In 2006, Bank of New Zealand collected and recycled 1,019 tonnes of confidential waste paper.

Bank of New Zealand currently recycles its security waste paper and business

²² Shareholder registration to receive electronic copies of Annual Reports had increased to 5.01% as at 30 September 2006.

banking deposit bags. The deposit bags are converted into plastic reels and conduit. Bank of New Zealand also recycles printer toner and cartridges, some office furniture, and has a policy for disposing of technology-related equipment through a supplier that processes the equipment for resale, donation and recycling.

Figure 24 shows an estimate of the total quantity of waste sent to landfill in Australia and the UK.



* The total tonnage estimated in 2005 for Australian waste was based on waste data collected of a 13-week period at a sample of 43 sites and extrapolated to estimate waste to landfill for the whole property portfolio area. In 2006, waste data was collected for the entire year from 39 of the 43 sites and extrapolated to the entire portfolio area. These sites represent approximately 17% of the building portfolio by area.

FIGURE 24: TOTAL WASTE TO LANDFILL – ESTIMATE (TONNES)

Ozone depleting substances (ODS)

Across the Group, our facilities managers regularly maintain and service air conditioning and refrigeration systems to minimise leaks or fugitive emissions.

In Australia this year, we developed a plan to phase out refrigerants with the highest ozone depleting potential. This includes replacing or upgrading one large key air conditioning chiller unit in 2007. The upgrade of this chiller unit will significantly reduce the volume of ozone depleting substances in our Australian building portfolio. In 2006, the estimated quantity of ODS with high ozone depleting potential stored in cooling and refrigeration equipment in Australia is 4255 kg. The quantity of refrigerants with high ozone depleting potential stored in equipment is estimated to be 1,210 kg CFC 11-equivalents.

In the UK, as mentioned on page 50, new air conditioning heat pumps have been installed and will reduce the volume of ozone depleting substances stored in air conditioning equipment and thus the volume of any fugitive emissions. In 2006, the estimated quantity of ODS with high ozone depleting potential stored in UK cooling and refrigeration equipment is 1631kg.

Bank of New Zealand will consider developing a similar ODS inventory and management plan in 2007.

Fines and penalties

No environmental fines or penalties were imposed on any member of the Group in the 2006 reporting period, nor in the previous year.

Trade effluent discharge

As a consequence of operating HVAC systems and kitchens, the NAB is responsible for a small quantity of trade effluent discharged to sewer. The majority of this waste water is discharged as a result of the operation of cooling towers. In 2006, the volume of waste water discharged to sewer via consents was 363 kL in Australia.

Biodiversity

NAB contributes to preservation of biodiversity through the Save the Kiwi program in New Zealand (see page 21). In Australia, we work with Conservation Volunteers to rehabilitate Australian natural habitat through our volunteering program.

MANAGING INDIRECT ENVIRONMENTAL IMPACTS

As a financial institution, we can have indirect impacts on the environment and society through the way we manage our supply chain and the policies and processes we have in place to facilitate investment and the provision of loan financing.

This section provides information on our Socially Responsible Investment (SRI) fund offerings and it overviews how we manage environmental and social risks through our lending processes. For information on how we manage supply chain impacts, see pages 44-47.

MANAGING ENVIRONMENTAL AND SOCIAL RISK IN LENDING

Since 1992, NAB has had environmental credit risk assessment policies and processes. These help protect our investment, and are consistent with our broader CSR objectives to understand and minimise the indirect impacts potentially created by our lending activities.

Our lending and investment policies and processes reflect our corporate principles, changing regulatory requirements, our approach to risk management and our commitment to meeting international benchmarks — for example the International Finance Corporation and World Bank Safeguard policies which apply to project finance in developing countries. In 2006, we reviewed our credit risk policies.

Lending transactions across the Group are covered by our environmental credit risk policies. At the Group level, our policy provides a framework to ensure each of our businesses has policies and processes to identify, assess and manage environmental risks in dealing with customers. Among other things, these policies require that each of our businesses is able to:

- identify environmentally sensitive industries²³

IMPROVING OUR OFFICE ENVIRONMENT

In 2006, our UK business partially refurbished its Clydesdale Bank head office in Glasgow. This involved a £7 million investment in the physical and technology infrastructure of approximately 50,000 sq ft of offices that accommodate nearly 650 staff. The rest of the head office is being refurbished with another £5 million investment and is due to be completed at the end of September 2006, with 300 more staff accommodated.

As part of this investment, a number of energy efficient initiatives have been deployed including:

- replacing heating plant equipment with new boiler plant to reduce load and increase operating efficiency — this is expected to reduce gas usage by 10-15%
- upgrading main ventilation and cooling plant control systems to maximise operating efficiency — expected to reduce electricity usage by 8-10%
- all lighting in office areas controlled by passive infra-red detection
- installing Power Factor Correction on incoming supply to allow electricity to be used at a more efficient rate — expected to reduce electricity use by 10-15%
- installing infra-red sensor taps and flushing devices in toilets — this is expected to reduce water usage by 10-12%
- centralised facility points reducing the number of printer and photocopier units by 60% and so reducing electricity usage
- replacing CRT monitors with flat screen monitors, which is expected to reduce desktop heat emissions and energy use by around 30%.

Bank of New Zealand's new corporate head office in Auckland to be completed in 2009, will include environmentally sustainable design.

²³ Environmentally sensitive industries or activities are those that: (1) have capacity to contaminate land, water, air or other natural resources; (2) require a licence or permit to use natural resources, without which they cannot operate; (3) require a licence for emissions and discharges, without which they cannot operate; (4) may incur penalties for environmental reasons; (5) may need to remediate contaminated land or install equipment to treat waste.

- ▶ identify relevant environmental legislation and regulatory requirements and assess a customer's compliance with these requirements
- ▶ assess how our customers' manage environmental risks
- ▶ consider the impact of changes in legislation and regulations on a customer's business
- ▶ consider the impact of changes in societal expectations on a customer's business and reputation risk that may be associated with a customer
- ▶ assess the risk of liability for environmental issues being transferred to the Group entity.

Our businesses screen general credit applications to see if the environmental credit policies should be applied. They are applied if the lending has the potential to involve environmental risks due to:

- ▶ the nature of the industry in which the borrower is involved; or
- ▶ the location or nature of the property owned by the borrower — for example, environmentally sensitive sites; or
- ▶ an adverse comment made by a valuer in regard to an environmental risk.

Each of our businesses is also required to develop and maintain an environmental risk assessment checklist to guide our bankers through the environmental credit risk assessment process. These checklists are updated as required to reflect changing regulatory requirements and regional operating contexts.

Key elements of our environmental risk assessment include understanding the:

- ▶ customer's current operations
- ▶ historical uses of a customer's site
- ▶ customer's environmental practices, management systems and compliance records
- ▶ risk of liability transfer in regard to environmental issues
- ▶ nature of any licences, permissions or consents held by a customer
- ▶ outcomes of any previous site investigations, environmental surveys or audits
- ▶ community concerns in relation to the customer's operations.

Our assessment may also include expert third-party reports and environmental impact assessments, site visits, and including covenants in lending contracts with annual reviews.

It is our policy to encourage customers to establish good environmental management practices and to seek reliable advice on environmental matters. It is also our practice to review and re-assess the environmental risk of our lending. Environmental risks and opportunities are discussed in the normal course of customer-relationship management and may be reviewed annually. Through the use of our policies, bankers are able to better identify and manage risks specific to a particular customer.

Credit and risk managers in corporate and business banking units oversee credit quality and provide on-the-job training to bankers so that they can properly apply the environmental risk policy.

Group level policy also requires that we should avoid lending to certain industry sectors. Bankers are prohibited from approving lending for:

- ▶ the nuclear industry. In particular, the Group will not provide lending associated with nuclear weapons, nuclear fuel waste management or the transport or export of processed nuclear fuel
- ▶ industries with which our Group, for ethical reasons, does not wish to be associated. Examples include pornography, arms dealing, testing on animals and tobacco
- ▶ non-government regulated gambling.

STAKEHOLDER CONCERNS ABOUT THE INDIRECT IMPACTS OF LENDING

The indirect social and environmental impacts of lending continue to be a key area of interest for community stakeholders including social and environmental Non-government Organisations (NGOs).

During the year, we continued to have dialogue on this topic with a number of NGOs in Australia. This is helping us to better understand their concerns and the types of information that these stakeholders are looking for and why. We also sought feedback on our reporting of indirect lending to date and discussed the constraints of reporting this type of information in the public domain. From this process, we believe that NGOs are interested in:

- ▶ how we implement and report on social and environmental risk assessment and application of our lending policies
- ▶ how we respond to stakeholder concerns
- ▶ how we may be able to report at aggregated level on environmental and social impacts – for example, climate change impacts of lending policies across industry sectors

- ▶ the social and environmental impacts of large project finance deals
- ▶ quantitative disclosures of impacts, where possible
- ▶ how we improve our processes over time and facilitate improved social and environmental outcomes.

This year, we have modified our description of our environmental credit risk policies and processes in light of this feedback, to provide clearer insight into how we manage these risks both in general lending and project finance. This is an area we will continue to work on and discuss with stakeholders – our aim being to go on improving the quality and usefulness of our reporting.

BUILDING OUR UNDERSTANDING OF SOCIAL AND ENVIRONMENTAL RISKS

NAB's economists conduct research across all industry sectors in the economy and provide technical support to bankers when they are considering industry performance in regard to environmental, labour and human rights issues and sustainable development.

Carbon risk

NAB is both a signatory and respondent to the Carbon Disclosure Project. We believe that the CDP request is a valuable tool to encourage companies to build their understanding of climate change related risks and opportunities. It also provides valuable information with which to monitor companies' actions to address climate change. NAB's response to CDP4 is available on the CDP website at: www.cdproject.net/index.asp

This year our Australian Corporate Banking area, in conjunction with nabCapital, ran a project to identify indirect risks and business opportunities from the increasingly evident shift to a carbon constrained economy.

The project aims included developing a carbon risk assessment framework and identifying products and services that will help our clients transition to a carbon constrained economy.

As carbon risks and opportunities become more identifiable, bankers will need training in this area. We do not yet have a program. However, we encourage our bankers to increase their knowledge by attending conferences – for example, the Australia and New Zealand Climate and Business Conference²⁴ and information sessions provided by Environment Business

²⁴ NAB was a key sponsor of this event in February 2006. It provided an opportunity for a number of our staff and clients to hear the latest issues and debate around the issue of climate change.

Australia, CEDA, UNEP FI and the Total Environment Centre's Green Capital debates. We are a member or sponsor of these organisations.

Through our membership of the UNEP FI Australian Environmental Credit Risk Advisory Committee, we are working with UNEP FI (Geneva) to develop an e-learning course for financial institutions on climate change and carbon finance. The course will include an information tool kit and a specific e-learning course – expected to launch in 2007.

Social risks

This year we discussed with NGOs how we might better monitor and track human rights issues and improve how we consider human rights-related risks in lending applications. This discussion will continue as we raise our bankers' awareness of these issues and develop related policies or processes.

Our credit risk policies, particularly those related to project finance, cover social impacts of lending which relate to displacement of communities and changes in land use.

Project finance

nabCapital provides access to capital to facilitate economic and infrastructure development, which we believe benefits both industry and communities. However, stakeholders wish to understand how we manage the potential indirect social and environmental impacts of these projects, and are therefore encouraging greater disclosure and reporting in this area. Helpfully, a number of benchmarks and standards require greater transparency and accountability of financial institutions globally.

When we assess project finance opportunities within the Organisation for Economic Co-operation and Development (OECD), we evaluate them for compliance with the relevant domestic regulatory requirements. For projects in non-OECD countries classified by the World Bank as Middle Income–Low or Low, we apply International Finance Corporation (IFC) and World Bank safeguard policies (as a minimum). We apply these policies — regardless of the monetary value of the project — if there are concerns that environmental habitats, Indigenous peoples and community rights may be at risk. Our internal standards require an environmental impact assessment for all projects we finance— not just those classified by the IFC and World Bank as Category A projects (see glossary).

PROJECT FINANCE

BRISBANE NORTH SOUTH BY-PASS TUNNEL – RIVER CITY CONSORTIUM

NAB acted as joint arranger/underwriter for \$2 billion in debt facilities for the Brisbane North South By-pass Tunnel project. The RiverCity Motorway consortium was contracted by the Brisbane City Council to finance, design, construct and operate the tunnel.

The project will be an approximately six kilometre long toll road that includes a 4.8 kilometre two-lane twin tunnels and an electronic tolling system. It will bypass the congested Brisbane CBD and Fortitude Valley, avoid 18 sets of traffic lights and reduce travel time by 15 minutes. This will reduce congestion, lower fuel use, and reduce greenhouse emissions.



Schematic cross-section through the RiverCity Motorway tunnel that will run beneath the Brisbane River.

VIRIDIS ENERGY (NORGEN) LIMITED LANDFILL GAS POWER GENERATION

We are financing a project in the UK to collect methane from landfill and use it to produce electricity.

Without air, biodegradable waste in landfill sites decomposes and produces landfill gas – a mixture of methane, carbon dioxide and trace amounts of volatile organic gases. Approximately 50% of the gas is methane, a greenhouse gas with 21 times more climate changing potential than carbon dioxide. This gas is believed to contribute 30% of anthropogenic methane emissions in the EU.

The electricity output from the project sites is sold to the Non-Fossil Purchasing Agency or to licensed UK electricity supply companies. The 34 operational and 3 development sites will have a total portfolio peak annual capacity of 64 MW.



Gas turbine generation set located on one of the Viridis Energy landfill sites.

We apply our specialised finance environmental risk policy to all our project finance deals. The technical review of these deals is managed from Australia. Our assessment and management of risk in project financing is based on independent expert due diligence, active risk management and continual review of policy specifically applicable to project finance. We have identified a wide range of environmentally sensitive industries which require a higher level of due diligence.

Each year, we review the performance of our project finance portfolios' assets. This review may assess actual environmental performance of the financed asset against the contractually required baseline performance.

We require our project finance clients to consider environmental compliance risks and we encourage them to consider broader social and environmental risks – and to seek and follow relevant expert advice.

98.8% of our global project finance portfolio is in high-income OECD countries. In 2006, our total project finance portfolio represents less than 1% of the Group's total loans and acceptances. We continue to invest significantly in renewable energy projects. This includes investing in power generation from biomass (see project finance case study).

In 2006, we closed 13 new project finance transactions and 10 deals were removed from our loan book.

In 2006, no deals were declined on the basis of social and environmental risks or issues. Deals may be declined for any number of reasons and at any stage in negotiation or due diligence. We cannot report on our decline of any specific deals for

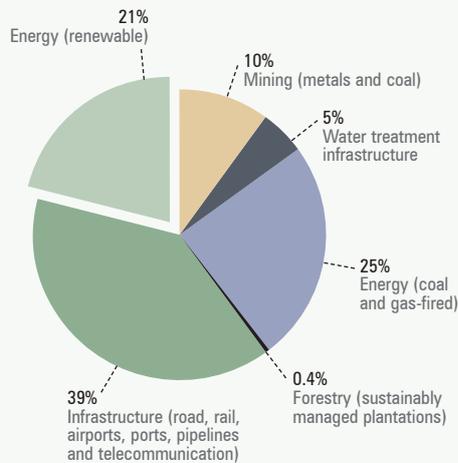


FIGURE 25: PROJECT FINANCE BY SECTOR (AS AT 30 JUNE 2006)

social or environmental performance, as this would breach customer's confidentiality.

If possible, we support customers who wish to invest in cleaner technologies, for example, wind power energy generation. We believe our approach to project finance can help improve industry's environmental and social performance.

Figures 25 and 26 provide picture of our current project finance portfolio.

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

Our environmental policy documents our commitment to providing customers with opportunities to grow their wealth through investment aligned to their personal values.

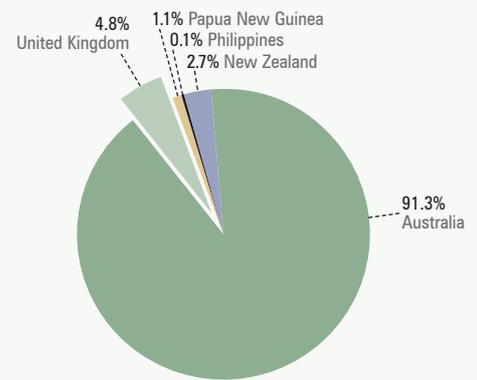


FIGURE 26: PROJECT FINANCE PORTFOLIO BY GEOGRAPHIC LOCATION (AS AT 30 JUNE 2006)

We offer a range of positively and negatively screened SRI products in Australia. These products are screened on a range of social and environmental criteria. We make these investment options available through MLC's licensees and on MLC's investment administration platforms, MasterKey and MasterKey Custom. The SRI funds we make available are shown in Table 13. Our Australian SRI fund portfolio has grown by 55.6% over the past 15 months to 30 September, 2006.

Following the sale of our New Zealand-based investment management business in January 2006, we no longer offer SRI products in New Zealand. In the UK, we offer one SRI fund. This is listed in Table 13.

MOVING FORWARD

Planned actions for 2007 include:

- ▶ Review and update our Group-wide Environmental Policy
- ▶ Complete a review of the revised Equator Principles
- ▶ Educate UK employees on how to reduce energy use and carbon emissions
- ▶ Decrease energy use by 5% in the UK by September 2007
- ▶ Commence a zero-waste trial at five office sites in Australia
- ▶ Improve quality of data for reporting on general waste and recycling in Australia
- ▶ Reduce Australian energy use per m² of property occupied by 5% by September 2007
- ▶ Identify and implement further customer communication initiatives to reduce paper use in New Zealand
- ▶ Establish an energy league table so Bank of New Zealand staff can review their site's energy consumption on a regular basis.

TABLE 13: NAB'S SRI OFFERING (AS AT 30 SEPTEMBER 2006)

SRI funds – Australia	\$m
AMP Capital Investors Sustainable Future Australian Share Fund – Class A	1.45
AMP Capital Investors Responsible Investment Leaders International Share Fund – Class A	0.77
Australian Ethical Large Companies Share Trust (Retail)	1.18
Hunter Hall Australian Value Trust – Class B Units	6.34
Hunter Hall Global Ethical Trust – Class B Units	11.62
Hunter Hall Value Growth Trust	44.89
Perpetual's Wholesale Ethical SRI Fund	26.13
SRI funds – UK	
Standard Life Ethical Fund	0.20
Total SRI Funds	92.57
Superannuation funds (UK and Australia)	49,079
Funds under administration (including funds under management) (UK and Australia)	92,984

Prudent rebuilding of our businesses

Disciplined management approach drives profitability

Business lending portfolio quality remains strong

Sharper focus on active capital management as a driver of business performance

Economic performance summary

THE 2006 RESULTS REFLECT OUR DETAILED PLANNING, HARD WORK AND CAREFUL IMPLEMENTATION OVER THE LAST TWO AND A HALF YEARS. THROUGH PRUDENT MANAGEMENT, WE HAVE BEEN REBUILDING OUR BUSINESSES TO SET THE GROUP UP FOR CONSISTENT GROWTH, ENABLING US TO DELIVER ON OUR PURPOSE OF SUSTAINABLE, SATISFACTORY SHAREHOLDER RETURNS

The Group is a major provider of financial services across Australia, New Zealand, the United Kingdom and in global markets. As such, we play a significant role in the management of economic, social and environmental wealth that underlies the welfare of the community and its wide range of stakeholders. This includes:

- ▶ clearing and settling of payments in order to facilitate the exchange of goods and services
- ▶ managing the savings of households and businesses
- ▶ providing credit to assist the transfer of resources through time across regions, industries, governments, businesses and households
- ▶ managing uncertainty and risk to help maintain confidence in the financial system and the community.

2006 FINANCIAL PERFORMANCE SUMMARY

Our operating results were strong as a result of disciplined management of the balance between margins, revenue growth and cost control. Our asset quality remains sound.

The Group continues to evaluate its business portfolio to ensure alignment with our purpose. As a result, we divested our Custom Fleet business and our life insurance and wealth management companies in Asia during the year.

The Group prepared its first annual financial report in accordance with Australian Equivalents to International Reporting Standards (AIFRS) in 2006. This has not affected the underlying economics of the Group. However, some transactions are now reported differently. Comparative amounts have been reclassified to accord with changes in presentation made in 2006, except where otherwise stated.

For the 12 months to 30 September 2006, net profit²⁵ increased 10.0% from

the prior year to \$4,392 million. Net profit²⁵ before significant items increased 25.3% to \$4,154 million. Refer to Figure 27.

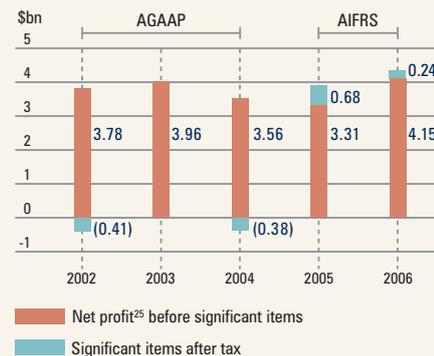


FIGURE 27: NET PROFIT²⁵ & SIGNIFICANT ITEMS

²⁵ Attributable to members of the company

The final dividend declared for the 2006 year was 84 cents, an increase of 1 cent on the previous final dividend. The final dividend is franked to 90%. This brings the total of dividends declared in the year to 167 cents per share. Diluted earnings per share (after significant items) increased 8.3% from 242 cents to 262 cents. Refer to Figure 28.

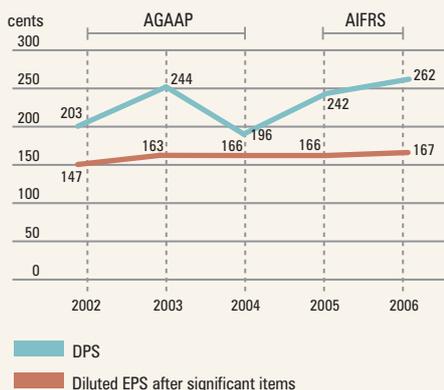


FIGURE 28: DILUTED EARNINGS PER SHARE & DIVIDENDS PER SHARE

Income

Net interest income of \$8,686 million in 2006, was \$1,742 million or 25.1% higher than 2005. After adjusting for AIFRS reclassifications in 2006, net interest income increased by 8.9%. This result reflects continued solid growth in housing lending and improved business lending, as well as an increase in the net interest margin from 2.13% to 2.31%.

Excluding AIFRS impacts, net interest margin has increased 11 basis points, primarily due to the reduction in low yielding assets in the Group's nabCapital business. This was partly offset by continued growth in lower margin mortgages and fixed rate lending within the retail banking businesses, as well as competitive pressures in all regions.

Net life insurance income decreased \$88 million, or 5.8%, from \$1,505 million in 2005 to \$1,417 million in 2006. This was driven by a decrease in investment earnings due to lower global equity markets returns, partly offset by an increase in policy liabilities and favourable claims experience.

Other operating income of \$5,420 million in 2006, was \$1,824 million or 25.2% lower than 2005, largely driven by a number of one-off items and AIFRS related adjustments as set out below. Excluding these adjustments, other operating income increased slightly primarily due to growth in lending fees.

Drivers of the overall outcome were:

- ▶ growth in underlying lending related fees of \$136 million
- ▶ gains on sale of businesses in 2006 (Custom Fleet) and 2005 (Irish Banks) resulting in a net year on year reduction of \$1,158 million
- ▶ changes in accounting for lending fees under AIFRS resulting in a reclassification to net interest income in 2006 of \$856 million

- ▶ reduction in gains less losses on financial instruments at fair value of \$168 million (largely AIFRS driven)
- ▶ revaluation losses on exchangeable capital units of \$122 million
- ▶ significant revenue of \$319 million due to reforms made to the United Kingdom defined benefit pension funds.

Expenses

Operating expenses of \$7,642 million in 2006 were \$1,101 million or 12.6% lower than 2005. This outcome reflects:

- ▶ the sale by the Group during 2006 of its life insurance and related wealth management companies in Asia; and
- ▶ significant restructuring expenses of \$793 million in 2005.

Excluding the expenses of disposed operations and significant restructuring expenses, operating expenses increased \$104 million or 1.4%, reflecting increased personnel expenses of \$229 million as a result of our increased focus on performance-based remuneration and enterprise bargaining agreement related increases. This was partially offset by a decrease in other operating expenses of \$123 million, including a decrease in operational risk losses of \$69 million and a decrease in superannuation charge of \$50 million primarily due to reforms made to the UK pension schemes.

Charge to provide for doubtful debts

The charge to provide for doubtful debts of \$606 million in 2006 was \$72 million or 13.5% higher than 2005. The increase was primarily due to weaker industry-wide patterns in UK consumer lending and emerging signs of softness in unsecured consumer lending in Australia (particularly New South Wales) in the second half of the year. This was partially offset by reduced loan loss charges in nabCapital.

Balance sheet

Total assets at 30 September 2006 increased by 14.7% to \$484,785 million from \$422,598 million at 30 September 2005.

Net loans and advances increased \$19,103 million or 7.2% to \$283,777 million, reflecting strong growth in business and housing lending across all regions accompanied by sound economic conditions. Refer to Figure 29.

Total liabilities at 30 September 2006 increased by 16.8% to \$456,813 million from \$391,051 million at 30 September 2005.

With strong growth in on-demand and savings deposits, particularly in Australia and the UK, total deposits and other borrowings increased by \$9,720 million or 4.6% during the year to \$222,277 million. In Australia, growth resulted from the success of several internet-based and transaction products launched late in the 2005 year. Refer to Figure 29.

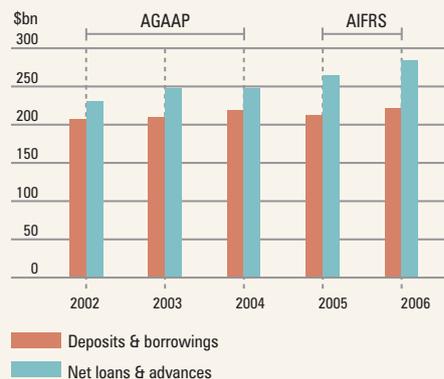


FIGURE 29: LOANS & ADVANCES AND DEPOSITS & BORROWINGS

Asset quality

Asset quality levels remain sound with gross impaired assets to total lending reducing from 0.35% to 0.30%. Consistent with industry experience, signs are emerging of softer trends in consumer lending following a period of relative stability. In recognition of emerging signs that the credit cycle is turning, we heightened our focus on asset quality and improved our arrears management. The quality of the Group's business lending portfolio remains strong.

Management of capital

We have sharpened our focus on the active management of capital as a driver of business performance.

Total regulatory capital represents 10.8% of risk-weighted assets. Tier 1 capital represents 7.3%. Refer to Figure 30.

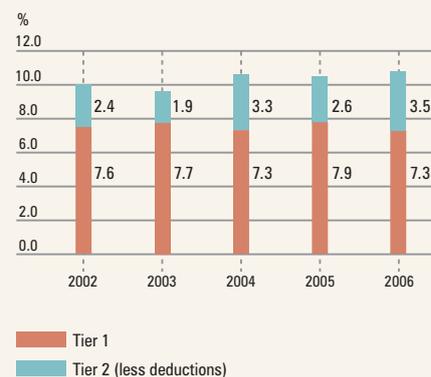


FIGURE 30: TOTAL CAPITAL RATIO

During the year, the Group's Tier 1 capital decreased. However, the target capital ranges were also reduced and the level of capital held at year end is above the top end of the Group's revised target ranges. The reduction primarily reflects the adoption of AIFRS, offset by the capital benefit from the sales of the Custom Fleet and MLC Asia businesses along with the issue of National Capital Instruments and the conversion of exchangeable capital units into ordinary shares. The Group successfully absorbed the impacts of the adoption of AIFRS and did not require APRA transitional relief beyond 30 September 2006.

The adjusted common equity ratio reduced to 5.35% compared with 5.49% in 2005, reflecting the capital available to support the banking operations.

In line with our commitment to active capital management, the Group will commence an on-market share buy back of \$500 million in the first half of 2007.

Return on equity

Return on average ordinary shareholder funds increased from 18.0% for the September 2005 year to 18.8% for the September 2006 year. Total shareholder return (3-year) cannot be calculated for 2006 as a result of only one comparative period being restated after our transition to AIFRS. Refer to Figure 31.

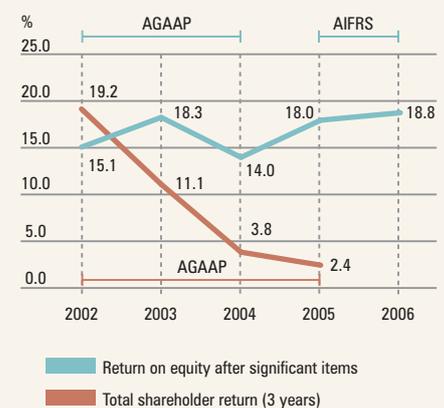


FIGURE 31: RETURN ON EQUITY & TOTAL SHAREHOLDER RETURN

2006 VALUE GENERATED IN THE COMMUNITY

Through our business activities we generate gross value add in the community by earning income through the provision of a comprehensive and integrated range of financial products and services. Refer to Table 14.

TABLE 14: GROSS VALUE ADD IN THE COMMUNITY²⁶

Year to 30 September	2006 \$m	2005 \$m
Net interest income	8,686	6,944
Fee income	3,475	4,176
Gains less losses on financial instruments at fair value	471	639
Net life insurance income	1,417	1,505
Other income	1,140	1,075
Net operating income	15,189	14,339
Significant revenue*	15	1,064
Total net income	15,204	15,403
Other costs**	(4,285)	(4,369)
Significant expenses*	-	(314)
Gross value add in the community	10,919	10,720

²⁶ Gross value add in the community for the Group includes Australia, Europe, New Zealand, the United States and Asia.

* Excludes salary related items.

** Excludes salary related costs, income tax relating to ordinary activities, depreciation and amortisation and includes outside equity interests.

The value we generate is distributed to the local communities in which we operate to our shareholders, governments and our employees. Refer to Table 15.

TABLE 15: DISTRIBUTION OF COMMUNITY VALUE²⁷

	Australia \$m	Europe \$m	New Zealand \$m
Year to 30 September 2006			
Shareholder*	2,649	1,062	485
Government**	1,503	407	215
Employees***	2,599	564	320
Depreciation & goodwill	531	232	77
Year to 30 September 2005			
Shareholder*	1,652	1,847	441
Government**	1,498	202	124
Employees	2,587	923	345
Depreciation & goodwill	555	265	139

²⁷ Distribution of community value in the primary regions in which the Group operates.

* Net profit attributable to ordinary shareholders.

** Includes income tax relating to ordinary activities. Excludes net GST and VAT payments, payroll tax and fringe benefits tax.

*** Europe includes the impact of reforms to the UK defined benefit pension fund.

We source funds used for revenue generating activities through the issue of both debt and equity. Debt is primarily deposit accounts, certificates of deposit, money market accounts, and other types of deposits made by individuals, businesses and other financial institutions and wholesale funding. In return for the use of these funds we pay interest to the depositor. Equity is primarily through the issue of shares and other capital instruments. We pay dividends to shareholders and distributions on our other capital instruments.

Interest expense increased \$2,708 million or 19.1% from September 2005. We paid \$2,499 million in dividends to holders of our ordinary shares and \$254 million distributions to holders of our other capital instruments during the year.

DEFINED BENEFIT PENSION PLANS

The Group maintains several defined benefit superannuation plan and pension scheme arrangements worldwide. Some sponsored plans are in actuarial surplus, others are in a position of actuarial deficiency. Surpluses and deficiencies depend on many factors and can vary significantly over time.

In 2006 we contributed to six material superannuation plans, all of which had a defined benefit section. The defined benefit section provides lump sum benefits based on years of service and final average or career average salary. All defined benefit pension plans have been closed to new members.

The accumulation section of any plan receives contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The amounts recognised in our balance sheet in respect of the defined benefit sections are shown in Table 16.

TABLE 16: NET DEFINED BENEFIT ASSET AND LIABILITY

As at 30 September	2006 \$m	2005 \$m
Fair value of plan assets	2,929	2,466
Present value of funded obligations	(2,705)	(2,367)
Net asset before adjustment for contribution tax	224	99
Adjustment for contribution tax	34	12
Net asset in the balance sheet*	258	111
Fair value of plan assets	4,627	3,686
Present value of partly funded obligations	(4,940)	(4,671)
Net liability in the balance sheet*	(313)	(985)

* The Group has no obligation to make payments in respect of the plans' deficits over and above its annual contributions, nor does it have a right to benefit from any surplus in the plans.

The investment policy and strategy for defined benefit plan assets is the responsibility of the respective Trustees of the various plans, and are typically based on an expectation that equity securities will out perform debt securities over the long term. By managing the composition of plan assets the objective is to minimise investment risk. The Group plans to continue to make contributions in accordance with actuarial recommendations to reduce plan deficits over time. The expected rate of return on defined benefit plan assets is determined by the plan assets' historical long-term investment performance, the current asset allocation, and estimates of future long-term returns by asset class.

The assets of all the funded plans are held independently of the Group's assets in separate administered funds. Defined benefit schemes are valued by independent actuaries for accounting purposes using the projected unit credit method every year.

Table 17 shows the current contribution rate per year for each defined benefit fund.

TABLE 17: CURRENT CONTRIBUTION RATE PER YEAR

	2006 %	2005 %
National Australia Bank Group Superannuation Fund A (Fund A)	9.7	9.7
Clydesdale Bank Pension Scheme (UK)	29.9	29.6
National Australia Bank UK Retirement Benefits Plan (UK)	24.7	22.3
Yorkshire Bank Pension Fund (UK)	20.6	20.6
Bank of New Zealand Officers' Provident Association	-	-
National Wealth Management Superannuation Plan (Australia) (MLC)	17.2	15.1



**FIND OUT
MORE**

Our 2006 Annual Financial Report is available on our Group website at: www.nabgroup.com

Benchmarking and monitoring our performance

BENCHMARKING AND MONITORING OUR PERFORMANCE AGAINST EXTERNAL STANDARDS AND OTHER COMPANIES PROVIDES US WITH INDEPENDENT INFORMATION TO HELP US ASSESS OUR PERFORMANCE

By benchmarking and monitoring our performance against external standards and the wider business community we gain independent information to help assess our performance, and to let us know where we have better practice and where we need to improve.

We benchmark and measure our CSR performance at three levels:

- ▶ globally – the Dow Jones Sustainability Index and FTSE4Good
- ▶ regionally – Reputex in New Zealand and Australia and Business in the Community in the UK
- ▶ locally with stakeholders – the Relationship Index Survey (see page 17)

Our benchmarking activities are conducted both internally across our businesses and externally against other companies in our sector and more broadly. It lets us know where we have better practice and where we need to improve.

Our participation in CSR performance ratings, provides information that is useful for analysts and fund managers who assess us for investment purposes.

Our 2006 performance against key benchmarks is set out in this section. We also list relevant external awards — they are also a valuable, independent indicator of how we are performing.

DOW JONES SUSTAINABILITY INDEX (www.sustainability-indexes.com)



This year, we continued to

improve our global performance across economic, environmental and social criteria. The DJSI results showed that we improved in our performance in a number of areas such as risk and crisis management and stakeholder engagement. It also showed we have room to further improve in areas such as environmental performance and standards for suppliers.

REPUTEX (www.reputex.com.au)



NAB maintained its Reputex social responsibility rating of AA. During 2006, we improved our category scores for corporate governance and social impact. Our performance in workplace practices and environmental impact was steady.

FTSE4GOOD (www.ftse.com)



NAB continues to be included in the FTSE4Good Index. The Index includes only companies that meet criteria on working

towards environmental sustainability, developing positive relationships with stakeholders and supporting human rights.

BUSINESS IN THE COMMUNITY (BITC) – CORPORATE RESPONSIBILITY INDEX (CRI) 2005 (www.bitc.org.uk)



In November 2005, our UK business participated in the full CRI for the first time. The results provided us with a benchmark against which we can measure changes in our performance next year. They indicated that we should improve disclosure on our CSR performance and activities in the UK and that we have room to improve aspects of our environmental and social performance.

CORPORATE AND INSTITUTIONAL RELATIONSHIP BANKING SURVEY

nabCapital benchmarks and monitors the quality of its performance through a regular industry survey of corporate and institutional banking clients. In 2006, the Large Corporate and Institutional Relationship Banking Report produced by Peter Lee Associates showed that nabCapital has improved its status as a trusted adviser to clients and the extent to which they value its industry knowledge and expertise.

EXTERNAL RECOGNITION

In 2006, NAB received a number of awards.

Our Australian business won:

- ▶ *Money Magazine's* 2006 Bank of the Year
- ▶ *CFO Magazine's* 2006 Business Bank of the Year
- ▶ The Prime Minister's Community Business Partnership State award for large businesses in Victoria — for our work with Good Shepherd Youth and Family Services on financial inclusion
- ▶ The South Australian Premier's Business award for volunteering, 2006 — this recognised our South Australian employees' community volunteering efforts in the past 18 months
- ▶ Direct Marketing Association Financial

Services Council – company of the Year award.

Bank of New Zealand won:

- ▶ Best Customer Service Award at Contact Centre World's Asia Pacific regional finals in Singapore.

Our MLC Insurance team won:

- ▶ Insurance Company of the Year 2006 at the Australia and New Zealand Insurance Industry Awards — the second time in three years MLC has won
- ▶ Australian Banking and Finance Magazine: Best Life Insurance Company 2006 and Best New Life Insurance Product (MLC EasyCover) 2006.

In the UK:

- ▶ we were awarded the Best Contact Centre of the Year award for Europe, Middle East and Africa (for contact centres with >250 employees) at the Contact Centre World's awards
- ▶ Clydesdale Bank's sponsorship of the Scottish Commonwealth Games team was awarded 'Most effective sponsorship campaign' at the 2006 UK Financial Services Forum awards for Marketing Effectiveness. This follows winning two Financial Services Forum Awards for audio-enabled ATMs installed by Clydesdale and Yorkshire banks in 2005
- ▶ Clydesdale Bank won an Arts & Business and Diversity award for innovative work with 'Artlink Central Ltd' on their Bank Notes project. This program is designed to help adults with learning disabilities understand day-to-day financial issues
- ▶ our People & Culture Learning Services Team won the Customer Service Training Team of the Year Award at the National Customer Services Awards (www.customerserviceawards.com).

nabCapital won a number of awards including:

- ▶ Vanilla bond house of the year, IFR Asia December 2005
- ▶ Best domestic debt house, Asiamoney June 2006

nabCapital also ranked as number one mandated lead arranger for the nine months to September 30 2006, Dealogic, October 2006.

For more detail on our awards, see websites for each of our businesses listed on the inside back cover.

Assurance – providing transparency and building trust

Assurance is an essential element of transparency and disclosure in our public reporting process. We are committed to providing high quality, relevant and credible information about our performance that can be trusted. This means providing coverage of issues of importance and responding to the views of our stakeholders. In preparing our 2006 CSR Report, we have used the principles of the AA1000 Assurance Standard – materiality, completeness and responsiveness – as one of the tools to determine its content. Further information about this standard can be found at:

www.accountability.org.uk

The audit process itself provides a valuable opportunity for us to identify ways

to improve our processes for data collection and management. This is the third Report we have produced and the third time we have undertaken the external audit process. Our external audit process has covered the full range of our performance included within the scope of this Report.

Our external auditors, URS Corporation, were requested to provide assurance and verification across the non-financial content and indicators in this Report. Specifically, they have been asked to provide an independent audit of NAB's 2006 CSR Report, including a review of processes for stakeholder consultation and feedback.

Ernst & Young were requested to audit the financial information used to represent

key aspects of our financial performance in the Economic performance section of this Report on pages 57-59. We have drawn the financial information from the 2006 Annual Financial and Concise Annual Reports, which have been audited by Ernst & Young. Therefore, we requested that Ernst & Young undertake an audit and form an opinion as to whether, in all material respects, the amounts used to calculate the financial information disclosed for the year ended 30 September 2006 in the Economic performance section have been properly extracted from the financial statements and financial records of the Group.

Assurance statement

URS

Corporate Sustainable Solutions

URS Australia Pty Ltd (URS) was commissioned by the National Australia Bank Limited (NAB) to provide an independent audit of its 2006 Corporate Social Responsibility Report (Report). The Report covers the operations of NAB and its controlled entities (Group) in Australia, New Zealand and the United Kingdom. The Report relates to the 12 months to 30 June 2006, unless stated otherwise in the text.

Objectives

The objectives of this independent audit were to provide an opinion on:

- data accuracy, capture processes and controls
- corporate processes and mechanisms in place for the preparation and delivery of the Report
- corporate social responsibility (CSR) policies and strategies, via a high level review
- stakeholder engagement processes employed, via a review of output documentation and interviews with senior executives
- adequacy and relevance of information contained in the Report.

Scope of work

The URS audit of the Report was addressed through interviews with a large number of personnel from the Group and relevant contractor organisations, covering the three main regions in which the Group operates. The following elements were audited:

- ▶ data collation, transcription and reporting processes in Melbourne, Australia; Auckland, New Zealand; and Glasgow, Leeds and London, United Kingdom
- ▶ key statements made throughout the Report, including cross-checking of reported data
- ▶ processes and mechanisms in place for the preparation and delivery of the Report
- ▶ case study material contained in the Report
- ▶ data trails from regional retrieval to final Report for selected material parameters
- ▶ report drafts and the final Report for significant anomalies.

The three principles of the Assurance Standard, AA1000, namely completeness, materiality and responsiveness, were used as a basis, as were the URS Assurance Principles. The Global Reporting Initiative (GRI) Content Index was also reviewed with respect to the new Application Levels in the



G3 Guidelines and the Financial Services Sector Supplements on Social Performance (November 2002) and Environmental Performance (Pilot Version 1.0 March 2005). The audit was designed to provide a representative sample of datasets contained in the Report, as well as checking all key statements and discussion. The scope specifically excluded the verification of data and statements relating to regional and Group-wide financial information (which is covered by an opinion from NAB's external auditor, Ernst & Young, see page 63 of the Report).

URS independence and impartiality

The data and information in the Report audited by URS do not include any work with which URS has had substantial involvement. URS has not been involved in the design or compilation of the Report or discussions regarding its content (except by way of this audit).

URS, its parent companies and related companies have previously been engaged by NAB. The average annual value of work carried out by URS Corporation globally on behalf of NAB over the three year period to the date of this Statement was less than AUD \$200,000 per year. This represents less than 0.004% of annual URS Corporation gross revenue based on our 2005 reporting year.

Findings

On the basis of its audit, URS is of the opinion that the Report truthfully and fairly presents the performance of the Group with respect to CSR for the 12-month period to 30 June 2006, or where noted in the text, for the 12-month period to 30 September 2006. URS is of the opinion that the Report has been prepared to Application Level A+, as

defined in the G3 Guidelines. In conjunction with this Statement, URS will provide a management report to NAB.

Some inconsistencies were noted in the data audited, primarily due to issues relating to data collection and collation systems. These inconsistencies were conveyed to, and corrected as far as possible by the Group and regional CSR teams. They were not considered to have a material, or potentially material, impact on data and statements included in the Report.

In relation to the AA1000 Principle of Completeness, the NAB has developed templates for qualitative and quantitative data collation for the Report. These templates are a good start, with further systems improvements needed. For example, where data already reported internally for operational purposes is robust, it could be used more effectively, rather than relying on one-off data provision for the Report.

The capture and processing of environmental performance data for the Report have improved in Australia. More effective spreadsheets, electronic data invoicing (EDI), an energy use query tool and more rigorous internal data verification checks have resulted in a more robust system for electricity use data collation. The water use data sample has also been extended. However, further improvements are needed, in particular for waste generated and gas use data. Responsibility for environmental data collation in the UK has been outsourced to a third party, the controls for which need improvement. Non-verifiable data relating to water use has been excluded from the Report.

In reviewing the AA1000 Principle of Materiality, this year's Report includes more balanced coverage across the regions.

However, the capture of material CSR issues and initiatives for the Report could be improved. For example, coverage in the Report of the Bank of New Zealand's responsible lending programs and credit card schemes could have been more extensive. Internal CSR performance reporting and logging of CSR issues is not undertaken on a regular basis in New Zealand. More frequent internal CSR reporting could assist the Report development process across the Group.

Finally, with respect to the AA1000 Principle of Responsiveness, stakeholder surveys demonstrate improved ratings in many areas, as detailed in the Report. In the UK, the sensitive management of branch closure has been a priority and features in the Report. Reporting on the NAB's social responsibility to ensure ongoing banking provision where it has closed branches in the UK will continue to be important. As highlighted in the Report, a community forum to improve access to banking services was established in New Zealand in 2006. Through interviews with senior executives and review of stakeholder survey results, a greater level of understanding and commitment to CSR was noted in all regions.



Jo Cain
Senior Principal
Sustainability Strategy
URS Australia Pty Ltd

4 December 2006
Melbourne, Australia

DISCLAIMER: It should be noted that the veracity of the information summarised in the Report is dependent upon the uniformity, consistency and thoroughness of staff reporting all relevant matters. Whilst URS identified a good appreciation of the NAB's corporate social responsibility initiatives at a corporate and Group level, URS did not and can not determine precisely the uniformity, consistency and thoroughness of reporting. URS has prepared this Statement for the use of the NAB in accordance with the usual care and thoroughness of the consulting profession. The opinions provided are based on generally accepted practices and standards at the time they were prepared. No other warranty, expressed or implied, is made as to the professional advice included in this Statement. To the extent permitted by law, URS excludes all liability that may arise from the professional advice contained in this Statement. This statement is based on the scope detailed in the assurance statement. No responsibility is accepted for use of any part or all of this Statement in any other context or for any other purpose or by third parties. No third party is entitled to rely on any matter contained in this Statement without URS's prior consent in writing. Neither URS's name nor the material submitted in this Statement may be included in any prospectus or offering circular without URS's prior consent in writing. URS owes no duty of performance to any party other than our contracted client.

Independent Audit Report to the Members of the National Australia Bank Limited

SCOPE

We have audited the extraction of amounts used in calculating the numeric data and graphs for the year ended 30 September 2006 (the "Financial Information") disclosed in the Economic performance summary on pages 57 to 59 of the Corporate Social Responsibility Report 2006 (the "Report") of National Australia Bank Limited (the "Company") in order to express an opinion on the extraction of the amounts to the members of the Company.

We have also performed an independent audit of the Financial Report of the Company and the Group for the year ended 30 September 2006 (the "Financial Report"). The Group comprises both the Company and its controlled entities. Our audit report on the Financial Report was signed on 30 November 2006, and was not subject to any qualification.

The Financial Information has been prepared based on information extracted

from the Financial Report of the Group and the financial records of the Group. We disclaim any assumption of responsibility for any reliance on this Audit Report or on the Financial Information to any person other than the Company and the members of the Company or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included agreement, on a test basis, of the amounts used to calculate the Financial Information of the Financial Report of the Group and the financial records of the Group. These procedures have been undertaken to form an opinion whether, in all material respects, the amounts used to calculate the Financial Information have been properly extracted from the Financial Report of the Group and the financial records of the Group.

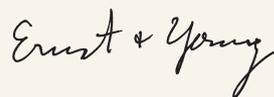
The audit opinion expressed in this report has been formed on the above basis.

INDEPENDENCE

We are independent of the Company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the amounts used in calculating the Financial Information for the year ended 30 September 2006 are properly extracted from the Group's Financial Report and the financial records of the Group that year.



Ernst & Young
4 December 2006
Melbourne, Australia

GRI and subject index

This Index provides a map to subjects and data provided throughout the Report, as well as to the Global Reporting Initiative (GRI) indicators on which we have reported. The listing of GRI indicators is part of the requirements we must meet to produce a GRI-based report. For our 2006 CSR Report we have used Version 3.0 of the GRI's Sustainability Reporting Guidelines (G3). A full description of these requirements is available at: www.globalreporting.org. To achieve a reporting application level of A+ we are required to report on all core G3 performance indicators and the relevant sector supplement indicators and provide an "if not, why not" response to any core indicator on which we have not reported. Immediately following the Index we have included an explanation of the reasons we have not reported on omitted indicators. All core indicators are identified with a "C" in the GRI indicator status column in the Index. We have also taken this approach to our use of the finance sector social and environmental supplements. Finance sector supplement indicators are indicated with an "SS" for social indicators and "SE" for environmental indicators. Included within this Index are additional subject headings and indicators of interest and relevance to assist our report readers.

Key to GRI Indicator status	
GRI requirement fully complied with	●
GRI partly complied with	◐
GRI indicator not included (see explanation of omissions page 67)	■
Non-GRI indicator	▲
GRI Core indicator	C
GRI Additional indicator	A
Financial Services Social Sector Supplement	SS
Financial Services Environmental Sector Supplement	SE
2006 Annual Financial Report	AFR
www.nabgroup.com	📄

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Key impacts	1.2	●	6, 7
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Countries of operation	2.5	●	5
Location of HQ	2.4	●	5
Markets served	2.7	●	5
Name of the organisation	2.1	●	5
Nature of ownership and legal form	2.6	●	5
Operational structure	2.3	●	5
Primary brands, products, and/or services	2.2	●	5
Scale of the organisation	2.8	●	5
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Reporting period	3.1	●	4
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Board: evaluating performance	4.10	●	AFR – 59
Board: mechanisms for feedback	4.4	●	17, AFR – 64-65
Board: non-executive directors	4.3	●	9 📄
Board: oversight of performance	4.9	●	8-10
Board: qualifications and expertise	4.7	●	AFR – 67-70
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Stakeholders: list	4.14	●	16

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Economic profile	EC1	● C	57-59
Financial assistance (tax reliefs/grants)	EC4	■ C	67
Hiring policy	EC7	■ C	67
Indirect economic impacts	EC9	● A	57
Infrastructure developments	EC8	■ C	67
Suppliers: policy & practices	EC6	▶ C	44-47
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Biodiversity: habitats protected or restored	EN13	● A	21
Biodiversity: land usage	EN11	■ C	67
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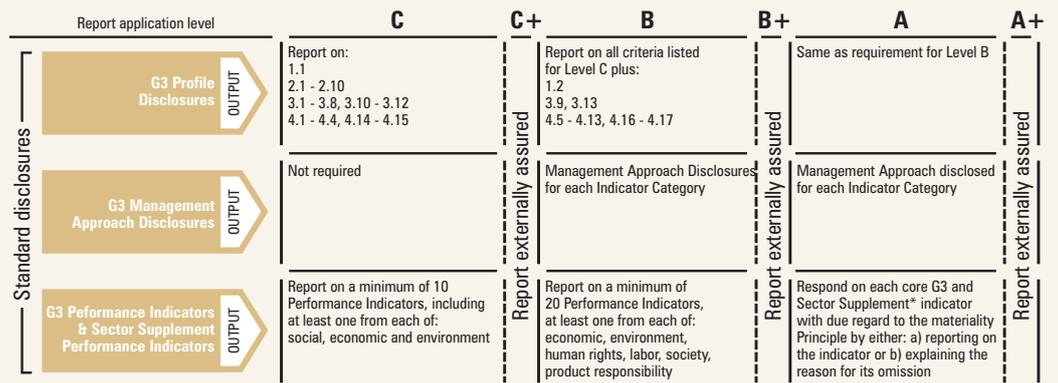


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Political contributions: total value	SO6	● A	11
Procurement policies		▲	44-47
Product responsibility: management approach	DMA	▶	34-43
Product/service: information and labelling	PR3	■ C	67
Products and services		▲	Various
Public policy development	SO5	● C	16-17
Regional & rural services		▲	41
Remuneration: ratio of basic salary of men to women by employee category	LA14	● C	28-29
Retail banking policy (socially relevant elements)	RB1	● SS	40-43
Senior management remuneration	INT4	● SS	29
Society: management approach	DMA	●	16-23, 43, various
SRI oriented shareholder activity	AM3	■ SS	67
Stakeholder dialogue	CSR6	● SS	14-17
Supplier satisfaction	SUP2	■ SS	67
Suppliers – screening of major	SUP1	● SS	46-47
Training & development: performance and career development reviews	LA12	● A	28-29
Training & development: spend	LA10	● C	29
Transactions with high social benefit	IB3	▶ SS	55-56
Underwriting policy (socially relevant elements)	INS1	■ SS	67
Volunteering		▲	22
Workforce: breakdown by employment type, contract, and region	LA1 + LA2	● C	24
Worklife balance		▲	32

GRI APPLICATION LEVEL

Reports intended to qualify for level C, C+, B, B+, A or A+ must contain each of the criteria that are presented in the column for the relevant level. Our Report was prepared to meet the requirements of application level A+ (see Figure 32). The Report has been checked as a test case by the GRI during its pilot testing of the Application Level Checking Service and has been confirmed as A+.



*Sector supplement in final version

FIGURE 32: GRI APPLICATION LEVEL CRITERIA

EXPLANATION OF GRI INDICATOR OMISSIONS

4.11 Precautionary principle: NAB does not explicitly reference the precautionary approach in its risk management framework. However, in day-to-day operations, we employ sound risk management practices, which are described on pages 11-12 of this Report. We do not face material environmental challenges in terms of the direct environmental impacts of our operations. However, where environmental challenges are viewed as material and they are likely to impact on our operations or our credit risk processes, we undertake a risk assessment and may modify our processes and procedures to account for these risks.

EC4 – Financial assistance received from government: The GRI G3 Guidelines describe this as significant financial assistance received from a government in comparison with taxes paid as a measure of the host governments contributions' to the reporting organisation. Having regard to the nature of the Group's businesses and having made limited internal inquiries, we do not believe that the Group is a significant or material recipient of subsidies other than deductions allowed by tax legislation for all relevant or qualifying tax payers. Therefore, on the basis of materiality we have not reported this information.

EC7 – Hiring policy: NAB hires employees based on merit and appropriateness of their skill set for any advertised position. The majority of our employees are hired from within the region that each of our businesses operate.

EC8 – Infrastructure development: Our business operates mainly in built up areas in cities and towns, therefore this indicator is not of direct relevance to our operations. We do not undertake infrastructure development of the nature described by this indicator.

EN11 – Location/size of land owned, leased or managed in or adjacent to areas which are protected or of high biodiversity value: NAB's operations are all located in urban built environments and therefore have no direct impacts on biodiversity rich habitats.

EN12 – Description of significant impacts on biodiversity: There are no major direct impacts on biodiversity associated with the NAB's operations.

E20 – NO_x, SO_x, and other significant air emissions by type and weight: The only source of NO_x from NAB's operations would be a small amount emitted from fuel combustion in our vehicle fleet. NAB has no direct sources of SO_x. However, we would contribute indirectly to emissions of SO_x through our purchase of electricity.

EN21 – Total water discharge by quality and destination: NAB does not have any material discharges to water as it operations are primarily based in urban built environments. Our primary discharges to water are stormwater discharges from the roof tops of buildings that we fully occupy.

EN23 – Total number and volume of significant spills: There have been no significant spills from any NAB storage facility in the reporting year, nor in the previous reporting year. NAB has a small number of diesel storage facilities, which are used for fuel in back-up power supply facilities.

EN27 – Percentage of products sold and their packaging materials that are reclaimed by category: This indicator is not relevant to the types of products and services provided by our business.

LA8 – Serious diseases – policy, prevention, risk control, training: In Australia and New Zealand, AIDS/HIV is covered by our general OHS policies and processes and our EEO policy. In the UK, the NAB has a specific policy on HIV/AIDS. In general, the Group deals with AIDs like any other long-term illness. The Group has also been reviewing the adequacy of existing H&S policies, programs and training for risks such as Pandemic disease outbreaks such as Avian flu. NAB is an active member of the Australian Bankers Association Pandemic Preparedness Working Group and taking actions consistent with the Working Group's guidelines.

HR1 – Screening of significant investments – human rights: We now use human rights screening on significant procurement activities including offshoring and outsourcing. See information on page 44. Our operations are mainly in OECD countries which have legislation covering human rights issues.

HR6 – Child labour: NAB employs an adult professional workforce in all countries in which it operates.

HR7 – Forced and compulsory labour: NAB does not engage in forced or compulsory labour. We employ a professional workforce in each country in which we operate.

PR1 – Life cycle stages in which health and safety impacts of products and services are assessed and percentage of products/services subject to such procedures: This indicator is not relevant to the types of products and services provided by our business. However, we do provide 'health warnings' on our credit card-related direct mail and in branch brochures to help customers to manage their levels of debt.

PR3 – Type of product and service information required and percentage of products and services subject to such requirements: Each of our key businesses meet product and service information and disclosure requirements relevant to the countries in which our products and services are sold.

PR6 – Advertising and promotion: Compliance training includes a module on trade practices compliance to ensure employees, particularly those in marketing and communications, understand their obligations to provide appropriate information for customers.

SO8 – Monetary value of significant non-compliance and fines: We did not collect information on this indicator for our 2006 Report as the indicator was new with the G3 version of the GRI's reporting guidelines, which were released in October 2006, after we had completed our data collection process for the 2006 Report. We will assess our ability to report on this indicator for our 2007 CSR Report.

AM3 – SRI oriented shareholder activity: NAB has a 'manager of managers' approach to funds management. The majority of the funds we offer are funds under administration where the investments are managed by third parties external to the Group. NAB has not engaged in SRI related shareholder activity for the small amount of holdings for which MLC holds proxy voting rights.

INS1 – Underwriting policy: Our wealth management products and services include insurance products. MLC observes the Australian Investment and Financial Services Association underwriting guidelines in relation to underwriting for HIV/AIDs, genetic testing, privacy and confidentiality and medical standards. These policies focus on preventing discrimination against individuals based on specific circumstances.

INS2 – Customer profile: NAB's insurance customers are included within our wealth management customer base and have not been listed separately in this Report. We provide general and personal insurance products including home and car insurance and protection for life, disability and critical illness.

INS3 – Customer complaints: Complaints from insurance customers are included in our statistics for wealth management complaints and have not been listed separately in this Report.

F4 – Client performance monitoring: Client performance in regard to loan agreements is monitored via the bankers as part of their ongoing client relationship.

F6 – Environmental audits: This year we have not undertaken any internal or external audits of our environmental management system. However, we have undertaken energy efficiency assessment in our New Zealand building portfolio. See page 50.

F7 & F8 – Client engagement on environmental issues: As part of environmental credit risk process, NAB engages with specific customers on environmental issues where relevant. We do not have systems to collect this data in a form that can be easily aggregated and reported. This particularly includes our project finance customers.

F10 – Proxy voting: NAB has a 'manager of managers' approach to funds management. We do not have a specific policy for proxy voting on environmental issues.

F12 – Monetary value of environmental products and services: NAB provides project finance for renewable energy infrastructure development. Refer to pages 55-56. We do not currently provide other specific environmental products and services.

SUP2 – Supplier satisfaction: During 2006, we did not undertake any satisfaction surveys with our suppliers.

GLOSSARY

Australian Greenhouse Office (AGO): The lead Commonwealth agency on greenhouse matters — responsible for both the coordination of domestic climate change policy and delivery of major new and existing Commonwealth greenhouse programs.

APRA: Australian Prudential Regulation Authority

ASIC: Australian Securities and Investments Commission

ASX: Australian Stock Exchange Limited

ATM: Automated Teller Machine

Basel II Capital Accord: An international framework that sets out minimum capital and risk management requirements for banks and other financial institutions. The objective is to promote safety and soundness in the financial institutions by ensuring maintenance of sufficient capital levels, along with supporting policies and processes and robust governance practices to safeguard against credit, operational, market and interest rate risks.

Carbon dioxide equivalents (CO₂-e): Carbon dioxide equivalents (CO₂-e) are the unit for measuring the quantity of greenhouse emissions.

Category A Projects: Category A projects are defined by the International Finance Corporation as likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented.

Collective Agreement: Means employment conditions agreement between the Group and a union. In Australia, this is known as an enterprise agreement.

Custody services: Custody and related services to foreign institutions, superannuation funds, government bodies, fund managers, insurance companies and other entities. Key products include sub-custody, global custody, master custody, investment administration outsourcing, securities lending and cash deposit facilities.

Delamping: Removing lamps and globes which are not required to maintain acceptable lighting levels.

ECF/TCF: Elemental chlorine free/totally chlorine free.

EEO: Equal Employment Opportunity

EFTPOS: Electronic Funds Transfer at Point of Sale.

Energy – direct: Direct energy is the energy consumed by an organisation to perform its day-to-day activities. It includes energy from fossil fuels, purchased electricity and renewable sources, but does not include energy sold by the organisation for use by others. It includes production of energy, heat steam and electricity from sources within the boundary of an organisation as a result of that organisation's activities.

Energy efficiency: Using less energy to achieve the same or greater levels of output.

Energy – indirect: The simplest definition of indirect energy is energy used to produce electricity consumed. It can also include energy generated in the wider economy as a consequence of an organisation's activities (particularly from its demand for goods and services) but which are physically produced by the activities of another organisation.

Environmental aspect: An environmental aspect is the 'cause' of an environmental impact resulting from an activity, product or service.

Environmental impact: Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organisation's activities, products or services.

Equator Principles: An industry approach for financial institutions in determining, assessing, and managing environmental and social risk in project financing. Refer to www.equatorprinciples.com

Financial services: Business unit includes — personal, business and corporate banking, agribusiness, cards, payment processes and systems — particularly e-commerce — and asset finance and fleet management.

Footings: Combined total of deposit and lending volumes.

FTE: Full-time equivalent. A measurement for employee number.

Green energy: Energy from renewable energy sources.

Greenhouse emissions: Gaseous pollutants released into the atmosphere through human actions that amplify the greenhouse effect. The greenhouse effect is widely accepted as the cause of global climate change. Gases creating greenhouse pollution include water vapour, carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

HREOC: Human Rights and Equal Opportunities Commission

IFC: International Finance Corporation

Joule: A unit of energy. A gigajoule GJ is 109 (1 billion) joules.

kL: Kilotre or 1000 litres.

Local suppliers: Means suppliers who have their head office and operations within the regional geography in which our business operates.

Lost Time Injury Frequency Rate (LTIFR): The Lost Time Injury Frequency Rate (LTIFR) is calculated as reported lost time injuries resulting in one day/ shift or more off work per 1,000,000 hours worked.

Management approach: Disclosures that cover how an organisation addresses a given set of topics in order to provide contact for understanding performance in a specific area.

Market services: Traded products and risk management solutions including foreign exchange, money market, commodities and derivatives.

MWh: Megawatt hour. A unit of energy used often in relation to electricity. A megawatt is one million watts. One megawatt hour is one million watts running continuously for 1 hour. 1MWh = 3.6 GJ.

NGO: Non-government organisation

Ozone depleting substance (ODS): A compound that contributes to stratospheric ozone depletion. Ozone-depleting substances (ODS) include Chlorofluorocarbons (CFCs), Hydrochlorofluorocarbons (HCFCs) halons, methyl bromide, carbon tetrachloride, and methyl chloroform. ODS are generally very stable in the

troposphere and only degrade under intense ultraviolet light in the stratosphere. When they break down, they release chlorine or bromine atoms, which then deplete ozone.

Performance indicators: Indicators that provide comparable information on the economic, environmental and social performance of an organisation.

Precautionary approach: The precautionary approach was developed as part of the Rio Declaration of 1992, in which Principle 15 stated 'in order to protect the environment, the precautionary approach shall be widely applied by states according to their capabilities. Where there are threats of serious or irreversible damage lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation'.

Relamping: Replacing existing lamps and globes with high-performance substitutes which maintain lighting levels with decreased power consumption.

Renewable energy: Energy that can be used without depleting its reserves. These sources include sunlight or solar energy and other sources such as wind, wave, biomass and hydro energy.

Small-business customers/small-medium enterprise: In this Report, small-business customers generally have a turnover less than \$10 million. To reflect regional market needs, customer classifications differ across Australia, the UK and New Zealand. Some small-business customers may be outside this range.

Socially Responsible Investment (SRI): Investments that use criteria to select a portfolio of socially and/or environmentally responsible companies.

Specialised finance: A range of financial solutions utilised in large-scale, complex transactions such as project finance, structured finance and acquisition finance.

TAC: Technical Advisory Committee

Transactional services: Cash management, e-commerce, merchant facilities, liquidity management and international payment services.

Wealth management: Wealth management products include financial planning services offered in conjunction with financial advisers — private banking, wealth creation (investment), wealth protection (insurance), superannuation and retirement solutions for retail customers; outsourced investment, superannuation and employee benefit solutions for corporate and institutional customers; asset management — providing investment management advisory services including research, selection and monitoring of investment managers under a 'manager of managers' approach which underpins all the Group's investment offerings.

Work/life balance: The ability of an employee to balance the demand of work and family responsibilities.

Volatile organic hydrocarbons (VOCs): A general term that refers to a large and diverse group of substances, including hydrocarbons, oxygenates and halocarbons that readily evaporate at room temperature.

CORPORATE PRINCIPLES

**TO CREATE AND DELIVER
CONSISTENTLY SUPERIOR
VALUE TO OUR:**

- Shareholders
- Customers
- Employees
- Communities

**OUR CORE BELIEFS AND
VALUES ARE BASED
ON THE FOLLOWING
PRINCIPLES:**

- We will be open and honest
 - We take ownership and hold ourselves accountable (for all of our actions)
 - We expect teamwork and collaboration across our organisation for the benefit of all stakeholders
 - We treat everyone with fairness and respect
 - We value speed, simplicity and efficient execution of our promises
- And we do not have room for people who do not live these principles

**WE WILL BE OPEN
AND HONEST**

- We tell it like it is
- We speak up and we are open to other points of view
- We have candid and constructive conversations based on facts
- We take time to explain issues and answer questions
- We aim to ensure that there are no surprises. Mistakes and non-delivery are communicated early

**WE TAKE OWNERSHIP
AND HOLD OURSELVES
ACCOUNTABLE (FOR ALL
OF OUR ACTIONS)**

- We acknowledge our mistakes and if we get it wrong we will put it right
- We all take responsibility for the way that customers experience the organisation
- We don't have a policy or procedures that we don't take seriously
- We consider the economic, social and environmental impacts of all our decisions
- We ensure our decisions are implemented

**WE EXPECT
TEAMWORK AND
COLLABORATION
ACROSS OUR
ORGANISATION FOR
THE BENEFIT OF ALL
STAKEHOLDERS**

- We actively share ideas and information across the organisation in order to capitalise on opportunities to achieve more for our stakeholders
- We have no room for people who put their personal agendas ahead of the organisation and its customers
- We value a diverse workforce and each employee's unique contributions to the team
- We actively support and 'speak up' for our colleagues, the organisation's decisions and the communities we work with

**WE TREAT
EVERYONE WITH
FAIRNESS AND
RESPECT**

- We build trusted relationships with all our stakeholders
- We actively listen and respond appropriately to our stakeholders
- Decisions are made in a reasonable and consistent manner
- Opportunities for professional development and career advancement are open to all and depend on ability, performance and contribution to the Group's success
- We actively promote the health and well-being of our employees with a balance between personal and work life

**WE VALUE SPEED,
SIMPLICITY AND
EFFICIENT EXECUTION
OF OUR PROMISES**

- We do what we say we will do
- We make it easy for people to do business with us
- We actively challenge and eliminate practices and policies that don't add value
- We promote flexibility and a 'can do' approach
- We always look to do things better, generate new solutions and be more responsive

CONTACT US

We welcome any feedback you may have on our 2006 CSR Report. Please email us at corporate_social_responsibility@national.com.au with your feedback or write to us at Corporate Social Responsibility, National Australia Bank, Level 35, 500 Bourke Street, Melbourne, Victoria, 3000 Australia.

This report is also available at www.nabgroup.com and additional copies can be obtained by telephoning NAB's Share Registry on 1300 367 647 or outside Australia + 61 3 9415 4299.

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Our Customer Charters can be found on the following web sites:

- www.nabmarkets.com/newsinformation
- www.cbonline.co.uk/0,,74455,00.html
- www.ybonline.co.uk/0,,74455,00.html
- www.national.com.au/community/0,,74855,00.htm

www.nabgroup.com

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